

November 16, 2020



## MediPharm Labs Reports Third Quarter 2020 Results

BARRIE, Ontario, Nov. 16, 2020 (GLOBE NEWSWIRE) -- MediPharm Labs Corp. (TSX: LABS) (OTCQX: MEDIF) (FSE: MLZ) ("MediPharm Labs" or the "Company") a global leader in specialized, research-driven cannabis extraction, distillation and derivative products today announced its financial results for the three and nine months ended September 30, 2020 and outlined its plan to accelerate growth and improve profitability.

"MediPharm Labs has created a strong and capable platform to pursue global leadership of medical, wellness and adult-use markets for cannabis," said Pat McCutcheon, CEO, MediPharm Labs. "We have identified business strengths that can be exploited including significant technical depth, global GMP supply-chain capabilities, high-potential customer agreements including a significant exclusive multi-year contract with European pharmaceutical leader STADA, and a strong cash position."

"Economic conditions including the oversupply in the Canadian bulk crude resin and distillate markets, along with the impact of COVID 19, continue to challenge the industry," added Mr. McCutcheon. "We are now focused on doing more to drive profitable revenue and address weaknesses including reducing our cost structure. We have taken immediate steps to improve our costs and organizational alignment against which we have put an action plan in place that will create value and enable us to achieve our potential."

The immediate action plan to create value consists of the following elements:

- Improve financial management to reduce and better align costs with the timing of sales generation
- Enhance marketing and sales with focus on accelerating research and development and new product commercialization for B2B and B2C operations
- Transition from B2B wholesale concentrate market, due to oversupply in Canada, to white label contract manufacturing
- Reduced headcount for an annualized savings of \$3 million to meet needs of current environment
- Undertook an independent operational review to identify areas for improvement and opportunities to restore growth to help drive significant improvement in cash flows and margins

These actions, some of which were taken late in the third quarter, and others subsequent to

the quarter end, will prepare MediPharm Labs for significant performance improvements in 2021 as revenue under new customer agreements ramps up.

### Q3 2020 FINANCIAL SUMMARY

- Cash and equivalents balance at September 30, 2020, was \$36.5 million; finalized settlement of the second tranche of the convertible debenture.
- Revenue was \$4.9 million, compared to \$13.9 million in Q2 2020. Reflects lower bulk extract volumes and average selling prices, partially offset by growth in formulated finished goods sales, up 30% to provincial distributors throughout Canada, and sales from MediPharm Labs Australia.
- Finished product shipments grew to comprise 57% of Q3 revenue up from 16% in Q2 2020.
- Commercialized SKUs grew 13% from Q2. Increased development activities for continued growth.
- International revenue grew to \$0.7 million as sales of GMP-certified formulated products under agreements with customers in Australia, New Zealand and the U.K. ramped up.
- Gross profit was (\$10.6 million) and gross margin was (214%) compared to gross profit of \$2.2 million and gross margin of 16% in Q2 2020, primarily due to a \$6.3 million non-cash write down of inventory to net realizable value and a \$1.5 million write down of non-current deposits given to vendors for capital expenditures.
- Negative Adjusted EBITDA<sup>(1)</sup> was \$7.3 million.
- Net loss before tax was \$15.4 million, compared to a net loss of \$3.8 million in Q2 2020.

### Q3 2020 FINANCIAL SUMMARY TABLE

	Three months ended				
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Revenue	4,947	13,918	11,089	32,444	43,386
Gross profit	(10,588)	2,212	(10,882)	9,987	14,754
<i>Gross margin %</i>	(214%)	16%	(98%)	31%	34%
Net (loss)/income before tax	(15,422)	(3,775)	(22,029)	(2,401)	5,395
Adjusted EBITDA <sup>(1)</sup>	(7,262)	(2,180)	(5,657)	2,661	10,066
<i>Adjusted EBITDA margin %</i>	(147%)	(16%)	(51%)	8%	23%

(1) See Non-IFRS Measures section of this news release.

## LOOKING FORWARD: GROWTH AND IMPROVEMENT CATALYSTS

**Refining Processes, Leveraging SAP and Reducing Costs:** During and subsequent to the third quarter, production processes were refined, the workforce was streamlined by 20% representing \$3 million annualized cost reductions, and strict spending disciplines were implemented. Along with other cost containment measures in Q4, these actions will provide benefits as revenue ramps up. The Company is also realizing increasing advantages from the recent implementation of its SAP resource planning system.

**STADA Pharmaceutical Partnership and 30 Supply Contracts to Drive Revenue:** The Company now has more than 30 supply agreements with customers in eight countries, including its first major collaboration with a leading European consumer healthcare and generics company. Under its agreement with STADA, MediPharm Labs will export GMP-certified finished product and cannabis API for Germany with a plan to expand to other promising European markets over time. This agreement, the first of its kind in the cannabis industry, further strengthened the Company's reputation as a specialist pharmaceutical manufacturer of cannabis API and finished products. In addition, the Company has formed its first alliances in the large and growing Latin American market for medical cannabis and has continued to build out its MediPharm Labs Australia customer base.

**Gathering Speed with Finished Goods Production and LABS Cannabis Brand:** In Q3, MediPharm Labs finished goods sales to provincial retailers grew 30% despite modest month over month sales growth of adult-use cannabis channels in Canada. To enhance its prospects domestically, the Company continues to shift its focus toward white label contract manufacturing and producing finished goods gaining market share with its growing product line up. In late October, MediPharm Labs was *first to market* with a consumer sized 99% Pure CBD Isolate Crystal on the launch of *LABS Cannabis* CBD Isolate, which serves a broad range of wellness consumers and patients. More new products will follow.

