

Deveron Corp.

Third Quarter Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Nick Boychuk

Cormark Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Deveron Corp. Third Quarter Results Conference Call.

This call is being recorded today, Tuesday, November 22, 2022.

I would now like to turn the conference over to Phil Linton, Director of Growth. Please go ahead.

Phil 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 the Canadian Securities Commission.

Joining us today are Mr. David MacMillan, President and CEO, and Mr. Craig Hogan, VP of Finance.

I will now turn the call over to David for opening comments before we take your questions.

Thanks.

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

Thank you, Phil.

Good morning, everyone, and thank you for joining Deveron's Third Quarter Earnings Call.

Before we begin discussing Deveron's results and the Company's outlook for the rest of 2022, I want to discuss Deveron's market opportunity and our current market share. There is a big change happening in agriculture. According to the International Plant Nutrition Institute, IPNI, 12 million soil samples were tested annually in North America in 2021. This number is growing at a compounded annual rate of 8 percent over the last 15 years. Farmers are moving to higher fidelity sampling practices. There is an increased awareness of the value of testing to manage rising input costs, as well as a broader sustainability initiative that requires soil testing and validation, all leading to higher year-over-year testing volumes.

Over the last 18 months, our M&A strategy has created roughly 7 percent market share due to floor-to-soil testing labs. We only see continued runway to consolidate this large and fragmented market, with over 120 testing labs in North America. Given our growing regional footprint, there is a great opportunity to leverage our soil labs as profit centres, and internalize our collected sample data. Today, we estimate that Deveron collects 500,000 samples that currently are not analysed by our labs.

This is a huge growth opportunity, above and beyond our current organic growth rate, and our ability to add value to our clients by bundling in additional agronomy services.

Agriculture as an industry continues to experience macro tailwinds that have led to increased demand for our products. High inflation rates, paired with rising input costs, have left growers looking for solutions to help improve how they utilize their chemical and seed spend. Using soil data to better apply input products can have a considerable impact on cost and efficiency of their input decisions. As we continue to execute on our strategy, we look to add value to our clients by bundling our three main product groups, field services, lab analysis, and regional agronomy, which creates value for Deveron at the bottom line and allowing for our growers to lower costs and increase their yields.

Finally, I would like to take a minute to discuss our growing lab business. Since beginning to focus on the lab space, we have acquired four soil labs and have grown from having a limited research-based presence in soil health and minimal broader soil testing capabilities, to a network of labs that can analyse 700,000 samples annually in North America, with expertise in not just fertility, but also carbon. Given the high margin of analytical testing, we expect to see a continued focus on our growing ability to provide standardized testing and solutions for the North American market.

With that, I'd like to hand it over to Craig Hogan, our VP, Finance, to speak more directly to our results.

Craig.

Craig Hogan — Vice President of Finance, Deveron Corp.

Thanks, David.

Now turning to our results and how we see the remainder of 2022 shaping up. Deveron was able to deliver record quarterly revenue of \$7.2 million, achieving 347 percent year-over-year growth, highlighted by 62 percent organic growth. Our strategy to consolidate local agriculture service providers, laboratory testing and agronomic advisors, while empowering them with standardized technology, continues to pay dividends. The third quarter experienced some seasonal delays that affected our client harvest timelines. This led to delayed revenue that we expect to recognize in the next quarter, as well as increased labour costs associated with ramping up our collection teams.

During the past year, we have built a scaled team of data technicians to support contracts with key customers. Related costs, such as salaries and benefits and vehicle-related costs, including leases and depreciation, and operating costs such as insurance, our expenses incurred in the quarter are not impacted by seasonality. Whereas, the associated benefit in the revenue is recognized when the fieldwork is completed in the subsequent quarter, due to weather-related seasonality and customer delays. During the quarter, these costs totalled approximately \$1 million, with the majority of the revenue expected to be recognized in the fourth quarter, when the contracts are fulfilled and the revenue is recognized.

