

1 **IM Cannabis (IMCC) Third Quarter 2024 Earnings Call Script**

2 **Operator**

3 Good morning and welcome to IM Cannabis' Third 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.

30

Oren Shuster – Opening Remarks

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

In Q3 we had a clear focus: to build a solid foundation to deliver accelerated growth in Germany in 2025. That said, as a medical cannabis company active in Israel and in Germany, I will start with a quick overview of the development of the German market and our performance there, before explaining the progress we made to position the company for 2025.

Since the April 1st partial legalization, the German cannabis market has been experiencing unprecedented growth, at a speed that I don't think many anticipated. The growth has been driven by the increasing number of patients opting for cannabis-based treatments and the relatively inexpensive, easy prescription process. Advances in medical research, better accessibility through pharmacies, and a growing number of healthcare professionals willing to prescribe cannabis for a range of conditions, from chronic pain to anxiety and sleep disorders are also key factors. The easing of regulations and increased public awareness have contributed significantly to the expansion of the market as well.

As I did in the last quarter, I'd like to put this growth into perspective by taking you through the details of our sales in Germany in 2024. They clearly show that the strategic shift we made to concentrate our resources on the German market, was the right one. Our sales increased by over 200% in Q2 vs Q1 to reach \$3.5 million. In Q3, we again increased our sales by 66% vs Q2 to reach \$5.8 million in Q3. Since Q2, we have been driving market growth and are positioned among the top cannabis companies in Germany.

While I am very proud to be presenting these numbers, our focus in the past few months has actually been behind the scenes, on building a solid foundation for 2025. We spent the quarter leaning further into a clear target: full integration of the German and Israeli teams. The goal was to build a strong, consistent supply chain and a laser focus on how to improve the efficiency and accuracy of how we use our resources. I believe that this foundation will be the basis to drive accelerated growth in Germany in 2025.

Behind every success, there is a strong, unified team. In Q2, the Israeli and German colleagues started working very closely to build a new supply channel from Israel to Germany. Cannabis supply chains are notoriously difficult to build with all the local,

1 regional and international regulations that need to be followed. They managed this in
2 record time, the first 3 Israeli grown strains launched in Q3.

3 The teamwork behind these first 3 strains is gathering steam and has led to new
4 projects and opportunities. We are in the process of on-boarding several new
5 suppliers and expect to see the results during 2025.

6 Just as important as a stable supply chain to deliver growth, is efficient resource
7 management to sustain the growth. Our Q3, 2024 revenues increased from \$12.4
8 million in Q3, 2023, to \$13.9 million this quarter, while our operating expenses
9 decreased from \$4.9 million in Q3, 2023 to \$4.1 million in Q3, 2024. As a result, our
10 operating expense ratio was 30% in Q3, 2024 in comparison with 40% in Q3, 2023, a
11 remarkable 25% increase in efficiency.

12 This decrease has been driven by several factors, but the integration between the
13 two teams has been fundamental. By sharing the same resources, we have been able
14 to significantly lower costs. The active cost management has stretched through all
15 aspects of the business, from purchasing and logistics to sales and marketing, making
16 our execution much more efficient. Our goal is to keep this foundation to drive
17 sustainable growth in 2025.

18 While our journey to a lean and agile company over the last year has not always been
19 easy, I'm very proud of how efficient we have become, how well we are using our
20 resources to deliver growth. The progress we have already made on both the supply
21 chain and our sales efficiency, gives us a very strong foundation to deliver accelerated
22 growth in Germany in 2025.

23 Taking a look at our Israeli business, as in Q2, we continued to shift resources to
24 support the German business and continued to work towards maximizing our
25 profitability in Israel. For our Israeli business, this translates into a clear focus on the
26 premium and ultra-premium markets.

