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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

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Presentation

Operator

Good morning, and welcome to Rockwell Medical's Second Quarter 2024 Results 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 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 Jesse Neri, Rockwell Medical's Senior Vice President of Finance.

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-Q for the 3 months ended June 30, 2024 was filed prior to this call and provides a full analysis of the company's business strategy as well as the company's second quarter 2024 results. The reconciliation of non-GAAP measures we discuss on today's call can also be found in today's press release. Our Form 10-Q and other reports filed with the SEC, along with today's press release, our 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 Second Quarter 2024 Results Conference Call and Webcast. I'd like to start off this morning by reflecting on the last 2 years since I joined Rockwell and since we assembled the team we have now who are leading our organization through significant and transformative growth and change.

When we presented our second quarter results to shareholders back in 2022, we laid out what we believed were lofty but attainable goals for Rockwell. For the first time in the company's history, we set out to put Rockwell Medical on a steady path to consistently grow revenue, drive the company to $100 million in annual sales, go from a gross loss on this business to an increasing gross profit, increase our gross margin from a negative number to a consistently greater positive number, attain sustained profitability and significantly lower our debt burden. At the time, it was clear that shareholders were apprehensive, doubtful even, that we could and would achieve these objectives. Oftentimes, we would get asked, so how are you guys different? Why should we believe you? it was understandable.

Over the years, Rockwell has had a lot of turnover. The company's financial results were not supporting growth or financial stability and those circumstances damaged Rockwell's credibility with shareholders and stock performance suffered.

I am proud and excited to share that we have delivered and continue to deliver on our promises. For the first time in recent memory, we achieved profitability on a cash flow and adjusted EBITDA basis for the

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second quarter 2024. We believe that this is a critical turning point for Rockwell, and we expect to build upon this momentum in the coming quarters. Let me walk you through some of the numbers that get us to this cash flow positive outcome for Rockwell.

Net sales for the second quarter 2024 were once again the highest quarterly concentrate product sales generated to date for Rockwell. In the second quarter 2024, we generated net sales of $25.8 million, which was largely driven by our improved value-based pricing and increasing volumes.

Annualizing our second quarter 2024 net sales would put us north of $100 million in revenue, a goal that we set out to achieve 2 years ago. Additionally, we continue to achieve consecutive quarters of improved gross profit and gross margin, having reported $4.6 million in gross profit and 18% gross margin for the second quarter 2024. This quarter's results exceeded the gross margin guidance we projected for the full year of 2024 and is starting to approach the gross margin we expect to achieve in 2025. We believe gross margin will continue to improve and trend upward as we continue to streamline production, improve our processes, enhance our distribution capabilities and further modernize our infrastructure.

The combination of increased sales and greater gross margin has led to cash flow from operations of $1.4 million for the second quarter and as a consequence, an increase in our cash balance. Our cash balance has gone from $8.6 million at the end of the first quarter to $10.2 million around the time we reported our first quarter earnings to $11.9 million at the end of the second quarter. We expect that our cash balance will continue to increase as we continue to be profitable. Jesse will have more to say on the numbers in a moment.

At the end of the day, the success we have demonstrated and the objectives we set out to achieve have resulted from hard work and consistent execution. In addition to the objectives we presented 2 years ago, we were also determined to rebuild credibility with our shareholders. We believe it's paramount that shareholders feel confident that the team leading this company today is transparent about its plans and is executing against its plans.

We are aware that reestablishing credibility doesn't happen overnight, but we believe that the results speak for themselves. For the past 2 years, we've said what we were going to do, and we've done it. Collectively, our team has successfully turned this organization around and, in turn, continues to rebuild shareholder value. We wouldn't be here if we didn't believe we could execute our game plan and catalyze the success of this organization for years to come.

So let's turn to what's next. For the remainder of 2024, we will continue to focus on optimizing our business to drive sustainable profitability and meaningful cash flow. We will continue to execute on the current business plan of growing revenue and adding new customers. We will continue to focus on expanding our concentrates products portfolio, which, as we announced yesterday, now includes a Convenience Pack, which will help us expand our presence in the at-home market. We expect to be able to provide you with the partnership announcement later this quarter.

For the first time, we are enhancing our cash balance through the profits we are generating in our business and are beginning to reinvest those profits back into our business. We continue to reduce the cost to manufacture our products by adding new equipment and enhancing our infrastructure to more fully automate our processes. We expect to fully realize the benefits of these improvements beginning in the fourth quarter of this year.

