

Deveron Corp.

Q2 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Philip Linton

Deveron Corp. — Director of Growth

David MacMillan

Deveron Corp. — President & Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Nick Boychuk

Cormark Securities — Analyst

Steve Hansen

Raymond James — Analyst

Nicole Cornick

M Partners — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Deveron Corp. Q2 2022 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator.

I'd like to remind everyone today's call is being recorded, Tuesday, August 23, 2022, and I would now like to turn the conference over to Philip Linton. Please go ahead, sir.

Philip Linton — Director of Growth, Deveron Corp.

Thank you, operator. As we conduct this call, various statements that we make about future expectations, plans, and prospects contain forward-looking information. Certain material assumptions were applied in making these conclusions and forecasts; therefore, actual results could differ materially from those contained in our forward-looking information.

Additional information about these factors and assumptions are contained in our current quarterly report to shareholders as well as our most recent annual report, MD&A, and annual information form filed with Canadian securities commissions.

Joining us today are Mr. David MacMillan, President and CEO, and Mr. Craig Hogan, VP, Finance. I'll turn the call over to David MacMillan for opening comments before we take your questions. David?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Good morning, everyone, and thank you for joining Deveron's second quarter earnings call. Before we begin discussing Deveron's results and the Company's outlook for the second half of 2022, I want to reiterate Deveron's vision and highlight three key opportunities the Company can execute on to build a transformational company in the agriculture data space.

Deveron is focused on becoming the clear choice for impartial agriculture insights and empowering data-driven decisions by every farm. There's a big change happening in agriculture. Decisions on how to farm are being driven by science and data. We see ourselves as a natural partner for anyone looking for the best unbiased information in the industry. As Deveron continues to grow, we want to reiterate three key themes: one, we want to build a large company with substantial impact in the market focused on growth; two, we believe we can create a company of the highest operational excellence, capable of creating measurable value for our clients; and three, data is becoming more valuable and we see ourselves as offering a unique end-to-end solution free of bias, helping our clients increase yield, reduce costs, and improve farm outcomes.

Now turning to our results and how we see the remainder of 2022 shaping up, Deveron delivered record quarterly revenue of \$5.2 million, achieving 183% year-over-year growth, highlighted by 64% organic growth. Our strategy of consolidating local agriculture service providers, laboratory testing, and agronomic advisors, while enabling them with standardized technology, continues to pay dividends. Our triple-digit revenue growth was also aided by the successful combination of Deveron with A&L Canada Laboratories, the largest soil testing laboratory in Canada. The deal was completed on May 24th. As such,

we only recorded one month of A&L's business in the second quarter. Over the previous 12-month period, A&L had unaudited revenue of \$26.7 million and EBITDA of \$11.6 million.

We believe we have a strong pipeline for continued growth as Deveron accelerates its vertical integration of field and data services with increased lab testing and integration into our data platforms. Today we collect over 500,000 samples in the US that are not processed in our laboratory ecosystem. Given our close relationship with the customer, we are confident in our ability to illustrate the value of an end-to-end standardized data solution and that our platform can be replicated across all geographies.

More broadly, we have seen increased demand for our products given the inflationary environment that most farmers are faced with. Using soil data to better apply input products can have considerable impact on efficiency and application decisions. Today, Deveron's network of data technicians is increasingly becoming the trusted call for our customers' data needs. As we integrate more laboratory testing and increase our portfolio of products and service providers, we believe we can continue to deliver these record results.

A few notes on our service and agronomic advisor business. We now have network coverage across many states through the US Midwest. This is a great market for us, as more growers adopt higher fidelity soil testing methods and agriculture retailers continue to use soil testing programs to help their growers drill down into their fertilizer needs, at what rate, how much, and where to apply to maximize their customers' yields. We believe we can continue to grow in this market through our organic growth while also adding more local owner-operator partners to join Deveron. A key focus for us over the next 12 months is to continue to develop technology and value-add services to digest more of the soil into

our lab ecosystem, develop great products to leverage the growing datasets we are seeing from farms across the United States.

