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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Village Farms International Third Quarter 2018 Financial Results Conference Call. Yesterday, Village Farms issued a news release reporting its financial results for the third quarter ended September 30, 2018. That news release, along with the company's financial statements, are available on SEDAR and on the company's website at villagefarms.com, under the Investor heading.

Please note that today's call is being broadcast live over the Internet and will be archived for replay both by telephone and via the Internet, beginning approximately 1 hour following the completion of the call. Details of how to access the replay is available in yesterday's news release.

Before we begin, let me remind you that forward-looking statements may be made during -- may be made today during or after the final -- the formal part of this conference call. Certain material assumptions were applied in providing these statements, many of which are beyond our control. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements. A summary of these underlying assumptions, risks and uncertainties is contained in our various securities filings, including Village Farms' current annual information form for the year ended December 31, 2017, and MD&A for the quarter ended September 30, 2018. These forward-looking statements are made as of today, November 13, 2018, and except as required by applicable securities law, we undertake no obligation to publicly update or revise any such statements.

I would now like to turn the call over to Mr. Mike DeGiglio, Chief Executive Officer of Village Farms International. Please go ahead.

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Thank you, and welcome, everybody, for joining us today. Today's conference call, I have Steve Ruffini, our Chief Financial Officer, with me today. And the agenda for the call is, I'd like to begin with an upgrade -- update on the great progress at Pure Sunfarms, Steve will also do a brief review of our third quarter financial results, I'll return for some additional comments and then I want to allow adequate time for Q&A at the end.

So beginning with Pure Sunfarms. Our production continues to steadily ramp up, and as we have said time and time again, growing is a ramp-up business, especially when you change a new crop -- to a new crop or build a new greenhouse. And it usually takes a good couple of years to get going. That said, I'm very pleased to repeat that we are on track and doing extremely well. And in my 30 years of building mega-scale greenhouses, probably 12, all 12 were around North America, this is the first time that we've actually commenced conversion of a greenhouse while growing and while harvesting, while doing postharvest and selling product, all at the same time. So it's a remarkable effort and it's been going extremely well.

The company remains firmly on track for the entire 1.1 million square foot facility to be in production in the first half of 2019 at a run rate, as we have said from the beginning, of 75,000 kilograms annually. That's a number that's more conservative than other the LPs on a equal square meter basis. So our original targets from day 1 have all been met on time, and we continue to meet them going forward.



Our cultivation license was received. And in August and September, we did receive our third and fourth amendment to our original cultivation license that brought us to 550,000 square feet of licensed production. I believe it's faster than most other LPs between receiving our cultivation license and our sales license.

Additionally, we planted out some more area in October, and we are now into our second crop cycle of what we predict will be 5 crop cycles per year in quadrant number two. The second half of the facility, the conversion is moving on plan and we expect the entire growing facility to be converted by year-end as designed. We may not do the final planting of that final block till January. That all depends on getting Health Canada to approve the additional expansion. There has been some delay since the migration of AMCPR (sic) [ACMPR] licenses to the Cannabis Act license form on October 17. All LPs have been affected by that delay. And we realize that Health Canada has a lot going on, but we don't see that as anything more crucial than maybe a 2- to 3-week delay in having an additional expansion.

So our third quadrant, which is another 260,000 square feet, is ready to be planted out. It's been converted, our generators are on-site and we're just waiting for Health Canada to okay that expansion.

So this year we still expect to harvest 7,000 kilograms, however, with the time required from postharvest, which -- from -- just from the drying -- post drying phase takes about 4 weeks to get permission from Health Canada, where we have to do testing and verification to ship products. So I think at the end of the day, of -- we'll probably push about 3,000 kilograms into the new year commencing January 1, so looking for that to be sold in the new year, most likely in the first quarter going forward when it's available for sale.

So, by the way, we are very proud of whole Village Farm team. When we look at design, planning and implementation of [30s] experience clearly. Looking at the facility today, there's really nothing that we would do different, and I think that's commendable to our team, putting together, again, that huge experience going forward.

So continuing on, as we ramp up our schedule, we should be on track for 75% of our capacity in late winter or early spring, the first quarter. And now that 75% capacity is -- makes us just about one of the largest LPs in all of Canada, that 75% of the 1.1 million square feet. So -- and then, as we've reported before that we'll come back and put the lighting in quadrant number one. Quadrant number one has one of the full crop cycle, and we reserved -- since we didn't have enough power and won't till the second quarter of next year, we went dark in quadrant one and that will go back in production, we'll be putting the lights in there this winter and it will come back in production starting in March of '19. So running forward -- looking forward in March of '19, the full 1.1 million square foot will be in production at that point going forward, fully lit.

So again, even at 75% capacity, Pure Sunfarms will be among the largest producers in the country. And based off of recent actual production numbers we're seeing, there seems to be significant ramp-up issues with other LPs that probably will go well into '19, which bodes well for us going forward.

