- Welcome to the second quarter earnings call for Salona Global Medical Device Corporation, listed on the TSXV under the ticker S-G-M-D.

- I would like to remind everyone that today's discussion will include forward looking information and forward-looking statements, future oriented financial information and non-IFRS measures regarding future events and our future financial performance.

- These statements reflect our views as of today only and should not be considered as representing our views for any subsequent date and, except as required by law, we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after today, many of which are beyond our control.

- These statements are also subject to material risks and uncertainties that could cause actual results to differ materially from expectations reflected in the forward-looking statements.

- A discussion of these risk factors is fully discussed or referred to in Salona Global' s disclosure documents filed on EDGAR and SEDAR.

- Unless otherwise specified, all dollar amounts in this call are expressed in Canadian dollars.

- During this call, we may also refer to certain non-GAAP financial measures. For information regarding our non-GAAP financials and a reconciliation of GAAP to non-GAAP measures, please also refer to our EDGAR and SEDAR filings.

- Ladies and gentlemen, allow me to introduce Salona Global Medical Device Corporation's CEO, Luke Faulstick.

Luke Faulstick:

- First, I would like to welcome the DaMar Plastics team into the Salona Global family. We announced the closure of the acquisition on September 23, 2022. We are very excited to have them on our team and look forward to including them in our future quarterly results.

- Today we posted our reviewed second fiscal quarter financials ending August 31, 2022.
- This was a strong quarter and I want to jump right to the highlights before handing it over to Les Cross our Executive Chairman to describe our market, our business model, and our team.

- This was our first full quarter we can use as a year-over year comparison

- We generated 153% year-over-year growth in revenues, with a 300% year-over-year increase in total cash receipts for the second quarter, taking in approximately $13.6 million, including $4.2 million from the US$7.5M sales order

- We Built a record order book backlog to over $18,500,000 during the quarter as a result of increasing our focus on organic sales.
- We generated 152% year-over-year gross margin growth, and $1,427,404 in positive adjusted EBITDA for the 6 months ended August 31, 2022
- We Continue to build a strong pipeline of cash flow positive acquisition targets for future acquisitions in the coming quarters.
- We are now negotiating acquisition agreements, including a contract manufacturing agreement and transition services agreement for a $26,000,000 annual revenue potential acquisition (LOI announced August 15, 2022). We are pursuing an optimized debt structure for closing.
- All in all, a very busy and successful quarter -- both in terms of generating cash and building a platform for the future.

- I’ll now turn the call over to Les Cross, Salona Global Medical Device Corporation’s Executive Chairman. Les?

Les Cross:

- Thank you Luke.

- As a reminder, we are focused on serving a $30 billion global market for products that help people recover from injuries, surgeries, and physical disabilities, known as recovery science.

- We penetrate this market through a proven approach. The same approach that we took with DJO Global, a previous company we led from the early days, took public on the New York Stock Exchange and later sold to Blackstone for $1.6 billion dollars.

- We grew that company by first creating a fully integrated device company, and then picking superior products we knew would sell in international and niche US markets. We also picked products positioned to grow with the aging population and other favorable demographics.

- Salona Global is no different. Our primary strategy is acquiring companies that have not fully realized their revenue potential and marketing their products through established sales channels that we have taken decades to develop.

- While we are just six quarters into the plan - our execution has been extremely solid since we launched Salona Global. We have made around one acquisition per quarter, and we saw organic growth post acquisition in each deal we did.

- Because we were strategic in our early acquisitions, we have purposely created a fully integrated medical device company with five engines to drive revenue and profit growth.

- The **first engine** of revenue and profit is mergers and acquisitions. We have proven we have a deep pipeline of deal flow where we can be picky about the companies we acquire. We target deals based upon their strategic fit into our overall strategy to build upon our existing fully integrated platform of business.

- Our **second engine** of growth comes from product development. Because we have executed on our strategy to be able to innovate, produce, and sell medical devices into the market, we now have this second prong of growth. We are working on several products that we can bring to market in short order that can be developed, approved, and produced with a strong return on equity. The foundation for this growth is a combination of the businesses we acquired in the last year. We have a world class innovation team in Simbex, a state-of-the-art US-based FDA approved production facility in SDP, and several sales channels we have acquired or developed.

- Our **third engine** of growth is product IP acquisition. We acquired a portfolio of medical device product intellectual property recently, giving us the ability to expand our product offerings in our channels within weeks of the acquisitions, providing another important engine for growth. As an example, in April we acquired the IP for an electrode portfolio and by June we had already designed, manufactured, and sold our first electrodes into the market. We are optimistic we will have the opportunity to find more deals like this in the coming quarters.

- Our **fourth engine** of growth is executing product distribution deals through our sales channels. In May, we executed a distribution agreement with a laser company in Europe enabling our current sales channel to offer additional, large ticket item sales to their product offerings. We are actively negotiating several more of these types of deals currently.

- And our **<u>fifth and final growth engine</u>** is organic growth post-acquisition. We have already started to experience the benefits of the potential to grow revenues AND profits upon closing our acquisitions.

- Since selling our previous company to Blackstone, we have seen this market change. It has become even more fragmented through product innovation. Additionally, the large businesses that serve the market, such as my prior company, can no longer achieve meaningful growth by acquiring dozens of small device companies. Understandably, they are trying to move into higher risk/reward opportunities involving research and invention and requiring large capital investments. These two forces have created a terrific opportunity to recreate our success.

