Solésence Fourth Quarter 2024 Conference Call Script

Operator Introduction

Good day. Thank you for standing by. Welcome to the Solésence fourth quarter 2024 conference call.

[Operator Instructions]

Today's call is being recorded.

During this call, management will make statements that include forward-looking statements within the meaning of the federal securities laws, which are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

This conference call may contain statements that reflect the company's current beliefs, and a number of important factors could cause actual results for future periods to differ materially from those stated on this call.

These important factors include without limitation, a decision of the customer to cancel purchase order or supplies, agreement, demand for an acceptance of the company's personal care, ingredients, advanced materials and formulated products, changes in development and distribution relationships, the impact of competitive products and technology, possible disruption in commercial activities occasioned by public health issues, terrorist activity and armed conflict and other risks indicated in the company's filings with the Securities and Exchange Commission.

Except as required by federal securities laws, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new events, uncertainties, or other contingencies.

I will now hand the conference over to your speaker, Mr. Jess Jankowski, President and CEO. Please go ahead, sir.

Jess Jankowski, President & CEO

Thank you, Operator.

Good morning, and thanks to all of you who have joined our call today.

Joining me on today's call is Kevin Cureton, our Chief Operating Officer. I'll begin with a summary of our fourth quarter results and a business update. Kevin will then discuss our operational initiatives. Then we will take your questions.

We are excited to be hosting our first conference call as Solésence, reflecting our simple, yet profound mission: Deliver Joy. We believe that joy comes from confidence, self-expression, and well-being, and we are committed to enhancing all lives by transforming skincare through our groundbreaking innovations.

Our rebranding also reinforces the broad success of our beauty science platform, which has not only revolutionized mineral-based sun and environmental protection, but it has also enabled us to achieve four consecutive years of growth. With more beauty brands recognizing the novel skin health benefits that our platform brings, we remain confident in our ability to sustain rapid and profitable expansion in the years ahead.

In connection with our rebrand, we launched a new investor relations website, enabling current and prospective investors to stay better informed of our developments. Our new IR site offers comprehensive information about the company, including detailed financial reports, historic Nanophase financials and disclosures, leadership team and Board of Director profiles, the company's news and announcements, and much more. We invite our investors to view our site.

Moving to our financial results, we had an impressive 2024 achieving record net profit and positive operating cash flow while reducing our outstanding debt. The milestones highlighted the continued success of our growth strategy underscored by the ingenuity and creativity of our team as we continue to promote our award-winning products.

Revenue for the fourth quarter reached $12.6 million, representing an increase of 57% year-over-year. For the full year, we generated $52.3 million in revenue—an increase of more than 40%, exceeding our base guidance expectations. These record-results reflect the continued strength of our commercial execution, and the continued demand for our products. The elevated fourth-quarter revenue was primarily driven by a shift in customer mix and the timing of product launches, many of which occurred later in the year than in previous cycles.

We're pleased to be growing at a robust pace, and thrilled to be doing this while expanding our margins. Gross margin expanded to 22% from 6% year-over-year in the fourth quarter. On a full year basis, our success was more evident, as we increased our gross margin to 31% from 21% year-over-year. I would like to remind listeners that the fourth quarter has typically been our seasonally weakest, but in spite of these usual fluctuations, our business continues to yield positive results.

Our fourth quarter 2024 net loss was narrowed to $600K from a $2.1M net loss in the prior year period. For the full year 2024, we generated net income of $4.2M, a sharp increase from a net loss of $4.4M in 2023, representing an $8.6M improvement year-over-year.

Our business model and products underscore the success that we are able to achieve.

Customers recognize the value of our products, and that speaks to the quality that we deliver.

We continue to execute well, growing relationships with a series of leading brand partners across our line of consumer products. These include Colorescience, a leading dermatologist-recommended brand, Tatcha, a Japanese inspired prestige brand, and Credo, the leading clean beauty retailer. There are a series of other brand partners who we are not at liberty to disclose, but represent a large percentage of our revenue mix.

Our strong financial results were achieved in part because we have an amazing product that just won another award. Au Lait Face Milk SPF 50+ featuring Solésence Kleair™ technology, was named a winner in the best prestige finished formula category at the 2025 Cosmetics & Toiletries

(C&T) Allē Awards. This award recognizes the company's achievements across criteria including novelty and practicality, sustainability, safety, stability, and proof of efficacy. It also marks the company's third consecutive win at the prestigious Allē Awards. Listeners may recall that in 2024, in addition to an Allē Award we also won our third consecutive Cosmopack Award for Best Formulation at Cosmoprof North America.

Shifting gears, another customer that recognizes the quality and performance inherent in the personal care ingredients we supply is BASF, one of our largest customers in 2024. We have a long-term exclusive relationship with BASF, primarily to provide nano-scale specific zinc oxide-based Active Pharmaceutical Ingredients, or "APIs," in personal care cosmetics, with sunscreens and daily wear products being the dominant applications.

We expect that these successful relationships, as well as future customer demand, will contribute to our future growth.

