

**Deveron Corp.**

**Third Quarter Results Conference Call**

Event Date/Time: May 29, 2024 — 8:00 a.m. E.T.

Length: 20 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

## **CORPORATE PARTICIPANTS**

### **Philip Linton**

*Deveron Corp. — Vice President, Corporate Development*

### **David MacMillan**

*Deveron Corp. — President and Chief Executive Officer*

### **Akshay Shirodker**

*Deveron Corp. — Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

### **Steve Hansen**

*Raymond James — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Deveron Corp. Third Quarter Results Conference Call. At this time, all lines are in 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 \* for the Operator.

This call is being recorded on Wednesday, May 22, 2024.

I would now like to turn the conference over to Mr. Philip Linton, Vice President, Corporate Development. 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 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 the opening comments before we take your questions.

David?

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

Good morning, everybody, and thank you for joining Deveron's fiscal Q3 earnings call.

I'd like to begin by addressing the Company's recent receipt of a demand letter from officers of Deveron's subsidiary, A&L, regarding the prepayment of their unsecured promissory note tied to the acquisition of A&L in May 2022.

We are in active negotiations with them currently. We are looking at all alternatives to remedy the situation as quickly as possible and will provide disclosure in due course.

Moving on, I'd like to highlight some of the successes we've achieved following the announcement of our cost-optimization strategies in December of last year as we refocused our efforts on agriculture testing.

Fiscal Q3 is our seasonally slowest quarter, with much of our testing customers prepping for the oncoming agriculture season.

With our execution of \$2.5 million in cost optimization that we previously communicated, we were able to improve our non-IFRS adjusted EBITDA loss by 57 percent year over year.

In the coming quarters, with a strong focus on testing services and significantly reduced cost structure, we look forward to demonstrating the power of the platform we are building and the opportunities as we double down on our testing services.

I will let Akshay dive deep into more detail of our financial results for the quarter, so I will take a few minutes to discuss the market opportunity, specifically the growth opportunity in the US and our focus for the remainder of calendar 2024.

We at Deveron feel more energized by this business than ever as we prioritize agriculture testing and execute in the US where the market and opportunities are substantial and various drivers for increased testing continue as tailwinds in the industry.

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: increasing new retail logos; expanding into new locations within our current logos; and upselling current clients to higher fidelity sampling, complete soil testing, soil health products, and other ancillary testing. This would be tissue testing and other analytical services.

As we execute this strategy, we are seeing exciting new windfalls early in the process in the US market. We have recently closed two new enterprise contracts with expected sales of US\$1.5 million in calendar 2024. These contracts demonstrate the strong demand for Deveron's soil analysis solution, which help farmers optimize their inputs, increase yields, and reduce environmental impacts.

We continue to see strong customer retention rates and low churn, and total US sales for 2024 are expected to demonstrate meaningful growth compared to 2023 sales.

These wins add 100,000 new samples on the fertility side into our US lab network, effectively doubling the volume of our Iowa lab, leveraging the operational leverage within our ecosystem.

Turning to our carbon testing business. The Company had budgeted \$0 in 2024 following our de-prioritization of the carbon collection business unit. However, we are now pleased to report an order book of well over \$1 million focused solely on testing services.

I believe this reflects our team's ability to adapt to changing customer needs and market conditions, understanding that providing high-quality testing services at competitive prices is what our customers seek.

Organic growth continues to be a driving focus for our team. As we review our lab operations in our slower season, we are proud to announce our US labs executed on 250,000 samples in calendar 2023.

As we target spring and fall seasons, we now understand that this was accomplished at roughly 60 percent of capacity, leaving plenty of CapEx headroom as we look to achieve our organic growth goals for the rest of the calendar year.

As our business evolves, we view these positive volume trends in testing as strong indicators of the underlying value our customers see in our business. Agriculture is an extremely regionally organized industry, and Deveron has the unique advantage of providing first-mile field service to accelerate soil testing for our customers.

Deveron succeeded in gaining an early advantage consolidating pieces of this fragmented market with key regional leaders. As we look to further blue-sky and organic growth, we continue to see a market that is ready for consolidation to provide standardized data sets to enterprise and growers alike under a much more streamlined and professionalized brand.

As we push further into 2024, Deveron remains focused on providing a turnkey experience to its customers.

Soil testing is critical to the agriculture industry. It provides growers and agriculture businesses the ability to make better decisions by creating valuable insight and science-based perspectives around the decisions of what to apply, where, how much, and when.

This is a broad trend that shows no sign of slowing down, and Deveron is in a great position to be a leader in that market. Our growing customer base continues to need valuable information in simple formats and processes to support them, and we are happy to provide that as we continue our route to becoming the world's soil bank.

