

**Deveron Corp.**

**Second Quarter Results Conference Call**

Event Date/Time: February 22, 2024 — 08:00 a.m. E.T.

Length: 22 minutes

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## **CORPORATE PARTICIPANTS**

### **Philip Linton**

*Deveron Corp. — Director of Growth*

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*Deveron Corp. — President and Chief Executive Officer*

### **Akshay Shirodker**

*Deveron Corp. — Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

### **Steven Hansen**

*Raymond James — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Deveron Corp. Second Quarter Results Conference Call. (Operator Instructions)

This call is being recorded on Thursday, February 22, 2024.

I'd now like to turn the conference over to Phil Linton. Please go ahead.

**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 the Canadian Securities Commission.

Joining us today are Mr. David MacMillan, President and CEO, and Mr. Akshay Shirodker, CFO.

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

David?

**David MacMillan** - President and Chief Executive Officer, Deveron Corp.

Good morning. Thank you, Phil, and thank you to everyone for joining Deveron's fiscal Q2 earnings call.

I first want to start this call by acknowledging the unbelievable work of our teams across Canada and the US who go to bat relentlessly to ensure our customers get what they need. Long days and nights for our field crews who never complain when a customer has just that one last field to do and the endless boxes of soil that arrive at our lab's door after harvest. Deveron wouldn't be able to do this without the undying love for our industry and focus to get our customers timely valuable results.

I also want to call out our financial results, which I believe begin to illustrate the power of the platform we are building and the opportunity by doubling down on our testing service in the agriculture fertility space.

Our Adjusted EBITDA this quarter is a record for the Company and is representative of the growing impact increasing soil volume in our four labs across North America can have on our results.

Akshay is going to dive into more detail on our financial results for the quarter. I will take a few minutes to talk more about the market opportunity and our focus in 2024 that should leverage our growing testing and analytical service base.

A lot of this comes down to improved sales focus and process, especially in the US where the market is so big, and I believe we are just starting to scratch the surface. We see a significant opportunity to optimize and enhance our sales strategy.

At the beginning of 2024, we launched an effort to refocus our sales process and activities on our core market, fertility testing. Agriculture retailers remain a key driver and distribution partner for Deveron's fertility business.

To grow our soil testing and services platform, we are focused on three tactics in the market. One, increasing new retail logos. Two, expanding into new locations within our current logos, and three, upselling current clients to higher fidelity sampling, complete soil testing, soil health products, and other ancillary testing, like tissue testing, and further analytical services.

A number of market overviews exist that survey the size of the North American agriculture retail market. To illustrate this market opportunity, I want to briefly reference CropLife's top at 100 ag retailers publication, which lists the 100 largest retailers in North America.

Deveron has established a growing presence in this sector, which primarily focuses on fertility testing. These retailers represent tens of billions of dollars in agricultural input sales and comprise 4,400 individual locations across Canada and the US.

Currently, Deveron is proud to count 37 percent of these top 30 retailers as customers. To further highlight market penetration opportunity ahead, our business today only accounts for a 160 individual locations or 4 percent of this market.

Over the previous 24-months, we've consolidated relationships in regional markets, which now presents a great opportunity to expand our trusted testing and service relationships to further locations of our customers.

Additionally, throughout our core coverage regions in the US and Canada, we have ample opportunity to work with a large market where innovative soil testing solutions and service is currently not working within the Deveron ecosystem.

Among the locations we work with, there is often a significant discrepancy between our highest and lowest sales performance with respect to total soil volume and sales dollars. This can be attributed to factors such as location size and geographical placement, but also results of the relationship developed with the client and their empowerment of the value proposition soil testing provides throughout our services.

Leveraging much of the educational resources developed across the Company and a metric driven account management process, we aim to substantially increase spending per location as we educate on site specific sampling, the benefits of complete testing versus basic today, soil health and tissue sampling.

