MediPharm Labs Reports Third Quarter Results

Achieves Higher Gross Margin, Moves Closer to Profitability

TORONTO, November 14, 2023 /CNW/ - MediPharm Labs Corp. (TSX: LABS) (OTCQB: MEDIF) (FSE: MLZ) ("MediPharm", "MediPharm Labs" or the "Company") a pharmaceutical company specialized in precision-based cannabinoids, today announced its financial results for the three months ended September 30, 2023.

Third Quarter 2023 – Select Highlights

- Settled a long-standing customer dispute for a total consideration of $9M, including net cash of $7.3M collected in October, $1M in Tilray Brands, Inc. ("Tilray") cannabis products and a four year agreement where Tilray will purchase $0.5M of MediPharm product.
- Gross profit of $2.4M or 28% was positive for the fourth consecutive quarter and was the Company's highest gross profit since Q4 2019.
- Adjusted EBITDA[(1)] of negative $2.4M improved $2.6M or 53% versus prior year and improved from negative $3.2M in Q2 2023. Adjusted EBITDA[(1)] continues to improve driven by margin expansion initiatives and cost reductions.
- Following the successful integration of VIVO and the achievement of approximately $7M in annualized savings, the Company completed a further restructuring in Q3 which will result in approximately $3M of additional annualized savings starting in Q4 2023. [(2)(3)(4)(5)]
- Strong balance sheet, relative to many peer companies, with $13M million of cash and less than $3 million of debt as of September 30, 2023. The cash balance does not include the cash collected from the customer dispute which was received subsequent to quarter end. The current cash position is approximately $19M.[(5)]

Groundwork for Growth in International Medical Cannabis

- MediPharm executed on it its strategic international growth plan to launch self branded products with more favourable gross margins and longer-term potential. This plan includes the September launch of the Beacon Medical branded portfolio in Australia of GMP oil and vapes; narcotic license expansion for Beacon Medical Germany with oil and high potency flower, and the signing of two new distribution agreements in the UK for Beacon branded medical cannabis products.
- In July 2023, the Company entered into an additional supply agreement with a top tier generic pharmaceutical company in Brazil. Brazilian authorities treat cannabis much like a pharmaceutical product. Since signing the agreement the customer has applied to the Brazilian Health Regulatory Agency for a number of cannabis product approvals. MediPharm has received similar approvals in Brazil with other customers. It is anticipated the delivery of additional products could begin in Q1 2024, and substantially increase the current Brazilian revenue.[(2)]

Continued Progress Solidifying Leadership in Cannabis-Based Pharmaceutical Industry

- In July 2023, the Company completed its first delivery of cannabis clinical trial material to a United States ("US") research partner. The delivery of pharmaceutical cannabis product was for a National Institute of Health funded clinical trial, following import permit from the United States Drug Enforcement Agency (the "DEA") and Health Canada export permit. The Company has already received DEA permits for replenishment of clinical trial material and plans to make another US delivery in Q4 2023.[(2)]

- The Company has provided a full response to the United States Food and Drug Administration (the "FDA") in relation to the initial foreign drug site inspection of its Barrie facility regarding a new Drug Master File being referenced in a recent Abbreviated New Drug Application. This is the first FDA Audit of a purpose-built commercial cannabis facility in Canada.

Progress Towards Profitability

- Q3 2023 gross profit was $2.4M or 28%. This is the fourth consecutive quarter of positive gross profit. Gross profit continues to improve, driven by product mix, production efficiencies and cost reductions. Management continues to focus on efficiencies to drive gross profit.
- Total Opex, which includes general and administrative, marketing and selling, and research and development expenses was $6.1 million in the quarter versus $7.5M in Q2 2023. Adjusting for severance and some other discrete items, normalized Opex was approximately $5.9M in Q3. Retrospectively, if VIVO were included in our Q3 2022 results, Opex in Q3 2023 is approximately 37% or $3.6M lower reflecting our combined cost reduction initiatives.[(5)]

Management Commentary

David Pidduck, CEO, MediPharm Labs commented, "We are proud of our focus on margins, cost reductions and profitability. Now, our strong balance sheet and improving profitability favourably positions us to make strategic investments for revenue growth. Beyond organic growth investments, there will be many M&A opportunities to consider in the coming quarters to further grow our revenue and shorten the path to profitability."

