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Organto Announces Record Second Quarter Financial Results

Largest Quarterly Revenues and Gross Profit in Company's History

Vancouver, BC, Canada and Breda, the Netherlands, August 30, 2021 – Organto Foods Inc. (TSX-V: OGO, OTC: OGOFF, FSE: OGF) ("Organto" or "the Company"), an integrated provider of organic and value-added organic fruits and vegetables today announced financial results for the three month and six month periods ended June 30, 2021 and also reaffirmed its 2021 annual revenue guidance. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except where specifically noted.

Highlights:

Second Quarter 2021 Operating Results:

- Record second quarter revenues of $5,372,162 versus revenues of $2,163,955 in the prior year, an increase of approximately 148% versus the same quarter in the prior year. Second quarter revenues represent the largest quarterly revenues in the history of Organto and the eighth consecutive quarter of record revenue growth versus the same quarter in the prior year. While volumes continued to expand as expected, revenues in the quarter were impacted by a combination of lower avocado selling prices versus expectations due to increased supply from an earlier than anticipated start to the Peruvian export season, and logistics challenges resulting from the timing and availability of containers required to deliver supplies to Europe.
- Record gross profit of $648,987 or 12.1% of revenues versus $232,504 or 10.7% of revenues in the prior year, an increase of approximately 179%. The gross profit in the second quarter of 2021 represents the largest quarterly gross profit in the Company's history and an increase of 250 basis points versus the previous quarter, driven by a higher mix of value-added private label and branded products.
- Cash overhead costs for the quarter were 26.3 % of revenues versus 26.8% in the prior year. These costs include expenditures of approximately $436,900 related to retail branded product development and on-line digital transformation activities, acquisition related costs and costs related to the successful filing of the Company's base shelf prospectus, all of which are expected to generate positive future benefits. Excluding these investments, cash overhead costs reduced to 18.2% of revenues in the second quarter.

Balance Sheet

- Second quarter balance sheet position improved and will provide resources for the Company to continue to pursue its aggressive growth strategy.
  - Cash on hand of $2,760,506 versus $1,577,017 at June 30, 2020.
  - Working capital of $1,996,710 versus a working capital deficiency of $1,151,355 at June 30, 2020.
  - Non-current debt of $4,070,323 with no principal payments due in 2021.

2021 Annual Revenue Guidance Reaffirmed:

- Based on expected increases in supply and roll-out of value-added packaged products in the second half of the year, total 2021 annual revenue guidance of $35.0 million to $37.0 million reaffirmed.
- Annualized revenue exit run rate of $50 million also reaffirmed.

Voluntary Conversion of Convertible Debentures and Repayment of Bank Loan:

- Subsequent to quarter end convertible debentures with face values of $1,328,150 and maturity dates of December 2022 were voluntarily converted and 4,427,166 common shares were issued. Included in these debentures was a debenture with a face value of $963,150 which was issued in connection with the Company's bank loan. As a result of the conversion of this debenture, the Company's bank loan has been fully repaid.

"Our second quarter 2021 results represent our eighth consecutive quarter of record revenues versus the same quarter in the prior year, and the largest quarterly gross profit in our history on both a total dollar basis and as a percentage of revenues. These record results were achieved despite challenges related to container availability and avocado pricing which impacted the latter part of the quarter. Even so, based on supply which is scheduled to come to market and expected growth in our value-added product offerings, we remain confident in our annual revenue target of $35.0 to $37.0 million." commented Steve Bromley, Chair and Co-CEO of Organto. "We continue to invest responsibly in our platform as we expand our product portfolio and branded capabilities in response to expected strong demand for fresh organic fruits and vegetables which is being driven by consumer interest in healthy foods that are produced in a sustainable and transparent manner."

Second Quarter 2021 Results

Revenues for the three months ended June 30, 2021 were $5,372,162 as compared to $2,163,955 during the same period in the prior year, an increase of 148%, a quarterly revenue record for the Company and eighth consecutive quarter of record revenue growth versus the same period in the prior year. Sales of vegetable and fruit products, including fresh organic asparagus, avocado, ginger, mango and others, continued to grow and were sold to a variety of customers throughout Europe. While volumes of most products sold continued to grow as expected, sales were impacted in the quarter by a combination of lower selling prices than expected for avocados due to an earlier than anticipated start to the Peruvian export season, and logistics challenges resulting from the COVID-19 pandemic which impacted the timing and availability of containers required to deliver supplies to Europe.

