

IM Cannabis (IMCC) First Quarter 2022 Earnings Call Script

Operator

Good day and welcome to IM Cannabis' First Quarter 2022 Earnings Conference Call. Today's conference call is being recorded. At this time, I'd 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
2 Officer, Oren Shuster, and Chief Financial Officer, Shai Shemesh.
- 3 • The earnings release that accompanies this call is available on the Investor
4 Relations section of our website at investors.imcannabis.com.
- 5 • Today's call will include estimates and other forward-looking information
6 and statements, including statements concerning future revenues, results
7 from operations, financial positions, markets, economic conditions, product
8 releases, partnerships and any other statements that may be construed as
9 a prediction of future performance.
- 10 • This information may involve known and unknown risks, uncertainties and
11 other factors that may cause actual results to differ materially from those

1 expressed or implied by such statements. Factors that could cause or
2 contribute to such differences are described in detail in the company's
3 most recent filings available on SEDAR at www.sedar.com and EDGAR at
4 www.sec.gov.

- 5 • Furthermore, certain non-IFRS measures will be referred to during this call.

6 The Company believes that the presentation of this non-IFRS information
7 provides useful supplementary data concerning the Company's ongoing
8 operations and is provided for informational purposes only. Any estimates
9 or forward-looking information or statements provided are accurate only as
10 of the date of this call and the Company undertakes no obligation to
11 publicly update any forward-looking information or statements or supply
12 new information regarding the circumstances after the date of this call.

13 Please also note that all references on this call reflect currency in Canadian
14 dollars.

- 15 • With that, it is my pleasure to turn the call over to Oren Shuster, CEO of IM
16 Cannabis.

17 Oren, please go ahead.

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Oren Shuster – Introduction

- Thank you, Maya. Hello, everyone, and thank you for joining us for our first quarter 2022 earnings call.
 - The first quarter was highlighted by two key factors.
 - First, with our operational execution, the benefits of integrating our global model have begun to take hold, allowing us to identify various opportunities for margin expansion. This primarily relates to centralizing our operations in Israel, where we are transitioning our supply source toward a self-supply model leveraging our Canadian yield.
 - Second, as we progress on the path to profitability, we achieved yet ***ANOTHER*** quarter of record revenues, which increased 169% year-over-year and 18% sequentially to \$23.6 million. Notably, we exited the quarter at a nearly \$100 million revenue run rate basis.
 - Taking these two factors into account, we expect 2022 to be a breakout year for IM Cannabis, which will be particularly evident in the second half of the year given our industry-leading global framework and expected synergies. Taken in tandem with significantly reduced capital expenditures in the coming year and a

1 strong balance sheet, we are strongly positioned for long-term
2 success and shareholder value creation.

- 3 • Before I expand on this recent progress, allow me to provide a brief
4 overview of our company and our vision for those of you that may be new
5 to our story. I will then touch on each of our market segments that
6 collectively make up our unique global platform, followed by a review of
7 our financial results before opening the call up for questions.
- 8 • IM Cannabis is a leading provider of premium cannabis for the medical and
9 recreational markets in Israel, Canada, and Germany. These countries are
10 the three largest in which cannabis is federally legal, and we are the ONLY
11 multi-country operator with a footprint in each of them.
 - 12 ○ This fact is important as it highlights IMC's leadership position and
13 early-mover advantage in a large and rapidly growing addressable
14 market.
- 15 • Through a series of strategic acquisitions, we believe we have built a world-
16 class platform of premium cultivation facilities with ample capacity, top-tier
17 brands, extensive distribution capabilities, and direct sales channels. We
18 took a methodical approach to procuring each of these components and
19 focused on alignment with our vision to become one of the world's largest

1 producers focused on cultivating cannabis for the premium and ultra-
2 premium market segments.

- 3 ○ With our infrastructure established, we next turned our focus to the
4 integration of its components – within each of our market segments
5 as well as across our broader platform.

