GreenSpace Brands Reports Third Quarter Fiscal 2019 Results

Revenue represents growth of 18% year over year

TSXV: JTR
www.greenspacebrands.ca
(all amounts in Cdn$ unless otherwise noted)

TORONTO, Feb. 20, 2019 /CNW/ - GreenSpace Brands Inc. ("GreenSpace" or "the Company") (TSXV: JTR) today reported its third quarter fiscal year 2019 results for the period ending December 31, 2018, as well as amendments to the equity incentive plan and the granting of deferred and restricted share units.

Key Highlights for the Third Quarter of Fiscal 2019:

- **Gross revenue of $19.3 million, representing an 18% increase over the prior year period**
- **Adjusted gross margin of 24.5% compared to 23.0% for the prior year period**
- **SG&A expenses increased from 20.5% to 33.8% of gross revenue year over year, primarily due to restructuring costs associated with the closing of the US administrative office**
- **Adjusted EBITDA margins fell to (5.6%) as a percentage of net revenue excluding listing fees, from 3.6% in the prior year period**
- **Rebates and Discounts as a percentage of gross revenue was 11.9% compared to 11.0% in the prior year period**
- **Announced organizational changes affecting the US business, resulting in annual cost savings expected in the range of $1.4 million to $1.8 million**

Consolidated Performance Summary

	Three months ended Dec 31		Nine months ended Dec 31	
(in thousands of Canadian dollars, except per share amounts)	**2018** **$**	2017 $	**2018** **$**	2017 $
Gross revenue	**19,228**	16,348	**61,869**	45,951
Less: rebates and discounts	**(2,282)**	(1,798)	**(6,975)**	(5,292)
Less: listing fees	**(452)**	(284)	**(785)**	(826)
Net revenue	**16,494**	14,266	**54,109**	39,833
Gross profit	**3,701**	3,064	**12,456**	8,500
Adjusted Gross Profit[1]	**4,153**	3,348	**13,270**	9,326
Adjusted Gross Profit margin[1]	**24.5%**	23.0%	**24.2%**	22.9%
SG&A expenses	**6,498**	3,358	**18,407**	8,829
Amortization of intangible assets	**701**	353	**2,102**	1,059
Deferred income tax (recovery)	**(195)**	(94)	**(586)**	(281)
Interest expense	**404**	98	**1,207**	246
Accretion expense	**15**	34	**73**	149
Other income and expense	**-**	-	**98**	-
Foreign exchange loss	**697**	-	**788**	-
Net income (loss)	**(4,419)**	(685)	**(9,633)**	(1,502)
Net loss per share (basic and diluted)	**(0.06)**	(0.01)	**(0.13)**	-

EBITDA	**(2,659)**	(212)	**(5,667)**	(132)
EBITDA, as a percentage of net revenue	**(16.1%)**	(1.5%)	**(10.5%)**	(0.3%)
Adjusted EBITDA[1]	**(948)**	528	**(2,316)**	1,419
Adjusted EBITDA, as a percentage of net revenue excluding listing fees[1]	**(5.6%)**	3.6%	**(4.2%)**	3.5%

1 – See Non-IFRS Measures

The quarter was negatively impacted by several issues, the largest of which was compressed working capital and the subsequent inability to fill orders, mainly within the Central Roast brand. Order shorts in Q3 alone were responsible for $1.3 million of lost sales, which would have translated into roughly $250,000 in additional adjusted EBITDA contribution, on top of orders that were not accepted due to tight inventory which would have resulted in additional sales. In addition to the shorted orders, GreenSpace also incurred fines from retailers for the shorts as well as an inventory write-off within Rolling Meadow, Go Veggie and Kiju which amounted to significant unanticipated additional costs in Q3. The working capital shortage has largely been solved through the subsequent to quarter end sale of Rolling Meadow as well as through the Primary Capital debt deal. Recently announced restructuring in both the US and Canadian businesses have stripped significant costs out of the business in an effort to become adjusted EBITDA positive again in the near future. GreenSpace's principle focus is on returning to profitability and cleaning up the Balance Sheet in an effort to be able to continue to invest in a smaller number of brands that are best positioned to be truly disruptive in the North American Natural Food market.

Revenue

Gross revenue for the quarter ended December 31, 2018 increased 17.6% and net revenue, which is gross revenue net of deductions for rebates, discounts and one-time listing fees, increased 15.6% over the same period in prior year.

The gross and net revenue increases in the quarter were the result of the inclusion of sales of our Go Veggie brand through the acquisition of Galaxy Nutritional Foods, Inc. ("GSB South") effective January 28, 2018. The Company in Q3 saw strong growth in Love Child, modest growth in Kiju, and had a strong quarter from Go Veggie, but had a significantly lower revenue result in Central Roast due to order shorting from compressed working capital. Sequential Revenue decline of (11.2%) was attributable to the Central Roast order issues, as well as the discontinuation of Kiwi Pure and most of the products within the Life Choices brand in the quarter.