Now turning to our expanding lab business, at the beginning of 2022 we had a limited research-based presence in soil health and minimal broader soil testing capabilities. Today we have the capacity to test 600,000 samples annually in North America with expertise in carbon and fertility testing. Given the high margin of analytical testing, highly fragmented lab market in agriculture, and a growing demand for soil testing, we believe this can be a large growth engine for Deveron over the coming years. The value of local relationship in agriculture continues to impact our strategy and we continue to look for more great operators to become part of our growing vertically integrated offering. Our M&IA pipeline remains strong with over \$55 million in potential revenue additions, which we believe we can execute on over a period of 24 months.

We continued to see significant growth across the Company and remain focused on building out our digital products. Historically, our sales in the first half tends to carry through into the second, where more of a seasonal business is recognised. With the full integration of A&L complete, we believe we are well positioned for significant growth, record results, and a unique ability to serve our 25,000-plus customers by leveraging technology to help lower costs and increase farm outcomes. Our business has always been rooted in boots on the ground and importance of local representation to our customer. Today, we have an ability to leverage this growing, trusted network to continue to push data into our ecosystems, which is becoming more important for our current and future customers looking for leading, unbiased, and accessible agriculture information.

With that, Phil, let's open the call for questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star followed by the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by the number two. One moment while we compile the Q&A roster.

Your first question comes from Nick Boychuk of Cormark Securities. Please go ahead.

Nick Boychuk — Analyst, Cormark Securities

Good morning. Thanks for the time, guys. Just hoping to get a little bit more colour on how some of the prior acquisitions are integrating with the business, in particular A&L and how that's tracking for Q3 so far.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Thanks for your question, Nick. I think things are going really well. Obviously, A&L was the largest transaction we've completed to date, it was over 150 employees down in London, and we've really been focused on culture and integration of our sales team. Obviously, there's a really strong market presence in Canada and I think the big opportunity to grow is, again, to replicate a lot of the service offerings that A&L has provided traditionally in Canada to the US customer. So, over the last kind of two and a half

months we've really focused on getting our sales teams integrated, looking at where we can start providing value add of our digital products, and also looking from a perspective of how we can kind of bundle some of the traditional Deveron products with the A&L offering to their customers here in Canada. So that's been the short-term focus.

One of the great things, which I mentioned at the beginning of the call, is just this whole bundled opportunity around data collection, lab testing, and then analytical information, and we're already leveraging this increased throughput down through, especially enterprise customers in the US, who are very curious about working with one company that can handle the whole end-to-end solution. Last year, when we first started in the carbon business, we were going out and talking to customers really from a perspective of field services and a very small amount of lab testing capacity. Now that we have the throughput of over 600,000 samples a season and being able to look at that whole end-to-end work, I think you're going to start seeing a little bit of continued progress on our side of showing, again, like how we're starting to bundle all that progress together.

So, I think to just kind of summarize, I think the big things have been cultural, making sure both companies are seeing eye to eye on the same perspective and really focused on, one, developing the Canadian market with our co-bundled offering but also really focus on replicating A&L's significant technology and IP resources in the US market and, two, going out to our enterprise customers and offering them this full end-to-end solution where we can bundle, again, field services with lab testing and data throughput through our API.

Nick Boychuk — Analyst, Cormark Securities

That was some really good colour. Thank you. Just, clearly, analytics is going to become, I think it's fair to say analytics will become increasingly more important over time in terms of the margin. That's like one of the things I was trying to unpack was it seemed like this quarter there was a little bit more collection revenue, which impacted the margin profile, but longer term you're not expecting any headwinds in that regard.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

No. And I think that's a really good point just to reiterate. Like, as I said at the end of my script here, Deveron is rooted in the fact that we've got boots on the ground and people going out to the farm gate. Like the last thing on earth farmers want to do is pick rocks, mend their fences, and collect soil samples. But that starts this whole flywheel of once we can help make the data accessible, it can get into our lab ecosystems where, obviously, margins are a lot higher. And think about the opportunity of standardizing that process across Canada and the United States. Like if every retailer could get the same ecosystem approach to how soil is collected, tested, analyzed, and then put back into their backend systems, like that's really valuable and that, today, just doesn't exist. So collection is always actually, I think, a great bellwether for how the business is doing, because it means our sales people are out, we're talking to customers, we're gaining trust. And as we start to collect more and more of this data, now that we have this increased throughput, I really think over the next 12 months you're going to see that flywheel continue to accelerate. And our product teams are really focused on how do we, again, think about providing a better user experience once the data has been collected in a digital sense. So, yeah,

we're really making great progress and I think it's just the starting point of how we continue to compound the growth of the business.

