

Kalera

Third Quarter 2022 Earnings Call

November 15, 2022, at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Julie Kegley - *Financial Profiles, Inc.*

Jim Leighton - *President & Chief Executive Officer*

Fernando Cornejo - *Chief Financial Officer*

Austin Martin - *President, North America & Chief Operating Officer*

Jade Stinson - *Co-Founder & President*

PRESENTATION

Julie Kegley

Good morning, and thank you for joining us today to discuss Kalera's financial results for the Third Quarter of 2022. Yesterday evening, we issued our earnings release, which is available in the Investor Relations section of our website at investors.kalera.com.

With me on today's call are Jim Leighton, President and Chief Executive Officer; and Fernando Cornejo, Chief Financial Officer. We will begin with prepared remarks and then take your questions.

Before we begin, I would like to remind you that today's comments will include forward-looking statements as defined under Federal Securities Laws. Forward-looking statements are identified by words such as believe, expect, intend, estimate, project, anticipate, will, plan, design, may, should or other comparable words and phrases. Statements other than statements related to historical facts, such as statements regarding future results of operations and financial position, our business strategy and plans and our objectives for operations are also forward-looking statements.

Our actual results or performance could differ materially from those contemplated by such forward-looking statements. A discussion of the risk factors that could cause a material difference in our results compared to these forward-looking statements are contained in our SEC filings, including our report on Form 10-Q. Kalera assumes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after today.

With that, I will now turn the call over to Jim Leighton.

Jim Leighton

Thank you, Julie and good morning, everyone. We appreciate you joining us today on our third quarter 2022 earnings call and for your interest in Kalera.

The last several months have been transitional for Kalera. The long term outlook for regenerative food systems, controlled environmental agriculture, vertical farming and Kalera remains extremely bright and my optimism for the future of these new forms of agriculture has never been stronger. However, what has undeniably changed over the past six months are the capital markets and the availability of capital for microcap companies like Kalera.

The volatility in markets and interest rates this year have been at times unprecedented and require us to remain flexible and maintain optionality. As I shared with you last quarter and at our analyst event in September, my number one priority since taking the helm as CEO earlier this year is to achieve profitability in our working U.S. farms and in the company as a whole as quickly as possible. We're making great progress on this goal, and I'll provide more details in a moment.

Let me first share with you what we must do to achieve our number one priority. There are three, and I repeat three imperatives to achieving our profitability goals: 1) materially reducing our cash burn in operating expenses, capital expenditures, and general and administrative expenses; 2) complete the necessary enhancements to our U.S. farms to expand capabilities to produce a wide range of products, allowing us to sell more volume and thus increase the utilization of our farms; and 3) solve our capital needs and liquidity challenges.

Now let me turn to how we're going to achieve these three imperatives. As we outlined last quarter, we halted capital investments on our international farms and non-operating U.S. farms with the exception of St. Paul. We made the decision to divest our international assets, thereby eliminating capital, and operating and G&A expenses from our monthly cash burn. We are also well into the process of seeking a buyer for Vindara. This will both reduce our cash burn and potentially bring necessary capital into the business.

In both of these cases, we believe that we will still benefit from the technology and the market potential of these businesses, while not carrying the burden of monthly cash outflows of businesses in their start-up and cash burning phases. We intend to retain upside in the international business if we want to reengage at a later date.

Kalera and many of our customers will still benefit from our great relationship with Vindara in areas of efficiency, quality, and innovation. The sale of these businesses will result in a significant reduction in capital, operational, and G&A expenses allowing us to achieve cash flow breakeven much quicker than if we continued supporting these businesses financially. This is in the best interest of all of our shareholders, as we reduce our monthly cash burn by approximately 50% in the areas of capital and G&A.

Next, we are aligning our organizational structure to support the execution of our strategy by reducing G&A to better reflect the size of our current business. The majority of these savings will come from the divesting of our international assets. Optimizing our corporate structure to fit the new size of our business will reduce corporate G&A expenses by approximately 50% annually. These actions to reduce our G&A and capital expenditures will be fully executed and in place early in 2023.

To be successful will require continued investment in our U.S. farms. To this end, the public stock offering we completed last month allows us to continue these investments, as well as provide the necessary liquidity to run our business.

Now, I want to be clear that the most recent public offering did not solve all of our investment and liquidity needs, but it did provide us some runway to continue making significant strides in achieving our financial objectives.

At our Analyst event in September, we told you we needed to invest \$50 million in the business to reach profitability at the farm level by the end of 2023. By divesting international assets in Vindara, we estimate to reduce that need by approximately 22%. We expect to reduce the gap further through various strategic options we are investigating to properly capitalize Kalera. Fernando will discuss in more detail the potential sources and use of these funds.

Our vision and new strategy for Kalera is already realizing its benefits and is on-track to deliver profitability at the farm level in 2023. To demonstrate the improvements we are seeing in our business, I want to take just a few moments to highlight some of our third quarter results before Fernando reviews those results in more detail.

