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Rockwell Medical

Rockwell Medical to Acquire MODERN

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CORPORATE SPEAKERS:

Mark Strobeck
Rockwell Medical Inc.; President, Chief Executive Officer
Heather Hunter
Rockwell Medical Inc.; Senior Vice President, Chief Corporate Affairs

PARTICIPANTS:

Ram Selvaraju
H.C Wainwright; Analyst

PRESENTATION:

Operator^ Good morning and welcome to Rockwell Medical's conference call and webcast. Please note this event is being recorded. At this time, I would like to turn the conference call over to Heather Hunter, Senior Vice President, Chief Corporate Affairs Officer at Rockwell Medical. Heather, please go ahead.

Heather Hunter^ Good morning and thank you for joining us for this update on Rockwell Medical. Joining me on today's conference call is Rockwell Medical's President and CEO, Dr. Mark Strobeck. Before we begin, I would like to remind you that this conference call will contain forward-looking statements about Rockwell Medical within the meeting of the federal security laws. Including but not limited to the types of statements identified as forward-looking in our annual report on Form 10-K and our subsequent periodic reports filed at the FCC.

These statements are subject to risks and uncertainties that could cause actual results to differ. Please note that these forward-looking statements reflect our opinions and expectations only as of today. Except as required by law, we specifically disclaim any obligation to update or revise these forward-looking statements in light of new information or future events.

Factors that could cause actual results or outcomes to differ materially from those expressed in or implied by such forward-looking statements are discussed in greater detail in our periodic reports filed at the FCC. Our reports filed at the FCC along with today's press release and a replay of today's conference call and webcast can be found on Rockwell Medical's website under the investors section. Now, I will turn the conference call over to Dr. Strobeck.

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Mark Strobeck^ Good morning, everyone. This morning we announced that we acquired the hemodialysis concentrates business from Evoqua Waters Technologies. This is the first transaction of its kind in Rockwell's history. As such, we wanted to take some time this morning to walk you through the rationale behind this acquisition. And why we believe it will accelerate our timeline towards profitability and our goal to become the leading global supplier of hemodialysis concentrates.

Evoqua is a global leader in mission-critical water treatment solutions and services. In May of this year, Evoqua was acquired by Xylem in an all-stock transaction valued at approximately $7.5 billion. The combined company is now the world's largest pure play water technology organization.

While Evoqua's core focus is water, it also happens to have a renal business that it absorbed as part of its acquisition of MARC-Core purification back in January 2022. Evoqua's concentrates business, which has operated for over 20 years and was formerly known as Medivators, has a long track record of success of supplying clinics and supporting patients and is well known throughout the dialysis community.

With an increasing focus on its water treatment business, the concentrates business was no longer core and we contacted them to see if there was an interest in working together. Evoqua was seeking to find a leading concentrates manufacturer to acquire this business and ultimately selected Rockwell as their preferred acquirer given our expertise in market leadership in hemodialysis concentrates.

So, with that background and context, let's get into the details of the acquisition. Rockwell acquired Evoqua's concentrates business, which includes all contracts, all intellectual property and know-how, all 510k clearances, all assets primarily associated with and related to Evoqua's concentrates business nationwide. Evoqua's concentrates business is profitable and generates approximately $18 million in annual revenue and over $3.3 million in EBITDA.

This business will be immediately accretive to Rockwell. Furthermore, we believe we acquired this business at a very attractive valuation. We acquired Evoqua's concentrates business for an $11 million upfront payment followed by two time-based milestone payments at 12 and 24 months from the closing of the transaction.

Additionally, with synergies across our respective product lines, we expect this acquisition will further increase the EBITDA realized by Rockwell. With the addition of this new concentrates business, Rockwell Medical is updating its 2023 revenue guidance from $78 and $82 million to between $82 million and $86 million.

Additionally, as a result of the acquisition, we expect to see an improvement in gross profit. However, we are going to hold off issuing updated gross profit guidance for 2023 until we further

assess the synergies between Evoqua and Rockwell concentrates business and fully integrate Evoqua's concentrates business into Rockwell.

In addition to the economic benefits of this transaction, as we've discussed previously, commercial expansion is a major focus for Rockwell. We believe that this acquisition is a cost-effective and efficient way for us to expand our customer base as a majority of Evoqua's customers are different from Rockwell's current roster of customers.

Furthermore, this expands our geographic footprint and distribution capabilities throughout the United States, particularly in the West, and enables us to assume a larger market share of an already growing hemodialysis concentrate space. With this acquisition, Rockwell will now become the leading supplier of liquid bicarbonate products to dialysis centers in the United States.

