

Deveron Corp.

Quarter End June 30, 2023 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Steve Hansen

Raymond James — Analyst

Nick Boychuk

Cormark Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Deveron Corp. Quarter End June 30, 2023 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session for analysts. Please limit yourself to one question and then one follow up, if needed, in the Q&A session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, October 27, 2023.

I would now like to turn the conference over to Philip Linton. Please go ahead.

Philip Linton — Vice President, Corporate Development, 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 annual report, MD&A, and annual information form filed with the CSC.

Joining us today we have Mr. David MacMillan, President and CEO, and Mr. Akshay Shirodker, CFO. I will now turn the call over to David MacMillan for the opening comments before we take your questions. Dave?

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

Good morning, everybody, and thank you for joining Deveron's quarterly and audited results for the financial period ended June 30, 2023. Before we begin discussing Deveron's results and the Company's outlook for fiscal 2024, I'd like to take a moment to discuss how Deveron has executed on the market opportunity in the financial period ended June 30, 2023 and our growth strategy moving into fiscal 2024.

First of all, I have to thank our teams across North America. With harvest wrapping up across most of our markets, our teams are working around the clock to service our customers and provide fast turnaround times so our customers can make these important decisions. At an aggregate, 10,000-plus samples a day of soil is being processed, which is no small feat. From the field techs to the lab staff that are working relentlessly, I just want to say thank you.

The agriculture industry continues to experience significant opportunities and change that are allowing growers to achieve higher yields with better management of inputs and resources. It is due to these factors that growers are increasingly adopting more precise data practices to inform their input decisions. Moreover, large agriculture enterprises are turning to soil data to gain a deeper understanding of their market and supply chain. Similarly, major consumer packaged goods companies are leveraging soil data to benchmark their ESG initiatives and enhance their comprehension of their supply chain models.

According to the International Plant Nutrition Institute, 12 million soil samples were tested annually in North America in 2021. This number has been growing at a compounded annual growth rate

of 8% over the last 15 years. In the financial period ended June 30, 2023, we experienced a considerable surge in soil volumes with collected US oil volumes increasing 24% and analyzed samples increasing 12% in the first half of the calendar year. These increases paired with the economies of scale found in our vertically integrated soil ecosystem lead to incremental growth in the Company's gross margin year over year. We expect this trend to continue in the Company's busier first half of fiscal 2024, especially in fertility testing. Given our market position in Canada and growing influence in the US, we feel we are well positioned to capture greater market share leading to increased fertility volumes. As we continue to standardize and professionalize our offering in the market, we think our team offers a unique value proposition to the industry, where testing demand is already growing organically.

Deveron had a record quarter when compared to the similar period in 2022, with revenue of \$8.9 million and positive adjusted EBITDA of \$182,184, up from an EBITDA loss of \$2 million for financial period ended June 30, 2022. This was supported by market share gains through the acquisition of three soil labs in 2022 as well as strong organic growth driven by increasing soil volumes and the fulfillment of our previously announced enterprise contracts. The quarter saw increased gross margin due to the integration of these lab assets, achieving 73% gross margin, up from 61% year over year. For the financial period ended June 30, 2023, reported sales grew 116% year over year. A highlight of the period was organic growth in the US market where over the last three years we have consolidated a market position that we believe is starting to serve as a platform to centre our future focus around fertility testing. Through all of 2022, we substantially grew our lab testing capacity, which coupled with volume increases in the quarter, are driving gross margin.

I would briefly like to touch on our deeper review of this quarter and our results for the financial period ended June 30th with some trends we think are interesting surrounding our business. On a trailing 12-month basis, we achieved our first full year of positive EBITDA. I believe this speaks volumes to what our team has been able to achieve in executing on the vision. We saw 80% and 148% growth in the Company's data insight services in the quarter and financial period ended June 30, 2023, respectively. This growth was heavily driven by our laboratory expansion and the tailwinds driving increased soil volumes. Through the first half of the calendar year, we analyzed a total of 178,405 samples through our labs in the US and Canada. As our business evolves and we prioritize areas of focus, we think these positive volume trends are good indications on how to think about our growth.

On the Company's data collection side, sales grew at a steady pace of 51% and 48% for the quarter and financial period ended June 30, 2023, respectively. We believe our first-mile service team is mission critical to driving soil volumes. These folks are the shining stars in our Company who literally traverse all over North America to get soil on behalf of our customers. There also continues to be a large opportunity to converse with our customers about growing their tested samples within our ecosystem and bringing them up the value chain for those that have historically relied on Deveron as a primary field solution.

As we head into our new fiscal year, we believe we have started to build the foundation of a truly unique and valuable business that provides incredible, independent, and mission-critical information to the North American farm community. Agriculture soil testing offers significant returns to the users of this information and this value is evidenced in the growing density of testing in conjunction with a growing appetite for more information outside of the historical and basic testing parameters of N, P, and

K. While our testing services are not limited to fertility, we believe it offers the best place to focus. Our financial period ended June 30, 2023 continues to reflect the hard work of our teams and the execution of our strategy.