Given our footprint across four labs in the US and Canada, our throughput capacity available, we believe a focused sales strategy to increase volume will be accretive to the Company and at incremental margin as we leverage economies of scale within our testing facility.

Our field teams executed post-harvest with a renewed focus on fertility as we transitioned away from ancillary field services that were either unprofitable or non-core. I'm optimistic about this refocus as we view a full service testing experience to be very valuable to our customers on the fertility side. We know our customers value a turnkey experience when it comes to services. We know that removing the labor side of soil testing creates opportunity to generate more volume, and we view our ecosystem as a premium value add service that differentiates us from other labs in North America.

With our de-prioritization of field services for non-fertility related work, we think this creates good opportunity for our teams to focus and improve margin by servicing tighter coverage areas. It also opens the door for new customers that are looking for a bundled solution to their soil needs. Rather than working with various regional labs and subcontracting labor across regional markets, Deveron provides a standardized turnkey offering that allows our customers to focus on providing value to their customers rather than managing the requirements of turning physical soil into useful information.

Lastly, turning into our exciting new business line in environmental testing, PFAS presents a compelling new opportunity for Deveron. Our Canadian market history of scientific quality and timely turnaround of agriculture soil samples has provided the Company with a competitive advantage in the PFAS testing market, where most other labs offer six week turnaround times.

With increasing federal regulation and growing societal concern, we see this as an opportunity to grow testing volume that leverages our lab assets but is done off the agriculture season. A number of opportunities to support ongoing testing for PFAS destruction technology companies, engineering and

consulting companies, and the broader remediation industry that we look forward to working on to fill our current capacity.

As our business evolves, we view these positive volume trends in fertility as strong indicators of the underlying value our customers see in our offering. Agriculture is an extremely regionally organized industry, and Deveron has the unique advantage of providing first mile field service and regional touch to accelerate testing for our customers. By removing the labor constraint, we are witnessing our customers testing more and interacting more within our platform. As we allocate more focus to fertility testing, we feel confident in our ability to deliver continued and growing value to our customer base.

As we push forward through 2024, Deveron remains steadfast on providing a turnkey soil experience to its customers. Soil testing helps folks in agriculture make better decisions by creating valuable insights and science based perspective around the decisions of what to apply, where, how much, and when. We believe this is a broad trend that will continue to compound in need and are in great position to be a core partner with our growing customer base that is looking for valuable information in simple formats to use with simple process to support them.

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

Akshay?

**Akshay Shirodker** - Chief Financial Officer, Deveron Corp.

Thank you, David.



Hello, everyone, and thanks for taking the time today to join us on call. As you can see from our results, our cost decisions at the end of calendar year 2023 have begun to yield benefits for the Company, improving EBITDA margins. These decisions will continue to enhance our results over the coming quarters, but we have further opportunity to realize additional synergies over the coming year.

Upon reviewing our results, Deveron experienced strong EBITDA growth following the exit of our carbon collection business line. In fiscal Q2, Company achieved 1 percent growth in top line revenue increasing from \$15.1 million to \$15.3 million year-over-year. Data collection revenue was affected by the Company's exit from carbon collections and the headwinds previously discussed, contracting by 22 percent to \$3.9 million. However, Data Insights revenue increased to \$11.4 million from \$10.2 million due to increased demand in fertility analysis.

This quarter saw a 23 percent increase in operating expenses, but this is primarily due to non-cash items, which include the change in the NCI put obligation, from a gain of \$3 million from the similar period in 2022, to an expense of \$426,000 this quarter. Stock-based payments, which increased from \$241,000 to \$316,000, offset slightly by depreciation, which decreased by 10 percent year-over-year.

These non-cash items reduced net income, which dropped by 64 percent year-over-year to \$1.4 million for the quarter. When adjusting for these non-cash expenditures, our Adjusted EBITDA is up 17 percent year-over-year. Gross margin percentage decreased by 3 percent year-over-year to 74 percent for the quarter, this change was primarily due to the exit of the SG&A heavy carbon collection business where our cost optimization was realized in SG&A instead of seeing an improved margin profile.