We are still planning to expand further into the West with a more permanent presence. We could have taken the approach of spending a lot of money to establish a new facility in the West, expecting the business would expand to catch up to the cost of the expansion. However, we are taking a different path, progressing the business in the West to a point that justifies finding a more permanent solution, and we believe we are getting to that point.

We are currently evaluating various business development opportunities. This is taking time as we want to make sure we make the absolute right decision from a cost-benefit perspective.

And finally, we are working to add a new product line to our portfolio outside of concentrates that can expand our overall business. We hope to have more to say on this in the coming quarters.

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As a result, we are increasing our guidance for the second time in 2024 across all metrics. Now we expect net sales for 2024 to be between $95 million and $98 million, an increase from the previous net sales guidance of between $90 million and $94 million. We now expect gross profit for 2024 to be between $14 million and $16 million, an increase from between $13 million and $15 million. We expect the top end of our gross margin range for 2024 to be 17%, up from 16%. And we now expect to be profitable on an adjusted EBITDA basis between $0.75 million and $1.5 million, up from $0.5 million and $1 million. All of these metrics represent significant increases in improvements over the results we achieved in 2023.

For 2025 and beyond, we are focused on 2 areas: first, growing our concentrates business and making it more profitable as we work towards annual revenues north of $100 million and gross margins up to 30%; and second, expansion beyond concentrates. We plan to approach this in an accelerated and responsible way and in a capital-efficient manner. All of this supports our goal to become a major force in the nephrology space.

With that, I will now turn the call over to Jesse to go into further detail about second quarter 2024 financial results.

Jesse Neri
Senior Vice President of Finance

Thank you, Mark. Good morning, everyone. As we did last quarter, we will present the financials for the comparable periods in 2023 with and without the $1.5 million in deferred revenue recognized in Q1 of 2023 related to the termination of the Baxter distribution agreement. This offers us the opportunity to more accurately present the progress that we have made and continue to make, specifically within our hemodialysis concentrates segment.

Net sales for the second quarter of 2024 were $25.8 million, our highest quarterly concentrate products revenue to date. This represents an increase of 14% over net sales of $22.7 million in Q1 of this year and a 43% increase over net sales of $18.1 million for the same period in 2023. Net sales for the 6 months ended June 30, 2024 were $48.5 million. Excluding deferred revenue, this represents a 34% increase over the same period in 2023.

Gross profit for Q2 2024 was $4.6 million, which represents a 48% increase over gross profit of $3.1 million for the first quarter of 2024 and a 341% increase over gross profit of $1 million for the same period in 2023. Gross profit for the 6 months ended June 30, 2024 was $7.6 million. Excluding deferred revenue, this represents an increase of 252% over the same period in 2023.

Gross margin for the second quarter of 2024 was 18%, a threefold increase from 6% for the period -- same period in 2023. Gross margin for the 6 months ended June 30, 2024, was 16%. Excluding deferred revenue, this represents an increase of 10 percentage points from 6% for the same period in 2023.

Net income for the 3 months ended June 30, 2024 was $300,000 compared to a net loss of $3.3 million for the same period in 2023. Excluding deferred revenue, net loss for the 6 months ended June 30, 2024 improved by $5.1 million over a net loss of $6.5 million for the same period in 2023.

Adjusted EBITDA for the second quarter was a positive $1.5 million compared with a negative adjusted EBITDA of $2.3 million for the same period in '23. Adjusted EBITDA for the 6 months ended June 30, 2024 was a positive $1 million. Excluding deferred revenue, adjusted EBITDA increased by $5.7 million over the first 6 months of 2023.

Cash, cash equivalents and investments available for sale at June 30, 2024 was $11.9 million compared to $8.6 million at March 31, 2024. The combination of increased sales and greater gross margin led to cash flow from operations of $1.4 million for the second quarter.

On the topic of cash, we are pleased to share with you that we executed an amendment to the asset purchase agreement that we signed with Evoqua in July of last year. If you recall, the APA called for Rockwell to pay Evoqua 2 milestone payments of $2.5 million each on the first and second anniversaries of the agreement. Now monies owed to Evoqua will be paid over 8 quarterly installments between July of this

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year and April of 2026. These quarterly payments will minimize the impact on our cash flow and accelerate our investment in operations.

I will now turn the call back over to Mark.

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

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Question and Answer

Operator

Thank you, Dr. Strobeck. And as mentioned, we are now open for questions. [Operator Instructions] And your first question comes from the line of Ram Selvaraju from H.C. Wainright.

