

## **IM Cannabis (IMCC) Third Quarter 2022 Earnings Call Script**

### **Operator**

Good day and welcome to IM Cannabis' Third 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 The earnings press release that accompanies this call is available on the Investor  
4 Relations section of our website at [investors.imcannabis.com](http://investors.imcannabis.com).

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

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

15 Furthermore, certain non-IFRS measures will be referred to during this call. The  
16 Company believes that the presentation of this non-IFRS information provides  
17 useful supplementary data concerning the Company's ongoing operations and is  
18 provided for informational purposes only. Any estimates or forward-looking  
19 information or statements provided are accurate only as of the date of this call  
20 and the Company undertakes no obligation to publicly update any forward-  
21 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 With that, it is my pleasure to turn the call over to Oren Shuster, CEO of IM  
4 Cannabis.

5 Oren, please go ahead.

6 **Oren Shuster – Opening Remarks**

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

8 The third quarter marked a pivotal point for us. As part of our Canadian  
9 restructuring efforts to achieve operational efficiencies, we commenced our exit  
10 from the Canadian market to move closer to our goals of growth and profitability.

11 This route was chosen only after exhausting all other options including the  
12 exploration of a potential sale of some or all of the Canadian operations. As part  
13 of this decision, we are not providing any funding to the Trichome Group any  
14 longer. In parallel, we have been able to reduce the Company's debt substantially.  
15 We believe that the CCAA decision eventually made by the Trichome Group  
16 supports the long-term interests of our shareholders and the Company.

17 For those of you less familiar with the Canadian CCAA proceedings, allow me to  
18 provide a brief explanation: CCAA allows the Trichome Group to carry on its  
19 business in Canada under the protection of the Canadian Court. The Trichome  
20 Group intends to use the CCAA proceedings to implement a sale and investment  
21 solicitation process for the sale of its assets or restructuring of its business. The  
22 Trichome Group continues to operate its business for the time being.

23 I'd like to make it clear that this process is limited only to Trichome Group,  
24 meaning none of our assets or subsidiaries in Israel or Germany are involved in  
25 the CCAA proceedings.

1 As Shai will explain later in the call, our financials include the Company's results  
2 from continued operations. The activities of the Trichome Groups are collectively  
3 referred to as the discontinued operations.

4 Let me state that there is no change to the Company's U.S. and Canadian listings  
5 on the Nasdaq and CSE.

6 Unloading our Canadian division demonstrates our focus and commitment to  
7 profitability and growth. We believe we will be able to return value to our  
8 investors. We also anticipate that we will further optimize and synergize our  
9 existing international operations, as well as concentrate our resources where we  
10 see the most potential.

11 We are a new company today, with a sharper focus. And we will use today's call  
12 to help our investors understand what we see on the horizon, and what we are  
13 doing on the ground to get there.

14 Immediately in front of us is a transition period which may prove challenging, but  
15 it is designed to lead us to stronger results. I'm pleased to share that we will now  
16 direct more resources and efforts into where we believe we grow the fastest,  
17 namely Israel, and to grow where we see significant potential, namely Germany.

18 The third quarter was successful in many respects. We signed an international  
19 trademark licensing agreement with Avant Brands, granting us the exclusive right  
20 to launch the Black Market brand in Israel. This agreement will allow us to  
21 introduce Israeli medical cannabis patients a new variety of quality, ultra-  
22 premium brands.

23 In addition, during the quarter, our partner SNDL completed its initial  
24 international export of approximately 167 kilograms of premium dried flower  
25 from Canada to Israel. This was only one part of their total commitment with us,  
26 which is 1,000 kilograms.

1 I will now provide an overview of each of our market segments. After this  
2 overview, Shai will review our financial results before we open the call up for  
3 questions.

4 **In Israel**, our reputation as a leading premium and ultra-premium provider is on  
5 the rise, bolstering our competitive power in the Israeli market. We were early  
6 movers in the premium and ultra-premium product categories in the Israeli  
7 medical cannabis market, and we continue to lead this market segment.

8 Our strong focus on the premium and ultra-premium segments allows us to  
9 increase our prices. As a matter of fact, there has been a 37% increase in the  
10 price per gram, currently selling at approximately \$9.1 per gram compared to an  
11 average selling price of approximately \$6.6 per gram last year. We believe that  
12 our average selling price is the highest in Israel. Shai will elaborate on this further.

