

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

2 **Operator**

3 Good morning and welcome to IM Cannabis' third quarter 2023 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, Itay Vago.

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.

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**

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

2 As a medical cannabis company headquartered in Israel, I'd like to start off today by
3 briefly touching on the Hamas massacre of Israelis. As I had mentioned in a press
4 release on October 12th, there are no words to describe the scale of the horrors and
5 the impact it is having on each and every Israeli. We are a small country and every
6 single one of us is directly impacted, either personally or through our family and
7 loved ones

8 IMC supports and stands with all the Israelis that are affected by this war and we also
9 fully support the Israeli Defense Forces. Medical cannabis is defined as a critical
10 infrastructure sector in Israel, just like all other pharmaceutical businesses. I am very
11 proud of the team, how they are coming together to work through this horrific
12 situation.

13 While the assumption is that medical cannabis consumption will increase in the long
14 term as a result of the war, it is too early to try to predict with any certainty, exactly
15 what the impact of the war will be on the medical cannabis industry in Israel in the
16 short term, and how it will impact the planned regulatory changes in the short term
17 that were expected at the end of 2023.

18 As I mentioned during our last call in August, in June, the Health Committee of the
19 Knesset, the Israeli parliament, passed a resolution facilitating access to medical
20 cannabis for patients with medical indications including metastatic cancer, Parkinsons
21 and gastrointestinal diseases such as Crohn's with a regular prescription. Pain and
22 PTSD the two of the three most prevalent indications will continue to require a
23 medical cannabis license. We believe the new legislation will have the ability to
24 accelerate market growth in Israeli. However, in the absence of any official
25 governmental communication, we expect all new cannabis legislation will be put on
26 hold for the near future because of the war.

27 Also in August, the German government took the next step forward in its cannabis
28 legalization proposal, with the final reading of the legislation to be held in parliament
29 during Q4. While the focus there is on nonprofit social clubs and home grow, medical
30 cannabis is also expected to be rescheduled during Q1 2024.

31 Medical cannabis will be moved from a tightly regulated narcotic to a simple
32 prescription medication. This is a massive step forward for the medical cannabis
33 industry, as it will greatly facilitate patient access by simplifying the prescription
34 process for physicians and easing storage and transport regulations for both

1 producers as well as pharmacies. The prescription costs for self-payers will also be
2 reduced, narcotic prescriptions have a copayment which will no longer be applied
3 under the new regulations. We anticipate that market growth will accelerate
4 significantly as a result of the regulatory rescheduling.

5 Before going into the market details, as I've been doing for the last few quarters, I'd
6 like to give you an update on the transformation IMC has been going through since
7 Q4 2022. We are singularly focused on reaching sustainable profitability, which is
8 supported by the two cornerstones we focused on in our last calls. First, the strategic
9 shift to focus on meeting patients' and pharmacies' needs. Second, rightsizing,
10 restructuring to put the necessary resources behind the strategic shift. We need to be
11 a lean and agile business, able to respond quickly to the changes within our dynamic
12 market.

13 For the last four quarters, we focused on restructuring as well as accelerating the
14 path to profitability through active cost management and margin improvement in
15 both Israel and Germany individually. When we take a look at results of the strategic
16 shift, we can see that the revenue stays mostly stable, even taking into account the
17 negative currency effect of the Israeli Shekel which has declined 9.6% since the
18 beginning of the year vs the Canadian Dollar. As expected, the cost of the revenue
19 mirrors the revenue. This has not been easy. The majority of our supply comes from
20 Canada, where we pay in Canadian Dollars. We have lost 1,5% of our gross margin
21 since Q3 2022. If it were not for the negative currency effect, we would have had an
22 11.5% improvement in our gross margin instead of the 10% improvement we are
23 reporting this quarter. Where we see the clear impact of the restructuring and active
24 cost management since Q4 2022, is in the operating expenses, where we have
25 managed to further reduce costs by 34% since Q3 2022.

26 But more importantly, in Q3, we kicked off a full integration project between Israel
27 and Germany to further drive efficiencies in both of our markets. From supply to
28 marketing and sales we are sharing information and working together as one team.