27 Over the past few months, our market has been influenced by several factors. The
28 ongoing war has continued to impact our supply chain, causing delays in shipments.
29 We have also seen a reduction in the number of medical cannabis patients, with a
30 decline of 10% from July to October. While the war initially delayed the medical
31 cannabis license renewal process, it does not explain this sustained decrease. In the
32 absence of sufficient data, we assume that the changes brought about by the July
33 2024 reform are causing complications in the prescription process.

1 On the operational level, in our Israeli business, we relaunched LOT420, a premium
2 Canadian brand, with a total of 3 strains. All 3 strains were very well received by the
3 market, selling through quickly. The same occurred with Super Sativa, the leading
4 strain in our IMC Craft brand. These results clearly show how we capitalize on our
5 understanding of both, the premium market drivers, as well as the patient needs to
6 deliver sales.

7 As in the previous quarters, we are continuing to clean our slow-moving, non-
8 premium stock, clearing out old inventory for about \$0.6 million, which again
9 impacted our cost of sales, gross margin and gross profit.

10 To sum up Q3, 2024, while the growth IMC delivered in Germany is clearly a highlight,
11 most importantly, we focused on building a solid foundation, fully integrating the two
12 teams to strengthen our supply chain and drive efficiencies that will be the basis to
13 deliver accelerated growth in 2025 in Germany.

14 I will now hand the call over to Uri, who will review our third quarter 2024 financial
15 results.

16 Uri?

17 Thank you, Oren.

18 Our Q3 results were mainly impacted by the following points. Our revenue in Q3
19 increased by 12.2% vs Q3 2023. This growth was driven mainly by increase of 278% in
20 the German revenue.

21 Our selling price per gram of dried flower increased 42% in this time period to \$6.2
22 per gram. In addition, our operating expenses decreased by 16% vs Q3 2023.

23 We continued closely monitoring our inventory and accrued for about \$0.6 million
24 slow moving stock.

25 The mid-April Oranim agreement revocation resulted in reduced revenues and
26 expenses vs. previous periods.

27 I will now take you through the overview of the Q3 2024 financial results for the
28 Company's operations.

29 **Revenues** for the nine months ended September 30, 2024, and 2023 were \$40.7
30 million and \$38.1 million, respectively, representing an **increase** of \$2.6 million or 7%.
31 The increase is mainly attributed to the accelerated growth in Germany with an

1 increase in revenue of \$6.3 million, and decreased Revenue in Israel of \$3.7 million net,
2 the decrease is attributed to the Oranim deal cancellation which resulted in a decrease
3 in Revenue of approximately \$5.1 million compared to the nine months ended
4 September 2023. **Excluding the Oranim revenue in Q3, 23 we have an increase of**
5 **Revenue in Israel of approximately \$1.4 million or 6%.**

6
7 Revenues for the three months ended September 30, 2024, and 2023 were \$13.9
8 million and \$12.4 million, respectively, representing an **increase** of \$1.5 million or 12%.
9 The increase is mainly attributed to the accelerated growth in Germany with an
10 increase in revenue of \$4.3 million, and decreased Revenue in Israel of \$2.8 million net,
11 the decrease is attributed to the Oranim deal cancellation which resulted in decrease
12 in Revenue of \$3.2 million compared to the three months ended September 2023.
13 **Excluding the Oranim revenue in Q3 23 we have an increase of Revenue in Israel of**
14 **approximately \$0.4 million or 5%.**

15 **Total dried flower sold** for the nine months ended September 30, 2024, was 6,408kg
16 at an average selling price of \$6.01 per gram, compared to 6,528kg for the same
17 period in 2023 at an average selling price of \$5.34 per gram.

18
19 For the three months ended September 30, 2024, **total dried flower sold** was
20 2,202kg at an average selling price of \$6.2 per gram compared to 2,558kg for the
21 same period in 2023 at an average selling price of \$4.35 per gram, mainly attributed
22 to the inventory life cycle, products diversity, discounts given and increased
23 competition in the region.

