

1 IM Cannabis (IMCC) First Quarter 2024 Earnings Call Script

2 Operator

3 Good morning and welcome to IM Cannabis' First Quarter 2024 Earnings Conference
4 Call. Today's conference call is being recorded. At this time, I would like to turn the
5 conference over to Anna Taranko, Director of Investor & Public Relations

6 Anna Taranko

7 Good morning and thank you, Operator. Joining me for today's call are IM Cannabis'
8 Chief Executive Officer, Oren Shuster, and Chief Financial Officer, Uri Birenberg.

9 The earnings press release that accompanies this call is available on the Investor
10 Relations section of our website at investors.imcannabis.com.

11 Today's call will include estimates and other forward-looking information and
12 statements, including statements concerning future results of operations, economic
13 conditions and anticipated courses of actions and are based on assumptions,
14 expectations, estimates and projections as the date hereof.

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

20 Furthermore, certain non-IFRS measures will be referred to during this call, and the
21 term "Non-IFRS Adjusted EBITDA Loss" will hereafter be referred to as "Adjusted
22 EBITDA Loss."

23 Any estimates or forward-looking information or statements provided are accurate
24 only as of the date of this call and the Company undertakes no obligation to publicly
25 update any forward-looking information or statements or supply new information
26 regarding the circumstances after the date of this call. Please also note that all
27 references on this call reflect currency in Canadian dollars unless otherwise stated.

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

29 Oren, please go ahead.

Oren Shuster – Opening Remarks

Thank you, Anna. Good morning, everyone, and thank you for joining us today.

I'd like to start off with a quick overview of the overall cannabis market. On April 1st the German government legalized Cannabis. On April 30th, the Associated Press reported that there is an indication that the US Drug Enforcement Administration will reclassify cannabis as a less dangerous drug, placing it at the same level as other medications. And obviously, Canada legalized cannabis several years ago. Together, these regulatory changes in three G7 countries are affecting and will continue to affect the future of the entire cannabis industry, moving it out of the proverbial shadows, towards the mainstream. With each new regulatory rescheduling, cannabis is becoming more legitimate.

As a medical cannabis company based in Israel and in Germany, the last 10 days of Q1 were game changers for us. On March 22nd, the German government passed the final hurdle for legalizing cannabis. The new law went into effect on April 1st. On March 28th, the Israeli Ministry of Health announced that the first phase of the anticipated regulatory reform, facilitating access to medical cannabis for many new patient groups, would take effect on April 1st as well. These regulatory changes were milestones for the entire cannabis industry, setting both the German, as well as the Israeli, medical cannabis markets, up for significant accelerated growth as more new patients are expected to start entering the markets.

I won't go through the details of the Germany legalization today since we covered it in our last call, but I would like to give you a sense of how legalization has affected the German market since April 1st. Keep in mind that until the nonprofit social clubs and home grow legislation is implemented, as expected, on July 1st, the only legal way to purchase cannabis in Germany is in a pharmacy with a prescription. As a result, the telemedicine providers specializing in cannabis have been overrun, new patients have been lucky if they have managed to get an appointment within two to three weeks. The cannabis focused pharmacies have been flooded not only with new prescriptions but also with people walking into pharmacies without a prescription trying to purchase cannabis.

Taking a look at our German business, the legislative changes directly impacted our March sales. Because of the uncertainty surrounding the legalization in March, pharmacies were hesitant to purchase their usual quantities, leading to a decrease in sales, which not only impacted the month of March, but the entire Q1 results in

Germany. Since April 1st however, we have seen a continuous acceleration in our sales. In April, our monthly sales were just about double the monthly average of the last six months. While it is still too early to predict how the market will continue to develop, the first month was very promising. In line with the German market's accelerated growth, we are shifting our focus to ensure that we have necessary resources in place for success.

Moving to Israel, I will now take you through the regulatory reform that occurred there. During our last call, I said that I would go into detail today. As we mentioned in our April 1st press release, the reform was initially announced by the Ministry of Health on August 7th of last year. It was then delayed by three months because of the Israel-Hamas war. On March 28th, the initial phase of the reform was approved and announced by the Ministry of Health. The key aspects, which were implemented on April 1st, are as follows.

