Solésence Third Quarter 2025 Conference Call Script

Operator

Good day. Thank you for standing by. Welcome to the Solésence third quarter 2025 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'll now hand the conference over to Kevin Cureton, President and Chief Executive Officer. Please go ahead, sir.

Kevin Cureton
Thank you, operator. And thank you to all of our investors, teammates, and friends joining us today. We have a lot to cover, so we appreciate your time, patience, and attention.

Today is a meaningful moment in the history of Solésence. This is my first opportunity to speak with you since stepping into the role of President and Chief Executive Officer. I am truly honored to take on this responsibility and energized by the incredible talent of our team and the strong opportunities ahead to continue growing profitably with our brand partners.

It is also a significant moment for another reason. Today marks Jess' final earnings call as a member of the Solésence leadership team. Many of you may know that Jess and I began this journey together in 2012, when he brought me in to help chart a new path forward. The conversations we had during that interview process about transforming the business from a materials company into a product-focused organization became the foundation of what Solésence is today.

Jess has been an exceptional partner to me and to all of us, working tirelessly to ensure we had the financial strength to grow, innovate, and establish ourselves as a leader in beauty innovation.

With that, I'd like to turn it over to Jess for a few remarks. Jess?

Jess Jankowski
Thanks Kevin. Since this will be my final earnings call, I'd like to briefly touch on my time at Solésence and why now is the right time for Kevin to lead the company going forward.
Over the past decade, Solésence pioneered the skin health and mineral-based beauty industry establishing more than 90 globally issued patents across four technology platforms.

By collaborating with our brand partners, the use of mineral-based active ingredients in beauty products has become more widespread. Now, we're seeing more and more brands infuse their products with SPF technology.

We've grown at a CAGR of greater than 7X as compared to our addressable market in the skin care, color cosmetics and sun care cosmetic areas, and have won 8 awards for product and technology innovation so far and are sure to win more.

Now, we are the industry leader in this space. And as I pass the torch to Kevin, we believe we can expand on this position for several reasons:

- First, the complexity and difficult logistics that go into creating these types of products means that our industry has substantial barriers to entry that limit the number of potential competitors.

- Second, we possess a unique mix of expertise, best-in-class technology, and manufacturing capabilities, that very few can match.

- And third, Solésence will maintain the same relentless commitment to scientific excellence and innovation that has always driven us.

As I've reflected on my time here, I couldn't be more gratified by what we've accomplished. The transformation of Solésence is a testament to the hard work and dedication of our team, and I'm grateful for having the opportunity to work alongside so many talented individuals. It has been no less than a privilege.

This includes Kevin, with whom I have worked closely for over a decade. With his extensive industry experience, deep expertise and vision, I'm confident that he is the right person to lead Solésence into this next exciting era of growth.

I will now pass the call to Kevin, who will provide a summary of the quarter as well as the vision and outlook for the company. Kevin?

Kevin Cureton

Thank you, Jess for your partnership. And again, congratulations! Turning now to our work today. I have been honored to be in leadership positions with Solésence for over a decade, including leading the founding and development of our core Consumer Beauty, Health and Wellness business, which has grown into the company we are today.

While that journey and the accomplishments Jess covered have all been important achievements, and we should feel rewarded, our entire organization knows we have much work ahead of us as evidenced by our third quarter results. The third quarter of 2025 represented the first quarter in almost two years where we did not have a year-over-year revenue increase. Admittedly, Q3 2024 was a record quarter for our company in both revenue and profitability, and represented the level of profitability and performance we expect - so the comparison was going to be difficult. However, we remain confident in our ability, both on a near-term and a long-term basis, to continue growing at a multiple of the industry's growth rate and to remain highly profitable while doing so.

Our confidence is reinforced by the growth plans of our strategic brand partners. Without exception, each of them is expecting to outperform the market, in the same manner as they have over the previous two years. Our products are important drivers for these companies' revenue, typically representing 30 – 60% of their business volume. So, their success is our success. These brands are winning in the key retail segments where consumers want to buy beauty products – specifically at specialty beauty retailers and through TikTok and Amazon. Revenue growth combined with best-in-class profitability comes from the combination of the changes we've made in our leadership and our organization's structure. We believe three factors have hindered our ability to generate profitable growth. These are (1) product design, (2) labor efficiency, and (3) inventory control. I'll now touch on each of these areas in greater detail and how we addressed them by our recent changes.

First, product design is related to having exacting specifications not just in terms of what the product is made from, but also how it will be manufactured and how it will perform. For the Solésence business, this is more complex because unlike many other beauty products, the products produced by Solésence are considered over the counter drug products. They must meet product performance criteria similar to what is required of prescription drug products, while ensuring that the product delivers a **joyful experience** such that the consumer will buy it again and again. And we must be able to make it consistently at high volume at a cost that's 20% or less of the retail value. Our ability to deliver on these criteria gives us a sustainable competitive advantage which protects our business position and is a critical factor to achieving profitability standards we expect. Every day, on millions of units annually, we meet this standard. However, when we have underperformed in this area, it was a significant factor in our results.

During the end of Q2 and all of Q3, we reorganized the team responsible for ensuring product integrity, creating a newly unified group accountable for product design from the initiation of the product concept all the way to product shipment. This unified group - the innovation and product integrity group - is a combination of the R&D and quality departments. Through the unification of this group under one leader, we have already seen improvements in both clarity of product requirements and control to ensure that products are made right the first time. The new leader, Yoana Dvorzsak, who was just appointed as Vice President of Innovation & Product Integrity, is also being recognized by the renowned Cosmetic Executive Women's group, or CEW, as they are more commonly known, as a

2025 Innovator Honoree. This honor reflects not just our confidence in Yoana's ability to help us drive more profitable growth, but also the industry's awareness of her exceptional capabilities.