Finally, Deveron's subsidiary A&L serviced \$535,000 in principal payments and \$470,000 interest payments for this quarter from the term loan associated with the acquisition back in May of 2022.

In total, over calendar year 2023, the Company made interest payments of \$1.9 million and principal payments of \$2.3 million. The loan continues to perform as it is secured against A&L Labs, the Company's most profitable business unit.

As a Company, we have a very exciting opportunity ahead of us as we focus on fertility and concentrate on upselling our current customers. Once we reach scale, testing volume becomes a driver to the bottom line, which is why we're prioritizing this in the coming months. We begin to realize some synergies across the standardization of technology and process across our laboratory network, but we are just scratching the surface.

I'm looking forward to working through a quieter season with our team and pushing a renewed focus on volume and gross margins as a key operating metric for the Company.

With that brief overview, I'll hand it back over to Dave for closing remarks.

**David MacMillan** - President and Chief Executive Officer, Deveron Corp.

Thank you, sir.

With that, I just want to finalize with—we see we have a great opportunity here to concentrate on our growing fertility business and leverage this vertically integrated lab and cell collection network, of which now touches four laboratories across Canada and the US.

Historically, we are entering into this operationally slower season for the Company, which I think just breeds a great opportunity execute on our optimized sales strategy for the spring, and prepare for a busy fall season, ahead on the back half of 2024.

Soil is one of the most important data layers in the agriculture industry. The provision of field collection and testing is fragmented and lacks standardization, which we believe gives Deveron a real unique value proposition to grow from. With a continued focus and evaluation of the drivers of our business in the quarters ahead, we believe our mission of becoming the world's soil bank creates significant value for our customers, giving them access to reliable, science based information to improve their outcomes across the farming operations that they take care of.

Before we open the call for questions, I did just want to mention that we received a lot of questions from various stakeholders on results, and there's a platform on the Company's website where further questions can be provided. Our Corp. Dev and IR team will make sure we get back to everyone if we don't have time to cover certain questions in today's call.

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

## Q & A

### Operator

Thank you. (Operator Instructions) Our first question comes from the line of Steve Hansen at Raymond James. Please go ahead, your line is open.

**Steven Hansen** - Analyst, Raymond James

Yes. Good morning, guys. Thanks for the time. Good to see the focus on the lab testing business. Just wanted to circle back to a couple of items. First is on the balance sheet. How do you feel about the balance sheet position today and liquidity as you move into the slower season? You've made some effort to pay down some debt. It looks like just want to get a sense for our liquidity focus.

**Akshay Shirodker** - Chief Financial Officer, Deveron Corp.

Sure. Thanks, Steve. I think from a standpoint of our balance sheet, we have tried to be more clear in where leverage sits. Obviously, we've got term debt, that we took on when we financed the acquisition of A&L. That's tied to the majority interest that we hold in that Company at the Canadian level. I think we called out in the press release as well as on the call script here, the continuing quarterly payments and the reduction in that interest, which is tied to that term debt. Then we've got convertible notes, which, I believe, mature in a year.

From a standpoint of liquidity, you can see that we've got a healthy amount of AR coming in through this quarter based on year-end and the Company continues to chug on. I think as we've also dealt with a lot of the cost overheads in the US, it's really just a focus again of US sales growth. Obviously, the market is 10 times the size of the Canadian market. We've got a huge opportunity in turning over a lot of these customers that we've been working on the ag retail side with a new renewed focus. I believe that's going to be accretive in the coming quarters ahead. Actually, I don't know if you had any other, more detail that you'd like to add to Steve's question?

**David MacMillan** - President and Chief Executive Officer, Deveron Corp.

No. That's a good summary, where we stand with our obligations and our plan moving forward.

**Steven Hansen** - Analyst, Raymond James

Okay, great. Just another one then going back to the retail strategy. Is the goal then to it sounds like there's a multiprong strategy, but is the core effort to penetrate the existing customers, with greater effort and higher value services or is it or adding new retailers as well? I understand you can do both, but where is the real focus on the optimized sales strategy?

