

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VFF.TO - Village Farms International Inc at Canaccord Genuity Cannabis Conference

EVENT DATE/TIME: MAY 14, 2019 / 4:20PM GMT



CORPORATE PARTICIPANTS

Michael DeGiglio *Village Farms International, Inc. - President and CEO*

CONFERENCE CALL PARTICIPANTS

Jon DeCoursey *Canaccord Genuity - Analyst*

PRESENTATION

Jon DeCoursey - *Canaccord Genuity - Analyst*

Good afternoon, everybody. I guess we will try to keep on schedule since we are a little bit short of time on all these presentations. My name is Jon DeCoursey from Canaccord.

We are pleased to have Village Farms here with us today, one of the largest operators of greenhouse operations in North America. Michael?

Michael DeGiglio - *Village Farms International, Inc. - President and CEO*

Thank you. Good afternoon. So Village Farms, we are leveraging our decades of experience of large-scale low-cost vertically integrated growers in this new market opportunity. Legal cannabis in Canada is estimated at \$4 billion and the global hemp-derived CBD at \$22 billion by 2022; and US legal cannabis, \$25 billion.

So Canadian joint venture. We have a joint venture with another Canadian LP. We already have 1.1 million square feet of production and another one that we are converting now. We are pursuing a consumer packaged goods strategy to capitalize on the CBD opportunity in the United States. Proven ability to quickly transition existing large-scale assets to new agricultural opportunities, and focused on near-term cash flow generation.

So our North American assets up in British Columbia we currently have, Village Farms owns one facility. We had three. We donated two to the joint venture, so we have one remaining facility of 2.6 million square feet. And in West Texas, we have four facilities that are totaling 5.7 million square feet. These are all high-tech greenhouse assets.

In the Canadian joint venture, which we own 50% of, we have 2.2 million square feet, which is comprised of two 1.1-million-square-foot facilities. And we have partners in Mexico of 1.7 million square feet; Ontario, Canada, 3 million; and British Columbia, 3 million.

We are leaders in high-tech low-cost vertical-integrated greenhouse growing. This is our 31st year of production. We have a 30-year history. We have built eight megaprojects in the United States over the years as well as international.

Decades of experience as a vertically integrated grower. We are leaders in agricultural product safety, producing food crops for the last 30 years. Leaders in crop management and registration and we have a proven track record. To me, at our Company, cannabis and hemp are another agricultural product like others. We produce roses, carnations, lettuces, and a full array of greenhouse line crops over the years.

We are a fast-mover; ability with our current assets to rapidly transition to new crops. Existing facilities require lower capital expenditures and allow faster time to compete in the market compared to a newbuild from the ground up. Our existing operations with existing management, skilled labor force enable faster ramp up to profitability.

In brief, British Columbia assets, we have been operating there for 20 years with the same workforce. Proven operating systems and decades of site-specific experience allows for effective climate management and excessive in-house facilities for development and conversion.

This is one of the first facilities in Canada we converted. 1.1 million square feet. The name of the joint venture is Pure Sunfarms. This is owned 50% by Village Farms, 50% by Emerald Health Therapeutics. That's this site up here, which is fully planted out on a run rate of 75,000 kilos per year.

Delta 2 is the same 1.1-million-square-foot mirror image of this one, which is going to start conversion now to be in production in 2020. And this remaining facility, which is the largest single footprint in North America, is still owned by Village Farms. And there exists an option for Pure Sunfarms to acquire this facility as well.

So we are looking at a run rate of 150,000 kilos next year. And if we convert all three, we would be estimating about 300,000 kilos a year. So on this one footprint right here in British Columbia, we could put out about a third of the projected Canadian capacity moving forward.

Our goal is to be low-cost high-quality cannabis producer, one of them in Canada. We have a target price of \$1 a gram, which we are at now. Ingrained culture of high-quality low-cost production built over decades. Greenhouses provide a significant lower capital cost and lower operating efficiencies across the board. And those two greenhouses I showed you, we have 50 megawatts of electricity going into power both facilities off the grid with no cogeneration. And continuous year-out harvesting. So we have in that first facility 16 grow rooms harvesting five crops per year per grow room.

This rapid transition, we initiate our cultivation licenses in June of 2017. And as you know, working with Health Canada, you have to un-peel different areas for licensing all the way through post harvest. And finally, we received our full area of the 1.1 million square feet in April 2019, last month, which is now fully in production. And we obtained our sales license in July 2018. Waiting on our packaging license.

So all sales now are to other LPs. We already have a purchase order from the province of Ontario. This commences as soon as we get our packaging license, estimated next month.

Ramp up is going well. All these site-specific experiences and our existing experience over many years have started to demonstrate itself in the last two quarters. We started shipping in the fourth quarter. We had sales in the fourth quarter of 2018 and only shipped for six weeks and we managed to be profitable in the fourth quarter for the entire year last year. We built a nursery within that first facility which is capable of doing cuttings for the full 2.2 million square feet because that will not be duplicated in the next conversion.