With that, I'd like to hand it over to our new CFO, Akshay Shirodker, to speak more directly to our results. Akshay?

Akshay Shirodker — Chief Financial Officer, Deveron Corp.

Thank you, David, and hello, everyone. Today I'll be focusing on two main topics during our conversation. First, I will provide an overview of our financial results and, second, I'll discuss our gross margin and EBITDA margin highlights.

In reviewing our results, Deveron was able to deliver record quarterly and annual revenue numbers for the [inaudible] period ended June 30, 2023 of \$8.9 million and \$14.2 million, respectively, achieving a percentage year-over-year growth in the quarter of 72% and 115% compared to the six months ended June 30, 2022. Our data insights revenue increased to \$6.7 million from the quarter, up from \$3.7 million due to our supplemented acquisitions in the lab space in 2022. Data collection revenue grew steadily for the quarter, recording \$2.2 million, up from \$1.5 million in 2022, and the quarter's adjusted EBITDA was \$182,000 in profit versus an adjusted EBITDA loss of \$2 million in the previous year.

Gross profit and adjusted EBITDA margins also improved in Q4, achieving 73% gross margin and 2% adjusted EBITDA margin in the quarter compared to 61% and negative 38% from the previous year.

This was driven by the integration of three lab testing businesses. Data collection margins were at 35%, down slightly from 46% from the previous year. This was due to increased costs in ramping up our field teams for a seasonally stronger fiscal Q1 and Q2. During the financial period ended June 30, 2023 we continued to align these costs from collections within our cost of services, formerly reported in operating costs in 2022, to better reflect our margins.

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

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

Thank you, Akshay.

As Deveron continues to evolve and focus, we feel the financial period ended June 30, 2023 is a beginning symbol of the value of the platform we have built and illustrates the tremendous value we provide to our customers across North America. Soil is one of the most important assets in agriculture and we believe Deveron can one day become the world's soil bank.

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

Q & A

Operator

Thank you. If you wish to ask a question, please dial star one on your touchtone phone now. Please ensure that you're an analyst and that you limit yourself to one question and one follow up per

person. If you find your questions have been answered before it's your turn to speak, you can dial star two to cancel. Once again, that's star one to ask a question or star two if you need to cancel.

Our first question comes from the line of Steve Hansen from Raymond James. Please go ahead, your line is open.

Steve Hansen — Analyst, Raymond James

Good morning, guys. Appreciate the time. Dave, you spoke about the pace of samples being collected out there in the field right now, it's obviously rapid, and you've also referenced the 178,000 samples that I think you did complete in the first half. Just trying to get a sense for how you see the growth progressing into the busier part of the season now. Do you expect that growth to continue through the balance of the calendar year, I guess the first half fiscal now, and how does that compare to the capacity expansions that you've got still or the available capacity you have at the lab? Thanks.

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

Thanks, Steve, for the question. It's a great one. As you know, we have a fairly seasonal business and I think historically we've seen more than 60% of our business kind of happen in this back half of the year. Obviously I can't get too far ahead of results, and we will be reporting the next quarter in a month or so, but we are seeing steady volumes both in the US and Canada. I think I mentioned at the beginning of the call that on any given day we're seeing 10,000-plus samples flow through our US and Canada labs and we're really getting into the nitty-gritty of the meat now. With most of harvest being completed,

we're seeing more and more samples flow through our ecosystem. So we're pretty bullish on the amount of volume that we continue to see coming through the labs.

And to speak to capacity, our US labs are now kind of fully integrated into the ecosystem and we've really worked with our sales team to educate our groups on making that conversion from sort of being a fertility collection business to now having this lab capacity in the US and we're starting to see incremental gains there. Also, at our lab in London we made a significant expansion of that facility for capacity, and it's early days, obviously, being kind of the tail end of October, but I think that that workflow has really improved. And one of the interesting things about the soil business is turnaround time is like the most important thing for our customers. The faster we can get our data back to them, the faster they send more samples, because they're getting the information and they're making decisions, especially with respect to where to apply inputs through the fall. And we are seeing the increased capacity is allowing us to turn samples around faster, which is leading to more samples coming in. So, all in all, we're pretty excited about how the fall's kind of coming along and I think you're going to start to see some measurements from us around volume as a better standard metric, especially in around fertility, which is obviously where we think we can be a unique value driver in the market in North America.

Steve Hansen — Analyst, Raymond James

That's helpful. Thanks. And I just wanted to go back to your comment on growing the opportunity with existing customers. I'll call it growing wallet share. What is the pitch there in terms of your ability to take that wallet share? Is it diverting volumes that they're sending to independents

today? Like I'm trying to understand where that incremental volume comes from and who's losing share or how you're capturing it. Is it through the pricing and the delivery return time that you described or what's really the value pitch to those existing customers to put more volume in?