- 6 • In Israel, we took several actions to generate operating efficiencies
7 domestically while leveraging our global import-export supply chain.

- 8 ○ We saw an opportunity to capitalize on the fragmentation in the
9 market as well as the evolving consumer preferences toward e-
10 commerce and home delivery. The acquisitions we recently closed in
11 Israel provided IMC with the opportunity to consolidate three
12 leading pharmacies, including **Panaxia-to-the-Home**, the largest
13 online pharmacy business in the country. We are now creating a
14 single customer support center and a centralized distribution hub
15 for the three pharmacies. This has been a relatively seamless
16 process that we believe will create significant cost savings going
17 forward while also strengthening our brand presence.

- 18 ○ We also acquired two GMP certified trade centers, which provide us
19 with purchasing power from suppliers and the ability to provide a

1 wider product selection. While we have historically relied on
2 domestic cultivation sources for our products sold in Israel, the
3 Canadian businesses we acquired last year provided us with the
4 ability to import premium products to Israel.

- 5 ○ In the first quarter, we began importing our own products to Israel
6 with the launch of our WAGNERS brand, which is highly popular in
7 Canada and has received a positive response from Israeli consumers.

8 In addition to the benefits of having global brand recognition, the
9 economics of importing product from our Canadian subsidiaries are
10 highly attractive.

- 11 ○ In fact, the Canadian products we produce, import, and sell in Israel
12 have a gross margin profile that is nearly *double* that of products
13 sourced from other suppliers. As we increase volumes to meet
14 elevated demand, we have a significant margin expansion
15 opportunity by simply becoming our own primary source of supply.

- 16 ● In Canada, our leading brands have continued to gain commercial traction
17 with existing and new products. Our WAGNERS and Highland Grow brands
18 continue to rapidly gain market share in their respective price segments,

1 with each brand receiving a leading rank and a leading position in the
2 Province of Ontario, Canada's largest cannabis market.

3 ○ While Canada is the most mature and competitive of the markets in
4 which we operate, we are focused on driving growth by launching
5 new products and formats and increasing engagement with new and
6 existing customers. We also expect to expand into new provinces in
7 the near term – namely, Quebec, which accounts for nearly a
8 quarter of the Canadian population.

9 ○ In addition to this growth, our Canadian operations also serve as an
10 avenue to provide products to the Israeli and German markets,
11 further demonstrating the power of our global model. As we
12 increase internal cultivation toward full capacity, we are also
13 focused on several operational initiatives that we expect to
14 contribute to margin expansion, including yield improvements and
15 reductions of volume-based operating costs.

16 ● Finally, we continue to lay our foundation in Germany, the largest medical
17 cannabis market in Europe. We have established a positive reputation
18 among the German healthcare community through our IMC-branded
19 products, which we attribute to our track record, brand reputation, and

1 proprietary data from our experience in the Israel medical market. We are
2 committed to providing German physicians and patients with the best
3 available strains in the global cannabis market and are currently in the
4 process of launching our WAGNERS brand in Germany.

5 ○ We believe that Germany has the potential to be the second largest
6 federally legal, adult-use market in the world. Earlier this month, the
7 country's health minister announced his support of an accelerated
8 legislative process for legalizing adult-use cannabis that is expected
9 to take place in the coming months, including a legislative draft
10 expected before the end of the year. While it appears that the
11 momentum is picking up, the legislative process will undoubtedly
12 take time. Being early in this market is strategic and presents a
13 massive opportunity for IMC.

14 ○ This is why we have made the conscious decision to invest
15 significantly into our German infrastructure over the last few years,
16 and we plan to continue this investment going forward. We are
17 building our foundation in Germany to allow us to be a first mover in
18 the evolving German cannabis market that we believe will prioritize
19 premium cannabis, which is our core focus.