**Expanding Production Capabilities:** The Company remains focused on global medical and wellness markets and to enhance and diversify its channels. As such, the Company continues to expand its production capabilities and contract manufacturing operations. During the quarter, SKUs increased 10% from Q2, and included tincture bottles, topicals, isolate, sublingual sprays and various formulations for edibles and beverages.

**Contributing to Clinical Research:** Subsequent to quarter end, the Company initiated a clinical trial to research and evaluate the effectiveness of MediPharm Labs' proprietary cannabis-derived medical products and formulations on the treatment of end-stage renal disease or chronic kidney disease. The Company expects to expand its portfolio of clinical trials in the coming quarters.

## REVENUE EXPECTATIONS

Based on agreed customer production schedules, the Company expects revenue from its portfolio of domestic and international sales agreements will grow beginning early in 2021 and will be complemented by new sales of *LABS Cannabis* products.

## GOVERNANCE AND LEADERSHIP CHANGES

Subsequent to quarter end, the Company announced the departures of Robert Kwon, Chief

Financial Officer and the Company's Chief Marketing Officer. A search process has been initiated for a new CFO while the role of Chief Marketing Officer will not be directly filled and but will be covered by the Company's new VP of Sales.

As part of a broader plan to strengthen the skills and independence of the Company's Board of Directors, MediPharm Labs welcomed Shelley Martin, the retired President and Chief Executive Officer of Nestlé Canada Inc., Chris Taves, the COO of BMO Capital Markets, and Chris Halyk, the former President of Janssen Inc. (Canada) as Directors this year. The Company's Board of Directors is now comprised of 7 Directors, 5 of whom are independent.

### **Q3 2020 FINANCIAL RESULTS CONFERENCE CALL DETAILS**

MediPharm Labs executive management team will host a conference call and audio webcast to discuss the results and outlook for its third quarter ended September 30, 2020 on Monday November 16, 2020, at 8:30 a.m. eastern time.

#### **Audio Conference Call Dial In Details:**

Date: Monday, November 16, 2020

Time: 8:30 a.m. Eastern Time

Dial In: Toll-free number: +1-833-502-0471 / International number: +1-236-714-2179

Conference ID: 7656805

Audio Webcast: [WEBCAST](https://ir.medipharmlabs.com/news-events) or <https://ir.medipharmlabs.com/news-events> in the Events section

Replay: +1-800-585-8367/ International +1-416-621-4642 Conference ID: 7656805 until November 23, 2020 11:59 p.m.

### **NON-IFRS MEASURES**

Adjusted EBITDA is not a recognized performance measure under IFRS, does not have a standardized meaning and therefore may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is included as a supplemental disclosure because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. Adjusted EBITDA is defined as net loss excluding interest, taxes, depreciation and amortization, share-based compensation, non-cash, non-recurring expense and one-time inventory write downs. Adjusted EBITDA has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, taxes, share-based compensation and transaction fees. Because of these limitations, Adjusted EBITDA should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of the Company's results as reported under IFRS. The most directly comparable measure to Adjusted EBITDA calculated in accordance with IFRS is operating income (loss). The above is a reconciliation of the Company's operating loss to Adjusted EBITDA. See "Reconciliation of non-IFRS measures" in the Company's Management's Discussion and Analysis for the period ended September 30, 2020 for additional information.

### **About MediPharm Labs**

Founded in 2015, MediPharm Labs specializes in the production of purified, pharmaceutical-quality cannabis oil and concentrates and advanced derivative products utilizing a Good Manufacturing Practices certified facility with ISO standard-built clean rooms. MediPharm Labs has invested in an expert, research-driven team, state-of-the-art technology, downstream purification methodologies and purpose-built facilities with five primary extraction lines for delivery of pure, trusted and precision-dosed cannabis products for its customers. Through its wholesale and white label platforms, MediPharm Labs formulates, develops (including through sensory testing), processes, packages and distributes cannabis extracts and advanced cannabinoid-based products to domestic and international markets. As a global leader, MediPharm Labs has completed commercial exports to Australia and has fully commercialized its wholly-owned Australian extraction facility. MediPharm Labs Australia was established in 2017.

**For further information, please contact:**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION:**

This news release contains “forward-looking information” and “forward-looking statements” (collectively, “forward-looking statements”) within the meaning of the applicable Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as “expects”, or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes” or “intends” or variations of such words and phrases or stating that certain actions, events or results “may” or “could”, “would”, “might” or “will” be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements relate to, among other things, doing more to drive profitable revenue and reduce costs; exploiting business strengths; putting an action plan in place that will create value and will enable the Company to achieve its potential; improving financial management; accelerating research and development and new product commercialization for B2B and B2C operation; enhancing marketing and sales; exiting the B2B wholesale concentrate market; significant performance improvements in 2021 as revenue under new customer agreements ramps up; revenues ramping up; the launch of new products; and revenue growth beginning in early 2021 and being complemented by new sales of LABS Cannabis products. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general business, economic, competitive, political and social uncertainties; the inability of MediPharm Labs to obtain adequate financing; the delay or failure to receive regulatory approvals; and other factors discussed in MediPharm Labs’ filings, available on the SEDAR website at [www.sedar.com](http://www.sedar.com). There can be no assurance that such statements will prove to be accurate,

as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release. Except as required by law, MediPharm Labs assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change.



Source: MediPharm Labs Corp.