

Rockwell Medical, Inc.

NasdaqCM:RMTI

Earnings Call

Monday, May 15, 2023 1:00 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 6

Call Participants

EXECUTIVES

Heather R. Hunter
Senior VP & Chief Corporate Affairs Officer

Mark Strobeck
President, CEO & Director

Paul E. McGarry
SVP of Finance & Chief Accounting Officer

ANALYSTS

Brandon Richard Folkes
Cantor Fitzgerald & Co., Research Division

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Presentation

Operator

Good morning, and welcome to Rockwell Medical's First Quarter 2023 Results Conference Call and Webcast. Please note, this event is being recorded. At this time, I would like to turn the call over to Heather Hunter, Senior Vice President, Chief Corporate Affairs Officer at Rockwell Medical. Heather, please go ahead.

Heather R. Hunter
Senior VP & Chief Corporate Affairs Officer

Good morning, and thank you for joining us for this update on Rockwell Medical. Joining me on today's conference call are Dr. Mark Strobeck, Rockwell Medical's President and Chief Executive Officer; and Paul McGarry, Rockwell Medical's Senior Vice President, Finance and Chief Accounting Officer.

Before we begin, I would like to remind you that this conference call will contain forward-looking statements about Rockwell Medical within the meaning of the federal securities 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 with the SEC. 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 with the SEC. Rockwell Medical's quarterly report on Form 10-K -- excuse me, Form 10-Q for the 3 months ended March 31, 2023, was filed prior to this call and provide the full analysis of the company's business strategy as well as the company's first quarter 2023 results. Our Form 10-Q and other reports filed with the SEC, along with today's press release, our updated investor presentation and a replay of today's conference call and webcast can be found on Rockwell Medical's website under the Investors section.

Now I would like to turn the conference call over to Rockwell Medical's President and CEO, Dr. Mark Strobeck.

Mark Strobeck
President, CEO & Director

Thank you, Heather. Good morning, and thank you for joining us today for Rockwell Medical's First Quarter 2023 Results Conference Call and Webcast. I am pleased to report that during the first quarter of 2023, we made significant progress on the plan we announced last year to optimize Rockwell and our concentrates business, with the goal to achieve profitability in 2024. In the first quarter, Rockwell's revenue continued to grow, our gross profit continued to improve, and our operating expenses continued to go down. Let me walk you through our results.

Rockwell achieved its highest quarterly revenue to date in the first quarter of 2023. Our commercial team has been working diligently to execute on 3 key growth strategies, which we believe will enable us to continue to achieve commercial success. First, transition of the Baxter business back to Rockwell and optimize purchase arrangements; second, and for the first time in a long time, grow our concentrates business in the United States and internationally; third, and finally, expand our geographic presence. We are making progress on each of these commercial initiatives.

In late 2022, we announced that we acquired the distribution rights back from Baxter to regain control of our hemodialysis concentrates business in the United States and internationally. On January 1 of this year, we assumed 100% control of this business, which we have been heavily focused on transitioning and optimizing for Rockwell. The first step in this transition was to ensure that we continue to supply Baxter

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

customers based on their existing purchase agreements. Our commercial team prepared for this transition months in advance of this date, has been communicating with customers along the way, and was well prepared to assume the control of this business at the start of the year.

If you recall, many of the Baxter customers already were ordering directly from Rockwell and had products delivered by our subsidiary, Rockwell Transportation. Therefore, this transition, in many instances, has simply been about removing Baxter from the payment process. I am pleased to report that the transition has been a success, and we are currently selling and delivering product to customers through Rockwell's platform.

Our commercial team is now systematically working with each customer to establish new agreements directly with Rockwell with preferred economics. We are making significant progress in this effort and are already realizing the revenue benefits from these changes. We anticipate we will realize more in the second quarter of 2023 and beyond.

In addition to the Baxter transition, we have been focused on commercially growing our hemodialysis concentrates business by adding new customers as we work to achieve profitability in 2024 and drive towards becoming the leading global supplier of hemodialysis concentrates.

During the first quarter, we announced that we signed 2 long-term supply agreements. The first agreement is a 3-year multimillion dollar product purchase agreement with Concerto Renal Services, the largest provider of dialysis and skilled nursing facilities in the United States. And the second agreement is a 3-year multimillion dollar supply agreement with the largest nonprofit dialysis provider in the United States. Each of these arrangements include multiyear annual minimum purchase commitments and has the potential to increase as our customer's business grows.

During the first quarter of 2023, we also established new nonexclusive agreements with 2 of the largest distributors in the United States. The first agreement was with Cardinal Health, the second with Medline Industries. They are the first of many distribution agreements that we anticipate establishing this year.

Geographic expansion, both domestically and internationally is also a major focus for Rockwell. We continue to look at cost-effective ways to expand our distribution capabilities in the western portion of the United States. We are making great progress and are now distributing our products on a limited basis to California, Arizona and Utah. However, we continue to pursue a more consistent and concentrated approach in the West that would allow us to sell and distribute our products directly to West Coast dialysis clinics.

Additionally, Rockwell has a large and growing international business and currently sells its hemodialysis concentrates products in various countries throughout North America, South America, Asia and Africa. Our international business accounts for approximately 10% of Rockwell's revenue, produces favorable economics and diversifies our revenue base. Subsequent to the first quarter, we announced an expansion of our international business with an agreement to supply for the first time to UAE. Our commercial team is working hard to enhance our efforts internationally as we look to identify regions where our products would have a meaningful impact on patients.