Nick Boychuk — Analyst, Cormark Securities

Makes sense. And then just on the carbon platform, just wondering if you can kind of give us a little bit more colour on what you're seeing in the demand environment. Obviously, you guys were previously expecting to get premium credit prices. How is that dynamic unfolding and what's the kind of demand for your credit but also the supply in terms of the industry as a whole.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

So I think, from a broad level, just in dealing with enterprise, we are seeing continued interest from large ag seed chem companies who are rolling out credit programs to their customers, but it's still in the early days, right? So, even exponential growth for them is still only a small sliver of their market. I think, if anything, we're getting the phone calls from these companies that want us to be able to, one, help them on the service side and, two, now that we have the standardized throughput, we can give them confidence in the fact that like all of the data can be tracked through the whole ecosystem. So we're not really seeing anything there slow down.

I know credit prices have been boggling around a little bit just through the summer. Maybe that's more macro than anything. I mean I take the general horizon that the world is going to continue to try to find ways to properly price carbon and agriculture probably offers one of the largest, obviously, carbon sinks out there, especially from a land base measure, so to me it's a huge opportunity for the Company.

We believe that there's two fundamental things at play here. Growers will happily collect a subsidy for doing things they've already been doing, the programs just have to be accessible for them, and I think one of the things that we're starting to see is more protocols that are kind of coming to market and being developed are going to make things easier for growers to be able to commit and participate in than perhaps just the original standards or organic protocols that have been widely popular, I guess, over the last 18 months. So, I hope that answers your question, but from a very broad level that's, ah, we're very excited about the carbon opportunity.

Nick Boychuk — Analyst, Cormark Securities

Yeah, no, that does. Thank you. And then just last for me, kind of like a housekeeping on the margins and the costs. Is the OpEx profile that you guys put up this quarter representative of what you think it's going to look like into H2 or is there going to be some synergies you'll be able to pull out of the business?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Yeah, I think, just to (inaudible) on that, obviously we've been growing so fast in the US, a lot of expansion opportunities were coming forward and, again, when you go back to, as you're scaling up your collection business, you're adding people, you're adding equipment to be able to get out in the field and service those customers. I think there is a delta in putting those people in the field today and then recognizing some of the enterprise work. So, again, our sales team has been pretty busy backfilling all the network expansion that we made. It'd be my expectation that, you know, how the business kind

of operates is you start to see those investments in spring and then the flow through into improved margin in the fall and then we'll go through that cycle again as we continue to grow in 2023.

Nick Boychuk — Analyst, Cormark Securities

Okay, got it. Thanks so much.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Thanks, Nick.

Operator

Your next question comes from Steve Hansen of Raymond James. Please go ahead.

Steve Hansen — Analyst, Raymond James

Good morning, guys. Thanks for the time. Dave, just as you contemplate how the A&L facility sort of sits now in your operations, how do you feel about the broader footprint from the lab perspective? A&L is obviously a large facility that's come in here, but if you look at the footprint across the continent, where do you feel like you need to add or what capabilities do you still need to add at this point?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

I think from an IP and agronomic perspective, as well as huge rolodex of soil data in Canada, we're sitting really great. We've started to talk to our field reps about working on this flip of getting the US customer pushing lab data through our broader ecosystem where, as mentioned, today is probably

about 500,000 samples a season that historically we have not had any interaction with. So I think there's an easy discussion around starting to convert some of that up and through London. But I think more broadly, when you think about this opportunity across the entire North American agriculture landscape, you know, one lab in London is not going to be enough capacity if we continue to be successful, so we're looking at choice expansions. I think a good model or mental framework is probably a little bit of a hub and spoke, right? Like larger facilities to do some of the broader processing where we're not taking away the importance of that local relationship.

So, for example, last quarter we made a small acquisition in Agri-Labs in Indiana and this is a great facility that can't handle hundreds of thousands of samples a season but it can be a dispatching depot, a great place to provide local agronomic advice once a sample has been collected and like we can perform more fast-paced tissue testing and turnaround procedures through the season. So, for us, there's really no stop to looking for partners that I think could fit under this umbrella. We believe that, given our growth profile, we're going to continue to need more and more throughput in the US and, obviously, there's over 100 labs in the United States that we believe all have strong local relationships and under maybe the larger Deveron umbrella could really help us build an accretive business that, at the end of the day, provides really top-tier scientific and technical advice for growers in that market.