- To fully take advantage of our opportunity, we have a very talented and experienced team of executives and advisors that we have targeted as part of our acquisitions or recruited from experiences similar to this one. Luke Faulstick, who is our CEO and was our former COO, as well as the founder of SDP, our first acquisition, helped build our pervious company alongside of me. We recently added Dennis Nelson as our CFO who will be on the call later. He worked with me at Alphatech Spine, a Nasdaq company I was CEO and Chairman of after my time at DJO. We are fortunate to have Rick Greenwald from Simbex who also worked to develop products for us in the past as well as Kenny Zisholz and Scott Rogow, both sales executives with significant experience that once worked for us.

- We have a well-known and talented M&A and capital markets team, led by the former Chairman and Vice Chairman for Patient Home Monitoring. PHM, as it was known, is now two companies listed on the Nasdaq, Viemed and Quipt. Those companies grew out of an acquisition juggernaut lead by our M&A team. The entire team is engaged with great urgency to take advantage of this opportunity.
- Now that we have completed acquiring the building blocks of a fully integrated company, we are positioned to make additional acquisitions in numerous markets, develop and sell our own products, acquire product IP, and execute distribution deals. We do want to remind our shareholders we were able to accomplish this in just over one year of operations. In this short period of time, we have had five solid methods to generate revenue and profit growth.

- In terms of our goals for the future, we expect to continue our rapid revenue growth now that we have more pathways for growth and a strong leadership team that can scale our enterprise.

- I will turn the call back to Luke now to provide more details on our quarter and our plans for growth for the next quarter and beyond.

Luke Faulstick:

- Thank you, Les.
- As mentioned earlier, we are very pleased with our performance this quarter.

- Our results this quarter center around four main initiatives for growth.

- The **first** was to capture the cash flow from the US$7.5M sales order we announced in the summer.

- The **second** was to prepare for our large potential acquisition we announced in the summer.

- The **third** was to invest in our portfolio of branded products.

- And the **fourth** was to build our order book backlog, which now stands at almost six months of revenue.

- I want to provide more detail about the operation initiatives we have prepared for the pending large acquisition.

- We hired a new CFO and supplemented the accounting team.

- We invested in preparing our back office, customer service and sales team for the integration of the upcoming large acquisition which has a short term and temporary impact on our operational profit this quarter, although it is important to note that we maintained operational profit during the quarter.

- Having spent my career integrating companies, it is always better to spend upfront than to experience delays on the back end. Investing pre-acquisition can often create a sling shot effect on growth post acquisition. This was no small feat and I applaud our team for their hard work. This means that when we close acquisitions, we can quickly integrate them and get moving on our plan to increase sales post acquisition.

- I also want to talk about our large and growing order book backlog. First, I want to thank our VP of Sales and his growing team for increasing our order book to a record size, over $18.5 million.

- Second, it is also important to note that revenues and margins were constrained this quarter from summer-time bottlenecks in component supply chains. Thankfully, we have seen improvements with these issues during the current quarter and we are on track to the long run significant organic growth targets we have come to expect.

- What all this preparation means is that we are fully prepared to integrate the new and forthcoming acquisitions and the accompanying revenues that we expect as a result.

- Ladies and gentlemen, I'd like to now introduce Dennis Nelson our new CFO. Dennis joined Salona Global this past quarter and brings a strong background as a CFO in public and private companies. We are very excited and pleased to have Dennis on our team. Dennis will now highlight a few items in the financial statements.

Dennis Nelson:

Thank you, Luke.

- As Luke mentioned earlier, we had strong year over year revenue growth of 153%, building quarterly revenues to $10,044 thousand as compared $3,974 thousand for the same quarter in the prior year.

- We are prepared to continue that growth with the upcoming potential acquisition, which is slated to add another $26 million in revenue.

- We anticipate revenue growth in the back half of the year as a result of the initiatives we have under way, including product development, sales channel expansion, and the DaMar acquisition.

- For example, we expanded our product line with an agreement to distribute the Hyperice™ suite of products this summer and have secured and shipped our first orders for the recently launched Mio-Guard® premium reusable electrode, which is based on the acquisition of intellectual property earlier in the year.

- In terms of gross margin, we continue to see fluctuation between 30 and 35% per quarter with our long-term goal of reaching 40% as we scale our business.

- We had year-over-year gross margin growth of 152%, building gross margin to $3,029 thousand, as compared to $1,204 thousand for the same period in the prior year.

- This quarter we generated 30% gross margin in the face of renewed supply chain constraints that we experienced during the quarter. These issues have improved in the third quarter.

- In terms of profitability, we generated positive adjusted EBITDA of $1,427 thousand through the first half of our fiscal year, even as we invested in pre-acquisition activities, including the increased staffing, and implementation planning necessary to scale accounting and IT systems for integrating the acquisitions, and building sales and customer support systems post-acquisition. We also prioritized spending on product development to increase our high margin, branded product portfolio.

- We ended the quarter with $6,938 thousand in cash and cash equivalents which we plan to use on current and future acquisitions, as well as earnouts for completed acquisitions.

- We have options available through various lending opportunities that will allow us to take advantage of our expanding asset base as our revenues grow.

- In summary, we have a strong financial base from which to grow our business and plan to take down additional debt for acquisitions as needed. Our growth plan does not envision a need for equity financing.

- With that I will turn it back to Luke.

Luke Faulstick:

- Thank you, Dennis.

- We know the capital markets are under pressure and we look to be one of those companies that is a must-have stock. While we are still small and under the radar, with a couple more quarters of this type of growth, we think we will be more and more noticeable to investors in Canada. We are confident we will have continued growth and we can soon meet our internal goal of a US listing.

- Thank you to those who were able to join us on this call. We look forward to working to close the large acquisition under LOI, our continuous improvements in operations (the SGMD way), and we look forward to updating you on our revenue and profit growth for the third quarter in 90 days.