Another key component of our strategy is focused on reducing expenses. We continue to make changes to our business that have reduced expenses across all functional areas. This includes selective reduction in headcount, better pricing on raw materials, continued optimization of our distribution networks and reduced reliance on third-party carriers for delivering our products. We are continuing to examine route optimization strategies as well as automation in our manufacturing processes as additional ways we can lower the cost to manufacture our products. These efforts translated into lower operating expenses and a reduced net loss for the quarter, which were significantly improved from the fourth quarter of last year.

Additional growth opportunities, as we've spoken about previously, will come from business development. Rockwell continues to look aggressively at opportunities for consolidation within the concentrate space as well as opportunities to add new products to our portfolio that take advantage of our manufacturing expertise and capabilities. These opportunities need to be accretive and consistent with our goals to achieve profitability. We hope to be able to say more about these efforts on future calls.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Before I turn the call over to Paul, I wanted to provide you with a brief update on the international development of Triferic. As we've discussed previously, Rockwell has several international partnerships with companies looking to develop and commercialize Triferic in their respective countries. As a reminder, these international partnerships require no capital expenditure and very little operational resources from Rockwell. While they have the potential to generate near and long-term revenue for the company, there can be no assurance that they will, and we have not factored this into our revenue forecast.

Subsequent to the first quarter, we announced that our partner in Turkey, Drogsan Pharmaceuticals, submitted a marketing authorization application and GMP application for Triferic AVNU to the Turkish Medicines and Medical Devices Agency, for which Drogsan received priority status and a high priority status, respectively. Taking into consideration that Drogsan was granted an accelerated review for Triferic AVNU with the Turkish regulatory authority, we anticipate approval for Triferic AVNU in Turkey in 2024.

The decisions we have made and continue to make are consistent with our strategy going forward to drive our business to achieve profitability in 2024 and to put the company in a stronger, more stable financial position. We are well on our way.

With that, I will turn the call over to Paul to provide you with our financial updates for the quarter. Paul?

Paul E. McGarry
SVP of Finance & Chief Accounting Officer

Thank you, Mark. Revenue for the 3 months ended March 31, 2023, was $19.7 million. This represents a 22% increase over the comparable period in 2022, and an increase over the fourth quarter of 2022. Gross profit for the 3 months ended March 31, 2023, was $2.6 million compared with a gross loss of approximately $800,000 for the same period in 2022.

During the first quarter of 2023, we continued to see -- to reduce our operating expenses by focus on enhanced business performance and more efficient manufacturing processes. For the 3 months ended March 31, 2023, operating loss was $1.4 million compared to $6.6 million for the same period in 2022.

For the 3 months ended March 31, 2023, Rockwell's net loss was $1.75 million or $0.10 per diluted common share compared with a net loss of $7.2 million or $0.84 per share for the same period of 2022.

Rockwell's cash and cash equivalents at March 31, 2023, was $16.8 million compared to $21.5 million at December 31, 2022. The reduction in our cash balance was largely driven by fees associated with the reacquisition of Rockwell's distribution rights from Baxter, onetime severance payments and fees associated with terminating a supply agreement.

Overall, we are pleased with our financial performance in the first quarter of 2023, and reiterate our revenue guidance of $78 million to $82 million, and gross profit guidance of $7 million to $9 million. We remain focused on continuing to position us for future growth as we drive towards profitability in 2024.

I will now turn the call back over to Mark.

Mark Strobeck
President, CEO & Director
Thank you, Paul. Operator, please open the phone lines for any questions.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Brandon Folkes from Cantor Fitzgerald.

Brandon Richard Folkes
Cantor Fitzgerald & Co., Research Division

Congratulations on all the progress. Maybe just 1 for me. Can you just help us think about the gross margin, sort of how -- sort of, I guess, how high could that gross margin gets in a stable environment? And what I mean by stable environment is sort of once you've kind of achieved or the -- everything you're putting in place? And then secondly, can you help us just think about gross profit for the rest of the year just given the strong results in 1Q and the reiteration of guidance?

Mark Strobeck
President, CEO & Director

So we haven't issued guidance as it relates to gross margin. However, I think as you can see in the first quarter, the gross margin that we've generated is attractive for us and puts us on a path towards profitability. I can say that, certainly, our business, both in the U.S. and outside the U.S., is really focused on driving towards higher gross margins. And in some cases, we've been fortunate enough to be able to achieve that. But I think it's -- where we are this quarter is a good sort of target for us as we continue to drive to improved gross margins.

As far as gross profit goes, we had a very strong first quarter. From that perspective, we're continuing to work towards improving that. And I think it obviously clearly demonstrates where -- we're on path to achieve the guidance that we've given.

Operator

[Operator Instructions] And there are no further questions at this time. I will now turn the call back over to Dr. Strobeck for some final closing remarks.

Mark Strobeck
President, CEO & Director

Thank you, everyone, for joining us on today's call. Before we conclude our call, I'd like to take a moment and say thank you to our incredible team at Rockwell Medical for accrediting us as a great place to work. Being certified as a great place to work spotlights our culture, our positive employee experience and the leadership behaviors proven to deliver improving revenue, employee retention and increased innovation. This recognition is a testament to our employees' unwavering commitment to our mission to provide dialysis clinics and the patients they serve with the highest quality products, supported by the best customer service in the industry.

I'm incredibly proud of what we have achieved together and look forward to sharing our progress on future calls as we collectively work to continue to unlock the value of Rockwell.

Operator
This concludes today's conference call and webcast. You may now disconnect.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2023 Capital IQ, Inc.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.