From the operational side, Pure Sunfarms facility continues to operate to the high standards, which was designed, the nursery is fully automated and complete, it's fully lit with its own generators, and that capacity of that nursery, at full functionality, can supply about 2.5 million square feet. So we would not have to build another nursery even to double the capacity of the Delta 3 facility. The team is harvesting regularly. And we've completed our second cycle in some of the flower rooms starting to move into our third crop and that's consistent with the expectation of 5 cycles annually.

We have over 20 strains in production and testing. We've already decided to eliminate certain strains that we grow early on, that's part of the normal process that would occur all the time in farming, even in our produce site today, we're constantly evaluating new varieties of strains on ongoing basis. But that said, our yield and quality are aligned with our expectations. And we remain confident with the ability to achieve an all-in cost of production of less than \$1 per gram at full production. Now let me explain that you really do need a full year under your belt, anyone would, to be able to document what your cost of production will be. You cannot do it on a quarter-by-quarter basis. I know some of our competitors are reporting that. But what may happen in this quarter, may not happen in the next quarter in terms of yield output. But -- so you really need a full year under your belt, and at that point, we will report what our cost of production will be, but we need to get a full year under our belt.



But Pure Sunfarms is clearly benefiting from the experienced management and growers, coming over from Village Farms. In my opinion, I firmly believe, we are #1 in the industry, and I don't think anybody comes close. You cannot buy this kind of experience. Our existing labor force, 20 plus years there; grower, 11 years; maintenance people, 20 years; the entire team. You cannot buy that, you need to build it. And one of the benefits in our conversion for Village Farms is having that team in place. And that plus our proven operating systems that we employed in the conversion. The 2 decades of history operating on the Delta facilities. The 20 years of climatological data that we talked about before. We have no issues on the location. We're not in the middle of any residential neighborhood like other LPs. And we've been operating there for 20 years. So clearly seeing the benefits of Village Farms experience as a large-scale low-cost operator play-out. And as I said before, our goal is to be a vertically integrated company. But first and foremost, you need to be the low-cost producer to build a very durable sustainable company. That's what we're doing at the highest quality and most importantly, the safest product.

We are on track to do that and very confident.

From a selling side, we received our sales license during the last week of July, not that long ago, and we commenced sales in September. Sales to date have been on a wholesale basis to other LPs. We won't mention who they are. I can tell you that the phone is ringing off the hook on a daily basis, and from many of the LPs that have contracts with government that are short, in addition to our distribution agreement that we signed for Emerald Health till the end of '19. And we have a number of customers that are just buying on a spot market on a daily basis. The Canadian market has documented, it's well-short of product, and I believe, even more than anticipated.

So we are moving forward. We are waiting for our packaging license, that's the next key license, waiting on Health Canada. Hopefully, that comes in the next 2 to 4 weeks, and that will allow us then to start to quote provinces directly, which is on our radar screen and we have been meeting with them on a ongoing basis.

So the higher-than-expected demand especially, coming out of some of the eastern provinces have created favorable spot market pricing for us. It remains solid. And I don't see any end to that, at least, through '19. Although we're still to establish Pure Sunfarms as a vertically integrated supplier and a leading Canadian brand, we do have ideas how to do that, but again, let us get through the process of finalizing the conversion and moving forward. Alongside our current spot market sales, Pure Sunfarms is building inventory to ensure regular availability of product, one being supplied to provincial boards. Now we see a lot of LPs that are short of products for the commitment they've made. We will never be in that position. I can tell you that we will always make sure that we overdeliver on what we commit to, especially dealing with the provincial boards and private retailers as well. That's how you build a trusted brand. Consistent with the VF philosophy of doing things the right way, we're taking each step process-by-process moving forward.

Now, we're very excited to say that after extensive search, we hired Mandesh Dosanjh, fortunate to land someone with his great credentials, also indicative of the PSF opportunity. He had many choices and he chose Pure Sunfarms. As it's been reported previously, Senior Vice President of Supply Chain and Wholesale at the Liquor Control Board of Ontario, for sort of development and management of the LCBO supply chain and wholesale strategy for adult-use cannabis. He has a deep understanding of the Canadian cannabis product and the competitive landscape. He has visited, obviously, in his previous position, all our competitors. He'll be a tremendous asset, as Pure Sunfarms becomes a vertically integrated supplier. His top priority is development of the distribution, branding and product strategies moving forward. He's a proven leader. He is aggressive, loyal, hard working. I am very excited to have him on board. And we already see great things happening. And under his responsibility, will be the provincial distribution, Mandesh has already substantially advanced discussions with multiple potential customers since his appointment only 5 weeks ago, in advanced stages, with 2 provincial boards and a multi-province retailer, had intended to be supplying at least 1 provincial board by this time, but the delays, as I mentioned previously, in obtaining the -- our packaging licensing has pushed that time frame back slightly. And the impact of delayed sales for the provincial boards being more or less offset by higher-than-expected spot market pricing that we're experiencing on a daily basis.