Looking ahead to 2025, we anticipate sustaining momentum both on the top and bottom lines. We expect to generate continued growth supported by solid demand from brand partners and customers who remain enthusiastic about the unique benefits and performance that our products bring to enhance end-consumers' health and well-being. We remain on track to deliver additional volume in 2025, as demand for our products outpaces the current market growth rate, while continuing to enhance our operational efficiencies and scale for growth.

At this time, I'll turn the call to Kevin Cureton, our Chief Operating Officer, to share an update of our progress and outlook. Kevin?

Kevin Cureton, COO

Thanks Jess. And as I always like to begin, I would like to thank our amazing team for their tireless commitment and demonstrating through our results their ability to consistently deliver solid performances for our investors, our brand partners, and for ourselves.

To echo’s Jess’ comments, 2024 was a transformative year for Solésence. We achieved record revenue, strong year-over-year growth and expanding margins all of which contributed to our positive operating cash flow.

Operationally, we remain focused on improving and expanding our facilities to maximize both the growth we can achieve and the improvements we can make in both product quality and profit margin over the next few years. As we take the next step in our evolution, I’d like to share some of the key operational initiatives we have undertaken or completed in Q4 in order to meet the growing demand for our business.

First, we expanded our batch-making capabilities at our Bolingbrook facility by adding the infrastructure for six production suites. We believe this will provide capacity to meet current customer demand as well as allow for the creation of substantial additional capacity to enable expansion of key product lines. In total, the increased capacity will support in excess of $200M on an annual basis from the consumer products line.

Second, we continue to ramp up throughput. During the fourth quarter, we produced twice as much unit volume as we did in the same period in 2023.

Third, we continue to develop and expand our formulating capability. This resulted in the launch of more than two dozen new stock-keeping units, or SKUs, of fully formulated finished cosmetic products. These products addressed markets focused on skin health, with the majority sold in the prestige beauty segment.

Finally, we further strengthened our competitive position with two new patents related to our plant-based antioxidant technology and our skin-soothing technology. In keeping with our IP strategy, both of these patents increase our ability to create sustainable competitive advantages for our brand partners and for ourselves.

In closing, as we have stated previously, a core goal for our business is to continue to sustain rapid top line growth while improving overall profitability. We expect that, as product volume increases, our fixed manufacturing costs will be more efficiently absorbed, which should lead to increased margins. We also remain focused on reducing controllable variable manufacturing costs while executing our growth strategy to sustain a profitable growth trend. Combined, we believe this will help us in the long-term, create the valuable company our shareholders expect and deserve.

I'll now turn the call back to Jess. Jess?

Jess Jankowski, President & CEO

Thanks, Kevin.

We continue to see unprecedented demand for our consumer products, and we believe that this growth is happening now due to a confluence of our technology, market conditions that favor what we produce, and our expanded expertise in these areas.

Our market is vast and continues to grow. Beauty celebrates the individual – and these individuals, of all sizes, shapes, and colors, make up a greater than $570 billion industry on a global basis. To support our brand partners around the world and across beauty's categories, we are dedicated to creating transformative skincare and beauty products that protect, nourish, and celebrate every skin tone, type, and identity.

Turning to our book-of-business, for purposes of comparison, our shipped and open orders are currently $38M, compared to about $35M at the same time in 2023. The key difference year over year, however, are that about 23% of last year's number was for the 2nd half of 2023, whereas only 7% of the current $38M in open and shipped orders applies to 2025's 2nd half. For our prestige beauty segment, our largest segment, we anticipate backlog to increase in the first quarter of 2025 with a higher volume of shipments to occur in the second quarter. This will be driven by a year-over-year increase with our existing brand customers.

We anticipate record revenues for Q1 of 2025, and we expect more orders coming in relating to reorder quantities and launches for the 2nd half of 2025.

As Kevin mentioned earlier, our top focus is on meeting our robust customer demand. We will continue to invest in areas where we can achieve scale and grow capacity while focusing on working capital management.

In light of the success of our commercial strategy and the strong growth we've achieved, we’ve made the decision to pursue an uplisting to the NASDAQ market in 2025, pending eligibility. As part of this effort, and in anticipation of additional requirements, we are initiating the search for a dedicated Chief Financial Officer to further strengthen our leadership team.

At this time, we would be happy to take your questions. Afterwards, I’ll offer a few closing comments. GiGi, please open the call for Q&A.

Q&A SESSION

Jess Jankowski, President & CEO

Thank you to all those who took the time to join us today.

Solésence is where science meets self-expression. We are redefining mineral-based sun protection by maximizing transparency, effectiveness, aesthetics, and wearability — empowering individuals to embrace beauty on their own terms. It is our relentless commitment to scientific excellence and innovation that sets us apart.

In closing, I'd like to thank our wonderful team, whose dedication to our mission drives us each and every day. I'd also like to thank our customers and our shareholders whose continued support is critical to our long-term success. We look forward to updating you on our progress in what we believe will be another record-breaking year at Solésence.

Gigi, you may close the call.