

FIRST QUARTER 2024 CONFERENCE CALL

Jess Jankowski, President & CEO

Thank you, Jonathan.

Good morning to all of those listening live and thank you to those following up online after the fact. We're looking forward to discussing first quarter 2024 results, our performance to KPIs, which will play a huge role in ensuring our success, and our outlook for the balance of 2024. Kevin Cureton, our Chief Operating Officer, is joining me on the call today. We have some prepared comments, then we'll be available for some Q&A afterward.

We'll continue to focus on our future, which we believe to be a bright and lucrative one, reviewing the things we've done to position ourselves for this, as well as covering Q12024 results. We had lots of news during the first four months of 2024 which, while not operational in nature, we certainly expect to contribute to our success going forward. We closed two equity financings in Q1, which were critical for us to keep growing and supporting both our expanded working capital requirements, and some modest capital projects needed to support additional Solésence volume. None of us wanted to have to walk away from profitable growth, which had been a steady pressure in 2023. Now we're able to continue to add good business, with improved throughput, while also reducing our costs per unit through automation.

We are focused primarily on enhancing profitability via gross margins this year, but the growth keeps coming and we want to capture it. Given the nature of the Solésence business, success leads to growth within existing customers as sales grow, and as they launch new product lines. Success with these customers also results in more opportunities for new business. Other brands don't want to be left behind as we all work to satisfy demand in this relatively newly defined market, a market we believe Solésence has been instrumental in creating and energizing, for prestige cosmetics offering natural, minerals-based skin protection.

Another key milestone, achieved just two weeks ago, was the successful settlement of our litigation with BASF. As I mentioned, our respective commercial teams have maintained a positive relationship through the entire process, and we're looking forward to our full focus being available to running our API business with BASF, and our Solésence business. The added management bandwidth we will be able to apply to our Nanophase and Solésence businesses will allow us to increase focus, and accelerate progress, in the strengthening of our enterprise and in increasing its value.

Now, let's walk through the numbers. Unless identified otherwise, all numbers will be stated in approximate terms. We had good results in Q1, generating a 36% gross margin on \$9.9M in total revenue, compared to a 23% gross margin over the same period in 2023. We also generated almost \$1.0M in net profit in Q1 of this year, compared to a \$1.2M net loss in Q1 of 2023, more than a \$2.0M swing. Our margins were driven largely by a favorable Q1 product mix, and a continuation of the gains we've seen in improved production efficiencies. We'll need a few more quarters under our belts to better understand all of the factors contributing to this, as we have yet to develop enough history to

allow for more accurate future predictions. Generally, the 35% to 40% gross margin range follows our 2024 Plan.

R&D Expenses were down about 10% year-over-year, while SG&A expenses were down 28%, or almost \$600K. About two-thirds, or \$400K, of the decrease in SG&A related to a reduction in legal fees for the recently settled litigation. Our Q42023 reorganization also contributed to these savings, which we expect to continue through 2024.

Last time, we addressed some of the changes we're implementing in manufacturing that we expect to deliver improved results, and increased capacity, in 2024. In a few minutes, Kevin's going to address our operating KPI performance, some of which will be enhanced by these investments. They will require a total of approximately \$2M in capital to implement, and we expect them to pay for themselves in 15 to 30 months from commissioning.

We broke these out into three projects:

1st) We are building out our own microbial testing lab. This will allow us quicker turnaround times on required testing of every batch we make, as well as reducing outside testing costs significantly. We expect to save approximately \$300K per year at current volumes, and have this project paid off in just over a year.

2nd) We are transitioning our wet processing lines to our Bolingbrook facility. This will result in at least \$400K per year in savings and pay for itself in 30 months or less. Critically, in addition to hard dollar savings per unit, this will help us to increase throughput, helping us to support greater demand, while increasing customer satisfaction.

Lastly) We are further expanding our filling and assembly operation in Bolingbrook, adding more automation, and allowing for increased volumes to be produced in less time than it takes today. We expect this project to pay for itself in about two years in terms of hard cash savings. It will also create more opportunity for greater sales growth at enhanced profits.

Combined, once these projects are completed this year, we should be able to support about \$100M in Solésence finished products with what we've put in place. This will represent a solid, stable base from which to more than double the size of our existing business within our current footprint.

Solésence products made up over \$8M, or 82% of our Q12024 sales, versus \$5M, or 53% of Q12023 sales. The demand is here.

Now I'll invite Kevin Cureton, our Chief Operating Officer, to share his thoughts on our progress to KPIs, and the approach we're taking through 2024. Kevin?

Kevin Cureton, Chief Operating Officer

Thanks, Jess. As usual, I would like to begin by thanking our teammates who every day demonstrate that we are indeed best in the industry at what we do, and our investors who continue to trust our leadership as we take the next steps on this journey. I also would like to thank the families of our teammates as we ask a lot of our team, and we would not be able to do what we do without the energy and support of our loved ones.