We are also pleased to have Pure Sunfarms opportunities unfolding. Our production is on track. Our quality is very good. Facility is operating exceptionally well. Sales are ramping up nicely. Organization is moving towards vertical integration, starting with extraction strategies that we want to implement by mid-'19. We're especially proud of the consistent positive feedback that we're hearing from the LPs we're selling. It's not inconsistent with what we've heard in 30 years of Village Farms in building a company that has superior quality product and the safest of all, the

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same thing will flow here. And we're building a reputation as a leader in this space, and working on further business development opportunities in Canada under Pure Sunfarms banner as well.

So with that I'm going to turn it over to Steve, and come back and make some other comments moving forward. Steve?

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Thanks, Mike. In the interest of time, I'm going to confine my remarks to some key metrics. Our complete quarter and year-to-date financial results and the discussion are available on our MD&A and financial statements, which are posted on our website on SEDAR. Our summarized balance sheet and income statement for Pure Sunfarms is contained in Footnote 7 of our financial statements.

Year-to-date, for the 9 months ended September 30, 2018, our net produce revenues were down \$10.3 million or 8.6%, of which 60% of that decrease is attributable to the loss productions from our former Delta 3 tomato greenhouse, which is now growing cannabis. The balance of the decrease is due to changes in climate at our Texas facilities, the biggest one being, for the first time in 6 years. We've cleaned out the Permian Basin, high-tech greenhouse in Texas, which has been continuously producing since the initial harvest in early 2012, we cleaned that out this summer for the first time, which, obviously, impacted our year-on-year volumes.

Due to our change in mix of tomatoes, for instance the Delta 3 greenhouse was growing a low-priced TOV variety. The views are changing in tomato varieties on a year-over-year basis and better matching the supply and demand. Our net tomato price year-to-date is up 5% in overall tomato price market, where the average price of tomatoes continues its slow decline.

Year-to-date, we have a slight increase in our third-party supply partner revenues and expect that trend to continue as our primary Mexican partner expands its production facilities, and we bring on new Mexican partners who want to partner with Village Farms in 2019 due to some of our exclusive varieties that we can offer them.

Pure Sunfarms had net revenues of CAD 247,000 in September, as they began to sell products to other LPs, which slightly exceeded its 2018 budget. Sales at PureSunfarms continued to grow, as it gets the proper paperwork in order and to move products to other LPs, and hopefully, as Mike mentioned, in few weeks, we'll our packaging license in hand and we can commence direct sales to provincial boards.

To date, production costs have been below our budget. As we've stated, since the inception of Pure Sunfarms, any production facility is a ramp-up process. Pure Sunfarms is already demonstrating strong operational results with a small gross profit in its initial sales quarter and the bio asset value of CAD 1.1 million at September 30. Historically, new construction greenhouses at Village Farms have not shown a profit in their initial years of production due to ramp-up issues. But due to advantage of converting an existing facility with experienced production management and labor, Pure Sunfarms is off to a great start to its operations. And with its ability to produce high-quality and low-cost production into a market short of crops, it is in a great position for a very strong Q4 '18 and a full year 2019 results.

And with that, I'll turn it over to Mike.

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Thanks, Steve. Okay. So sometimes, we basically criticize here at Village Farms, so not communicating a lot of things. In the last couple of days, it's amazing, I've read and listened to some calls from our competitors. I can't believe how much information is being put out. But at the end of the day, it's going to be how these companies perform.

So looking at our outlook for Pure Sunfarms, obviously, October 17 was a historic day, but the hook was over and it's time for the industry to deliver on promises. And we can't wait to start showing what we're capable of doing going forward. And I think the market will reward those companies that achieve their production goals, generate sales and manage costs with strong margin and profitability. Yesterday morning, a very, very large LP reported their earnings and noticed that they had \$600,000 in adult-use sales. \$600,000, we basically, did 50% of that, just starting --

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receiving our sales license in September and just starting on one small quadrant, we were able to do 50% of that company's adult-use sales, which was amazing to me after what they've been -- the years they've been performing, the money they spent. So we're firmly on track to do that and deliver value both short-term and long-term to Village Farms shareholders. We continue to expect Pure Sunfarms to be cash flow positive in Q1 of next year, based on our current expected licensing time lines.

Now moving forward, since Mandesh has been on board and starting to build his management team, I can tell you that Steve and I've wasted no time moving to greater opportunities outside of Canada. As I mentioned previously, we do have a number of strategies in Canada under Pure Sunfarms we're looking at, but Village Farms is focused on the U.S and Mexico, where we have great relationships and have those great relationships for 20 years. So Village Farms, we're really watching momentum towards legalization around the globe, but especially in the rest of North America. At its core, Village Farms is vertically integrated greenhouse to grow high-value crops, in the U.S., currently tomatoes, cucumbers, peppers, we've grown roses, cornichons and cannabis based on legalization. So we've mentioned, -- I've mentioned previously that we design and build large-scale greenhouses in New York, Pennsylvania, Virginia, Florida and Texas. We have unmatched platform to capitalize on these opportunities. We are one of the oldest and most experienced operators in North America. The oldest operating greenhouse company in the United States and one of the very largest in footprints in North America, including nearly 6 million square feet in Texas.