- We are thrilled to see the benefits of our multi-country strategy begin to take effect. We are ramping up cultivation in Canada to fulfill growing demand domestically and in Israel and Germany, where premium products command the market. By bringing our supply source inhouse and optimizing our cost structure through the centralization of operations in Israel, we are taking a calculated and sustainable approach to achieving gross margin expansion.
- IMC is gaining brand recognition on a global level, yet when we evaluate our position relative to the potential opportunities afforded by the evolving regulatory landscape, we are still in the very early stages of our growth trajectory.
- I will now turn the call over to our Chief Financial Officer, Shai Shemesh, who will review our first quarter 2022 financial results.
- Shai?

Shai Shemesh – Financial Overview

Thank you, Oren.

- We continue to operate from a position of financial strength. As we continue to grow our revenue base, we are uncovering a variety of operational improvements that will allow us to scale sustainably.
- I will now provide an overview of our first quarter for 2022 financial and operational results.
- Revenues increased 169% to \$23.6 million in the first quarter of 2022, compared to approximately \$8.8 million in the first quarter of 2021. The increase in revenues is primarily attributed to an increase in the quantity of medical and recreational cannabis products sold.
- Gross profit, before fair value adjustment, increased 37% to \$6.4 million in the first quarter of 2022, compared to \$4.6 million in the first quarter of 2021.
- Total operating expenses were \$18.1 million in the first quarter of 2022 compared to \$6.7 million in the first quarter of 2021. The increase in operating expenses were partly due to restructuring expenses of

1 approximately \$3.7 million associated with the closure of the facility in
2 Israel

3 • Net loss was \$10.7 million in the first quarter of 2022, compared to a net
4 income of \$4.7 million in the first quarter of 2021.

5 • Basic loss per share in the first quarter of 2022 was \$0.14 compared to
6 basic earnings per share of \$0.11 in the first quarter of 2021.

7 • Diluted loss per share in the first quarter of 2022 was \$0.17, compared to
8 diluted loss per share of \$0.06 in the first quarter of 2021.

9 • Non-IFRS Adjusted EBITDA was negative \$4.5 million in the first quarter of
10 2022 compared to an Adjusted EBITDA loss of approximately \$1 million in
11 the first quarter of 2021.

12 • Cash and cash equivalents totaled \$10.3 million at March 31, 2022,
13 compared to \$13.9 million at March 31, 2021.

14 • We are just beginning to see the synergies of our consolidated operations
15 take effect as reflected by our substantial year-over-year revenue growth.

16 As we look forward, we expect the positive effects of our operational

17 improvements to be increasingly pronounced. In the second quarter of

1 2022, we expect revenues to accelerate on a year-over-year basis while
2 continuing to grow sequentially.

- 3 • And as we have previously noted, we are rapidly approaching positive
4 Adjusted EBITDA, which we expect we will achieve on a run rate basis in the
5 second quarter of 2022, positioning us to be cash flow positive on a run
6 rate basis in the third quarter of 2022.
- 7 • Finally, a quick note on our capital allocation strategy. While we continue to
8 take an opportunistic approach to deploying capital, we currently do not
9 have any new acquisitions planned. Therefore, we do not foresee any
10 significant capital expenditures in the coming year.
- 11 • I would now like to turn the call back to Oren for closing remarks. Oren?

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13 **Oren Shuster – Conclusion**

14 Thank you, Shai.

- 15 • We are at a pivotal point in IMC's growth trajectory as we aim to rapidly
16 capture market share while fully integrating the components of our global
17 model to position us for our next phase as a leading consumer packaged
18 goods company serving the cannabis industry.

- Our focus on operational excellence is already yielding benefits that we believe will be incrementally realized as our brands are unified. Building on our track record of success in Israel and product category leadership of our brands in Canada, while leveraging our unique distribution infrastructure in Germany, we are well positioned to emerge as a major player in the European premium cannabis market. The opportunity in front of us is truly remarkable, and we are working diligently to seize it and generate long-term value for our shareholders along the way.

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

Operator:

(Standard Q&A session prompts)

Q&A

Oren Shuster – Conclusion after Q&A:

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