24 For the nine and three months ended September 30, 2024, Germany's share of total
25 revenue has significantly increased compared to the corresponding period in 2023.
26 This increase has had a considerable impact, reflected in a higher average price due
27 to favorable market conditions and growing demand. Together, these factors have
28 contributed to an overall positive effect on our revenue performance.

29 **The cost of revenues** for the nine months ended September 30, 2024 and 2023 were
30 \$34.9 million and \$28.4 million, respectively, representing an increase of \$6.5 million
31 or 23%. This is mainly due to an increase in material costs of approximately \$7.1 million
32 of which; clearing old raw materials of approximately \$0.94 million, accrued for slow
33 inventory of approximately \$2.2 million and increased inventory sales resulted with an
34 increase of approximately \$4.0 million, which is offset by reduced in other costs net of
35 approximately \$0.6 million.

36 The cost of revenues for the three months ended September 30, 2024 and 2023 were
37 \$10.7 million and \$9.6 million, respectively, representing an increase of \$1.1 million or
38 11%. This is mainly due to an increased cost of approximately \$1.2 million including an

1 accrual of \$0.6 million for slow inventory, that is offset by a decrease in other costs net
2 of approximately \$0.1 million.

3 **Gross profit** for the nine months ended September 30, 2024, and 2023 was \$5.8 million
4 and \$9.0 million, respectively, representing a decrease of \$3.2 million or 36%. Gross
5 profit for the three months ended September 30, 2024, and 2023 was \$3.1 million and
6 \$2.6 million, respectively, representing an increase of \$0.5 million or 19%.

7 Gross profit included losses from realized fair value adjustments on inventory sold of
8 \$(0.05 million) and \$(0.7 million) for the nine months ended September 30, 2024, and
9 2023, respectively.

10 **Gross Margin after** fair value adjustments in the nine months ended September 30,
11 2024 and 2023, respectively, were 14% vs. 25%, and 23% vs. 21% for the 3 months
12 ended September 30, 2024, and 2023.

13 **General and administrative expenses** for the nine months ended September 30, 2024,
14 and 2023 were \$6.8 million and \$7.7 million, respectively, representing a decrease of
15 \$0.9 million or 11%. General and administrative expenses for the three months ended
16 September 30, 2024, and 2023 were \$2.4 million and \$2.1 million, respectively,
17 representing an increase of \$0.3 million or 10%.

18 The general and administrative expenses are comprised mainly from salaries to
19 employees in the amount of \$1.6 million and \$0.5 million for the nine and three
20 months ended September 30, 2024, professional fees in the amount of \$2.3 million
21 and \$0.9 million for the nine and three months ended September 30, 2024,
22 depreciation and amortization in the amount of \$0.4 million and \$0.14 million for the
23 nine and three months ended September 30, 2024, insurance costs in the amount of
24 \$1.0 million and \$0.34 million for the nine and three months ended September 30,
25 2024 and Other expenses in the amounts of \$1.5 million and \$0.5 million for the nine
26 and three months ended September 30, 2024.

27 **Selling and marketing expenses** for the nine months ended September 30, 2024, and
28 2023 were \$5.3 million and \$8.0 million, respectively, representing a decrease of \$2.7
29 million or 34%. Selling and marketing expenses for the three months ended September
30 30, 2024, and 2023 were \$1.5 million and \$2.6 million, respectively, representing a
31 decrease of \$1.1 million or 41%.

32 The decrease in the selling and marketing expenses for the nine and three months
33 ended September 30, 2024, is mainly attributed to Oranim revoke agreement of
34 approximately \$1.3 million and \$0.7 million, respectively, in addition to a decrease of
35 \$1.4 million and \$0.3 million, respectively, in Selling and marketing expenses.

36 **Total operating expenses** for the nine months ended September 2024 and 2023 were
37 \$15.2 million and \$16.6 million. In Q3 2024 the total operating expenses were \$4.1

million compared to \$4.9 million in Q3 2023, a decrease of \$0.8 million or 16% mainly due to decrease in salaries of approximately \$0.3 million, depreciation expenses of \$0.2 million and insurance of \$0.1 million.