Raghuram Selvaraju
H.C. Wainwright & Co, LLC, Research Division

Congratulations on all the important progress notched this quarter, very creditable. I wanted to ask if you could provide some additional color on the partnership opportunity that you mentioned earlier in the call, if you can give us a sense of what the scope of this might look like. And also, if you could talk a little bit more about your expansion strategy in the West and when you ultimately expect to light upon the most appropriate path forward there and what it could mean for the business, in particular with regard to Rockwell's overall positioning within the dialysis market since you're already the second largest purveyor of these products?

Mark Strobeck
President, CEO & Director

I appreciate your supportive comments. So to address the first question, for us to continue to have a meaningful presence in the at-home space, right, we need to expand our product portfolio beyond what we currently supply as we need to think about it more sort of a convenient option for folks that are going to be administering dialysis at home. The first step in that process for us was to create the Convenience Pack, which is the first time that there is a smaller, formatted set of products that can be very easily delivered directly to a patient's home for them to administer as opposed to some of the other formats in which we sell, which are north of 55-gallon drums. So that was an incredibly important first step. And we are working now with a couple of the leading providers in the at-home space, currently providing them concentrates in the larger format, and are now working to put in place a collaboration around specifically the Convenience Pack. So that's all we can say at the moment, and we hope to have, like I said, more to say this quarter.

As it relates to the West, that continues to be an opportunity for us. As you know, through our acquisition of Evoqua, we picked up a number of customers that were in the West. Through the course of this year, we have also added to that, some of which we announced, some of which we haven't announced, all kind of creating a critical mass now out there for us to really begin to consider a more permanent presence.

Our hope is to, by the end of the year, have a path forward identified. We -- the team was actually just recently out there looking at different options for us. And we hope to have that identified and are able to pursue that aggressively to establish the presence -- our presence out there.

Remember, this is -- as you pointed out, this is a 2-player market. But in the West, it's essentially a 1-player market. It's Fresenius. And once we are able to establish a more significant presence out there, I think we're going to be a great alternative option for a lot of those folks as we are in the middle and the eastern portions of the country, and we'll be able to compete effectively. And that represents a $100 million market opportunity for us to tap into. So we're excited to do it, but we took the approach, as we said in the script, that we wanted to build a critical mass of business there before we started to make investments as opposed to the other way around, which I think would have introduced risk here.

Operator

Your next question comes from the line of Anthony Vendetti from Maxim Group.

Anthony V. Vendetti
Maxim Group LLC, Research Division

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So Mark, if I understand the opportunity for the home-based products, you've officially, I guess, as of yesterday, launched the Convenience Pack. But until the partnership is announced, is it safe to say that we shouldn't count on any material or tangible revenue from the Convenience Pack until this partnership is announced? Is that -- would that be accurate?

Mark Strobeck
President, CEO & Director

So I think the way to think of it is, now that it's launched, right, we're going to begin sales of that Convenience Pack. We will begin to start to generate revenue with that here in the near term and will only be accelerated once we're able to establish a more definitive, longer-term collaboration with one of the at-home providers. But that's not to say that revenue itself won't continue to grow. In fact, we just closed the books on July, and July was the largest revenue to date that the company has had on a monthly basis around, $10 million for the month. So we're going to continue to grow revenue for the existing business, and the Convenience Pack will just layer on to that.

Anthony V. Vendetti
Maxim Group LLC, Research Division

And then just to follow up on that, are the margins on the Convenience Pack at your corporate gross margins, higher or lower than your base business?

Mark Strobeck
President, CEO & Director

They're better than we are currently reporting for our base business.

Anthony V. Vendetti
Maxim Group LLC, Research Division

Excellent. And I guess, last, as a follow-up, the partnership is distinct and separate from what you're looking for in terms of a new product line or a complementary product line for your base business, correct?

Mark Strobeck
President, CEO & Director

That's correct. Yes. It's separate. And so we are currently now working through what those product lines would be, the sort of -- again, the most cost-effective and capital-efficient manner by which we can add those so that we can start generating revenue on those as quickly as possible. We're not looking to do a very costly or long-term sort of clinical development program. This is something where we are working with organizations that have products that we could potentially bring in that would amplify those here in the United States.

Operator

[Operator Instructions] And we'll pause for a few moments for any final questions. There are no further questions at this time. I will turn the call back over to Dr. Strobeck.

Mark Strobeck
President, CEO & Director

Thanks. We're extremely proud of the financial and operational results that we shared with you today. It is something that our team at every level within our organization has played a critical role in achieving. This is just the beginning. We continue to focus on optimization, automation and streamlining our operations to drive sustainable profitability and shareholder value. Thank you for your time today.

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

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