We realized a quarterly gross profit of $648,987 or approximately 12.1% of revenues in the second quarter of 2021 as compared to a gross profit of $232,504 during the same quarter of the prior year. The gross profit in the second quarter of 2021 was a quarterly record for the Company in both dollar terms and as a percentage of revenue, and an increase of 250 basis points versus the previous quarter, driven by a higher mix of value-added private label and branded products.

Selling, general and administration expenses were $586,515 or 11% of sales this quarter as compared to $188,822 or 9% of sales in the same quarter of the prior year. Included are non-recurring costs associated with the successful preparation and filing of our base shelf prospectus of $155,700 and $69,500 related to the development of our retail branded and on-line product platforms.

Management fees in the current quarter were $235,077 and while higher than the $158,441 recorded in the same quarter of the prior year, they are in line with expectations. Beginning with the first quarter of 2021, remuneration began for a co-CEO who was not previously compensated for his services.

Labour costs and benefits during the second quarter were $590,798, a significant increase versus the same quarter of the prior year but well within expectations given the increased volume of commercial activity. Labour costs decreased over the last two years as staffing levels were scaled back as the business was repositioned. With commercial activities now quickly ramping up, operating personnel have been added to support this growth, develop new products and revenue opportunities and support the organization for expected future growth. Included in second quarter labour costs and benefits are labour costs incurred by Fresh Organic Choice as well as approximately $184,300 of costs related to the development of our branded and on-line product platforms and $27,400 for costs associated with our acquisition program.

As detailed above, during the second quarter we recognized costs of $253,800 related to the development of our retail branded product offering and on-line go-to-market capabilities and $183,100 of costs related to growing the organization including acquisition, listing and future financing related costs. While the benefits of these activities have yet to translate into bottom-line contribution, we believe these are prudent investments for the future of the Company and will start to generate benefits later in 2021 and beyond.

We recognized $308,781 in stock-based compensation in the second quarter of 2021 which consists of $159,216 for restricted share units and $149,565 for stock options. Stock-based compensation in the second quarter of 2020 was for stock options only.

Net interest and accretion expense for the second quarter of 2021 was $227,512 as compared to $76,423 for the prior year. Interest in 2021 consists of interest on our bank loan and convertible debentures, plus accounts receivable factoring costs. Accretion in 2021 consists of accretion on the convertible debentures, bank loan and earn-out payments accrued in relation to the Fresh Organic Choice acquisition. The addition of the convertible debentures in December 2020 and January 2021, together with higher factoring costs resulting from increased commercial activity, led to the higher expense in 2021.

We realized a net loss of $1,155,758 during the second quarter, compared to a net loss of $355,724 during the same period in the prior year. Increased revenues and gross profit in the current year were offset by increases in all cost categories as we expanded our workforce and built out our internal infrastructure to accommodate the expected increase in our business. Second quarter 2021 results included $436,900 of costs not related to day-to-day operations including investments in retail and on-line platform development, acquisition related costs, severance costs and costs incurred to prepare and file our base shelf prospectus.

Year-to-Date 2021 Results

Revenues for the six months ended June 30, 2021 were $10,145,224 as compared to $3,773,775 during the same period in the prior year, an increase of 169%. Sales of vegetable and fruit products, including fresh organic asparagus, avocado, ginger, mango and others, continued to grow and were sold to a variety of customers throughout Europe. While volumes of most products sold continued to grow as expected sales in the second quarter were impacted by a combination of lower selling prices than expected for avocados due to an earlier than anticipated start to the Peruvian export season, and logistics challenges resulting from the COVID-19 pandemic which impacted the timing and availability of containers required to deliver supplies to Europe.

We realized a gross profit of $1,106,802 or approximately 10.9% of revenues in the six months ended June 30, 2021 as compared to a gross profit of $392,981 or 10.4% of revenues during the same period of the prior year, driven by a higher mix of value-added private label and branded products.

Selling, general and administration expenses were $950,420 or 9% of sales for the first six months of 2021 as compared to $375,316 or 10% of sales in the same period of the prior year. Included are non-recurring costs associated with the successful preparation and filing of our base shelf prospectus of $155,700 and $127,400 related to the development of our retail branded and on-line product platforms as well as $17,700 in costs related to our acquisition of Fresh Organic Choice and $23,800 in additional listing fees for shares to be issued on the conversion of our debentures.