Gross Profit and Adjusted Gross Profit (see Non-IFRS Measures)

The Company's Adjusted Gross Profit margin for the third quarter ended December 31, 2018 increased by 1.5 percentage points over the same period last year. The increase was primarily due to a larger proportion of revenue being earned through the relatively higher margin Go Veggie brand, which was acquired during the fourth quarter of fiscal 2018, as well as actively managing production costs across the portfolio.

Consistent with prior periods, listing fees incurred in the current quarter (considered one-time, non-recurring costs) have been added back to gross profit by the Company in calculating Adjusted Gross Profit. Please see the non-IFRS measures for details on these adjustments.

Gross Profits were negatively affected by spoils within the Rolling Meadow, Cedar and Go Veggie brands.

Selling, General and Administrative ("SG&A") Expenses

Overall, SG&A expenses for the third quarter ended December 31, 2018 increased from 20.5% of gross revenue in the third quarter of fiscal 2018 to 33.8% of gross revenue in the current quarter. The increase was primarily due to a restructuring charge taken in the Galaxy business adding roughly $1.2 million in incremental costs. In addition, the Company continued to support the launch of

Riot Eats, with the first products expected to ship in May 2019, roughly 2 months later than originally expected. The delay came as a result of harmonizing the launch with one of the major US based retailer planogram reset windows for the plant based cheese category.

"The third quarter was a difficult quarter for us due to the tight working capital and the associated missed orders in our Central Roast business. Delayed timing of the completion of our Rolling Meadow sale, coupled with some expected repayments of insurance proceeds and aging AR that was due to be paid in December but not received, combined to make working capital very tight" says Matthew von Teichman, CEO of GreenSpace Brands. "On the positive side, the order book for Central Roast remains extremely strong as we try to fill orders to get the shelves full again. We're focused on our imminent return to profitability and permanently resolving our currently tight liquidity situation. Over the last 12 months, GreenSpace has closed three brands which are no longer deemed to be core to the evolving GreenSpace strategy, including Nudge, Holistic Choice, and Life Choices. We have sold two of our smaller brands in Rolling Meadow and Kiwi Pure and we continue to evaluate all of our current brands for sale or partnership to alleviate our Balance Sheet concerns and to prove the thesis that there is significantly more value in the brands than the market is willing to give us credit for. On top of our Brand level decisions, we have also announced several major restructuring initiatives to change the way GreenSpace functions as a whole, and to expedite a return to profitability as soon as possible."

GreenSpace also announced today that its board of directors has approved amendments to its previously announced equity incentive plan (the **"Plan"**) in order to incorporate provisions setting out grant and settlement mechanics with respect to the grant of deferred share units under the Plan. The amended Plan is subject to the approval of disinterested shareholders of the Company at the next annual and special meeting of shareholders in accordance with the policies of the TSX Venture Exchange (the **"TSXV"**). A copy of the amended Plan will be available for review under the Company's SEDAR profile at www.sedar.com and involve the same award metrics as the previously approved RSU plan which are aligned with shareholder interests and tied to the GreenSpace share price appreciation and ebitda results over a 3 year period.

The Company also announces that it has granted a total of 303,571 deferred share units of the Company **("DSUs"**) to certain non-employee directors of the Company pursuant to the Plan. The DSUs shall vest as to one-third after each of: one, two and three years from the effective date of the grant. The grant of DSUs is subject to the approval of the TSXV and the approval of disinterested shareholders of the Company.

The Company has also granted a maximum of 1.62 million restricted share units (**"RSUs**") to certain employees and officers of the Company pursuant to the Plan. The RSUs shall vest no later than December 31, 2021 in accordance with certain performance vesting criteria measured over a performance period ending March 31, 2021. The grant of RSUs is subject to the approval of the TSXV.

Outlook

GreenSpace continues to believe that there are a number of fundamental trends occurring within both the Global and North American food industries. These trends will continue to drive consumer demand for GSB brands and customers will continue to be attracted by the Company's innovation within the natural and organic marketplace.

As a result of this the Company is optimistic that anticipated market growth will continue to drive demand for the Company's acquired and developed brands and provides a significant opportunity for further expansion into new product offerings. This has been evidenced by several distribution wins announced over the last three quarters and entrance into new product categories. In particular GreenSpace expects that it will continue to execute on a two-pronged growth strategy. Firstly, the Company expects to have a strong and ongoing internal brand and product development program.

There are currently a number of new product offerings in various stages of development that the Company expects to release strategically, to fill gaps in the Canadian natural and organic marketplace, over the next few quarters. Secondly, the tripling in size of the Canadian natural and organic food market over the last decade has been driven by a number of new entrants, creating a highly fragmented competitive landscape. The Company seeks to continue to take advantage of this and expects to eventually grow through strategic investments in strong, simple ingredient businesses which are accretive to revenue and profitability.