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

That's a great question and I think, holistically, turnaround time is just like, ah, it's the cost of doing business in a way. You can differentiate on turnaround time, but like everybody is going to be fast. So that's sort of just table stakes. Where we're really starting to focus on this value differentiation, which I think we've done incredibly well in Canada, is providing this value-add information that goes one step beyond just what is my nitrogen, phosphorus, or potassium levels. So starting to look at micronutrients and starting to look at the analysis of the soil and with respect to what's going on across the aggregate in North America is really where I think we're starting to provide that value add.

And it's a little bit different than, I think, the average way the US market has been built where it really has been a story of N, P, and K. If you look at the way that we provide information in Canada, especially when you go from a basic test to a complete test where all this additional information is being provided to the grower, and now with the capabilities of fertilizer blending they can leverage micronutrients for better results, we think this is a really great way to differentiate, to some extent, what has always been a standardized lab testing result. So the chemistry is the chemistry, but how we can look at our aggregate information and provide additional value to our customer network is really where we're hanging our hat.

And I think just to talk about the market a little bit, I think the two big ways we're really focusing on our go-to-market strategy, you know, and we have been this year but I think more publicly moving forward, is really segmenting that agricultural retail market and then the sort of enterprise side of traditional agriculture chem seed and then everybody else that I mentioned on the call who are interested in soil data, whether that be government or consumer packaged goods companies. And so when we look at our market, especially in the US, we've got great relationships with retailers and there's such a big opportunity to grow our share of wallet just by getting the next location over. And as you know, for the last few years we've been expanding our regional presence across the US. It takes a lot of effort to get out there and shake hands and really build that local trust. And now that we have it, armed with this incredible educational IP that has come out of our Canadian group, we're really excited for our ability to educate that market, get into new retail chains that we already have an established relationship, let's say, within Iowa, but they have operating locations in Minnesota.

So I think, not to go into too much detail, but that's really how, I guess, we're thinking about that market, especially around Ag retail where we see fertility testing being a huge driver for the business moving forward and standardizing and professionalizing that experience so regardless if you're in Saskatchewan, Florida, or Hawaii, your experience with Deveron will be the same and the information that you get back will continue to be standardized and comparable across that vast logistical network.

Steve Hansen — Analyst, Raymond James

That's great. Appreciate the colour. I'll jump back in the queue.

Operator

Thank you. Just as a reminder to participants, if you do wish to ask a question please dial star one on your telephone keypads now.

The next question comes from the line of Nick Boychuk at Cormark Securities. Please go ahead, your line is open.

Nick Boychuk — Analyst, Cormark Securities

Thanks. Good morning, guys. I just want to come back to Steve's follow-up question there regarding the sort of value add that you're bringing in and that repeat business. Can you kind of walk us through the health of your existing growers, just how willing they are to pay up for those additional services given everything, adapting with prices, inflation, costs? Are they willing to make that investment? Is there any headwind that you're facing in order to have that conversation? Just any colour there?

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

Thanks, Nick, for the question. I mean I think this is what's been so interesting in what we're seeing on the fertility side is the market is hungry for more information. And I think traditionally, because it's really been a conversation, especially in the US, around N, P, and K, there is this really big opportunity to look at how different inputs can blend different returns. And by kind of focusing on the agronomy and that value add and the historical research that we have, I think we've got a unique opportunity to show folks across the country what can happen when you start thinking about

information in this way. So it's less about, well, we've got all these macro negative things that the world is forced with, it's more about, when you're looking at a farm operation, how have you been making decisions historically. And there are so many influences within the soil ecosystem and I think, traditionally, most folks have not been taking into account all of those nutrients that drive a well-balanced fertility program.

And one of the things we can even speak to is this general trend of increasing density. And by that I mean like historically you may have had a grower that decides to get into the value pyramid of soil sampling by doing a bulk test, right, which may be, in some respects, like one sample every quarter section. There's places in the US now where like one sample every 2.5 acres is table stakes. So I think generally in the market we can see that everybody is moving towards higher-density sampling. And it doesn't happen overnight, but we're seeing it year over year in the programs that we're involved with and the growers that we work with are looking for higher density. So I think that's a real positive tailwind that points to this information is valuable even at its most basic level and people want more precision in the recommendations that they are getting.

Also, in Canada we know that a large percentage of our customer base is looking at that value-add context. And that can also include soil health measurements. We have a product called Vitalis(sp.) that we sell across North America now and it's starting to gain a lot more momentum. And these are these value-add things where, again, when we go to the field and collect the fertility test, well, what else can that grower do or what else can that retailer do to help their customers understand more. And this is where these additional information points are, I think, are real valuable things. And because of the historical research we've built, especially out of Canada, I think it's a real differentiator as we bring it

down, again, to our lab ecosystem. And again, we're really focusing our sales team over the next 12 months on that kind of educational platform and understanding that like the journey to higher yields with reduced inputs is an investment to be made. But again, these market factors that we're seeing in the early days, I think, are pretty positive signs that that value-add is important and it's becoming a priority for our customers as they manage their farms on any given year.

Nick Boychuk — Analyst, Cormark Securities

Okay. Thanks.

Operator

Thank you. And as there are no further questions at this time, we'll conclude the conference. Thank you all very much for attending. You may now disconnect your lines.