

IM Cannabis (IMCC) Second Quarter 2022 Earnings Call Script

Operator

Good day and welcome to IM Cannabis' Second Quarter 2022 Earnings Conference Call. Today's conference call is being recorded. At this time, I would like to turn the conference over to Maya Lustig, Director of Investor & Public Relations.

Maya Lustig – Safe Harbor

1 Thank you, Operator. Joining me today are IM Cannabis' Chief Executive Officer,
2 Oren Shuster, and Chief Financial Officer, Shai Shemesh.

3
4 The earnings release that accompanies this call is available on the Investor
5 Relations section of our website at investors.imcannabis.com.

6
7 Today's call will include estimates and other forward-looking information and
8 statements, including statements concerning future revenues, results from
9 operations, financial positions, markets, economic conditions, product releases,
10 partnerships and any other statements that may be construed as a prediction of
11 future performance.

12
13 This information may involve known and unknown risks, uncertainties and other
14 factors that may cause actual results to differ materially from those expressed or
15 implied by such statements. Factors that could cause or contribute to such
16 differences are described in detail in the company's most recent filings available
17 on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

18
19 Furthermore, certain non-IFRS measures will be referred to during this call. The
20 Company believes that the presentation of this non-IFRS information provides
21 useful supplementary data concerning the Company's ongoing operations and is
22 provided for informational purposes only. Any estimates or forward-looking
23 information or statements provided are accurate only as of the date of this call
24 and the Company undertakes no obligation to publicly update any forward-
25 looking information or statements or supply new information regarding the

1 circumstances after the date of this call. Please also note that all references on
2 this call reflect currency in Canadian dollars.

3
4 With that, it is my pleasure to turn the call over to Oren Shuster, CEO of IM
5 Cannabis.

6
7 Oren, please go ahead.

8
9
10
11 **Oren Shuster – Introduction**

12
13 Thank you, Maya. Good morning, everyone, and thank you for joining us for our
14 second quarter 2022 earnings call.

15
16 We are very pleased with our financial results and operational execution in the
17 quarter, particularly compared to how our peers have recently performed. Before
18 I go into the overall and regional details, I would like to describe the big picture
19 we are creating.

20
21 We are a multi-market cannabis company with a leading position in each of the
22 three largest federally legal markets in the world – Canada, Israel, and Germany.
23 Our strength lies in our ability to work as one unit to meet and exceed end-
24 customer demands and regulatory requirements in the different markets in which
25 we operate. Our global supply chain and regional expertise set us apart from our
26 peers, and we will apply that to upcoming growth opportunities, particularly in
27 Germany. This is, by far, one of the largest and most exciting opportunities we
28 have in front of us.

29
30 The German government has suggested that it is considering the legalization of
31 cannabis. When it comes to recreational cannabis consumption, our estimates
32 suggest that the German market could be 2.5 times greater than that of Canada.
33 Not only is Germany an economic leader of the European continent, but it is also
34 a social and cultural leader. As such, we believe German legalization efforts could
35 encourage similar initiatives in other European countries such as Italy, Spain,
36 France, and the UK.

37

1 To say that the European cannabis market potential is immense would be an
2 understatement. To have the early mover advantage is key to successfully
3 grabbing a large market share in a continent of almost 750 million people.

4
5 We are in a favorable position to scale up rapidly in the untapped European
6 market and here is why. We have built a seamless international import and export
7 model. We have cultivation facilities in Canada and manufacturing facilities in
8 Germany. We also possess in-depth regulatory experience in all of the countries in
9 which we operate.

10
11 To turn our vision into reality, we will leverage the experience and the expertise
12 we have accumulated in Canada and Israel. In Canada, we have achieved
13 significant market share in the all-important premium dried flower and pre-roll
14 markets. We are now one of the top three most popular brands in two different
15 market segments in Ontario. In Israel, we have been a category creator and a
16 leader. We introduced ultra-premium cannabis to the country. We determined
17 the standards of this new market segment as well as its price points. Today, the
18 suggested retail price for one gram of our ultra-premium product is 34.9 shekels,
19 which is around 13.7 Canadian dollars. This is the highest price for any cannabis
20 product in the Israeli market.