Our triple-digit revenue growth was also aided by the combination of Deveron and A&L Canada Laboratories, the largest soil testing laboratory in Canada. We are still early into the integration of A&L, but we are beginning to make significant progress, increasing the labs' square footage by 10,000 square feet, which will be fully operational shortly, and aligning on our vertical integration strategy to capitalize

on the soil we collect within our ecosystem. We have begun to see strong tailwinds and demand for our soil ecosystem, with many enterprise partners coming on board and showing interest. Our continued sales focus on providing an integrated and end-to-end offering is being rolled out to our broader customer base, and we expect further success heading into 2023.

Finally, there is a significant technology synergy that we are addressing between the two companies. For the next 30 days, we will have a plan to align these costs, which will have an immediate impact to the bottom line. This quarter was characterized by 62 percent organic growth, which continues to illustrate a direct path to being a strong market leader on the back of the platform we have built today.

With that summary, I'll hand the call back to David, who can conclude before we open the call for questions.

David.

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

Great, thanks, Craig.

The third quarter continues a trend of significant organic growth, leveraged by M&A activity in the lab testing space. We believe our strategy is clear and the industry is characterized by a unique opportunity to become the clear market leader. Historically, our strongest sales numbers come following the harvest in the fourth quarter. As we continue the integration of A&L, Agri-Labs, and our latest

acquisition, Frontier, we are well positioned for growth, record results, and increased ability to serve our customer by leveraging our network of labs, consultants, and soil technicians.

Our business has always been rooted in supporting the first mile and the 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 ecosystem and leverage our lab profit centres to drive value to the bottom line. With this focus, Deveron is focused on becoming the clear choice for independent agricultural insights.

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

Q & A

Operator

Thank you. Your first question comes from the line of Nick Boychuk from Cormark Securities. Please go ahead.

Nick Boychuk — Analyst, Cormark Securities

Dave, can you give us a little bit of an update on the carbon platform, what you guys are seeing in terms of demand for your services and how that's going to flow through your results?

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

Yes, thanks for the question, Nick.

I think we're pretty excited about how carbon's continued to roll out. I think you can see in the press release, as well as some notes that we had subsequent to the end of the quarter on a couple of organic growth wins, with the USDA being two great backbones to that program. Obviously, some of the other work that we announced last year are multiyear contracts and, again, I think you can see it in the financials this quarter where we had this great ramp-up in cost as we provided network expansion to service these enterprise deals, and obviously all of the work started to happen once the crop got out of the ground.

For that side, we're very excited about the continued growth of the market. I think what we're seeing just across the landscape of enterprise agriculture is more and more demand for sustainability offerings, which are all going back into creating organic growth opportunities for lab testing. I think it's a pretty obvious fact now that, for companies who want to participate in carbon credits or other broader sustainability benchmarking, you need physical soil data, all of which is accretive to this network of soil technicians that we've built out across Canada and the United States, as well as now with this integrated lab testing ecosystem.

One of the other, I think, caveats that I could point to as well that's giving us quite a bit of, I think, momentum on the positive side, is when we first started in the carbon space, we were really selling field collection services. We were going out to enterprise and saying, "Hey, let us be your logistics provider." At that time, we only had a minimal amount of soil testing capacity on our research bases out of our lab in Maine, with Woods End.

Subsequently to that, obviously we've acquired three more labs, and we've been going back to the customer talking about this whole bundled offering, where, obviously, Deveron is interested in being a preferred field services provider, but we're also interested in being a preferred testing partner. That's creating a huge opportunity to ramp up fieldwork that's currently already being monetized in the ecosystem, onto the testing side. I think that's something that, moving into the fourth quarter, as we get soil out of the field, you're going to start to see those margins improve because of some of these organic wins.

Does that answer your question, Nick?

Nick Boychuk — Analyst, Cormark Securities

That does, and then that leads into number two about the margins. As you guys...

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

Mm-hmm.