Our revenue more than doubled compared to Q3 last year as we benefited from growing customer relationships, higher volume and improved product mix as we executed our strategy to better balance our mix of volume between foodservice and retail channels. In fact, we added 165 additional retail stores in the quarter for a total of nearly 1,500 at the end of Q3. Kalera's products are in demand and the value proposition for our customers and consumers is clear.

On the bottom-line, we saw a real and sustainable progress in our operational metrics. We are consistently hitting our yield targets. On both the top and bottom-line, we are meeting or exceeding our goals and we continue to push forward to reach profitability in 2023.

I'll now turn the call over to Fernando for the financials.

Fernando Cornejo

Thank you, Jim. I will begin our discussion with a summary of the third quarter results. On slide 6, total revenue increased to \$1.7 million, a 109% increase over third quarter last year and a 30% increase compared to the second quarter this year. The increase in revenue reflects sales increases at all operating facilities, plus the Denver facility that opened in Q2 2022. The increase reflects overall growth from whole-head products and also the launch of loose leaf products at the end of Q3, which supports our 2023 profitability strategy.

Cost of goods sold was \$5.9 million compared to \$2.1 million in the prior year period. This includes all operating costs for Orlando, Atlanta, Houston, Denver and Kuwait farms.

SG&A expenses totaled \$10.8 million compared to \$7.4 million in the third quarter last year and \$24.6 million in Q2 of this year. The year-over-year increase was primarily due to increases in additional resources to manage five farms in 2022 compared to three farms in 2021 as well as additional expenses associated with being a NASDAQ listed company.

Operating loss for the third quarter was \$20.7 million compared to a loss of \$11.1 million for the third quarter last year. The operating loss included a one-time, non-cash expense of \$2.3 million for asset impairment related to the Hawaii and Columbus facilities. Adjusted EBITDA loss was \$14 million.

We recorded two changes in fair market value during the third quarter. These are non-cash items. One was the gain of \$13.3 million that was recorded for the change in fair market value of the earn out liability compared to zero last year. Also, a net gain of \$6.5 million was recorded for the change in fair market value of the private warrant liability compared to zero of last year.

Turning onto slide 7, we saw sales growth in both retail and food service in the third quarter for a total of 109% growth over Q3 of last year, with more growth shifting to higher margin retail products. For the nine months' comparison, we saw sales growth of 173% increase over last year.

We had several non-cash items during the third quarter, as noted on slide 8, including a \$19.8 million change in fair market value or contingent value rights in connection to the earn out of Kalera SA shareholders and change in fair market value for warrants in connection to the private placement. The total impact for all non-cash items was \$17 million for the quarter.

Moving on to cash flow on the balance sheet on slide 9. For the first nine months of 2022, cash used in operating activities was \$49.4 million compared to \$10.3 million for the same period last year. The use of cash was mainly driven by expenses from new facilities that opened in the second half of 2021 and during 2022, and the expenses related to the closing of the Agrico business combination on June this year.

Cash used in investing activities during the first nine months of 2022 was \$23.4 million and was primarily concentrated on investments in the Denver, Seattle and St. Paul farming production facilities. That compared to \$110.1 million that was invested in Atlanta, Houston, Denver, and Seattle farming production facilities, in addition to the acquisition of Vindara in the same period of last year.

Cash from financing activities was \$57.4 million in the first nine months of 2022 compared to \$63.2 million in the same period of last year. It resulted in cash and cash equivalents of \$2.3 million as of September 30, 2022.

Turning now to slide 10, we took important steps to increase our liquidity and strengthen our balance sheet. First, we added approximately \$6 million from Farm Credit and we also added up to \$4 million in financing from the convertible loan. Also, and as mentioned on our last quarter's call, we executed a private placement in the amount of \$10 million during the third quarter.

Subsequent to the close of the quarter, we also raised \$8.8 million before fees and expenses through a public offering. In short-term liquidity, we have up to \$6 million under the existing \$20 million convertible loan program. In addition, on October 18, we announced our plans to divest our subsidiary Vindara, and the assets of our international business. We expect these divestitures will address our strategy to bring our farms to cash flow positive much faster than anticipated while reducing capital requirements for all Kalera holdings.

And now I will turn the call back to Jim.

Jim Leighton

Thank you. Fernando, I know we've given you a lot of information to take in, and I understand investors' frustrations with the rapid pace of change at the company, but sometimes meaningful, rapid change is necessary to achieve long term objectives. What I want investors to know is that the transformation to cleaner, sustainable agriculture is here and it's happening now, and I believe Kalera is better positioned than anyone in vertical farming to be successful with the support of our investors, the financial community, our customers and our many, many stakeholders.