21
22 The premium and ultra-premium market segments are large and rapidly growing.
23 In Israel we enjoyed an early mover advantage – which we expect to replicate in
24 Germany.

25
26 When it comes to our global operations and execution, as you may recall from the
27 previous quarter, we have embarked on an ambitious integration and
28 restructuring plan. We began our efforts in Israel where we enhanced
29 organizational efficiency by integrating customer service centers and reducing
30 operating costs. Our operations in Israel are now more centralized, based on a
31 self-supply model leveraging our Canadian yield.

32
33 To further streamline our operations in Israel, Focus Medical closed the Sde
34 Avraham cultivation farm. If you recall, Focus Medical had an exclusive
35 commercial agreement with IM Cannabis to distribute its production under the
36 IMC brand. The closure of Sde Avraham allows IM Cannabis to utilize our in-house

1 supply source of Canadian cultivated cannabis. The cash cost savings from the
2 closure of the farm are expected to be approximately \$2.5 million per year.

3
4 In Canada, we have also embarked on a thorough streamlining of our operations
5 as part of our global integration efforts to enhance operational efficiency and
6 reduce costs. To that end, we have finalized the sale of the SublimeCulture
7 subsidiary, immediately generating significant cost savings in our Canadian
8 operations.

9
10 We also implemented other operational efficiencies in Canada. Collectively, these
11 initiatives are expected to yield approximately \$4 million in annual cash savings in
12 Canada. We expect the majority of these savings to begin to materialize in the
13 third quarter, with full realization in the fourth quarter of this year. We believe
14 these are necessary steps as part of our ongoing efforts to optimize, synergize,
15 and further integrate our acquisitions across the globe, as well as limit our costs.

16
17 Our Canadian operations serve as an avenue to provide products to the Israeli and
18 German markets, further demonstrating the power of our global model. We
19 expect our global supply chain model to match the demand and supply for
20 premium indoor grown Canadian cannabis in each of our markets, resulting in
21 higher margins and income.

22
23 In Q2, we moved further along the path to profitability. It was yet another quarter
24 of record revenues, which increased 114% year-over-year and 1% sequentially to
25 \$23.8 million. While we have not reached the breakeven point, we have taken
26 many initiatives and actions to achieve profitability.

27
28 Based on these developments and rationalized capital allocations, we continue to
29 expect 2022 to be a breakout year, and for the longer term, we believe we are
30 very well positioned for success and shareholder value creation.

31
32 I will now provide an overview of each of our market segments: Israel, Canada,
33 and Germany. I would like to reiterate that these countries are the three largest
34 markets in the world where cannabis is federally legal, and we are the ONLY
35 multi-country operator active in all of them. After this overview, Shai will offer a
36 review of our financial results before we open the call up for questions.

1 **In Israel**, we successfully responded to the increased demand for premium
2 indoor-grown Canadian cannabis from Israeli consumers through our global and
3 fully licensed import-export supply chain. Our Canadian indoor cultivation
4 facilities grow premium and ultra-premium products and have leading brands in
5 the adult-use recreational Canadian market such as WAGNERS. We now
6 seamlessly import these products into Israel and extensively provide consistent
7 access and supply to Israeli medical cannabis patients. We expect an increase in
8 this distribution in Q3 and Q4. In addition, based on the strong consumer demand
9 for premium and ultra-premium medical cannabis, we have benefited from
10 increased selling prices in Israel.

11
12 **In Canada**, our leading brands continue to enjoy commercial leadership. We are a
13 market leader in Canada – one of the most mature and competitive cannabis
14 markets globally. We've continued to grow revenues, marking the 5th
15 consecutive quarter of recreational revenue growth. Canadian revenues grew by
16 5.2% from Q1 2022 to Q2 2022, and 340% from Q2 2021 to Q2 2022.

