

THIRD QUARTER 2023 CONFERENCE CALL

Jess Jankowski, President & CEO

Thank you, Norma.

Good morning to all of those listening live, welcome to those who choose to listen later online.

Thanks for joining us today for a discussion of our 3rd quarter 2023 results, the state of the business, and our outlook for the rest of the year, going into what we plan to be a watershed 2024.

Kevin Cureton, our Chief Operating Officer, is joining me on the call today. I have some brief prepared comments, and Kevin and I will have time for some Q&A afterward.

While our results are not yet reflecting it, we're in the process of implementing several things that we expect to return positive financial results in the near term. We've added to our Operations team, first with the VP of Manufacturing that we added in Q2, now with an experienced senior purchasing manager this month, who, in addition to having relevant and broad industry experience, has also built a purchasing organization from the ground up in a company with similar growth to what we've seen over the past few years with our Solésence business. That perspective and experience is something we'd been missing that we expect to profit from almost immediately.

We mentioned in the release that Q3 was impacted heavily by supply chain issues. Most related to purchasing and production planning, where we couldn't get everything aligned efficiently enough to deliver on our volume commitments. Barring existential events, we don't expect to have to deal with these types of things in 2024.

Given that much of our funding has been through the financing of working capital, low shipping volume leads directly to cash crunches. That leads to inefficiencies, operational compromises, and temporary losses of negotiating leverage. These things have been a struggle this year, beginning in Q2.

Another way we've addressed these issues is through the renegotiation of our existing loan facilities, and the addition of a modest amount of equity capital to give us some flexibility. We are also in the process

of securing some additional financing for capital equipment, as needed. We have received, or will receive, an additional \$3.2 million in cash over the next several working days. \$1.2 million of this will be through an expansion of our revolving credit line secured by inventory. We now have excellent terms on both our inventory and accounts receivable revolving lines through the support of our largest shareholder. The terms we have, which you can see in detail in our 10-Q, are significantly better than we believe we can get elsewhere. This has been a nice benefit to us, and helps us to focus more on the metrics we need to meet or exceed to help us to achieve our ultimate goal of increasing our enterprise value.

The remaining \$2M in financing will come from a shareholder rights offering that we are in the process of implementing, with an S-1 to be filed soon.

At a high level:

- We will offer 5,000,000 shares of stock, to our existing shareholders only, at a price of \$0.40/share.
- Each shareholder will have the right to purchase this Nanophase stock, based on their ownership percentage.
- The pro-rata calculation amounts roughly to the right to purchase one share of stock for every ten shares currently owned.
- We built in an over-allotment feature that will allow the purchase of an additional 60% of the pro-rata amount of shares, if desired.
- The principle here is that we want all of our shareholders to have the opportunity to avoid dilution, while supporting our forward growth strategy.

- Recognizing that our stock is thinly traded, this will present an opportunity to maintain or enhance your position, in a single transaction, at a fixed price.

- Our largest investor has agreed to serve as a “backstop,” to ensure that the entire 5,000,000 shares are purchased.

- o So, if the other shareholders do not express interest in purchasing their allotments, Mr. Whitmore will purchase the remaining balance.

- He has also agreed to extend the Company a \$2M bridge loan against the proceeds to allow us immediate access to this capital. This was funded yesterday.

The critical goal here is to head into 2024 primed to deliver more value through increased gross margins, reduced operating costs, and a more sustainable infrastructure. We’re definitely driving Solésence growth, but, enabled by the equity financing, we’re planning to do it with a greater degree of security, as we navigate the inevitable cyclicalities of our business. This is all the more important, because we don’t expect our Solésence business growth to slow for the foreseeable future.

We’re positioning ourselves for a strong 2024, with our primary focus to be enhancing profitability and efficiency. The growth will continue, and we have shown we can accelerate it further when the time is right. The last step toward building our value, is profitability.

Before we continue, let’s walk through the numbers.

Unless identified otherwise, all numbers will be stated in approximate terms.

Our Q3 2023 revenue was \$8M, versus \$9.7M for the same period last year. For the third quarter of 2023, we had a net loss of \$1.4M, or \$0.03/share, versus a net loss of \$0.8M, or \$0.02/share for the same period in 2022. Looking at the nine-month comparable numbers, we had \$29.3M in revenue in the nine months ended September 30, 2023, versus \$29.1M in the same period in 2022. For the same nine months of 2023, we had a net loss of \$2.3M, versus a net loss of \$0.6M for the same period in 2022. Much of this poor performance in 2023 relates to our extended struggles with getting product out the door, often due to external supply chain issues and internal bottlenecks.