**David MacMillan** - President and Chief Executive Officer, Deveron Corp.

I think both are the focus, and I can walk you through a little bit of the changes that we've made to our org structure just to address that in the US. First and foremost, we've streamlined our territory management team. We now have prescribed territories, where our account managers are responsible for sales growth within current customers. Within their regions, that may mean adding a new location that is two counties over but currently exists within the same logo. Then also working on educating customers that, a, are maybe only soil collect, doing field services with us, into here's the value proposition of working within a bundled offering of lab testing and collection. All of that is just, it's good, healthy organic growth that we see over the years. Volume has grown in specific services that we've worked with these customers on, but I don't—I think that there's a big opportunity to educate our customers on now working within this one Deveron.

We've had, I think, 24 months of working within these, various consolidated regional entities we put together, with now pushing forward again a focus on—we know volume is growing in the market because more people are testing, and it's about getting all of that volume into our ecosystem. That's one way that we're attacking the current customer base.

The secondary focus is really just, it's a very focused effort from a select group of account executives that are working within, let's say, a bit of the apathy that exists in the agriculture market towards change. In lab testing, historically, a lot of our retail customers have worked with a provider for many years. There's been, not a lack of interest in changing, there just isn't a real sales process that's out beating the drum, asking customers what else might be better for them in terms of value proposition they're currently getting. Really when you look at the large percentage of ag retailers that we're not working with today, it's a huge market. We want to be very focused on our activity of reaching out to these customers, showing them not just the education and the research that we have on the value of our testing experience, but, again, how can we work with you to think about a standardized national presence. A professionalized service experience that, again, has similar reporting in all states and all counties so that there isn't this sort of regional spread.

I think having a targeted approach again of opening up new locations, we know that the lifetime value of cell testing because switching is so apathetic once you gain a customer. There's a huge opportunity there. Again, I think I referenced we're only working with maybe 4 percent of locations across the North American landscape. Both strategies are important to us, and we segmented the team to focus on current customers that we work with and the upsell. Then we have a different team that's just working on opening up new locations and logos. Does that answer your question, Steve?

**Steven Hansen** - Analyst, Raymond James

Yeah. No. That's great. That's good colour. I appreciate that. Just one last one is just on the PFAS opportunity. I understand it's new, but it does sound exciting. Do you know what is the time frame you would expect in order to ramp that off season? Is it going to, will it be material this year or will be into the next year that we'll see better and better fashion?

**David MacMillan** - President and Chief Executive Officer, Deveron Corp.

Yeah. I wouldn't view it as necessarily a material contribution over the next six months. It's more, speaking to the opportunity with owning labs, and you have to fire them up every day. The more volume that we can find on the testing side is all accretive to how the business performs.

PFAS is a place that we think the market is starting to grow. You could see regulation coming in Canada or the US that may accelerate the choices for certain industries to have to do more PFAS testing, in which case we'll be ready. But right now, we've—we spent the last six weeks onboarding this first launch customer. It's a nice recurring revenue type business and that once sampling comes in in a week, it has to come in every week. Our focus there is just finding similar likeminded folks within the remediation space and PFAS destruction services side that are going to continue to need testing. Again, we think that there's lots of testing happening, and there's a bit of this supply constraint on the actual testing side from other providers.

Probably, I would say, in six months, we'd have a better view of what that volume is starting to materialize into and how material it would be. Again, I think there's some macro things out in the

market around regulation that could potentially accelerate the need for testing volume, which we would see as a potential upside to the model.

**Steven Hansen** - Analyst, Raymond James

Okay. Great. Appreciate your time.

**Operator**

Thank you. (Operator Instructions) Okay. There seems to be no further questions in the queue at this time. With that, we'll conclude the conference.

Thank you all very much for attending. You may now disconnect your lines.