Our products are fresh, local, nutrient rich, leafy greens and are in demand, and our national footprint in CPG positioning provide us a concrete competitive advantage. The consumer has already moved up the adoption curve for our produce, which means the demand is there, we just need to fill it. Our current valuation does not reflect our long term growth prospects or our approximate \$270 million in assets or our improved operational performance or our roadmap to profitability.

We are operating in a leading and a new industry, and that comes with a certain level of uncertainty. And the recent market volatility has added an extra layer of challenge down to our business. But I can tell you that I believe in this company, our people, our customers and our ability to provide transformative product to the market, and we will continue to work every day to create value for all of our stakeholders.

That concludes our prepared remarks. We'll now begin the Q&A portion of our call.

QUESTION AND ANSWERS

Julie Kegley

Thank you. We will join for the Q&A. Our first question, "Can you provide an update on your sales process for international?"

Jim Leighton

I believe that question comes from Brian Wright at ROTH Capital. So Brian, thank you for the question.

Let me go over both the sale of and divestitures of both Vindara as well as International because although they are somewhat related, the outcome of each is a little bit different. As I stated earlier on

the call, we're well into the process of selling Vindara. We engaged ROTH Capital to lead this effort to ensure we maximize shareholder value. And internally, Dr. Jade Stinson who's with us today, is really leading that effort for us with ROTH.

So maybe, Jade, if I could ask you to give a brief update relative to where we are.

Jade Stinson

Yes, we're deep into the process and we anticipate a firm offer some time in December to close the deal by year end.

Jim Leighton

Great, thanks. And as it relates to International, International is not as far into the process but we have initiated a formal process to sell the assets as we indicated in International and have a number of parties who are looking at those various assets, which includes our facility in Singapore, a facility in Kuwait, and Germany. Thanks for the question.

Julie Kegley

Next question. "Can you give us an update on your progress with US Foods relationship?"

Jim Leighton

I'd be happy to. Joining us on the call today as the president of North America, Austin Martin. Austin, could you take that one?

Austin Martin

Yes. Thank you, Jim. We've seen significant progress in Q3 as it relates to our US Foods relationship. As many of you know, when we announced this relationship in Q2, the importance of it is to fulfilling Kalera's strategy of serving both the food service channel and the retail channels. This last quarter, we saw the launch of the majority of US Foods Northeastern divisions, the successful launch. If we look at our sales in the efood service channel, they've outpaced our expectations and we're one of the major primary drivers of that business.

As we look at going into Q4, we anticipate even more growth from that partnership as we look at different ways of launching new products, as well as continuing the rollout in the remaining divisions of US Foods. We continue to see this as a valuable partnership and an important aspect of Kalera's strategy and the recent success, I think, demonstrates the benefits of this strategy to Kalera driving Q3 sales results.

Jim, back to you.

Jim Leighton

Thanks, Austin.

Julie Kegley

The next question, "Can you comment on the sector given vertical farm closures and workforce reductions?"

Jim Leighton

Yes, I mentioned in my earlier comments for microcap companies and start-ups and so forth, the volatility in the markets have made this extremely challenging, not just for us, but for a number of companies especially over the past year or six months and so forth. And that leads me to why our top three priorities are what they are. Number 1, reducing the cash burn and making sure that we have

proper liquidity in the company so we can complete what we started in the U.S. and turn these facilities profitable.

One of the things that's different within Vindara is because we do have a national footprint, we have relationships with national retailers as well as food service providers, so I think that's a huge benefit. Would anyone like to add anything from management on that? Great thanks. Next question.

Julie Kegley

"How should we think of drivers of revenue growth in the next couple of quarters?"

Jim Leighton

Austin, can I ask you to take that?

Austin Martin

Yes, sure. Jim. Thank you. As mentioned, the US Foods partnership is critical and will continue to be, providing a solid base of growth into the coming quarters. Additionally, we saw the launch of our loose leaf products at the very end of Q3. While they didn't contribute significantly to our Q3 results, we see them outperforming our expectations and continue to be an important growth driver for us in the future as we continue to expand our product line, and further into the retail channel.

As Jim mentioned, an important aspect of that is continuing to ready our farms to better serve and produce this product. We'll continue those upgrades into the first part of next year to help support this continued growth of these new product lines. And you'll begin to see how our product mix shifts towards a more balanced, loose leaf whole-head portfolio, which addresses the larger portion of the leafy green markets. As you may not know, the leafy greens segment almost with loose leaf is 10x larger than the whole-head segment, which is why we expect a significant portion of our growth to come from that category.

CONCLUSION

Jim Leighton

Any other questions?

Julie Kegley

No further questions. I'll turn it to Jim to close.

Jim Leighton

Okay. Thank you. And thank you, everyone, for joining our Q3 results call today. We really appreciate all of your interest in Kalera, and we'll keep you updated relative to our results. Thank you.

Operator

Ladies and gentlemen, this concludes today's event. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.