Steve Hansen — Analyst, Raymond James

Okay, great. That's good colour. And then (inaudible), but could you just perhaps speak to the M&A pipeline as it stands today? Just trying to get a sense for how you balance that versus the priority of integration on A&L at the same time through the back half of this year and into next.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Yeah, so the high-level pipeline is about \$55 million in potential revenue, which we think over like a 24-month period is something that is accessible. Obviously, integrating a business the size of A&L with 150-plus employees, given our size previously, has been a lot of focus. But we are getting pretty good. Like we've done nine transactions over the last almost 36 months and it's been a process in getting alignment on culture and moving towards the same northern star, but at the end of the day, big or small, all these businesses care about the same thing, and it's providing great, scientifically-driven, unbiased information to the historical customer base they've worked with and the growing customer base that Deveron has access to.

So, from that side, are there big elephants out there? Absolutely. And would we pull a trigger on something tomorrow afternoon? We do have our hands full. But the sort of \$1 million to \$5 million a year businesses are starting to turn into more tuck-ins for us and we think we have a pretty good playbook. We've got someone heading up M&A integration now, so we've made investments in that realm and have dedicated resources for it that, again, part of the key strategy for Deveron is to add and leverage the strong local relationships that a number of these great businesses have developed, which we believe, to execute on that strategy, we've got to be prepared to run quickly with.

Steve Hansen — Analyst, Raymond James

Okay, great. And just one last one for me is just on the progression towards positive EBITDA that you reference in the release. It's great to see. What kind of cadence should we expect as we move into

the back half? Q4 is typically your stronger period, so is it sort of a modest step into that direction in Q3 and then a bigger move in Q4? Or how should we think about that sort of cadence?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Yeah, I think that's a pretty good way to look at it. I mean when we completed the deal with A&L, obviously we disclosed their previous 12 months pro forma, and I think if you look at the historical percentage revenue and margin growth of Deveron, like Q1, Q2, Q3, and Q4, those things over time have stayed pretty consistent.

So, from our side, obviously, North American agriculture is fairly heavily seasonal with maybe 60% to 70% of the business operating in the second half of the year. I think there's a lot of good opportunities now when you own laboratories of the more soil that runs through them, you know, you're still turning the lights on each day, so margin profile can be a little bit better as well as volume increases. So I think, with the previous disclosures we've made as well as just generally how the business has been trending, I think you're on the right side of how I would be thinking about it as well.

Steve Hansen — Analyst, Raymond James

Okay. Appreciate the time. Thanks.

Operator

Your next question comes from Nicole Cornick of M Partners. Please go ahead.

Nicole Cornick — Analyst, M Partners

Hey, guys. Congrats on the quarter. I had a question about the 30 years of soil data that you acquired. So are guys starting to see any incremental growth in revenue based on that?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Hi, Nick. Thanks for the question. You know, it's kind of this great opportunity that we see around the general aggregation of agriculture information and I think why we believe we're uniquely positioned in the market is because we're unbiased and really just care about improving farm outcomes. We don't really have a lens for looking at data to help us sell more inputs, because we're not in that business.

So one of the core things, you know, about 16 months ago now when we acquired Farm Dog, was to start building out a product and engineering team that focused on two things. One, provide technology to improve operational efficiencies internally. We're moving a lot of people around the country that our doing field services work; there's a huge opportunity to leverage data to improve that. On the other side is more of the customer-facing perspective, you know, how do we organize agricultural information to make better decisions for our customer, whether it be in the field or over time. And with A&L having such an established presence in Canada over the last 35-plus years, there's a lot of information that that I think, in general, hasn't been a dataset that the broader market has ever really had access to. So we're thinking about data products that can help our customers make better decisions. How the historical data at A&L unpacks into that is something the product team is kind of working on now. I'd like to maybe have a more formal update on that as we head through the end of the

third quarter and into the fourth, but I think you will start to see some more releases from our side just around what we're doing with the data as well as a more, I guess, specific update on the product opportunity we see within Deveron that we continue to think will help build the next generation of the Company.