So here we see both facilities. This is fully in production and this will start producing in May 2020, each of them with a run rate of 75,000 kilos. And our conversion of Delta 2 will now benefit from the significant learning experience in the Delta 3 facility.

This is just Pure Sunfarms, not Village Farms but Pure Sunfarms financials since we are talking cannabis here. And for the full year last year, where we shipped only six weeks, we had about \$3.7 million of sales with positive EBITDA of \$200,000. And for the first quarter of this year, that increased to \$10 million -- these are US dollars, not Canadian -- with an EBITDA of roughly \$6.5 million for the first quarter.

Of this first quarter, about one quadrant was in production of the four. So going into the second quarter, there will be significantly more capacity coming out.

For the US -- in Canada, where I mentioned we have a joint venture, in the US on our greenhouse assets, it's 100% Village Farms. This is one of our four facilities that are located in West Texas. This is in the southern westernmost part of Texas. We are at 5,000-foot elevation here, 300 days of sunlight, excellent water, and relatively low humidity.

We have now started to move on our CBD strategy, which we see as a significant near-term opportunity, to have a vertically integrated model, both with outdoor cultivation and greenhouse cultivation. We are awaiting Texas finally to approve hemp, which we anticipate happening this week, actually. And at that point, we will start to convert some of our Texas greenhouse assets to cannabis with on-site extraction.

And we formed a joint venture for field production in February. We secured about \$2.5 million worth of seed last fall and we are now getting ready to plant out next month 800 acres of production in the field for CBD.

And we are targeting our current base. Village Farms has been selling retailers for 30 years: Walmart, Safeway, Whole Foods, all across the board. And we have been working with our customers to see what their CBD strategy is moving forward. We are collaborating on the genetics with many different companies and ready to move forward.

MAY 14, 2019 / 4:20PM, VFF.TO - Village Farms International Inc at Canaccord Genuity Cannabis Conference

Our headquarters for this joint venture is in Georgia. We will be planting out 800 acres. All this has been seeded already, and we will be going into the field in June in Virginia, South -- North Carolina and South Carolina.

And with the legislation passing, we will start to convert part of this first facility in West Texas into CBD derived from hemp grown in a greenhouse. We have done a market segmentation of the CB industry (inaudible) and our forecast is that about 90% will be CBD derived from the field and the remaining 10% to 15% from grown in high-tech greenhouses for applications that are much more tied to the higher echelon of health wellness pharma type of applications.

Our path on Village Fields hemp, the joint venture for field production only, is here is where we are today. And we have commenced field in May/June; commencement of harvesting biomass in August. Our plan is to sell some biomass this year and retain some for our extraction program, which we have planned to be up and running in the Southeast by December of this year. That is just for outdoor growing.

Again, we would start with one of our facilities in Texas. And again, I reiterate our assets are independent of our Canadian joint venture. 20 years of operating history here with 600 employees.

And cannabis to us is the same used for cultivation. If we do convert these growing systems to low THC hemp, they are the same growing systems that we would use for high THC hemp. So in the event that the federal government should legalize cannabis high THC, we would be ready to go and convert these assets to do so immediately with the conversion being done for hemp.

Hemp CBD advantage: decades of experience, vertically integrated supplier to North American top grocery and big-box retailers. Millions of dollars and countless hours invested in infrastructure and IT. If you are selling US retailers across the board, we have spent millions of dollars building the IT systems that you need to sell to these companies. It takes years to get into a Walmart, for example, and we hope to leverage those relationships.

And we have an extensive in-house regulatory team that has been working for 30 years with EPA, FDA, USDA as well. So these relationships we think we can leverage on as compared to others in the space.

So our investment summary is uniquely positioned for multiple large-scale opportunities. We have an unmatched platform and proven ability to move quickly to high-value crops. Canada, our Pure Sunfarms joint venture is firmly on track to be one of the largest vertically integrated cannabis producers capable of low-cost high-quality production.

USA, aggressively pursuing opportunities in hemp CBD with field and greenhouse cultivation. JV for field hemp production, extraction, and one of the largest greenhouse footprints independent of our Canadian joint venture of anyone else. I don't know of anyone else who has that size greenhouse footprint in the US. In Mexico, we have strong existing partnerships with large-scale growers and we are looking at opportunities there as well as other Latin American companies.

Well-aligned management team. With nearly 20% owned by founder and CEO and other insiders bring us up to about 23%. Compelling valuation on the Canadian cannabis business alone, coupled with the US international hemp opportunities, plus underlying produce business. Our underlying produce business is what supports our 1,000-people workforce, our finance teams, and grower teams. So having that foundational footprint gives us the positive cash flow much quicker on our Canadian -- on our cannabis opportunities as well.

Any questions? Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.