Greg Hunter, CFO, MediPharm Labs added, "In Q3, we continued to make progress by improving gross margins, reducing expenses and reducing cash burn as we drive towards profitability. Adjusted EBITDA of negative $2.4 million improved sequentially and year over year and is our best result in over 2 years. In addition, we strengthened our balance sheet with the settlement of an outstanding dispute resulting in cash collection of $7.3 million subsequent to quarter end and as of today we have approximately $19 million in cash and less than $3 million of debt."

Financial Summary

	Three months ended				
	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22	9/31/2022
	$'000s	$'000s	$'000s	$'000s	$'000s
Revenue	8,505	9,583	5,843	5,616	7,262
Gross profit	2,417	855	387	211	(1,190)
Opex[(1)]	(6,050)	(7,516)	(2,923)	(5,122)	(5,444)
Adjusted EBITDA [(2)]	(2,346)	(3,191)	(3,090)	(3,634)	(4,974)

(1) Opex includes general administrative expense, marketing and selling expenses and R&D expenses.

(2) Adjusted EBITDA is a non-IFRS measure. See "Non-IFRS Measures".

Q3 2023 Financial Results Conference Call

MediPharm's executive management team will also host a conference call and audio webcast on Tuesday, November14, 2023 at 8:30 a.m. eastern time to discuss the Company's financial results.

Conference Call:

Toll-free number: +1 (888) 330-2454 / International number: +1 (240) 789-2714

Conference ID: 4921762

Participants are asked to dial in approximately 15 minutes before the start of the call.

Audio Webcast:

An audio webcast will be available by visiting the following link here.

For those who are unable to participate on the live conference call or webcast, a replay will be available at https://www.medipharmlabs.com/investors approximately one day after completion of the call.

About MediPharm Labs

Founded in 2015, MediPharm Labs specializes in the development and manufacture of purified, pharmaceutical-quality cannabis concentrates, active pharmaceutical ingredients (API) and advanced derivative products utilizing a Good Manufacturing Practices certified facility with ISO standard-built clean rooms. MediPharm Labs has invested in an expert, research driven team, state-of-the-art technology, downstream purification methodologies and purpose built facilities with five primary extraction lines for delivery of pure, trusted and precision-dosed cannabis products for its customers. Through its wholesale and white label platforms, MediPharm Labs formulates, develops (including through sensory testing), processes, packages and distributes cannabis extracts and advanced cannabinoid-based products to domestic and international markets.

In 2021, MediPharm Labs received a Pharmaceutical Drug Establishment Licence from Health Canada, becoming the only company in North America to hold a domestic Good Manufacturing Licence for the extraction of natural cannabinoids. The Company carries out its operations in compliance with all applicable laws in the countries in which it operates.

In 2023, MediPharm acquired VIVO Cannabis Inc. which expanded MediPharm's reach to medical patients in Canada via Canna Farms medical ecommerce platform, and in Australia and Germany through Beacon Medical PTY and Beacon Medical GMBH. This acquisition also included Harvest Medical Clinics in Canada which provides medical cannabis patients with Physician consultations for medical cannabis education and prescriptions.

Notes:

(1) This is a non-IFRS reporting measure. See “Non-IFRS Measures” below.

(2) This is forward-looking information and based on a number of assumptions. See “Cautionary Note Regarding Forward-Looking Information“ and “Assumptions”.

(3) Based on both costs and revenue opportunities identified by MediPharm and VIVO management. Revenue opportunity assumed that both existing products may be sold into the existing sales channels of both VIVO and MediPharm. Costs savings estimated depends on the eliminating duplicated public company expenses and redundant corporate infrastructure.

(4) This target, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While MediPharm and VIVO believe there is a reasonable basis for this target, such target may not be met. Actual results may vary and differ materially from the targets. See “Assumptions”.

