

1 **IM Cannabis (IMCC) Second Quarter 2023 Earnings Call Script**

2 **Operator**

3 Good day and welcome to IM Cannabis' Second Quarter 2023 Earnings
4 Conference Call. Today's conference call is being recorded. At this time, I would
5 like to turn the conference over to Anna Taranko, Director of Investor & Public
6 Relations

7 **Anna Taranko**

8 Thank you, Operator. Joining me today are IM Cannabis' Chief Executive
9 Officer, Oren Shuster, and Chief Financial Officer, Itay Vago.

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

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

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

23 Furthermore, certain non-IFRS measures will be referred to during this call, and
24 the term "Non-IFRS Adjusted EBITDA Loss" will hereafter be referred to as
25 "Adjusted EBITDA Loss." The Company believes that the presentation of this
26 non-IFRS information provides useful supplementary data concerning the
27 Company's ongoing operations and is provided for informational purposes only.
28 Any estimates or forward-looking information or statements provided are
29 accurate only as of the date of this call and the Company undertakes no
30 obligation to publicly update any forward-looking information or statements or
31 supply new information regarding the circumstances after the date of this call.

1 Please also note that all references on this call reflect currency in Canadian
2 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, Anna. Good morning, everyone, and thank you for joining us today.

8 Before going into the market details, I'd like to start off today by taking you
9 through the initial results of the transformation IMC has been going through
10 since Q4 2022. We are singularly focused on reaching sustainable profitability,
11 which is supported by the two cornerstones we focused on in our last call in
12 May. First, the strategic shift to focus on meeting patients' and pharmacies'
13 needs. Second, rightsizing, restructuring to put the necessary resources behind
14 the strategic shift.

15 In Israel, during Q2, we continued the rightsizing we started in Q1. We
16 reviewed the entire business from the bottom up. We restructured to become
17 a lean and agile business, able to respond quickly to the changes within our
18 dynamic market. In the process, we reduced our headcount by 36% during the
19 first half of this year.

20 In addition to the restructuring initiatives, we focused on accelerating the path
21 to profitability through active cost management and margin improvement. Our
22 goal was to optimize, to drive further efficiencies, while maintaining or even
23 improving the services we currently give our patients. For example, we
24 restructured our direct to patient delivery service, improving delivery times for
25 the majority of our patients, while reducing costs by about 30%.

26 The transition period and restructure we kicked off in Israel in Q1, has been a
27 challenging time for the team. I'm very proud of the effort they made, turning
28 challenges into opportunities, identifying, and driving the various initiatives to
29 manage our costs and margins while maintaining sales. This enabled us to
30 reduce our operating expenses in Israel by 42% vs Q2 2022 during this quarter.

1 Taking a look at Germany, the German team refocused and restructured in Q4
2 of last year, becoming lean and agile. By refocusing and restructuring, the
3 flower sales in Germany actually accelerated in the six months after the
4 restructure, growing significantly by about 35% in comparison to the six
5 months before the restructure. We grew more than 4 times as fast as the
6 market during this period.

7 While the strategic shift and the associated rightsizing and restructuring in both
8 Israel and Germany, was not always easy, it enabled us to make significant
9 progress towards our goal of sustainable profitability while maintaining sales.
10 Our Adjusted EBITDA Loss was reduced by 83% vs Q2 of last year to \$499,000.

11 I've mentioned the importance of being lean and agile within our dynamic
12 market several times, and I'd like to use an example to show you why this is so
13 important.

14 In June, the Health Committee of the Knesset, the Israeli parliament, passed a
15 resolution to broaden access to medical cannabis, meeting the needs of a
16 growing number of patients. Within the reform's framework, patients suffering
17 from the following indications: metastatic cancer, epilepsy, Crohn's, colitis,
18 dementia, autism from the age of 5, multiple sclerosis, AIDS, Parkinsons,
19 Tourette-Syndrome and palliative care will have access to medical cannabis
20 with a regular prescription. They will no longer be required to obtain a license
21 in order to receive medical cannabis.

22 Pending final approval from the ministry of health, Cannabis will also be able to
23 be used as a first line treatment as opposed to a last resort based on medical
24 discretion. In addition, the export process will be simplified. By allowing the
25 growers to separate the post-harvest process from the growing process, we
26 expect it will facilitate EU-GMP certification.