Management fees in the first six months of 2021 were $467,545 and while higher than the $306,890 recorded in the same period of the prior year, they are in line with expectations. Beginning with the first quarter of 2021, remuneration began for a co-CEO who was not previously compensated for his services.

Labour costs and benefits during the first six months of 2021 were $1,152,167, a significant increase versus the same period of the prior year but well within expectations given the increased volume of commercial activity. Labour costs decreased over the last two years as staffing levels were scaled back as the business was repositioned. With commercial activities now quickly ramping up, operating personnel have been added to support this growth, develop new products and revenue opportunities and support the organization for expected future growth. Included in labour costs and benefits are labour costs incurred by Fresh Organic Choice as well as approximately $358,700 of costs related to the development of our branded and on-line product platforms, $31,800 in severance payments to former employees and $55,700 for costs associated with our acquisition program.

As detailed above, during the first six months of 2021 we recognized costs of $486,100 related to the development of our retail branded product offering and on-line go-to-market capabilities and $284,700 of costs related to growing the organization including acquisition, listing, severance and future financing related costs. While the benefits of these activities have yet to translate into bottom-line contribution, we believe these are prudent investments for the future of the Company and will start to generate benefits later in 2021 and beyond.

We recognized $605,478 in stock-based compensation in the first six months of 2021 which consists of $247,372 for restricted share units and $358,106 for stock options. Stock-based compensation in the first six months of 2020 was for stock options only.

Net interest and accretion expense for the first six months of 2021 was $443,853 as compared to $141,364 for the same period of the prior year. Interest in 2021 consists of interest on our bank loan and convertible debentures, plus accounts receivable factoring costs. Accretion in 2021 consists of accretion on the convertible debentures, bank loan and earn-out payments accrued in relation to the Fresh Organic Choice acquisition. The addition of the convertible debentures in December 2020 and January 2021, together with higher factoring costs resulting from increased commercial activity, led to the higher expense in 2021.

We realized a net loss of $2,403,522 during the six months ended June 30, 2021, compared to a net loss of $999,422 during the same period in the prior year. Increased revenues and gross profit in the current year were offset by increases in all cost categories as we expanded our workforce and built out our internal infrastructure to accommodate the expected increase in our business. Results for the six months ended June 30, 2021 included $770,800 of costs not related to day-to-day operations including investments in retail and on-line platform development, acquisition related costs, severance costs and costs incurred to prepare and file our base shelf prospectus.

Interested parties may access the Company's filings at www.SEDAR.com or at the Company's website at www.organto.com under the Investors tab.

ON BEHALF OF THE BOARD,

Steve Bromley
Chair and Co-CEO

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this news release.

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ABOUT ORGANTO

Organto is an integrated provider of branded, private label and distributed organic and non-GMO fruit and vegetable products using a strategic asset-light business model to serve a growing socially responsible and health-conscious consumer around the globe. Organto's business model is rooted in its commitment to sustainable business practices focused on environmental responsibility and a commitment to the communities where it operates, its people and its shareholders.

FORWARD LOOKING STATEMENTS

This news release may include certain forward-looking information and statements, as defined by law including without limitation Canadian securities laws and the "safe harbor" provisions of the US Private Securities Litigation Reform Act of 1995 ("forward-looking statements"). In particular, and without limitation, this news release contains forward-looking statements respecting Organto's business model and markets; Organto's belief that demand for fresh organic fruits and vegetables continues to grow; Organto's belief that investments in its retail branded platform, digital transformation activities plus acquisition and organizational costs will generate future returns on investment; Organto's belief that the second quarter balance sheet is improved versus the prior year, providing resources for the Company to pursue its aggressive growth strategy; Organto's belief that based on scheduled increased supply and expected growth of value-added products the Company will achieve its annual revenue guidance and annualized revenue exit run rate targets; management's beliefs, assumptions and expectations; and general business and economic conditions. Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including without limitation assumptions about the following: the ability and time frame within which Organto's business model will be implemented and product supply will be increased; cost increases; dependence on suppliers, partners and contractual counter-parties; changes in the business or prospects of Organto; unforeseen circumstances; risks associated with the organic produce business generally, including inclement weather, unfavorable growing conditions, low crop yields, variations in crop quality, spoilage, import and export laws and similar risks; transportation costs and risks; general business and economic conditions; and ongoing relations with distributors, customers, employees, suppliers, consultants, contractors and partners. The foregoing list is not exhaustive and Organto undertakes no obligation to update any of the foregoing except as required by law.