29 We believe that by combining our cannabis experience we will be able to further our
30 position within the cannabis market, especially in Germany. We clearly see that the
31 German market development is mirroring the Israeli market development of the last
32 few years. The average price per gram of medical cannabis for the patient has fallen
33 from around 12 Euros or 17 Canadian Dollars per gram in 2022 to under 10 Euros or
34 15 Canadian Dollars per gram in 2023. An average of 20 new cannabis flowers are
35 launched per month, a number which we expect to continue increasing. There are

1 currently over 350 medical cannabis flowers and over 155 different medical cannabis
2 strains available on the German market. The market is rapidly saturating. This is
3 exactly the development the Israeli market has been going through for the past two
4 years, which is why we have a clear advantage in the German market. We are
5 leveraging our proven Israeli strategy to drive results in the German market. Now I
6 will give you an overview of both the Israeli and German markets before handing
7 over to Itay for the financials.

8 In **Israel**, we made a conscious decision to focus on the premium and super premium
9 segments over a year ago. By doing this, we created these two segments in Israel and
10 are still by far the market leaders in premium and super premium medical cannabis.
11 What drove this decision was twofold: premium pricing and better gross margins.
12 Premium and super premium cannabis are not subjected to the same price pressure
13 as mid-range cannabis, allowing us to achieve higher gross margins. When we
14 segment our portfolio accordingly, we can clearly see the results. Our average selling
15 price for our ultra-premium brands this quarter is 25 Shekels per gram or 9 Canadian
16 Dollars per gram, the highest in the Israeli market.

17 In Q3, we reenforced our position as #1 in the premium market through the launch of
18 two new LOT 420 high THC strains, Glto 33 and Xeno, as well as an additional IMC
19 product, Chemchew.

20 Overall, our business in Israel was influenced by three factors this quarter:

21 First, we further streamlined our patient delivery service to improve costs. In Israel,
22 until August, we delivered medical cannabis directly to patients. As a result of our
23 active cost management, we have been working on for the last three quarters, we
24 decided to outsource our delivery service to a third party. While this move will result
25 in approximately 300.000 CAD in savings per year, we had a two-month transition
26 period during this quarter, doubling the delivery costs during that time. We also
27 estimate that the transition period caused a short-term interruption of sales.

28 Second, currency fluctuations. As I mentioned earlier, the Israeli Shekel fell
29 significantly versus the Canadian Dollar over the course of Q3, declining 2.6% in
30 average vs. Q2, with an overall decline of 9.6% since the beginning of the year.
31 Because the majority of our sales are in Shekels and we report in Canadian Dollars,
32 this had a significant impact on our Q3 revenue, leading directly to a \$900,000
33 Canadian Dollar or 6.4% decrease in revenues vs Q3 2022.

1 Third, while our focus has been on growing the premium and super premium
2 business, we have had to adjust our portfolio and inventory accordingly. We cleaned
3 out the first set of slow-moving stock in Q3, by reducing prices. While this helped
4 drive incremental sales in volume, the lower prices impacted both our revenue and
5 gross margin. The remainder of the slow-moving stock will be cleaned out in Q4.

6 In **Germany**, we launched our first premium High THC strain leveraging the entire IMC
7 Israel branding and collateral. By working closely with the Israeli team, we were able
8 to ensure that this launch was our strongest launch in Germany so far. In addition,
9 the team further solidified two new high THC strains that were launched in Q1 of this
10 year.

11 Taking a look at the overall results since we shifted our strategy, I am convinced that
12 it was the right decision. It has been a challenging journey, but we are moving towards
13 sustainable profitability. This will continue to be our focus as we move in to Q4.

14 In Q4 in Germany, we expect the final readings of the cannabis legalization to take
15 place in the German parliament. We will also start to see the effect the Israel-Hamas
16 war has on the cannabis industry in Israel and on IM Cannabis as well. Since the start
17 of the war in October, we have already seen the initial impact on our employees,
18 supplies, imports, sales and more. While it is too early to assess the extent of the
19 impact, we anticipate a negative impact in Q4 2023, with a potential positive effect in
20 the medium to long term. I will now turn the call over to our Chief Financial Officer,
21 Itay Vago, who will review our third quarter 2023 financial results.