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. Hi, everyone, and thanks for taking the time to join us today on today's 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 significantly. These decisions will continue to enhance our results over the coming quarters, and we have further opportunities to realize additional synergies.

Upon reviewing our results, Deveron experienced strong year-over-year EBITDA margin improvement of 36 percent, roughly a \$1.9 million improvement in the EBITDA year over year.

In fiscal Q3, the Company achieved an 8 percent growth in gross margin, driven by the recent exit of the Company's negative margin carbon-collection business.

Additionally, we saw operating expenses decline by \$1.4 million year over year due to cuts at the public company level, a shift to prioritizing seasonal staff within our fertility collection business, and savings from our annual audit fees after aligning on our June 30th fiscal year-end.

This quarter also saw a change in non-cash operating expenses, driven primarily by the change in the NCI put obligation from a gain of \$759,000 to a gain of \$318,000 for the quarter and stock-based payments, which decreased by 58 percent to \$236,000 from \$566,000.

With regards to our US operations, thanks to an unseasonably warm March and our new emphasis on fertility sales, our fertility teams were able to get out into the field early this year, allowing for the US business to achieve an 86 percent year-over-year growth in fertility.

Carbon testing ramped up earlier this year as well and achieved 22 percent year-over-year growth, in part thanks to some of the wins we have had early in 2024.

SG&A expenses for the business saw major improvements due to the withdrawal from our carbon-collection business as travel costs, operational payroll, and other related SG&A expenses all saw meaningful reductions year over year.

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

As a company, we are thrilled about the opportunities ahead as we enter our summer selling season. The potential in fertility and upselling to our current customers is substantial and we are ready to seize it.

Once we reach scale, testing volume will drive significant gains to our bottom line, which is our priority for the fall season.

We are beginning to reap the benefits of our recent synergies and are continuously working towards identifying additional synergies across our operations. Our renewed focus on testing volume and gross margin as key operating metrics will propel us to new heights.

With that, I'll hand it back over to David for closing remarks.

**David MacMillan**

Thank you, Akshay. As we launch into our busiest selling season, we see a tremendous opportunity to focus on our profitable fertility business and capitalize on the upsell opportunities within our strong client relationships.



Historically, we are entering the ramp-up to our peak season, and we are excited to share our successes with the market and stakeholders as we execute our optimized sales strategy for the remainder of the year.

Soil remains the most crucial data layer in the agriculture industry, driving everything from yield to land value and everything in between. The market for field collection and testing is fragmented and lacks standardization, which we believe gives Deveron a unique position to grow.

Building on our early wins, we are eager to buckle down and seize the opportunities ahead. Our mission is to become the world's soil bank. By serving the vast North American market, we create significant value for our customers, providing them with reliable science-based information to improve their outcomes across farming operations.

Let's move forward with confidence and determination knowing that our efforts will lead to remarkable achievements and a stronger future for our company and clients.

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

---

## Q&A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session for analysts.

Should you have a question, please press \*, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received.

Should you wish to decline from the polling process, please press \*, followed by the 2.

Please limit yourself to one question and one follow-up.

If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes from Steve Hansen with Raymond James. Your line is now open.

**Steve Hansen** — Raymond James

Yeah. Good morning, guys. Congrats on the enterprise wins on the sampling side. I was just wondering if you could perhaps comment a little bit more around whether this is an initial step to volume, if you see additional volume beyond the quantum you've already described and/or if you're going after additional contracts of this nature with the retail channel?

And I guess maybe just related to that, what ultimately allowed you to bring the customers over? What were the key sort of win points from your perspective?

**David MacMillan**

Thanks, Steve. So I think the first part of your question there is just additional trend of volume. So I think in the US, obviously, the market is about 10 times the size of Canada, and we've just really implemented a focused sales approach and segmenting the channel a little bit more now that we are laser focused on fertility testing and, to some extent, broadly testing.

I think in 2023, we were looking at labour solutions as sometimes an easier discussion with customers as an initial pain point. And I think when you empower sales teams to really prioritize and focus on a key goal, it lets them really drill into these key priorities and opportunities, which so as we started kind of the back half of 2023 leading into this year has really led us to build our pipeline, execute on the order book, and really focus on the types of customers we're calling.

And I think a benefit that we've seen is as we've defocused the field services side of carbon, we naturally had relationships at the enterprise level that still require testing, so those wins were sort of dripping through. And we were able to, I think, work with our partners to find accommodations to actually have soil collected in areas where we didn't have profitable coverage, still leading for the soil to be delivered to our labs. So I think that's just like a great win that's happened through sales focus.