13 In August this year, our legacy strain, Roma, was voted as the Favorite Strain of  
14 the Month by 'Cannbis', a leading cannabis blog for Israeli medical cannabis  
15 patients.

16 Positive patient feedback is a critical element in pharmacies' high interest in  
17 working with us. They look forward to IMC product news, as our strains perform  
18 strongly, offering pharmacies a quick inventory rotation at premium prices.

19 In Israel, we continue to build a strong brand portfolio and a superior product  
20 offering. In Q3 we introduced the Top-Shelf Collection, our newest addition to  
21 IMC's brand portfolio. We launched it in September 2022 as a premium product  
22 line with indoor-grown, high-THC cannabis flowers. The Top Shelf Collection offers  
23 strains such as Lemon Rocket and Diesel Drift. This collection targets the growing  
24 recreational leaning market segment of medical patients.

25 In addition, as part of our Craft Collection, which is our ultra-premium indoor-  
26 grown product line, we introduced a new strain, 'Watermelon Zkittlez', which has  
27 seen strong patient demand since its launch.

1 The future holds strong potential for us. With the Avant Brands agreement, we  
2 will soon be introducing the Black Market brand in Israel and we expect great  
3 results from this brand's product offering. We also expect to generally see  
4 increased political and economic stability in Israel as the elections are behind us  
5 and we are likely to have a long-term government in office.

6 In the third quarter, we continued to place a strong focus on efficiency and  
7 synergies in our Israeli operations. In the second quarter we merged two large call  
8 centers into the largest center in Israel, which in the third quarter started to  
9 create cost reductions, as well as consistency and expertise in providing service to  
10 patients.

11 To date, we have established a robust global supply infrastructure through our  
12 strong relationships with suppliers and partners. Our network of European and  
13 Canadian suppliers includes world-leading names such as Avant Brands, SNDL,  
14 and others, giving us a key competitive advantage in Israel. We also source quality  
15 medical cannabis from local, Israeli-based cultivators and suppliers. Our sourcing  
16 network allows us to offer patients the premium and ultra-premium experience  
17 they have come to expect from IM Cannabis.

18 Our success in Israel gives us confidence and we strongly believe that this success  
19 can be replicated in Germany.

20 As we wait for the proposed legalization of recreational cannabis use **in Germany**,  
21 in the third quarter we were pleased to see a steady increase in self-paying  
22 patients who can easily get a prescription and access high quality medical  
23 cannabis products. We also see a steady increase in the number of teleclinics and  
24 online pharmacies that are becoming available to medical cannabis patients.

25 In October, the German government unveiled plans for the legalization of  
26 recreational cannabis for adults. Many details will need to be worked out locally  
27 and with the European Union before legislation is passed. The German health  
28 minister has [commented](#) that if everything were to go well, legalization could be  
29 achieved as early as 2024.

1 We strongly believe that German legalization will pave the way for legalization in  
2 other European countries such as Italy, Spain, France, and the UK. Our goal is to  
3 develop a strong foothold in the European market, create an early mover  
4 advantage, and grab significant market share.

5 We are now a much more focused and streamlined company. Israel and Germany  
6 have much in common such as the strong and well-organized medical cannabis  
7 sector that distributes cannabis through pharmacies operating under the relevant  
8 GMP and EU-GMP standards. There is also high consumer demand for premium  
9 and ultra-premium cannabis and a robust commercial infrastructure in both  
10 markets. In our view, these common points, plus our strong sourcing  
11 infrastructure give us key competitive advantages in Germany.

12 We will be allocating the needed capital and efforts to further establish our  
13 presence in Israel and Germany, and to achieve profitability.

14 I will now turn the call over to our Chief Financial Officer, Shai Shemesh, who will  
15 review our third quarter 2022 financial results.

16 Shai?

17 **Shai Shemesh – Review of Financials**

18 Thank you, Oren.

19 As mentioned at the beginning of the call, during September 2022, the Company  
20 decided to commence its exit from Canada and is no longer providing any funding  
21 to the Trichome Group. The decision was based on an anticipated significant  
22 change in the competitive landscape in Canada as well as the Company's  
23 revamped growth strategy.

24 In Q3 2022 financials, the Trichome Group is classified as "held for sale" in the  
25 consolidated statement of financial position and as "discontinued operations" in  
26 the consolidated statements of comprehensive income and statements of cash  
27 flows for all periods presented.

I will now provide an overview of our Q3 2022 financial results for the Company's continuing operations.