(5) Certain financial information included in this press release is neither audited nor reviewed. Where possible, the information has been constructed by management from available audited or audit reviewed financial statements. Where no audited or audit reviewed information has been available, additional management accounting information has been utilized to construct financial information. Readers are cautioned not to place undue reliance on such information.

Assumptions

In developing the financial guidance set forth above, MediPharm has made the following assumptions and relied on the following factors and considerations:

- The targets are based on MediPharm and VIVO’s historical results including annualized revenue from its interim financial results for the period ended September 30, 2022, as adjusted for subsequent events including completion of the transaction with VIVO.
- Revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Prices are projected forward at recently realized wholesale and direct to patient prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature), and, accordingly, are excluded from calculations of EBITDA, have been projected based on estimated costs of production and capacity available from a similar supply chain.
- The immediate reduction of public company professional and service fees, such as but not limited to, errors and omissions insurance, audit services, listing expenses and external legal fees.
- Implied redundancy of employee roles in the Company, mainly in corporate functions. Impacted employee severance fees are calculated on current employment agreements and *Employment Standards Act* (Ontario).

- No changes to existing medical cannabis legislation and regulations in Canada, Germany, Australia and Brazil.
- All VIVO and MediPharm regulatory licenses remain in good standing with domestic and international regulators, particular Good Manufacturing Practices (GMP).

Non-IFRS Measures

This press release contains references to “EBITDA”, “Adjusted EBITDA” and “Adjusted Gross Profit”, which are non-IFRS financial measures. Management believes that these supplementary non-IFRS financial measures provide useful additional information related to the operating results of the Company. These non-IFRS financial measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income (loss) and gross profit determined in accordance with IFRS as measures of profitability or as alternatives to the Company’s IFRS-based Financial Statements. The non-IFRS measures presented may not be comparable to similar measures presented by other issuers. EBITDA refers to earnings before interest, taxes, depreciation, and amortization and is used as an indicator of the Company’s overall profitability. Adjusted EBITDA is a measure of the Company’s overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual or non-recurring items added back. Adjusted EBITDA has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, finance fees, gain in revaluation of derivative liabilities, taxes, government grants including rent and wage subsidies, one-off transactions, impairment losses on inventory and on fixed assets and intangibles, write down of deposits and share-based compensation. Because of these limitations, Adjusted EBITDA should not be considered as the sole measure of the Company’s performance and should not be considered in isolation from, or as a substitute for, analysis of the Company’s results as reported under IFRS. Adjusted EBITDA, as used within the Company’s disclosure, may not be directly comparable to Adjusted EBITDA used by other reporting issuers. Adjusted Gross Profit refers to gross profit excluding the adjustments for biological assets, accelerated depreciation, write down of non-current deposits and write down of inventory. Adjusted Gross Profit is a useful measure as it represents gross profit for management purposes based on costs to manufacture, package and ship inventory sold, exclusive of any impairments due to changes in internal or external influences. Adjusted EBITDA and Adjusted Gross Profit do not have any standardized meanings and the Company’s method of calculating such non-IFRS measures may not be comparable to calculations used by other companies bearing the same description. See “Use of Non-IFRS Measures” in the Company's management's discussion and analysis for the period ended March 31, 2023 for additional information.

Cautionary Note Regarding Forward-Looking Information

This news release contains “forward-looking information” and “forward-looking statements” (collectively, “forward-looking statements”) within the meaning of the applicable Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as “expects”, or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes” or “intends” or variations of such words and phrases or stating that certain actions, events or results “may” or “could”, “would”, “might” or “will” be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements

relate to, among other things, statements regarding: the Company's progress toward profitability; potential annualized savings to be realized as a result of the Transaction and the Company's restructuring efforts; the anticipated timing and results of integration efforts of the Company following completion of the Transaction; potential cost synergies to be realized as a result of the Transaction; results of Investigational New Drug applications submitted to the FDA by US-based research partners; and revenue growth. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general business, economic, competitive, political and social uncertainties; the inability of MediPharm to obtain adequate financing; the delay or failure to receive regulatory approvals; and other factors discussed in MediPharm's filings, available on the SEDAR+ website at www.sedarplus.ca. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release. Except as required by law, MediPharm assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change.

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