As you know, the U.S. Farm Bill has a great hemp opportunity with bipartisan support. We expect that bill to be passed sometime between December and no later than July of '19. That represents significant potential for near-term opportunity in hemp production in the U.S. Key input for the production of our vast array of consumer and industrial products, increasingly grown for CBD. CBD is becoming increasingly popular among and for its health and wellness benefits, as everyone knows, and hemp is just a low form of THC cannabis typically less than 0.3%. It's classified still as a Schedule 1 controlled substance. Since 1970, due to being a variety of cannabis sativa plant cannot be legally cultivated in the U.S. under federal law, for commercial purposes.

However, this 2018 U.S. Farm Bill includes a provision that will remove hemp from the DEA Controlled Substance, thus making hemp just another agricultural crop. You've heard us say that before we look at hemp, we look at cannabis as another agricultural crop. When we've been doing this for a north of 30 years, I think we have the right to say that.

So Village Farms is doing some strong foundational work. We are spending dollars. We have lobbyists, we're working in multiple states. We've been elected to the board of the U.S. hemp roundtable. And this is potentially, a very lucrative opportunity for Village Farms, expecting hemp to generate a much higher revenue and margins and produce. We would look at opportunities with existing assets as well as field opportunities.

Also momentum towards federal legalization of cannabis, recent midterm elections, more states legalize and et cetera, we think it's very exciting over the next couple of years. Again, with our strength, one of our primary strengths being on a production side, that's where we'll start and move quickly, and we have built a vertically integrated company that's very successful, still operate in the U.S., we plan to do the same period. Also the potential opportunity in Mexico. We have looked hard at Columbia and Central America, and we've decided that Mexico is where it's at. We have great relationships there with some of the largest companies in Mexico, and these established relationships will enable us to move forward there as well. So there's -- I don't think there's any other grower operator company in North Americas, when looking at the United States better positioned to capitalize on these opportunities than Village Farms. So we are very focused in shifting our time into these opportunities going forward.

With that, I will open up to the audience, any questions you may have for Steve or I. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question today comes from the line of Martin Landry of GMP Securities.



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Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

It's very interesting to hear you speak about the farm bill and the potential implication that it could have on the hemp production in the U.S. But under a scenario where the farm bill is passed and hemp production becomes legal on the federal level, is it fair to say that we could see hemp being farmed outdoor in large fields? And if that's the case, is it fair to say that the CBD extracts could -- price of CBD extracts could decrease dramatically? So just wondering a little bit how you're assessing the economics of growing hemp with the price of CB that could be a little bit depressed?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Well, for sure to be field production. And we will be in field production. I mean, I think, a large array of CBD production will clearly be out of the field. Just because we have 6 million square feet of assets in Texas, doesn't mean we're limited to Texas. We already have relationships in many states, and with people who have literally hundreds of years of experience growing crops outdoors. So for Village Farms, as an agricultural producer, we will clearly be in field production of hemp. But that's not to say that hemp grown in greenhouses for a very specific applications will not happen. We absolutely know it will, because we're in conversations with companies who want and who demand the type of output that really can come only from a controlled environment. So even if 5% of the market comes to greenhouse, it's still thousands of acres of greenhouse that you would need to do that. And you can see the type of companies, you can imagine, that would be looking for that. And in that case, we will be looking at growing those specific strains, and we do have programs going on for specific strain development going forward, specifically for greenhouse. Now the other thing to keep in mind is, we produce 30 to 35x more yield per square meter in a greenhouse on many of the crops we grow. So one may not -- even though field production will probably always be a lower cost, we've been able to take and cannibalize the entire field tomato market in 30 years because we were able to reduce our cost through much higher yield. So it's not just a question of growing product that may be completely pesticide free, limited from toxicity and sustainable in the sense that it doesn't use soil, and there may be applications or customers who are looking for a sustainable responsible growth -- growing product. So I think it's going to be both for sure, and we plan to be on both sides of that equation as well. We have done some initial calculations, and Steve has been working on that diligently on just what the potential would be if we apply the same sort of dynamics to greenhouse growing versus field. And it's pretty interesting.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. So if you compare the economics of growing cannabis in Canada right now to maybe growing hemp in the U.S., how would you compare the 2?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Well, I think -- look, I think there's a lot of growing of hemp in Canada, and there'll probably continue to be a rise in hemp production for oil -- for CBD oil in Canada. And I think the same is going to be happen here. I think the segmentation of the market is yet to be seen but I still -- I don't necessarily know how that comparison would work today, I think it's too early for us to look at. But I can say that, I think, CBD will be an enormously large market and the market will be made up of products that are both grown in the field and grow in controlled environments. And beyond that, Martin, I'm not sure it's still too early to know how that segmentation will break out.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. And you also mentioned Mexico. Can you give us a little bit more color as to what your strategy would be there? Would you partner up with an existing local player to cultivate cannabis domestically? Is that -- would that be the plan?



Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Well, I think the plan is for sure going to be this. So if we look at Canada, I mean, Village Farms was a little late to the party. And when I really considered, like I said earlier, that we've done about 50% of the sales in our first quarter production than some of the companies that have been there for years with market caps into billions. And the fact that we didn't have a medical program up in Canada, prior to these companies. I think we've done phenomenal things. In the 1 year, we've been basically operating there. In the U.S. and in Mexico, where we've been operating for 20 and 30 years, we have very strong relationships, and we will be active in the market. And we will be active on the CBD side of that market. That is what we're focused on. So even in Mexico, it would be a focus on CBD, not on recreational. Most likely, recreational will be approved going forward, but our goal is to play in that CBD side. And Mexico with a 120 million people, even if you take 1/3 of that, it's larger than the Canadian opportunity in terms of population. The key is, who are going to be the first license holders. Once that regulation comes out and if we're successful, both in the U.S. and in Mexico in being an early starter, based on our relationships then I think it's going to be a whole different game for us than it was in Canada where we had that late start. So having those relationships in Mexico makes a difference for Village Farms, we believe.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. And my last question is on the Canadian business at Pure Sunfarm. There's obviously, been a lot of discussions about shortage of product in the industry. So I'm wondering how have the spot prices, because I think you sell spot sometimes, how has the evolution of spot prices evolved in the last 6 to 9 months? Have you seen an increase in spot prices that third-party LPs are willing to pay?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Yes, absolutely. I mean, just the spot pricing, if you're not playing north of 5, you're doing something totally wrong today on the spot side. And -- so I think that's the bottom line. That's the bottom number, it's a start with a 5. And of course, you can see other companies that even have gotten cash and equity to sign longer-term deals. We have floated some of those deals out there to other LPs and they've jumped on them to -- that they would have a long-term deal. So we tested those waters. So not just looking at the spot 5, but you're probably able to secure a 5, at least, on a 2-to 3-year basis, along with additional sweeteners on the deal going forward. But again, as I mentioned earlier, a lot of these companies have made a commitment to the provinces and don't have the capacity to deliver on. So if I was in that position, I'd pay whatever I had to pay for me to go to my customer, no matter what it...

Operator

Your next question comes from the line of Ben Elliott of RBC Dominion Securities.

Ben Elliott

Congrats on the cannabis progress today and certainly the increased transparency and guidance is appreciated. It sounds like we're, kind of, close to seeing some announceable agreements, which is a really positive for sure. I just want to clarify, is Pure Sunfarms obligated to sell 40% of supply for the next year or so to Emerald? And can you also clarify, it looks like we're looking increasingly more at direct and what, kind of, the 2019 mix of wholesale direct is being targeted as right now?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Well, it's a good question. Yes, I mean, we have a binding LOI with Emerald Health for 1 year basically that ends in December of '19, for 40% of output. Again, that was as a partner -- as Emerald Health Therapeutics is a partner, wanted -- they really wanted to have supplying and as a partner, you have to treat your partner in a good way. So we made a decision to do that. Also the fact that we didn't want to -- just to give you some background, we didn't want to start to recruit for the CEO, till we have our cultivation license because that was an unknown at that time. So really we didn't start the process till April. We think it would take 4 months, and it did, till basically October, November. And regulations are changing all

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the time. And we felt let's give our new CEO an opportunity to get to its feet wet and get in the game. So from a Pure Sunfarms' perspective, given up 40% basically for 1 year was something that we deemed acceptable. So that is in the works. As far as the remaining 60%, it's a good question. Because we're getting many calls, companies are willing to even tie more lucrative deals for supply into '19. At the same time, we're sort of hoarding inventory to make sure that when we do sell provinces, and we're planning to sell at least 2 of them shortly, that we have that supply. So it's -- so it hasn't been defined. And that will be something that Mandesh is working on. He is working on and he'll come to a strategy here shortly on deciding what he will do with the 60%. How that will split into '19. And of course, then going into '20, it'll be back to the full capacity on a 75,000 kilo run rate.

Operator

Your next question comes from the line of David Zelman from Zelman Capital.