17
18 Our brands hold strong market share in key segments: WAGNERS and Highland
19 Grow maintained commanding market share in Ontario, the largest and most
20 important regional market in Canada. For the 3-month period ending June 30,
21 WAGNERS was #2 in the premium segment (\$7.50-\$9.99 per gram) and Highland
22 Grow was #3 in the ultra-premium segment (+\$12.99 per gram) in Ontario.

23
24 In response to market demand for our highly popular brands, WAGNERS and
25 Highland Grow, we launched numerous new products. At the end of Q2 and in the
26 first weeks of Q3, the WAGNERS pre-roll catalog at the OCS grew through the
27 launch of Tiki Rain and Blue Lime Pie pre-rolls. Two new 3.5 gram dried flower
28 SKUs – Tiki Rain and Purple Clementine – were also launched in addition to the
29 expansion of our concentrate portfolio with the introduction of soft black hash
30 and 3.5 gram soap bar hash. Highland added new dried flower SKUs to its OCS
31 portfolio – Gas Tank and Diamond Breath as well as White Lightning pre-rolls.
32 New product rollouts continue with the introduction of new strains including
33 Frost Bite, Leviathan, and Space Jagger.

34
35 **In Germany**, we are already one of the top 10 companies among 100 that
36 currently operate in the country, reaching a market share of 3.5% in April. To
37 date, May was our strongest sales month. We have achieved this with only 4

1 SKUs. We are going to introduce additional SKU's to boost sales in the coming
2 quarters.

3
4 Growth is being driven by private payers in the high THC segment. Of the three
5 strains we have, our Hindu Kush strain was the top selling T20 in the market with
6 20% market share.

7
8 With our receipt of the extended EU-GMP license on May 24th, including
9 additional production, testing, and release steps, we achieved another milestone
10 that supports our strategy of product and brand variety (such as WAGNERS). We
11 started several new product license applications and we are preparing for the
12 launch of new high quality and high THC products in Q4 2022 and Q1 2023.

13
14 Recently, the German Society for Pain Medicine launched the "Pain Initiative
15 Cannabinoids 2021" project. Through this program, doctors will be able to directly
16 prescribe medical cannabis to their patients after completing a course.

17
18 This will decrease bureaucracy for medical cannabis patients and providers. It will
19 also likely increase the number of physicians who are able and willing to allow
20 their patients to access medical cannabis therapies. When this happens, we
21 expect our strong, positive reputation among the German healthcare community
22 through our IMC-branded products to position us well.

23
24 While we continue to gain brand recognition on a global level, given the
25 regulatory landscape, we are still in the very early stages of our growth trajectory.
26 One thing our company does extremely well is to flexibly adapt to changing
27 circumstances and regulations, and this gives me tremendous confidence as I look
28 ahead.

29
30 Lastly, I would like to comment that we are working with our legal team to
31 address the notification the Company received from the Nasdaq Stock Market
32 with respect to maintaining the required minimum bid price. We have ample time
33 to remedy the deficiency and regain compliance. We have been provided 180
34 days, or until January 9, 2023, to regain compliance by maintaining the required
35 minimum bid price for at least 10 consecutive business days. We feel that the
36 matter will be resolved in due course. Please note that it does not currently

1 impact our listing on the Nasdaq Capital Market, or the Canadian Securities
2 Exchange.

3
4 I will now turn the call over to our Chief Financial Officer, Shai Shemesh, who will
5 review our second quarter 2022 financial results.

6
7 Shai?

8
9
10 **Shai Shemesh – Financial Overview**

11
12 Thank you, Oren.

13
14 We continue to operate from a position of financial strength. As we continue to
15 grow our revenue base, we are uncovering a variety of operational improvements
16 that will allow us to scale sustainably.