**Revenues** for Q3 2022 were \$14.2 million, compared to \$8.0 million on Q3 2021, an increase of 78%, representing a 12% sequential organic growth.

The increase in revenues is primarily attributed to the increase in the quantity of medical cannabis products sold, as well as from the higher average selling price per gram the Company realized from its portfolio of premium and ultra-premium branded cannabis products in Israel.

The Company sold 1,453 kilograms of **dried flower** in Q3 2022 at an average selling price of \$9.08 per gram, compared to 1,175 kilograms for the same period in 2021 at an average selling price of \$6.61 per gram. The change in our average selling price reflects a 37% increase.

**Gross profit**, before fair value adjustments, in Q3 2022 was \$2.8 million compared to \$2.0 million in Q3 2021.

**Gross margin** for Q3 2022 was 20% compared to 25% in Q3 2021. The decrease is mainly attributed to an expired local non-premium inventory write-off.

**General and administrative expenses** in Q3 2022 were \$4.3 million compared to \$3.7 million in Q3 2021. The increase is mainly attributable to increase in professional and legal services.

**Sales and marketing expenses** in Q3 2022 were \$2.8 million, compared to \$1.7 million in Q3 2021. The increase is mainly attributed to the Company's intensified marketing efforts in Israel, brand launch in Germany, higher distribution expenses, and increased staffing from acquisitions, in line with our expectations.

**Total operating expenses** in Q3 2022 were \$7.5 million compared to \$8.0 million in Q3 2021.

**Operating Loss** for Q3 2022 was \$5.5 million, compared to \$8.1 million in Q3 2021.

1 **Non-IFRS Adjusted EBITDA** loss from continuing operations in Q3 2022 was \$3.7  
2 million, compared to an Adjusted EBITDA loss of \$2.3 in Q3 2021. The increase is  
3 mainly attributable to corporate expenses and related legal expenses in  
4 connection with the Company's exit from the Canadian market.

5 **Net Loss from Continuing Operations** for Q3 2022 was \$4.5 million, compared  
6 with net income of \$0.8 million in Q3 2021.

7 **Basic loss per share** attributable to equity holders of the Company **from**  
8 **continuing operations** was \$0.06 compared to basic earnings per share of \$0.03  
9 in Q3 2021.

10 **Diluted loss per share** attributable to equity holders of the Company **from**  
11 **continuing operations** was \$0.06 compared to diluted loss per share of \$0.09 in  
12 Q3 2021.

13 **Net loss from discontinued operations** for Q3 2022 was \$123.6 million, compared  
14 with a loss of \$6.5 million in Q3 2021. The difference is mainly attributable to  
15 \$115.1 million impairment related to the Company's discontinued operations.

16 **Basic and diluted loss per share** attributable to equity holders of the Company  
17 from **discontinued operations** was \$1.75 compared to basic and diluted loss per  
18 share of \$0.1 in Q3 2021.

19 As of September 30, 2022, the Company's **cash position** from continuing  
20 operations was \$3.2 million, and its **working capital** from continuing operations  
21 was \$10.3 million.

22 As Oren mentioned, by commencing the exit from the Canadian market, we have  
23 been able to reduce the Company's debt level substantially. **Debt from**  
24 **Continuing Operations** for September 30, 2022 was \$5.1 million, representing a  
25 decrease of approximately 57%.



1 The Company is planning to finance its operations from its existing and future  
2 working capital resources, use of its available credit facilities and will continue to  
3 evaluate additional sources of capital and financing as needed.

4 In addition to our financial results, the Company also announced today that it  
5 plans to implement a 10-for-1 share consolidation of its common shares,  
6 expected to be effective on or around November 17, 2022. The purpose of the  
7 consolidation is to regain compliance with the Nasdaq minimum bid price  
8 requirements.

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

10 **Oren Shuster – Closing Remarks**

11 Thank you, Shai.

12 We will continue to concentrate our efforts on our highest value markets, Israel  
13 and Germany and accelerate our path to profitability. Today we are seeking to  
14 maximize efficiency and create the right balance for future success. We are  
15 further strengthening our Israeli operations and preparing to bring our expertise  
16 to Europe to achieve market leadership in the medical cannabis market and to be  
17 fully ready to capitalize on the German recreational cannabis market upon  
18 legalization.

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

21 **Operator**

22 Q&A session prompts, Q&A Session

23 **Oren Shuster – Conclusion after Q&A**

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