Last month we introduced 3 key performance indicators that we will reference throughout this year to provide guidance on our performance. These KPIs are inventory availability, throughput, and on time in full. As we noted last month, when combined with our financial analysis, these KPIs help give us a clear assessment on how we are performing and line of sight to the actions we need to take to continue to move our company on the never-ending path toward operational excellence. As a result, we refer to these as Operating KPIs. In addition to Operating KPIs, our company also has Growth KPIs. These KPIs are important indicators on how we are performing relative to our grow goals – and therefore how we are trending toward increasing our overall enterprise value. While currently providing strong indicators for continued growth, it is premature to talk much about these KPIs except to say we will introduce and discuss them in greater detail during our q2 conference call.

Let's get started on reviewing our operating KPI's. We will begin with inventory availability – which last month I described as measuring both the amount of materials we have on hand and the timing on when we have these materials on hand. During q1 we were able to finish the work that started in late q4 – to bring our inventory availability to over 95%. This milestone means that we had effectively addressed virtually all materials availability issues that had been the primary drag on our performance during the second half of 2023. I would like to commend our purchasing team as well as our r&d team on their collaborative effort to bring us to this point. Through working tirelessly to identify and qualify alternative suppliers and producers of key raw materials, these teams brought us through several tight spots to reach this current milestone. Further good news is that over the past month, we have sustained this performance in maintaining inventory availability at or above the 95% level, and we are confident in our ability going forward to continue this solid performance. To further augment our position, our team is also working hard on implementing our vendor development and management programs which includes amongst other elements bringing in additional qualified sources from around the world for key materials to minimize our out-of-stock risks and reliance on single source suppliers were possible. This work has already yielded some small, but still impactful improvements in purchase price, due both to volume growth and getting alternative sourcing. While we still have many miles ahead of us, we are pleased with the progress we have made and confident in the professional management that is being executed to continue to move us toward best-in-class performance in this area.

Our next KPI is Throughput. Last month I described this kpi as measuring how we performed relative to leveraging our assets to produce the goods we sell. More simply, throughput is a measure of exactly that

– the output from our company as measured by the units of finished goods and dollars of shipments we yield every week. During Q1, as inventory availability improved, it enabled us to improve our throughput, which while lagging the improvement in inventory availability, increased each month during the quarter. More specifically, throughput measures progressed from 50% of target in January to over 90% of target in March, yielding a Q1 average of 76%. To provide a little more context on this performance, consider that due to the strength of the improvement in throughput during the quarter, March represented over 40% of our total production and revenue for Q1. An additional strong indicator of further improvement in throughput was seen in our upstream output of bulk for the finished goods we produce. At the bulk production level we were meeting 100% of planned requirements, or 100% of throughput by the end of March.

We still have some bottlenecks in fully realizing the benefits of some of our investments on the secondary packaging area and we are hard at work in rectifying these issues. It will be important for us to address these issues so that we can achieve Q2 throughput requirements which are more than 30% greater than those of Q1.

Finally, turning our attention toward OTIF, there will be no surprise for the manufacturing folks online that OTIF lagged when throughput lagged. Remember that we define on time in full, commonly referred to as o.t.i.f. or OTIF as the percentage of orders shipped consistent with the dates we agreed to with our brand partners. Relative to our standard, we were less than 50% of our OTIF target. Our company goal remains to significantly improve OTIF into the greater than 90% level by the end of q2– and we are confident that as we exit q2 we will be on target with our throughput objectives which is the key to meeting our OTIF goal.

Finally, as we noted in our last call, our company is fully able to Handle Hard Better. It's foundational to our journey and the massive change we have made to our company over the past few months, let alone the past five years. Through continued focus on the measures and the development of our teams and teammates, we have solidly regained our footing. Our challenge remains to continue to raise our expectations to embrace the significant opportunities ahead – and raise our performance over the coming months so we turn them into profit growth. Back to you Jess.

Jess Jankowski, President & CEO

Thanks, Kevin.

As you can see, all of this reflects progress along the strategic course we charted some years ago when we launched Solésence. We believe we've put ourselves in a position to win and we intend to capitalize on that. We have more than \$40M in shipped and confirmed sales orders through this week, and we expect more to follow. Demand has not been our issue. Our struggles to satisfy that demand for our Solésence products has been our biggest limiting factor over the past few years. We expect to overcome that last hurdle this year.

Now, we'd like to take any questions or hear your comments on our results. While we know that most of our investors listen to the webcast, or review the transcript, after the live call, we're happy to invite those of you participating live on today's call to ask any questions you may have, or to share your feedback. Afterward, I'll offer a few closing comments. Jonathan, would you please begin the Q&A session?

Q&A SESSION PLACEHOLDER

Thank you, Jonathan.

We all really appreciate your engagement. We're building something that we expect will be profitable for all of us, will make people happier and healthier, and we expect will outlast all of us on this call.