Moving on to the next area of improvement, labor efficiency, this issue has long impacted our direct profit performance. To be clear, this is not just direct labor cost but also is impacted by our maintenance and engineering efforts that drive both uptime and throughput. As some of you know, we began investments in this area almost two years ago. These investments have included automating our processes and implementing overall equipment effectiveness, or OEE, which is a key metric for managing our manufacturing processes. While these investments initially enabled a significant improvement in capacity, it was only during Q3 that we finally started to see the positive impact on labor efficiency.

Those improvements enabled our company to reorganize its operating schedule, virtually eliminating overtime expenses while maintaining improved operating capacity and flexibility. These improvements were reflected in a reduction of the average labor cost per unit by close to 25% on a year-over-year basis, and an increase in our OEE performance by 10 percentage points. We further strengthened this area by reorganizing the reporting structure, which was partly enabled by consolidating our three facilities down to two. The consolidation alone will yield a mid-six-figure reduction in annual operating costs. We further expect that the labor efficiency savings will contribute to a similar high six-figure to low seven-figure reduction in direct labor expense on an annual basis as we move forward.

Finally, and perhaps most impactful, is our inventory control. The change in the scope and scale of our customer base has brought a change in the scope and scale of both the number of raw materials and components that we purchase and the number of products that we produce.

To put it in perspective, just six years ago, we generated 80% of our revenue - $8 million - from 40 products built around a dozen raw materials. In fact, 60% of our revenue resulted from just five products built around three raw materials. Fast-forward to today, 80% of our revenue - approximately $50 million - is generated by over 300 products and well over 1500 different raw materials and components.

It's easy to see how this change, when not effectively managed, can negatively impact our ability to realize the full profit potential of our company. I'll now briefly describe how some of the initial changes that have been put in place will help drive profitable growth.

The change we have made in manufacturing leadership now allows the most senior leaders in operations to be focused on addressing our supply chain challenges. Some of the first work that has occurred here is to increase material surveillance and control, resulting in almost daily tracking of variances that could occur through materials handling, consumption of materials in batch making, or spillage and waste. By increasing surveillance, we're now able to capture the significant issues that can contribute to negative income and put in more impactful corrective actions.

There is still much more to be done, but I'm confident in the ability of our teams, who's leadership is now comprised of people with direct experience in the beauty and personal care industry and come from organizations that are some of the largest and best operated in the business.

I'll now turn the call over to Laura, who will provide a recap of our financial performance, Laura?

Laura Riffner
Q3 Financial Results Review

Thank you, Kevin, and good morning everyone. I'm pleased to be joining you on today's call. Revenue for the third quarter was $14.5 million, a decrease of 14% year-over-year amidst a general softening in the industry reflecting the shift in consumer behaviors. As Kevin mentioned earlier, last year's third quarter was a record quarter creating a challenging comparable as our customers adjusted their inventory levels as compared to the third quarter of 2024.

In the third quarter, our shipped and open orders, which represent the total value of customer orders that we've either already shipped or are still awaiting fulfillment in 2025, is currently $64 million, compared to $34 million in the third quarter of last year, and $60 million in the second quarter of 2025.

Gross profit in the third quarter was $3.4 million, compared to $6.1 million in the third quarter of 2024. Gross margin was 23%, compared to 36% for the same period last year. The decrease was related to manufacturing operating inefficiencies and facilities improvements.

Operating expenses in the third quarter totaled $4.2 million, compared to $2.9 million in the third quarter of 2024. The increase is due to increased employee-related costs, legal costs, allowance for credit loss, severance costs and costs related to our uplisting to Nasdaq in 2025.

During the third quarter, other income included an adjusted payment of $1.2 million relating to funds received from U.S. Department of the Treasury under the Employee Retention Credit (ERC) program, along with approximately $300,000 in interest received related to the delayed payment. The ERC is a refundable payroll tax credit made available under the CARES Act and subsequent legislation. Interest income included interest paid relating to this amount of about $200,000 in the third quarter 2025. The ERC payments and related interest did not apply to 2024. [COMPANY CORRECTION: THE ERC CREDIT WAS RECEVIED IN THE SECOND QUARTER OF 2025]

Solésence reported a net loss of $1.1 million, compared to net income of $3 million in the third quarter of 2024.

Adjusted EBITDA for the quarter was a loss of $435,000, compared to adjusted EBITDA of $3.6 million for the third quarter of last year.

As Kevin noted, we made significant improvements to our business operations that will enable us to grow and deliver the highest quality products to our brand partners more efficiently and from a greater cost position.

That concludes our opening remarks. Operator, you may open the call for questions.

Operator
[Question and Answer Session]

Kevin Cureton
Concluding Remarks

Back in 2019, when the consumer products business was less than $2 million, was the first time our company used the phrase, “the future of sun care is the future of beauty.”

Looking forward, we believe that this remains true. Consider that sun care is expected to be one of the fastest growing segments in beauty over the next five years. Furthermore, we observe the ongoing transition of daytime products to incorporate UV protection as a key benefit, enabling longevity, health, and wellness. Because of these market dynamics, our technological and product leadership, and commitment to driving improvements and operations that will yield significantly improved profitability, we remain confident and committed to delivering best-in-class performance not just to consumers but also to our shareholders.

In the coming weeks, we will release our first investor presentation. This will help each of you further understand our confidence in our future and the returns that our business can deliver to our investors.

Like longevity and health, our process to deliver these results is a journey. We appreciate all of you who will remain on this journey with us, as we believe, like the prior five years, the next five years will yield dynamic returns for our investors.

Thank you and have a great day and happy holiday season to all of you.