Operating expense ratio for the 9 months ended September 30, 2024, was 31% excluding the one-time expense outcome of Oranim deal cancellation vs. 44% for the 9 months ended September 30, 2023, representing an increased efficiency of about 30%.

Operating expense ratio for the 3 months ended September 30, 2024, was 30% vs. 40% for the 3 months ended September 30, 2023, representing an increased efficiency of about 25%.

The efficiency ratio improvement is resulting from decreased operational costs and increased revenue.

Non IFRS Adjusted EBITDA loss for the nine months ended September 2024 and 2023 was \$4.7 million compared with \$3.7 million representing an increase of 25% .

Non IFRS adjusted EBITDA loss in Q3 2024 was \$0.2 million, compared to an EBITDA loss of \$1.3 million in Q3 2023, representing an increase of 82%.

Net Loss in the nine months ended September 2024 was \$10.6 million, compared to \$6.7 million in the nine months ended September 2023. Net Loss in Q3 2024 was \$1.1 million, compared to \$2.1 million in Q3 2023.

Diluted Loss per Share for the nine months ended September 2024 was \$4.29, compared to a loss of \$2.95 per Share in the same period for year 2023.

Diluted Loss per Share for Q3 2024 was \$0.41, compared to a loss of \$0.96 per Share in Q3 2023.

As of the balance sheet,

Cash and Cash Equivalents as of September 30, 2024, were \$2.0 million compared to \$1.8 million on December 31, 2023.

Total assets as of September 30, 2024, were \$44.6 million, compared to \$48.8 million on December 31, 2023, a decrease of \$4.2 million or 8.6%.

The decrease is mainly attributed to the Oranim agreement cancelation of \$9.5 million of which mainly attributed to; goodwill \$3.5 million, intangible asset \$1.4 million, inventory \$0.8 million, trade receivables \$1.3 million, property plant and equipment \$0.8 million and reduction of cash and cash equivalents of \$0.3 million.

1 In addition to the Oranim revocation agreement effect, there is a total asset increase
2 of \$5.3 million mainly due to an increase of \$8.1 million in trade receivables and an
3 increase of Cash and cash equivalents of \$0.5 million, offset by \$4.8 million reduction
4 in Inventory and a reduction of \$0.9 million in intangible assets.

5 **Total Liabilities** as of September 30, 2024 were \$40.4 million, compared to \$35.1
6 million on December 31, 2023, an increase of \$5.3 million or 15%. The decrease was
7 mainly due to the Oranim agreement cancelation of \$6.8 million of which mainly
8 attributed to; PUT option liability \$2.0 million, purchase consideration payable \$2.2
9 million, trade payables \$1.6 million, lease liabilities \$0.4 million and a decrease of
10 \$0.3 million in deferred tax liability.

11 In addition to the Oranim revocation agreement effect, there is a total liability
12 increase of \$12.1 million mainly due to an increase of \$8.9 million in trade payables
13 and an increase of \$1.6 million in other accounts payable.

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

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

18
19 **Oren Shuster – Closing Remarks**

20 Thank you, Uri.

21 While the growth we delivered in Germany this quarter is a highlight, we spent the
22 quarter focused on building a solid foundation for 2025. We leaned further into the
23 full integration of the German and Israeli teams. Our goal was to build a strong,
24 consistent supply chain, along with a laser focus on how to improve the efficiency
25 and accuracy of how we use our resources. I believe that the foundation we built this
26 quarter will be the basis to drive further accelerated growth in Germany in 2025.

27 I will now hand the call over to the operator to begin our question-and-answer
28 session. Operator?

29 **Operator**

30 Q&A session prompts, Q&A Session

- 1 **Oren Shuster – Conclusion after Q&A - LIVE**
- 2 Thank you, Operator, and thank you all for joining our call today.