1. A change in the prescription process. Patients with a wide range of diseases and medical conditions from Oncology to Parkinsons will no longer be required to obtain a license to receive medical cannabis. These patients will receive a prescription, similar to those for other prescription medications. Pain and PTSD are not yet included in the Reform.
2. Medical cannabis can now be prescribed through the HMO's, Israel's public healthcare system. Until the Reform, cannabis could not be prescribed through the HMO's which cover the majority of the Israeli population.
3. The number of prescribing physicians is expected to increase. Before the Reform, only about 100 private physicians were able to issue cannabis licenses. Now, the thousands of HMO physicians, who are dully trained and certified within their field of expertise, can prescribe medical cannabis as a first line treatment, as opposed to a last resort, based on medical discretion for the approved indications.
4. The cost for a prescription is anticipated to be reduced. The Ministry of Health has limited the cost for a medical cannabis prescription.

We believe that by facilitating the access to medical cannabis, for many new patients, the new regulations will transform the medical cannabis market in Israel. By improving the accessibility, increasing the potential number of prescribers, and

1 lowering the cost of obtaining a cannabis prescription, we anticipate an increase in
2 the number of medical cannabis patients.

3 While the legalization in Germany had an immediate impact on the cannabis market,
4 the impact of the regulatory reform in Israel started slowly. The only sign we have
5 seen up to now are the first few prescriptions from HMO physicians that have started
6 to reach our pharmacies.

7 When we take a look at our Israeli business, in Q1, we continued cleaning out the
8 slow-moving stock, by reducing prices, that we started in Q3 of 2023, the lower prices
9 clearly impacted both our revenue and gross margin.

10 As in Q4 2023, in Q1 2024, we further reenforced our position in the premium
11 market, launching 8 new strains. We launched Purple Rain T15, Ya Hemi and Bacio
12 Gelato by BLKMKT, Super Sativa by Tenzo Avant, Gelato 33 by LOT420, and
13 MOTOBRTH, B F LMO, and FLO OG by SNDL.

14 Moving back over to Germany, as the market starts to ramp up for the anticipated
15 accelerated growth, the German team has been working on securing a robust supply
16 chain that can meet the demands of the growing market. All cannabis flowers that
17 are sold through pharmacies must come from an EU-GMP facility. Of all the Licensed
18 Canadian Cannabis Producers, fewer than 20 are EU-GMP certified¹, making this one
19 of the primary supply chain bottle necks. IMC Germany not only has an EU-GMP
20 certified packaging facility but is also capable of performing 3rd party audits for
21 Licensed Canadian Cannabis Producers, ensuring they meet the requirements to
22 receive their EU-GMP certification. This gives us an advantage when we are building
23 our supply chain. GlassHouse Botanics, was the first Canadian Licensed Producer that
24 received its EU-GMP through our partnership. In return, we have exclusivity and right
25 of first refusal for their strains. Our team also audited further Canadian Licensed
26 Producers during Q1 in preparation for the final 3rd party audit with the German
27 Authorities later in the year. We anticipate that these partnerships will form the
28 basis of our supply chain in Germany.

29 As I had mentioned earlier, and also in our April 15th press release, we are shifting our
30 focus to the German market, allocating our resources to where we see the biggest
31 potential and the best return on our investment. Our new priorities have forced us to
32 make difficult decisions. The first of which was deciding not to make the remaining

¹<https://eudragmdp.ema.europa.eu/inspections/gmpc/searchGMPCCompliance.do?ctrl=searchGMPCResultControlList&action=Page¶m=0>

1 installment payments to complete the purchase of Oranim Pharmacy in Israel. As
2 such, the 51% of the shares we held will transfer back to the seller. Uri will go
3 through the impact this will have on our business later in the call.

4 I'd also like to give you a short update on where we are with the proposed reverse
5 merger with Kadimastem. At this stage, the initiation of the reverse merger with
6 Kadimastem is still in its early phases, and its completion is uncertain. It is still too
7 early to assess how long it will take until we sign a definitive agreement or establish
8 whether such an agreement will be executed.

9 Before turning the call over to our Chief Financial Officer, Uri Birenberg, I'd like to put
10 Q1 2024 into perspective. As you all know, 2023 was a year of transformation for us.
11 We completely restructured, becoming a very lean and agile company. This process
12 is reflected in the numbers, our G&A decreased 28% vs Q1 2023. Were it not for the
13 decision not to complete the Oranim purchase, our total operating expenses would
14 have decreased 29% vs Q1 2023. When I look ahead, with the regulatory changes in
15 Israel and especially legalization in Germany, I see tremendous potential for growth.
16 We have the infrastructure and supply agreements to support accelerated growth in
17 place. What we now need to do, is to ensure that we have the necessary resources in
18 place for success.