27 By easing the access to cannabis for more medical conditions and giving
28 physicians the ability to use cannabis as a first line treatment, we believe the
29 new legislation has the ability to accelerate market growth, which is extremely
30 important in the Israeli market, as the growth has been slowing recently. IMC
31 needs to be lean and agile to anticipate, as well as to meet the needs of the
32 new patient groups that will start to join the market on December 29, 2023.

1 Additionally, we anticipate that the simplification of the export process will
2 have the potential to accelerate the launch of our leading Israeli grown strains
3 in the German market.

4 In Germany, the first step of the legal reform, which we discussed in May,
5 decriminalization, not for profit clubs and private cultivation, was expected to
6 be finalized before the summer recess. The legislation has been delayed and is
7 now expected sometime later this year.

8 Before moving on to the overview of the Israeli and German markets, I would
9 like to underscore that the rightsizing and refocusing we have been working
10 though since Q4 of last year, was led by the strategic decision to exit the
11 recreational Canadian market. This allowed us to fully lean into our heritage as
12 one of the pioneers in the Israeli medical cannabis market. Our extensive
13 expertise within our highly regulated local market, gave us a clear advantage
14 when expanding into Germany, another highly regulated medical market. The
15 strategic pivot to focus on the two largest national medical markets is clearly
16 reflected within our organization post restructure. 24% of our employees are
17 legal & pharmaceutical quality professionals, while sales and marketing also
18 make up 24% of our employees. These percentages mirror the pharmaceutical
19 industry, underscoring our position in the medical cannabis markets. I believe
20 this is the cornerstone for our success and stability within these two similar
21 markets.

22 Now I will give you an overview of both the Israeli and German markets before
23 handing over to Itay for the financials.

24 In **Israel** we are number one in the premium sector. We sell IMC branded
25 premium cannabis, as well as leading Canadian premium cannabis brands, for
26 which we have exclusive distribution rights in Israel.

27 In Q2, we launched our second super premium, indoor grown Canadian brand
28 LOT420 with two high THC strains. These two launches further our market
29 leadership within the premium segment.

1 In addition, we launched the PICO collection, with four high THC flowers. With
2 this launch, we are testing the resonance small, but super premium, flowers
3 have within the midrange market segment.

4 We also focused on integrating and optimizing our call center, one of the
5 largest medical cannabis call centers in Israel. We are tracking and improving
6 KPIs such as average price, items per ticket, instant and future orders. On the
7 job training, call simulations and a mystery shopper program round out our call
8 center initiatives.

9 In **Germany**, we have started to take advantage of our fully licensed EU-GMP
10 packing facility and our GDP logistics center to drive an additional revenue
11 stream, offering cannabis services to the other players within the German
12 cannabis market. From quality and EU-GMP services to packing, warehousing
13 and logistics, we can offer end to end cannabis fulfillment services. We have
14 started slowly, offering warehousing and logistic services, onboarding four new
15 customers within the first two quarters of 2023. The B2B services diversify our
16 offerings and income sources, while improving the overall gross margin of our
17 German business.

18 Turning to our IMC branded flower business in Germany, the team focused on
19 solidifying the two new high THC strains that were launched in Q1 of this year.

20 Overall, while we were able to see the initial result of the shift in strategy in Q1,
21 in Q2 we leaned further into our objective of sustainable profitability. As Itay
22 will explain while presenting the financial results, the associated restructure
23 along with the active cost and margin management, improved our gross margin
24 and overall operating costs while maintaining sales, leading to a substantial
25 decrease of 83% in our Adjusted EBITDA Loss. I look forward to seeing the
26 effect the reform of the medical cannabis regulation will have on the market in
27 Israel, once physicians will be able to start writing cannabis prescriptions for
28 the new patient groups on December 29th of this year.

29 I will now turn the call over to our Chief Financial Officer, Itay Vago, who will
30 review our second quarter 2023 financial results.

31 Itay?

1 **Itay Vago – Review of Financials**

2 Thank you, Oren.

3 I will now provide an overview of Q2 2023 financial results for the Company's
4 continuing operations.

5 **Revenues for the second quarter of 2023** were \$13.2 million compared to
6 \$12.7 million in the second quarter of 2022, an increase of 4%.

7 **Gross Margin**, before fair value adjustments, in **the second quarter of 2023**
8 was 28%, compared to 20% in the second quarter of 2022, an increase of 40%.