David Zelman

Let's start with Canada. You mentioned in the press release that the new CEO is also reaching into some other distribution channels as well as what you just talked about holding product for branding, which suggests obviously, higher margins and then I'm also thinking about with that shortage and the media talking about product not being on the shelves, can you, kind of, talk about the other 60% potentially, as branding? And then also, with availability for maybe, a year, 2, 3 the opportunity to be a very meaningful branded extraction-related product company?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Well, I think, those are the kind of strategies we will be looking at over the next 6 months. So one is clearly extraction. I mean, first and foremost, we are in agreement that we need to get our extraction program in '19, set down. It's still a very massive industry. And when it comes to extraction, there are a lot of different technologies. And one thing we know in 30 years with Village Farms, is I can take it to the boneyard of equipment that we've purchased, that was obsoleted in a year or 2, and we don't want to make the same mistake where we're spending millions on extraction. And keep in mind, even by the second quarter, we're probably going to be the one of the largest producers in Canada. So we don't want to have 35 smaller extraction machines. So we have a whole ongoing program to evaluate not just conventional extraction that's being used in the cannabis industry, but extraction equipment from other industries to see what we can apply here because we really need to get to that first value added, and that's oil. Now, going forward to the 2020, I think -- so '19 will be that year that we look at extraction, and we start to build out branding and product selection, anticipating what the regulatory requirements that will be coming out for edibles and additives from Health Canada for 2020. So I can't add too much more color than that except that, that is what we plan to start looking at. First and foremost of the 60% is getting into the provinces where we can establish at least relationships on flower, as we start to develop the next line of products going forward. I hope that helps you answer the question, David.

David Zelman

Yes, it does. Also, given obviously, we've heard a bunch of issues with the other LPs, Canada is not a very friendly place to grow, some light humidity lack for experience, there's a lot of capital but there might not be a lot of experience. Therefore, what are the hurdles and time line that you guys are operating on as it relates to converting your next greenhouse, especially as you're thinking about extraction and all that, whether it's branded products or others. I would think, do you feel comfortable in thinking that the demand is there to convert that next greenhouse and if so what are the hurdles and time line in order to see that happen?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Well, the optionality of the other greenhouses really doesn't commence till Delta 3, the current greenhouse, is fully planted out, which we anticipate, depending on Health Canada approving the rest of the remaining square feet to get to 1.1 million. We anticipate that, let's say, January. So that's really when the optionality would commence. And -- but what we did do is, based on experience, again, and I keep saying because it's very important,

is we built a nursery fully automated at a size that's capable of doing at least 2.5 million square feet because to build 2 nurseries and run 2 nurseries will not be efficient. So that was put into the mix at Delta 3. The extraction area in Delta 3 will also be large enough to encompass like the nursery and additional, let's just say, 1 million square foot, without having to spend additional capital. And to date, we've secured the power, at least, another 24 megawatts in each of these Delta 3s using 24 megawatts and additional 24 megawatts, that's been secured to date is enough power for another 1.1 million square feet. And incidentally, one of the benefits that we have over other LPs is, we did not have to buy cogen generators to generate electricity for lights. We were able to secure it off from the local utility BC Hydro, saving us about \$50 million worth of capital cost, if we had to buy cogen. So -- and then we unencumbered the other greenhouses, that was one of the original races we did to take the debt off of that. So when that decision gets made, it really will start with the CEO, Mandesh, as he puts his program together looking into 2020, 2021 and looking at capacity, he'll have to make that decision and this strategy. But I did mention that there are other strategic possibilities in Canada, as a country, outside of just the conversion of an additional Delta facility, that's being looked at.

David Zelman

Okay. On hemp, you mentioned, obviously, the quality and the standardization and going into branded into high-quality, which makes perfect sense. Just -- can you give us the back of the envelope of converting just simply 20 acres, which is only 15% of your Texas greenhouse, Steve, you have, sort of, back of the envelope, how we think about what that could mean as far as EBITDA contribution?

Stephen C. Ruffini - Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director

Yes, back of the envelope, West Texas is a better growing climate than anything we have or anybody else has in Canada due to the more southern latitude. So we're certainly very confident that the yield profile of 20 acre facility in Texas would be higher than the Delta 3. So let's say, we're growing 40 million kilograms in 20 acres, everyone can put their own metrics, so let's say, we used the Village Farms \$2, which is how we model these things. So that facility -- that 20 acres will generate \$80 million in revenue for hemp, that's U.S. And today generates \$8 million for tomatoes sales. So it gives you 1/4 of magnitude. It's a stunning difference. And as Mike said, we believe, there are 2 markets. There's 2 markets today for tomatoes, right? There's field tomatoes and there are greenhouse tomatoes in the U.S. So there are customers who want the advantage of the greenhouse, as we're going to produce 5 to 6 crops per year. And if you're growing in a field in the U.S., maybe, you can get 2 crops in, more than likely 1 and then you're, obviously, susceptible to Mother Nature. They tried to grow hemp in Wisconsin this year and lost the entire crop. So -- and if you're a maker of CBD or you're not looking to allowing yourself with someone who may deliver you nothing, it's just cheap built product but they ultimately, not deliver it. You don't have any CBD oil on the shelf. So we were very confident that there will be a market for a greenhouse capacity in hemp. And as we said, ultimately, it is a different strain of cannabis and ultimately, it gives us a leg up and a lead into 1 additional cannabis is allowed to be grown federally and in state of Texas, we're already in position to do so with -- we'll have the greenhouse already converted, so it's just a matter of changing strains at that stage.