19 I will now hand the call over to Uri, who will review our first quarter 2024 financial
20 results.

21 Uri?

22 **Uri Birenberg**

23 Thank you, Oren.

24 I will now provide an overview of Q1 2024 financial results for the Company's
25 cannabis operations. Our Q1 results were mainly impacted by the following points:
26 price reductions and provisioning for slow moving inventory and, as Oren mentioned,
27 shifting our focus and resources to German market, which led to the decision not to
28 complete the Oranim purchase.

29 **Revenues for Q1 2024** were \$12.1 million compared to \$12.5 million in Q1 2023, a
30 decrease of 3%. The decrease is mainly due an exchange rate effect of about \$0.2
31 million and decrease in avg. price per sale due to increased competition.

Total Dried Flower sold in Q1 2024 was approximately 1,873 kg with an average selling price of \$5.68 per gram, compared to approximately 1,842kg in Q1 2023, with an average selling price of \$6.59 per gram. This difference is mainly due to increased competition within the retail segment, and mid-range stock discounts to move out slow moving stock.

Gross profit for Q1 2024 was \$1.8 million, compared to \$2.9 million in Q1 2023, a decrease of 39%. The downside is attributed mainly to the slow-moving stock that was moved out at a lower price and an exchange rate difference totaling \$0.4 million and \$0.64 million cost of sales loss due to an inventory erase of the slow-moving stock. Company fair value adjustment was \$0 and \$0.4 million for the Q1 2024 and Q1 2023 respectively.

Gross Margin after fair value adjustments in Q1 **2024** was 15%, compared to 23% in Q1 2023.

G&A Expenses in Q1 2024 were \$2.3 million, compared to \$3.2 million in Q1 2023, a decrease of 28%. The decrease in the G&A expense is attributable mainly to salaries and professional services of \$0.64 million.

Selling and Marketing Expenses in Q1 2024 were \$2.3 million, compared to \$2.8 million in Q1 2023, a decrease of 18% mainly due to a decrease in Salaries and professional services of \$0.5 million.

Total operating expenses in Q1 2024 were \$7.4 million compared to \$6.5 million in Q1 2023. The increase is due to the other operating expenses related to Oranim Deal revoke, with an expected losses of \$2.8 million. Adjusting for this one-time losses, Q1 2024 operating expenses were \$4.6 million compared to \$6.5 million in Q1 2023, a decrease of 29%.

Non-IFRS Adjusted EBITDA loss in Q1 2024 was \$2.1 million, compared to an Adjusted EBITDA loss of \$1.9 million in Q1 2023 an increase of 10%.

Net Loss from continuing operations in Q1 2024 was \$6.0 million, compared to \$0.9 million in Q1 2023.

Diluted Loss per Share in Q1 2024 was \$0.42, compared to a loss of \$0.05 per Share in Q1 2023.

As of the balance sheet,

1 **Cash and Cash Equivalents** as of March 31, 2024, were \$1.0 million compared to \$1.8
2 million in December 31, 2023.

3 **Total assets** as of March 31, 2024, were \$41.1 million, compared to \$48.8 million in
4 December 31, 2023, a decrease of 16%. The decrease is mainly attributed to the
5 goodwill reduction due to Oranim agreement cancelation of about \$2.8M, a
6 reduction in Inventory of \$2.1 million, reduction of Cash and cash equivalents of
7 \$0.8M and reduction in Trade payables of \$1.2 million.

8 **Total Liabilities** as of March 31, 2024, were \$32.8 million, compared to \$35.1 in
9 December 31, 2023, a decrease of about 7%. The decrease was mainly due to the
10 reduction in other accounts payables and accrued expenses of \$1.8 million and
11 reduction in the PUT option liability of \$0.7 million.

12 The Company is planning to finance its operations from its existing and future
13 working capital resources, as well as from its available credit facilities and will
14 continue to evaluate additional sources of capital and financing as needed.

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

16
17 **Oren Shuster – Closing Remarks**

18 Thank you, Uri.

19 As in Q4 2023, in this quarter we were still impacted by the price reductions of the
20 slow-moving stock, while overall uncertainties about the proposed legalization
21 affected our results in Germany. That said, we spent the quarter shifting our focus to
22 Germany and preparing our business for accelerated growth after the April 1st
23 legalization. Looking back on the first month post legalization in Germany, I see that
24 we have the infrastructure and the supply agreements in place to continue delivering
25 the accelerated growth we have already seen in April. We will also ensure that we
26 have the necessary resources in place for success. With that, I hand the call over to
27 the operator to begin our question-and-answer session. Operator?

28 **Operator**

29 Q&A session prompts, Q&A Session

30 **Oren Shuster – Conclusion after Q&A - LIVE**

31 Thank you, Operator, and thank you all for joining our call today.