Nick Boychuk — Analyst, Cormark Securities

...mentioned on the call, stripping out potential costs, what do you think the long-term run rate margin profile is that you're trying to achieve with this business?

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

Yes, I think on a full-year basis, this sort of 60 percent to 70 percent margin business is quite obtainable. Obviously, as we expand field services, it's not this kind of lucrative high-margin business, but it becomes the very important offering that leads to driving the lab testing business. There's lots of labs across the world that have fixed assets, and the issue for them to grow is getting more soil in the door. We know that in general, our major customer is in ag retail, in the chem and seed space, as well as the individual farmer. The last thing they want to be doing is spending their fall or their spring out in the field pulling soil.

We think that it's a great opportunity to drive higher-margin business by providing field services. Then lab testing obviously is a much more lucrative space on the margin profile. Then, we're still not shying away from all of this individual focus on technology, which is leading to the sort of agronomy and advice market where, again, I think margins, because of the automation and the investment that we've been making on the tech side, will continue to sort of improve.

I think over the next 18, 24 months, from a blended basis, you can probably take what our margins are going to be at the end of the year and say, "Hey, this is a pretty standard offering." But I do think there's quite a bit of upside moving forward as we continue to drive more monetization into the testing, as well as the analytical space. As I referenced kind of at the beginning of call, there's 500,000 samples that we're currently collecting in the field that we have a really unique opportunity to push through into our lab testing business, where, obviously, EBITDA margins, not just gross margins, are considerably higher.

Nick Boychuk — Analyst, Cormark Securities

Last for me, just on those 500,000 samples, what would it take for you to just get those through your lab? Do you have to offer price discounts; what is it you have to prove to these customers to come to you instead of their existing lab partner?

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

Yes, we're building a value-add premium service, which is really about using technology to leverage the end-to-end ecosystem and really provide a premium user experience where, if we're collecting your soil data and we're providing you results, and we're providing you value-add all with the one turnkey solution, I think that's a really unique offering that we're going to be able to take out to our clients. We've already had some pretty good wins on the enterprise side and, as I mentioned, are going to flow through into the fourth quarter.

It's a key focus for our whole Sales team moving into 2023, is to convert that bundle. Not only are we going to focus on expanding our regional market share where we have influence, but these are conversations with companies who have come to us historically for fieldwork and have not really been able to pitch this integrated offering, just because we never had the lab capacity. I think you're going to see some meaningful steps in the right direction in the fourth quarter, which we'll then be able to speak to from a conversion perspective; and then heading into 2023 within our plan, I think we'll have a much better detailed view of what a fair expectation is. But for the most part, I mean, you can think about those soil samples as already customers that deal with us, trust us, and it makes a lot of sense for them to be working within this end-to-end offering.

Nick Boychuk — Analyst, Cormark Securities

Awesome. Thank you.

Operator

Thank you. Your next question comes from the line of Nick Boychuk from Cormark Securities.

Please go ahead.

Nick Boychuk — Analyst, Cormark Securities

Can you expand a little bit, when you include the A&L acquisition, obviously there was other capabilities that that lab fulfils, water, other different kinds of testing, cannabis, pharmaceuticals. Are there other ways that you can expand those labs to kind of diversify the business and kind of divide out the cash flows a little bit and remove that cyclicalit from ag?

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

Yes, definitely. Part of the North Star of A&L being a market leader here in Canada is to replicate that business model south of the border. Once you have the fixed assets in place to do ag, it's not a huge difference to start working within tissue sampling in midseason, and then looking at other types of environmental compost testing, and we already have a little bit of that capability within labs.

Key opportunity for us is to diversify the product offering through the season to remove a little bit of the Q2- and Q4-heavy seasonality of just soil testing. Absolutely core to the model is to take A&L as a shining star of what a fully integrated, high-margin lab testing business can be, and leverage that down through our current U.S. footprint.

Nick Boychuk — Analyst, Cormark Securities

Okay. Thank you.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation and ask that you please disconnect your lines.