9 **Adjusted EBITDA Loss in the second quarter of 2023** was \$499 thousand,
10 compared to an Adjusted EBITDA loss of \$3 million in the second quarter of
11 2022, a decrease of 83%. The decrease is mainly attributable to improved
12 performance of the Company's gross margin and general and administrative
13 expenses such as cost reduction, cost efficiencies and other corporate expenses
14 reduction.

15 **Total operating expenses in the second quarter of 2023** were \$5.2 million
16 compared to \$7.8 million in the second quarter of 2022, a decrease of 33%.
17 Most of the decline can be attributed to restructuring in Israel.

18 **Gross profit** for the second quarter of 2023 was \$3.5 million, compared to \$2.2
19 million in the second quarter of 2022, an increase of 57%. The increase
20 attributed mainly to increased higher margin sales of imported premium
21 cannabis products, and reduction of costs of sales.

22 **Total Dried Flower sold in** the second quarter of 2023 was approximately
23 2,128kg with an average selling price of \$5.04 per gram compared to
24 approximately 1,592kg in the second quarter of 2022 with an average selling
25 price of \$7.27 per gram. The decrease in average selling price was caused by
26 increased competitiveness within the retail segment.

27 **General and Administrative Expenses in Q2 2023** were \$2.4 million, compared
28 to \$3.3 million in Q2 2022, a decrease of 28%. The decrease in the general and
29 administrative expense is attributable mainly to salaries of the employees
30 derived from the restructuring plan in Israel and presented separately in the

1 interim financial statement for the second quarter. The main goal of the
2 restructuring is to drive efficiencies and realize sustainable profitability.

3 **Selling and Marketing Expenses in Q2 2023** were \$2.6 million, compared to
4 \$3.1 million in Q2 2022, a decrease of 16%.

5 **Operating Loss in the second quarter of 2023** was \$1.8 million, compared to
6 \$5.6 million in the second quarter of 2022, a decrease of 69%.

7 **Net Loss from continuing operations in the second quarter of 2023** was \$3.7
8 million, compared to a Net Loss of \$3.7 million in the second quarter of 2022,
9 driven mostly by higher gross margin and reduction in operating expenses and
10 offset by finance income in the second quarter of 2022.

11 **Basic Loss per Share from Continuing Operations** in the second quarter of
12 2023 was \$(0.26), compared to a loss of \$(0.49) per share in the second quarter
13 of 2022.

14 **Diluted Loss per Share from Continuing Operations** in the second quarter of
15 2023 was \$(0.26), compared to a loss of \$(0.89) per share in the second quarter
16 of 2022.

17 **Cash and Cash Equivalents** as of June 30, 2023, were \$1.3 million compared to
18 \$2.4 million in December 31, 2022.

19 **Total assets** as of June 30, 2023, were \$55.8 million, compared to \$60.7 million
20 in December 31, 2022, a decrease of 8%. The decrease is mainly attributed to
21 cash and cash equivalents and to inventory.

22 **Total Liabilities** as of June 30, 2023 were \$34.2 million, compared to \$36.9 in
23 December 31, 2022, a decrease of approximately 7%. The decrease was mainly
24 due to the reduction in trade payables.

25 I would like to mention that the quarterly figures provided in the Q2 FS and the
26 accompanying Q2 MD&A, include some immaterial updates and adjustments to
27 the Company's previously filed unaudited interim financial statements for the
28 three months ended March 31, 2023. The updated figures provided in the Q2
29 FS and Q2 MD&A that cover the Q1 2023 period supersede and replace the
30 financial information for Q1 2023 filed on May 15, 2023.

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

4 In summary, the actions we have taken since exiting the Canadian market last
5 year and the associated restructure, have significantly reduced our total
6 operating expenses and improved our margins, leading to a substantial
7 decrease in Adjusted EBITDA Loss, as well as the other key measures as I have
8 just mentioned.

9

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

11

12 **Oren Shuster – Closing Remarks**

13 Thank you, Itay.

14 The strategic refocusing and rightsizing of the last few quarters has been a
15 transition period for IMC as a whole. I am very proud of the team for pulling
16 through this challenging transitional period while delivering on our objectives.

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

19 **Operator**

20 Q&A session prompts, Q&A Session

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

22 Thank you, Operator, and thank you all for joining our call today. Please follow
23 along as we look to deliver on our goal of sustainable profitability. I look
24 forward to speaking with you in the coming quarterly reports.