David Zelman

And would you -- could you share with us sort of what type of EBITDA profile would be on that now?

Stephen C. Ruffini - Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director

So if you take \$1 a gram, the EBITDA profile of 20 acres is \$1 million an acre what -- infinitely higher than what that facility is doing with tomatoes today.

David Zelman

Okay. And then obviously, given that there's broad support on both sides of aisle for hemp build, is it -- there an opportunity for that bill, you think, to get passed in this calendar year? There's been some talk of a lame-duck session may be wanting to do that, obviously, there's a time line when funding to the agricultural community is going to run out. So do you think there's a chance this could happen in this calendar year?



Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

I don't know if it'll happen in this calendar year. Obviously, there's lots of leadership issues in Congress. So probably not this year. The other thing that needs to occur, every state has a controlled substance list. And for instance, California, is an interesting one, you can grow cannabis strains in California, but you can't grow hemp. Hemp's illegal. So it's still on the illegal list, as weird as that sounds. So the other thing that we need, and we're confident will occur this spring when the Texas legislation goes back in the session is that hemp will be taken off of controlled substance list in Texas. So even if it were to come off, let's say, the U.S. Farm Bill passes in December, we still need it off the controlled substance list in Texas as well.

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

And there's, I think, 26 states that have approved. So there's 26 states that have already approved hemp production.

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Hemp, no cannabis. Hemp has got 3.

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Yes, 3.

David Zelman

Okay. But it's reasonable to assume that if it's legal at the federal level and it's just procedural to get it removed and obviously, in Texas with sessions no longer there, any kind of color on the willingness in order to get it off the banned substance list, irrespective of whether it's 3 months or 6 months from now?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Yes, and like we said earlier, we have a number of lobbyists in a number of states, not just Texas, that are working right now, writing legislation and working as that gears up. So we're very active in...

David Zelman

Okay. And then my last question on Mexico, obviously, there's movement there as far as making cannabis legal there as well. Anything you could share with us as far as if cannabis were legal in Mexico, what might be the opportunity?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Well, maybe. But I think we're going to concentrate on CBD. With the location we're at is ideal, it's just absolutely perfect where we're at. So we already have our plans and designs ready to go, and what we would do, what we would build. These would be specific builds. I don't want to elaborate too much on it, so we have the relationships. And we'll see what happens down the road. And I think we feel much more comfortable and from a risk mitigation perspective, to stay with the CBD at this point in Mexico and not, sort of, venture into the adult-use at this point. That's what we're -- that's I think what we're going to do.



Operator

(Operator Instructions) Your next question comes from the line of [Julien Del Grande] of [Del Grande Holdings].

Unidentified Analyst

First and foremost, I just wanted to say congratulations on your progress so far. You're absolutely knocking it out of the park versus other LPs, and I really enjoyed listening to the progress that you've put forward today. The question that I have to ask is with regards to next year. You guys are focusing on extraction technology, and I'm just wondering, if you're just maybe looking at wholesale of the oils or perhaps you want to do some more vertical integration with future legislation changes with edibles and drinks? And if you're going to be coming out, perhaps, with your own line edibles?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Yes, absolutely, yes, yes, yes. I mean it's just a process. We have to get to oil, and if we were -- if we got our extraction strategy down and started to produce oil that's not to say just as we're doing flower today, we wouldn't sell it to other LPs or wholesale. We're all about generating profitability immediately and reinvesting that. But then that process would go not it was selling oil, we wanted to do it ourselves. That's what we've always done. So as I mentioned earlier, it's looking at the new regulatory requirements coming from Health Canada and preparing for that. Right now, we're starting to build that team, development people who will be involved in that. And so the answer is yes, I can't just say if we're going to be there by the end of '19, it could be into 2020. And I also believe, also there's going to be great opportunity for working with other companies. I think that when we look at the market today, if you're not in the cannabis game, I think the train left the station if you're just starting out. And I don't believe that many companies -- well, I believe that there will be companies available that may be further down the road -- in terms of branded products that we may look at working with them in some capacity. So I think there's a lot of opportunity either way, going forward.

Unidentified Analyst

Perfect. Okay. I look forward to seeing all your future progress, especially in the states. You guys are getting a lot of knowledge, I'm sure, from Pure Sunfarms. And I'm excited to see what happens in Texas. If I could just add one more point, perhaps in the future, would we be able to get a little bit more information on the Pure Sunfarms website, so it's not just a landing site?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Yes, Mandesh has got that under, yes, and you're right. So he's -- that's on his initiative, and start to build that website up going forward and be able to communicate much better. We know -- we're just -- Village Farms, I mean, we're just a conservative company. When we put things out, we're 100% sure we're going to be successful with them. But that wasn't a priority with the whole conversion, but it is now. So that's well taken, and thanks for bringing that up, we'll move forward on that.