This represents a significant step in our strategy to expand commercially and geographically. Through this transaction, we are also accessing a very efficient manufacturing operation. Located in Minnesota, Evoqua's operations are fully automated and afford Rockwell the valuable opportunity to manufacture hemodialysis concentrates products at a lower cost and add significant capacity to our production line.

This supports Rockwell's ongoing strategy to grow our revenue base while lowering the cost to manufacture our products, which will improve Rockwell's overall profitability. We financed this transaction using cash from our balance sheet, which was recently enhanced through monies received by the exercise of existing warrants. At the close of this transaction, Rockwell Medical has approximately $15.3 million in cash and cash equivalents.

Taken together, our acquisition of Evoqua's concentrates business is transformational for Rockwell. We have secured a long-standing solid concentrates business at an attractive valuation that enhances our revenue and profitability, expands our customer base, enables us to more fully automate our manufacturing process, and makes us the leading manufacturing supplier of liquid bicarbonate products in the United States while maintaining our cash position.

We believe this is a good deal for Rockwell and further enhances our path to profitability and becoming the leading manufacturer of hemodialysis concentrates around the world. Let me make one final comment about Rockwell before turning it over for questions.

Our goal is to build a business that is sustainable and serves as many patients as possible. Although the path to achieving these goals may not always be a straight line, with hard work and good decision making, I am certain we will get there. With that, I will now open the line for questions.

Operator^ (Operator Instructions). Your first question comes from the line of Ram Selvaraju of H.C Wainwright. Please go ahead.

Ram Selvaraju^ Thanks very much for taking my questions and congratulations on making this important step. I was thinking that perhaps we could start at the strategic level. If you could give us a sense of the competitive landscape in the concentrates market, and to what extent this acquisition constitutes a game changer in terms of Rockwell's positioning within that landscape, as well as the potential to see additional market share from your competitors once this acquisition has been integrated, that would be very helpful and much appreciated.

Mark Strobeck^ Sure. Thanks, Ram. I appreciate the question. So, this marketplace has a few competitors, the largest of which is Fresenius. Evoqua Concentrates Business was effectively the third largest supplier in the United States.

And so, again, our consolidation of this space through the acquisition of Evoqua Concentrates Business, I think, puts us in a much better position within this marketplace. So, it really comes down to now just effectively two large organizations that supply concentrates to this market, Fresenius and Rockwell, although there are a few smaller suppliers around the country. Strategically, this is incredibly important for us for a number of reasons.

I mean, not only as I suggested, because it enhances our revenue base, adds a new set of customers for us, as their customer roster is different than ours. But it also enhances our manufacturing capabilities and particularly a fully automated manufacturing process, which will ultimately improve the cost for us to manufacture our products and therefore the margins we're going to be able to achieve upon selling products. So, this is a, as I said, a transformational opportunity for us, and we're excited to have completed the acquisition.

Ram Selvaraju^ Okay, second category of questioning I had was with respect to the restructuring process. How long do you expect that to take when you anticipate being able to provide additional color to the market regarding the synergies you anticipate realizing? And if you have at all at this point, I know it's early days, a handle on what restructuring expenses, if any, are likely to materialize in the course of realizing those synergies.

Mark Strobeck^ Yes, so we have in place an agreement with Evoqua to transition this business over the next 90 days. So, we are working -- we have an integration team that's been assembled that's working with Evoqua to transition that business over to us. We should be able at that time to be able to provide guidance around the synergies that we were able to achieve and therefore, the likely impact to our gross profit guidance.

We don't suspect that there is going to be a lot of restructuring costs. This is simply going to be additive for us. And we will be assuming some responsibilities from Evoqua. But as I said, we see that there will be synergies that we are going to be able to achieve given that you don't

need two customer service organizations, you don't need other responsibilities within the organization. We’re able to fold that into our existing infrastructure.

Ram Selvaraju^ Okay, and then lastly, some financial housekeeping items. Just wanted to clarify with respect to those time-based milestones that you mentioned earlier, those are simply time-based. They are not tied to any specific underlying performance. Is that correct?

Mark Strobeck^ That's correct.

Ram Selvaraju^ And then secondly, just clarify the business that you are acquiring, does it currently have any outstanding debt? If it does, how much is that debt amount to and what are your plans for that?

Mark Strobeck^ It does not have any outstanding debt. And we are not assuming any liabilities for the business prior to our closing of the acquisition.

Operator^ Thank you. There are no further questions at this time. This concludes today's conference call. You may now disconnect.