Management expects to see continued year on year organic revenue growth, incremental gross margin improvement and positive adjusted EBITDA margins, once the restructuring of the GSB U.S. operations is complete. The Company continues to believe it is in a strong position to be one of the innovation leaders, as well as a principle consolidator, in the North American natural and organic food market, due to its industry position and accumulated reputational goodwill.

Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA

This press release contains references to "Adjusted Gross Profit" and "Adjusted EBITDA" which are not measures prescribed by International Financial Reporting Standards (IFRS). Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Adjusted Gross Profit is a non-IFRS measure which represents gross profit adjusted to exclude non-recurring, one-time listing fees which would not be considered part of on-going, normal operations. The Company's management believes that in addition to gross profit, adjusted gross profit is a useful supplemental measure of gross profit prior to one-time expense items such as listing fees. Adjusted Gross Profit allows management to compare the Company's margin over time on a consistent basis. However, adjusted gross profit is not a recognized measure under IFRS. Investors are cautioned that Adjusted Gross Profit should not be construed as an alternative to gross profit determined in accordance with IFRS. The Company's method of calculating adjusted gross profit may differ from the method used by other issuers, and accordingly, the Company's adjusted gross profit calculation may not be comparable to similarly titled measures used by other issuers.

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the food and beverage industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations. The Company's method of calculating Adjusted EBITDA may differ from the method used by other issuers and, accordingly, the Company's Adjusted EBITDA calculation may not be comparable to similarly titled measures used by other issuers.

A reconciliation of the Company's Gross Profit to Adjusted gross profit is outlined in the following table:

Reconciliation of Gross profit to Adjusted gross profit
(expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	31-Dec-18	31-Dec-17	**31-Dec-18**	31-Dec-17
	$	$	**$**	$
Gross profit	**3,701**	3,064	**12,456**	8,500
Add back non-recurring expenses				
Listing fees	**452**	284	**785**	826
Loss on discontinued product	**-**	-	**29**	-
Adjusted gross profit	**4,153**	3,348	**13,270**	9,326
Adjusted gross profit percentage	**24.5%**	23.0%	**24.2%**	22.9%

Reconciliation of Net loss from continuing operations to EBITDA and Adjusted EBITDA from continuing operations

(expressed in thousands of Canadian dollars)

A reconciliation of the Company's net loss to Adjusted EBITDA is outlined in the following table:

	Three months ended		Nine months ended	
	31-Dec-18	31-Dec-17	**31-Dec-18**	31-Dec-17
	$	$	**$**	$
Net loss	**(4,419)**	(685)	**(9,633)**	(1,502)
Interest and accretion expense	**419**	132	**1,280**	246
Depreciation and amortization	**839**	434	**2,484**	1,255
Unrealized foreign exchange loss	**697**	(94)	**788**	-
Deferred income tax recovery	**(195)**	-	**(586)**	(281)
EBITDA	**(2,659)**	(213)	**(5,667)**	(132)
Add back non-cash and non-recurring expenses				
Stock based compensation	**37**	-	**104**	-
Recall expense	**-**	-	**758**	-
Listing fees	**452**	284	**785**	826
Restructure cost	**1,222**	457	**1,704**	725
Adjusted EBITDA	**(948)**	528	**(2,316)**	1,419

About GreenSpace Brands Inc.

GreenSpace is a Canadian-based brand ideation team that develops, markets and sells premium natural food products to consumers across North America. GreenSpace owns Life Choices, convenience meat products made with grass fed and pasture raised meats without the use of added hormones and antibiotics, Love Child, a producer of 100% organic food for infants and toddlers made with the purest, natural and most nutritionally-rich ingredients, Central Roast, a clean snacking brand featuring a wide assortment of nut and seed mixes, Kiju, the Canadian market leader in the shelf stable organic juice segment, CEDAR, the leaders in the Canadian Cold Press Juice category and the most recently acquired brand, GO VEGGIE, one of the leaders in the US plant based dairy market. All brands are wholly owned and retail in a variety of natural and mass retail grocery locations across Canada.

For more information, visit www.greenspacebrands.ca. GreenSpace's filings are also available at **www.SEDAR.com**.

Forward-Looking Statements

Certain statements in this press release constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements made under the heading "Outlook" and other statements concerning the Company's 2018 objectives, strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements and there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause such differences include the cyclical nature of the construction and agriculture industries, changes in general economic conditions and interest rates, adverse weather, cost and availability of materials used to manufacture the Company's products, competitive developments, legislative and government policy changes, as well as other risk factors included in the Company's Annual Information Form dated August 22, 2018 under the heading "Risks and Uncertainties Related to the Business" and as described from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions. This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements or levels of dividends and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change. Certain statements included in this press release may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for all purposes. All forward-looking statements in this press release are qualified by these cautionary statements. The forward-looking statements contained herein are made as of the date of this press release and except as required by applicable law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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