And then leading into the fertility side, I think if you break the channel into ag retail where, again, there's over 4,000 individual locations across North America, just building relationships at the location level regionally is important, but also getting into, I think, the senior level of management within the broader ecosystem at the head sheds is something that we've really tried to develop.

So kind of we're pushing from both angles, both strategically from a top level of imagine you as a customer having standardized processes, technology integration, and a broader view of what all of your soil in one system or one vendor relationship could look like, while at the same time building up those regional very important trusting relationships at the location level so that when groups are looking at broader testing decisions, it's sort of a win-win.

It's coming from a strategic perspective, but it's also coming from a relationship perspective at the ground level.

On the other side of the channel for fertility, we think in the US there's a really unique opportunity around supporting independent agronomists. Soil testing is an important part of the business that they provide in support to their customers. And largely, I think this part of the channel has less long relationships with previous testing groups.

So I think as we've been able to go in and build relationships directly with these key influencers and business owners, we're able to make customized solutions for them that are necessary for the businesses that they've provided and recommendations that they provide to their customers.

So I'd say, in general, like that's a very maybe high-level overview of what's going on in the two channels that are core to fertility testing. And I do believe that these early enterprise wins, as well as some of the other smaller amounts of volume that we're picking up at locations, is going to have continued meaningful growth.

Don't forget that probably 70 percent of soil testing in the US kind of happens in the fall. So as we've gotten customers to engage through the winter and commit or try out samples with us through the spring, I really believe that between now and middle of September we've got a great opportunity to continue to compound those relationships and win more volume.

And I think we can see that in our order book and our sales pipeline where we do have significant buildup in deals that are in negotiation proposal as well as qualification stage.

So hopefully, again, we wanted to communicate that these early wins are not just one-offs. We believe they are becoming very clear symbols of a refocused sales effort in the US towards testing business and, again, with a broader focus in the fertility channel, both with retail as well as independent agronomists.

Does that answer your question—

**Steve Hansen**

Okay. Sure. That's great.

**David MacMillan**

—kind of completely, Steve?

**Steve Hansen**

Yeah. No. It's good. That's really good colour, Dave. I appreciate that.

Just to ask the obvious question around the other side of the Company, I mean, what should we think about with the balance sheet here? There was an announcement yesterday. To the degree that you can speak to it and/or just the general balance sheet health and cash flow perspective, I mean, do you guys want to offer some perspective on how you're going to navigate this going forward?

**David MacMillan**

Yeah. So I think at the beginning of the call I commented on it. We're in active negotiation, and we disclosed the letter with the directors of A&L and hope to have an update on disclosure moving forward.

And I think that's all that I can really comment on at this point, but as I said, we will keep stakeholders updated as material facts come forward.

On the broader balance sheet, I might hand it over to Akshay to kind of comment a little bit more deeply. But I think the key theme here for us is we've acquired quite a large number of businesses over the last three years.

And with that and a focus on growth historically, we've tried to look at other areas to capitalize on I think what we see as unused capacity in our lab testing space. And a lot of the cost structure where I think wasn't necessarily contributing to bottom line last year has really been removed.

So as we sort of right set our operation, I think if you start to look at even the results from the last nine months, and I think if you can hold tight for the next two quarters of results to have a full trailing 12 months of all of those costs being accrued through the system, there's a much different company than where we were last year.

And I think there's an even better side of the fact that, although we had planned to exit carbon completely, we found like nice testing demand where obviously margins are significantly higher when the soil arrives at our doorstep and all we have to do is run it through the lab.

Akshay, I don't know if you had any colour that you also wanted to add to Steve.

**Aksay Shirodker**

No. I echo Dave's initial comments that right now we're in negotiations, and I don't think it'd be prudent to disclose what's going on there.

In terms of the overall health of the balance sheet, yes, we do face these small cash crunches, but we're managing that internally and with the help of our existing investors, so yeah.

**Steve Hansen**

Yeah. Okay. I appreciate that. Just one last one then maybe just around the operating cost reductions. I mean, are you feeling like you're through the bulk of the expense reductions then thus far? Have you gotten through that and now we're just waiting for those to roll through on a trailing basis? Or is there still further to go?

Thanks.

**David MacMillan**

On the US operations, these are the cost synergies. I think there's still opportunities on the Canadian side that we're exploring and there will be some wins that we'll announce hopefully in the near future. More to come on that.

But yeah, this is the bulk of them were executed in calendar 2023 and it's now kind of delivering on a busy spring season that we see coming up ahead.

**Steve Hansen**

Okay. I appreciate that. Thanks.

**Philip Linton**

Thanks, Steve.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.