And you can imagine, like this business started in remote sensing and we've continued to evolve by listening to what our customers need. Having this huge library of information that can potentially offer great aggregate analytical insights is something that's very close to heart and we think, again, over the next couple quarters we'll really be able to make some momentum with that.

Nicole Cornick — Analyst, M Partners

Got it. Okay. Thank you for that. And then my other question was kind of about this new regulation the Canadian government is trying to put in force limiting the use of fertilizer and how that plays into your whole value proposition.

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Yeah, it's, I suppose, maybe a bag of worms. And not to take really one side of it of what's good or bad and if everyone has enough knowledge to be driving that policy, but let's say that it did happen and our customers across Canada were forced to decide how much volume of fertilizer they use based on a policy, I mean for us it would be helpful, because it forces people to start looking at efficiency decisions and that's something that we do, right? We take a look at the broader ecosystem of the farm, we look at the data that we have towards it and we help people maximize efficient use of inputs.

I think (inaudible) products, there is a rough (inaudible) application of certain inputs that for sure data models can help with. Is that 10%, 30%, or 80%? This is where it's hard to make a broad sweeping policy that all farmers shall decrease by X, because every farm is different and every field has different agronomic factors that actually might support a significant amount of fertilizer because it's lacking in nitrogen, et cetera.

So I hope that the government at least listens to growers and listens to the reality of producing output in Canada and then whatever that decision is in the long term, you know, we have data models and we collect information that can help farmers maximize whatever product they have a rate for, if that answers your question.

Nicole Cornick — Analyst, M Partners

Perfect. Thanks for the time, guys.

Operator

We have a follow-up question from Steve Hansen at Raymond James. Please go ahead.

Steve Hansen — Analyst, Raymond James

Thanks. Just one quick follow up. Dave, your comments earlier about sort of the breadth of the business and how it's been growing is curious. Just maybe on A&L specifically, I know they were very focused on soil and soil testing, but they were also involved with a bunch of other businesses through plant tissue sampling and a bunch of other things that we often don't talk about as much. Is there

anything in that business specifically that really draws your interest as you think about building a broader network over time and is there other lines of business, I guess, we should be thinking about beyond just soil sampling and agronomic advice?

David MacMillan — President & Chief Executive Officer, Deveron Corp.

Yeah. I mean even to your point, Steve, tissue testing is actually a great business line that I think is one of those, again, inaccessible data points for the average grower because, for the most part, in the middle of the season kind of the last thing anyone wants to do is stroll through hundreds of acres of corn or canola pulling tissues to send to the lab, but I mean this is something that I think our data technician network is primed to be able to do. And when you think about the average fixed cost of a field worker who's in the middle of Saskatchewan, anything we can be doing for our clients where we're out in the field is value add. So, again, the more we can convince farmers not just to be soil testing but to be tissue testing throughout the season is, again, more volume in the lab when, in general, soil testing volumes are not high. And a lot of the analytical provisions for this around disease mitigation and when to use pesticides and at what rate to potentially use pesticides is very valuable and when you think, again, about the 500 million acre market of the US and Canada. If we had everybody soil testing and we had everybody tissue testing, that alone is a massive business opportunity.

I think the other side of A&L that we're really excited about in general is just some of the research side of the business, especially in the biological space. So they're sitting on quite an IP portfolio of different types of biologicals that, again, potentially can help with mitigating disease in crops and it's obviously like a non-synthetic fungicide. So it's an area that we're starting to explore. There's obviously

been a lot of venture capital chasing, I think, new products that are, let's say, less harmful to the earth and, again, we're just kind of unpacking the opportunity on that side as well.

So I think there's a lot of nuggets of research work within A&L outside of its traditional soil testing and agronomic advice business that we think has broader application in the North American market and, again, over the first three months we're really focused on culture integration, make sure the sales team are talking properly to the customer, and then thinking about our few product priorities in the US market, but moving forward I think, again, there's quite a bit of scientific IP within A&L that we're excited about sort of digging into and finding some new business to apply to our large customer base.

Steve Hansen — Analyst, Raymond James

Okay, great. Appreciate the time. Thanks.

Operator

Ladies and gentlemen, once again, if you would like to ask a question, please press star one now.

Ladies and gentlemen, there are no further questions from the phones. This will indeed conclude your conference call for this morning. We would like to thank you all for participating, wish you have a wonderful day, and ask you to please disconnect your lines.