As I mentioned last time, most of our external supply chain issues have been resolved. With the addition of our new purchasing manager, and the VP of Manufacturing, who was promoted to VP of Operations in October, and is just hitting his stride, we think we'll get the last of the internal issues resolved this quarter. An added benefit our enhanced purchasing function will provide, will be the reduction of our direct materials costs through more aggressive negotiation, and attention to discounted pricing programs available through many suppliers. The added capitalization will help here too. While gross margins are disappointing, a big contributor to that for Q3 has been that we couldn't get enough goods shipped, due to planning and logistics, not lack of demand, so we weren't able to absorb overhead.

We have seen some very strong labor utilization and throughput numbers with our new equipment over the past few months, and expect that to contribute to enhanced margins as we get the organization running more efficiently.

Moving down the P&L, 3rd quarter R&D and SG&A expenses combined were down \$400K, or 12%. We are currently spending a great deal of time internally to optimize our bang for the buck here, and expect to report on further progress at year-end. Looking at the nine-month numbers, if we back out the BASF litigation expense, SG&A would have been down 9% YOY. While we're continuing to incur expenses relative to the litigation with BASF, legal expenses were down to less than \$150K for the quarter. We've spent roughly \$1.2M dollars here during the nine months ended September 30th, with almost 90% of it distributed almost equally in the first two quarters. We also spent approximately \$400K in 2022 on this litigation. We continue negotiating with BASF in good faith, with an ideal outcome being a negotiated settlement. Litigation is still a possibility, and we continue to think we have a good case if things go in that direction, but the goal remains to resolve these issues with BASF as quickly and fairly as is practical.

We also saw nine-month interest expense almost triple, a \$375K increase from the same period in 2022, due to the combination of expanded borrowing, and a 5+% increase in the Prime Lending Rate over the past year and a half.

While this call has been focused on operations, we wanted to offer a few updates on the commercial side.

These are the reason that we all remain optimistic about 2024 and beyond:

1. In the release, we said we left September with about \$19M in open and shipped orders on the books.
2. Since Friday, we have \$3+Million more orders for 2024 booked, bringing confirmed PO's in total for 2024 to over \$13 Million.
3. Total remaining orders for 2023 are about \$5+ Million, with approximately \$4 mm in shipped orders so far.
4. Total customers exceed 60, with approximately eight of those companies purchasing greater than \$1 mm in products from us, and another half dozen purchasing greater than \$0.5 mm in products.
5. This leads to a more robust pipeline from which we expect further growth, in addition to new or growing customers coming in for 2024.

While we're not thrilled with 2023 bottom line performance, we continue to get excellent customer feedback.

This is where we build a one-two punch. We've fought most of this year to get ourselves a better footing for profitable growth in 2024. Along with growth, we have been focused on increasing our margins, but entering 2024, increasing our margins will be our primary focus.

It's about building value in the near term, which we know will lead to even more value over the next few years after that.

We're all investors in Nanophase and Solésence, and we all stand to reap the rewards we are working toward together.

Why don't we get right to your questions?

Although we know that most of our investors listen to the webcast, or review the transcript, after the live call, we'd like to invite those participating in today's call to ask any questions you may have, or to share your feedback. Afterward, I'll offer a few closing comments.

Norma, would you please begin the Q&A session?

Q&A SESSION PLACEHOLDER

Thank you, Norma.

As I have said, Demand for our products has not diminished. We're working hard to get them out the door faster, and to help more people be healthier, feel better, and look better with them. We're growing, we're winning award after award, and, we're winning new brand partners and consumers. While we're not thrilled with 2023 bottom line performance, we continue to get excellent customer feedback. We have \$23M in shipped and confirmed P.O.s after Q3. We added \$4M of those in the last few days.

In the release, we said we left September with about \$19M in open and shipped orders on the books. We have more than sixty total customers, eight of which are currently purchasing at more than \$1M per year, another six at over \$500K, and they all have significant upside potential. Consumer preference is on our side, and we now have to execute on becoming more profitable within this strong business that we have built, against the odds.

We now have to deliver, and we will. We're in this with all of you, and we appreciate your patience.

Thank you, again, for joining us today. We'll look forward to the next call, when we'll have more to discuss regarding our improvements to the profitability and stability of our business.

Have a good day everyone.