17
18 I will now provide an overview of our second quarter for 2022 financial and
19 operational results.

20
21 **Revenues** increased 114% to \$23.8 million in the second quarter of 2022,
22 compared to approximately \$11.1 million in the second quarter of 2021. The
23 increase in revenues is primarily attributed to an increase in the quantity of
24 medical and recreational cannabis products sold, as well as from the higher
25 average selling price per gram, the Company realized from its portfolio of
26 premium branded cannabis products in Israel and Canada.

27
28 **Gross profit**, before fair value adjustment, increased 830% to \$5.6 million in the
29 second quarter of 2022, compared to \$0.6 million in the second quarter of 2021.

30
31 **Total operating expenses** were \$22.6 million in the second quarter of 2022
32 compared to \$10.1 million in the second quarter of 2021. The increase in
33 operating expenses was partly due to restructuring expenses of approximately
34 \$9.2 million, of which the vast majority are non-cash expenses, associated with
35 the closure of the facilities in Israel and in Canada, as well as the growing
36 corporate activities in Israel and Canada following the Company's acquisitions in
37 2021.

1 **Net loss** was \$18.98 million in the second quarter of 2022, compared to a net loss
2 of \$5.01 million in the second quarter of 2021.

3
4 **Basic loss per** share in the second quarter of 2022 was \$0.27 compared to basic
5 loss per share of \$0.10 in the second quarter of 2021.

6
7 **Diluted loss per share** in the second quarter of 2022 was \$0.30, compared to
8 diluted loss per share of \$0.23 in the second quarter of 2021.

9
10 **Non-IFRS Adjusted EBITDA** was negative \$4.6 million in the second quarter of
11 2022 compared to an Adjusted EBITDA loss of approximately \$5.7 in the second
12 quarter of 2021.

13
14 **Cash and cash equivalents** totaled \$5.86 million at June 30, 2022, compared to
15 \$13.9 million at December 31, 2021.

16
17 In Q2, we began to see our consolidated operations yield substantial synergies, as
18 reflected by our immense year-over-year revenue growth. We expect our
19 operational enhancements to be increasingly visible as we move forward.

20
21 And as we have previously noted, we have reached positive Adjusted EBITDA in
22 Israel and approaching positive Adjusted EBITDA on a Group level.

23
24 Finally, I'd like to point out that while ours is an opportunistic approach to
25 deploying capital, we currently do not have any new acquisitions in the pipeline.
26 Thus, we do not foresee any significant capital expenditures in the short term.

27
28 I would now like to turn the call back to Oren for closing remarks. Oren?

29
30 **Oren Shuster – Conclusion**

31 Thank you, Shai.

32
33 This is an important time in IMC's growth trajectory as we aim to rapidly capture
34 market share while fully optimizing the components of our global model. By
35 pursuing efficiencies while also introducing new and sought-after premium
36 brands in different markets, our goal is to position ourselves as a leading
37 consumer packaged goods company serving the cannabis industry.

1
2 Our focus on operational competence is already yielding benefits that we believe
3 will be more visible as the year unfolds.

4
5 As mentioned during our call last quarter, we are building on our track record of
6 success in Israel and product category leadership of our brands in Canada, while
7 leveraging our distribution infrastructure in Germany. We are very well positioned
8 to emerge as a major player in the European premium cannabis market. The
9 opportunity in front of us is truly remarkable, and we are working diligently to
10 seize it and generate long-term value for our shareholders along the way.

11
12 With that, I hand the call over to the operator to begin our question-and-answer
13 session. Operator?

14
15 **Operator:**

16 (Standard Q&A session prompts)

17 **Q&A**

18
19 **Oren Shuster – Conclusion after Q&A:**

20
21 Thank you, Operator, and thank you all for joining our call today. Please continue
22 to track our progress as we continue to execute on our growth strategy, and I look
23 forward to speaking with you in the coming quarters.