Unidentified Analyst

Yes, absolutely. I know there's a lot of hot air from other LPs. So I really appreciate it, don't take that as any sort of criticism. I know you're focused on actually producing versus other people.

Operator

Your next question comes from the line of [Robert O'Haver] of [Small Capital Equity].

Unidentified Analyst

I want to apologize in advance in case I get disconnected here, I'm on my way to the airport. And I'm not sure if I missed part of the call here. In terms of Pure Sunfarms in the future, I don't know if this was, sort of, dealt with. Are they going to directly issue press releases or is that something a combination where you release a press release and Emerald releases a press release, how is that, sort of, going to be worked out? Where's the information sort of coming directly from?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Yes, I think -- yes, those basically, Emerald release their own press releases and to the extent that involves anything with Pure Sunfarms, they'll do it and we'll do it. Because Pure Sunfarms will remain private, but that's not to say they won't put a press release out when they have something to report. But this call is mandatory for us -- or not the call, but the fact that we're reporting our third quarter earnings. So otherwise we probably wouldn't be having this conference call, so...

Unidentified Analyst

So I can say congratulations, if I look at the 12 months from this time last year, what you guys have achieved, it's absolutely remarkable. The last -- I guess, the last cue for me was when you got Dinesh (sic) [Mandesh]. Just looking at his profile on LinkedIn, I think there are more people crying that he left that DLC deal and wishing him well, he's truly a popular guy with a lot of depth. So I think that you guys made a great choice with him. D1 and D2, is there anything happening with Emerald or what's, sort of, the status on that in terms of the optioning?

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Well, there's not been any decision on the optionality of conversion to get them. We -- as a Village Farms...

Unidentified Analyst

That makes me very happy. Yes, I'm hoping they don't option that.

Michael A. DeGiglio - Village Farms International, Inc. - Founder, CEO, President & Director

Well, there's been no discussion to option it. So at this point, we're just going forward Delta 3. Village Farms does have to secure power at this point, not saying we're going to put that into tomatoes, but -- and we'll -- we have some other things that Pure Sunfarms is working on. So there's been no decision on that optionality for the next phase.

Unidentified Analyst

Am I clear in this, sort of, understanding, I think maybe Steve, you might want to jump in on this. Is it not -- do they not have until next year, June 15, 2019, where if they do not option it, at that point Village Farms is then free to pursue its own LPs. In other words, you're going to have all the rights that Emerald has right now, if they don't exercise it. If Pure Sunfarms does not exercise by June 15, that's sort of my understanding. I'm just wondering, if you might clarify that, I mean, that makes me happy if that's the case but maybe Steve or you can elaborate on that.



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Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

The option's online, anybody can read it, it's on SEDAR. So anybody can see it. So the option is for -- off the top of my head is for either 24, 30 months, once Delta 3 is complete.

Unidentified Analyst

Once Delta 3 is complete. Okay.

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

And again, at the time, it was hard to get something licensed. So obviously, they're going faster, not quite fast enough, but they're going faster than they were a year ago. We'd like them to go faster, but anyways. So yes, so now the option -- Pure Sunfarms have the option for Delta 2 and Delta 1 for a number of years.

Unidentified Analyst

Okay. So do you think that they're going to generate enough cash flow to sort of -- would it be self-funding Pure Sunfarms, where Village Farms and Emerald are not putting money into exercising that option, what's your feel on that?

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Emerald have to put x dollars in. It's been redacted, but Emerald has to -- and Village Farms' equity contribution will be Delta 2 or Delta 1. And yes, Pure Sunfarms, as we've said, should be cash flow positive and based on the timing of the construction cost and the cash flow of Pure Sunfarms, our Village Farms may have to put none to a little of CapEx into the conversion of -- obviously, Delta 1 is the largest greenhouse in North America, so that's a whole different cup of tea than converting Delta 2. Delta 2 would be our lower CapEx cost than Delta 3 because it doesn't need a nursery. (inaudible) has extracts room built for essentially, as Mike said, 12 million square feet already. So Delta 3 has been designed with the concept of Delta 2 being in production with cannabis.

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

Yes. And we did 16 grower rooms, it was 17, we lowered it to 16 grower rooms in Delta 3, that's had a much higher expense, so if we were to do 8 grower rooms, we could reduce the cost considerably over Delta 3 for Delta 2, and move very quick.

Operator

All right. So there are no further questions in queue. Did you have any closing remarks today?

Michael A. DeGiglio - *Village Farms International, Inc. - Founder, CEO, President & Director*

All right. Just want to thank everybody for taking the time to participate in this third quarter. We really look forward, we'll be talking to you in March, reporting year-end, going forward. And we think a lot of good things will be transpired over the next 5 months for Village Farms, and look forward to having that communication. Wish, everyone, a happy Thanks Giving. Thank you.

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Operator

And this concludes today's conference call. You may now disconnect.

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