22 Itay?

23 **Itay Vago**

24 Thank you, Oren.

25 I will now provide an overview of Q3 2023 financial results for the Company's
26 continuing operations.

27 **Revenues for the third quarter of 2023** were \$12.4 million compared to \$14.2 million
28 in the third quarter of 2022, a decrease of 13%. Of these 13%, almost half, 6.4% (or
29 \$0.9 million) of the decrease is coming from negative currency fluctuations.

30 **Gross Margin**, before fair value adjustments, in **the third quarter of 2023** was 22%,
31 compared to 20% in the third quarter of 2022, an increase of 10%.

1 **Adjusted EBITDA Loss in the third quarter of 2023** was \$1.3 million, compared to an
2 Adjusted EBITDA loss of \$3.7 million in the third quarter of 2022, a decrease of 65%.
3 The decrease is mainly attributable to improved performance of the Company's gross
4 margin and general and administrative expenses such as cost reduction, cost
5 efficiencies and other corporate expenses reduction.

6 **Total operating expenses in the third quarter of 2023** were \$4.9 million compared to
7 \$7.5 million in the third quarter of 2022, a decrease of 34%. Most of the decline can
8 be attributed to restructuring in Israel.

9 **Gross profit** for the third quarter of 2023 was \$2.6 million, compared to \$2 million in
10 the third quarter of 2022, an increase of 30%. The increase attributed mainly to
11 increased higher margin sales of imported premium cannabis products, and reduction
12 of costs of sales.

13 **Total Dried Flower sold in** the third quarter of 2023 was approximately 2,558kg with
14 an average selling price of \$4.35 per gram compared to approximately 1,453kg in the
15 third quarter of 2022 with an average selling price of \$9.08 per gram. The decrease in
16 average selling price was caused by increased competition within the retail segment,
17 and mid-range stock discounts.

18 **General and Administrative Expenses in Q3 2023** were \$2.1 million, compared to
19 \$4.3 million in Q3 2022, a decrease of 51%. The decrease in the general and
20 administrative expense is attributable mainly to salaries of the employees derived
21 from the restructuring plan in Israel and presented separately in the interim financial
22 statement for the third quarter. The main goal of the restructuring is to drive
23 efficiencies and realize sustainable profitability.

24 **Selling and Marketing Expenses in Q3 2023** were \$2.6 million, compared to \$2.8
25 million in Q3 2022, a decrease of 7%.

26 **Operating Loss in the third quarter of 2023** was \$2.3 million, compared to \$5.5
27 million in the third quarter of 2022, a decrease of 58%.

28 **Net Loss from continuing operations in the third quarter of 2023** was \$2.1 million,
29 compared to a Net Loss of \$4.5 million in the third quarter of 2022, driven mostly by
30 higher gross margin and reduction in operating expenses and offset by finance
31 income in the third quarter of 2022.

32 **Basic and diluted Loss per Share From Continuing Operations** in the third quarter of
33 2023 was \$(0.16), compared to a loss of \$(0.06) per share in the third quarter of
34 2022.

1 **Cash and Cash Equivalents** as of September 30, 2023, were \$1.3 million compared to
2 \$2.4 million in December 31, 2022.

3 **Total assets** as of September 30, 2023, were \$52.4 million, compared to \$60.7 million
4 in December 31, 2022, a decrease of 14%. The decrease is mainly attributed to cash
5 and cash equivalents, inventory and to the effect of dollar rate increase of items
6 denominated in Israeli Shekels in the Company's balance sheet.

7 **Total Liabilities** as of September 30, 2023 were \$32.6 million, compared to \$36.9 in
8 December 31, 2022, a decrease of approximately 12%. The decrease was mainly due
9 to the reduction in trade payables, increase in fair value of warrants valuation and to
10 the effect of dollar rate increase of items denominated in Israeli Shekels in the
11 Company's balance sheet.

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

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

17

18 **Oren Shuster – Closing Remarks**

19 Thank you, Itay.

20 While our revenue and gross margin were impacted by the negative currency effect
21 unfavorable exchange rates and the cleansing of the slow-moving stock in Q3, we
22 increased volumes and can see clear progress towards our goal of sustainable
23 profitability. We are in a good position to take advantage of all the regulatory
24 changes on the horizon for the medical cannabis industry in Germany and we will see
25 what the impact of the war will be on the Israeli cannabis industry and on IM
26 Cannabis.

27 With that, I 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. I look forward to
3 speaking with you in the coming quarterly reports.