

Transcript of
Tivic Health Systems, Inc.
Q2 2022 Shareholder Update Conference Call
August 15, 2022

Participants

Jennifer Ernst - Chief Executive Officer
Veronica Cai - Chief Financial Officer

Analysts

Presentation

Operator

Welcome to the Tivic Health Systems' Q2 2022 Shareholder Update Conference Call. All participants will be in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, that this conference is being recorded.

Statements made during this call contain forward-looking statements about our business. You should not place undue reliance on any forward-looking statements as these statements are based upon our current expectations, forecasts and assumptions, and are subject to significant risks and uncertainties. These statements may be identified by words such as may, will, should, could, expect, intend, plan, anticipate, believe, estimate, predict, potential, forecast, continue, or the negative of these terms or other words or terms of similar meaning.

Risks and uncertainties that could cause our actual results to differ materially from those set forth in any forward-looking statements include, but are not limited to, the matters listed under the risk factors in our annual report on Form 10-K for the year ended December 31st, 2021, filed with the Securities and Exchange Commission on March 31st, 2022, and in our other filings with the Securities and Exchange Commission.

Statements and information including forward-looking statements speak only to the date that they are provided unless an earlier date is indicated. And we do not undertake any obligation to publicly update any statements or information including forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Now, let me hand the call over to Jennifer Ernst, Tivic Health's Chief Executive Officer.

Jennifer Ernst - Chief Executive Officer

Hello, everyone and thank you for joining us today for Tivic Health Q2 2022 financial and business results conference call. I'm Jennifer Ernst, CEO of Tivic Health, and I could not be more excited to be sharing with you today the results of our second quarter.

We value greatly our shareholders and all stakeholders those who covered the company and those who helped evangelize that. We look forward to giving you updates today on both the financial and the business section. Now also joining me on the call today is Veronica Cai, our CFO.

So please let me begin with the growth and business update before we go into the details of the financial portion. I of course want to remind everyone who have brought Tivic Health here. We are a bioelectronic medicine company and we believe that bioelectronic medicine, the use of the electrical signals of the body represents one of the most exciting frontiers in medicine today.

We have delivered the power of this new form of medicine into a handheld device in the hands of consumers today for the treatment of sinus conditions such as congestion, pain, headache, other conditions that are associated with allergies, and also with chronic sinus condition. ClearUP, our product is based on a proprietary platform. This was a platform we developed. We are delivering our volume today. And we are continuing to test extensions of that platform into new indications.

So we at Tivic Health could not be more enthusiastic coming out of a solid quarter. We have been executing consistently on the roadmap that we laid out at the beginning of this year. That was to grow revenue in our direct-to-consumer channels, to increase profit margins and to seed our pipeline for new indications. I am very proud to say that during the second quarter, we have delivered on that strategy yet again.

97% increase in revenue growth from Q2 2022 versus Q2 2021, 265% increase in unit sales through our direct-to-consumer channels versus the same quarter last year. Let me say that again. Part of our strategy is to grow in direct-to-consumer and we have delivered 265% increase in the target channels. We also have been increasing our margins through reductions in total cost of goods and through exiting very low margin contracts that were part of our product discovery phase.

So when I look at the first half of 2022, we assembled the solid foundation to continue to build and grow well into the future. This includes focusing on the direct-to-consumer sales channels, investing in our marketing and our e-commerce, investing in our distribution infrastructure, some new items which we'll be rolling out in this next quarter, and all of this comes together in the sales and financial results.

We broadened our advertising mix. We increased the marketing spend to grow the sales channels. Using the initial programs, we were able to create algorithmic optimization needed in those digital channels. We brought on new payment options, we've increased the mobile readiness of our site with improved the web conversion rates through various types of e-commerce infrastructure investments.

And recently we've expanded our co-op marketing partnership with Best Buy. We have made significant progress on manufacturing and distribution initiatives that are part of our Gen 2 program. Some pieces have already rolled out, as I mentioned in an earlier call, and some of those are continuing to roll out in Q3. All of this contributes to further reducing the cost of goods

and increasing flexibility in our supply chain as we head into the holiday season at the end of the year. Our collaboration with Mount Sinai School of Medicine is well underway.

Continuing on a sham-controlled clinical trial to evaluate a new bioelectronic approach for treating post-operative pain after surgery. We completed an aggressive marketing study for the migraine market, identifying clear unmet consumer needs, to which we plan to target development and clinical research.

I am a firm believer in understanding the market before entering the clinical phase. We've expanded our IP portfolio with newly issued patents that brings us to 5 issued patents, 18 patents pending and 96 claims. Last quarter, we were off to a good start and moving ahead, we will look forward to increase in shareholder value by focusing on more measured growth, strategic cost management and a steady expansion of the direct-to-consumer sales through 2022. We will continue to focus on the growth trajectory and maintain operational improvement for the rest of this year.

Now, let me hand the call over to Veronica Cai, Tivic Health's CFO, to go over the financial results in more detail.

Veronica Cai - Chief Financial Officer

Thanks, Jennifer and good afternoon, everyone. I am pleased to walk through our second quarter results. As Jennifer mentioned, continued the momentum from last quarter. We continue to demonstrate all the commercial execution on our first FDA approved product, ClearUP. We post strong second quarter revenue of \$528,000, which reflects a year-over-year growth of 97%. This growth was primarily driven by higher unit sales, a 44% increase year-over-year. In particular, direct-to-consumer sales increased 265% year-over-year.

Average sales price also increased 6% in our direct-to-consumer channels, and 35% in our reseller channels year over a year. Having fully exited several low-margin high maintenance contracts, our reseller unit sales decreased 68% year-over-year. Cost of sale for the second quarter was \$403,000, a 34% increase year-over-year. This increase was primarily due to higher sales volume, which increased 44% as I mentioned.

The lower percent increase in the cost of sales, comparing to the sales growth percent was due to lower fixed manufacturing costs, as we said would happen with volume and to continued optimization of our processes as Jennifer mentioned earlier. These positive improvements in our average sales price, and our cost of sales resulted in a positive gross margin of 24% in the second quarter, compared to a negative gross margin of 12% in the same period last year.

Total operating expenses for the second quarter came in at \$3.1 million, comparing to \$1 million for the same period in 2021. This increase reflects the additional investments we made in the expansion of our sales and marketing efforts, product candidate research and design and operating as a public company.

Our second quarter net loss was \$3 million, compared to \$1.1 million in the same period last year. Last week, our cash and short-term investments balance at the end of the quarter was \$9 million. And we continue to maintain a no debt balance sheet.

I now hand the call back to Jennifer for the Q&A portion of the call and for her final remarks.

Jennifer Ernst - Chief Executive Officer

Thank you, Veronica. We did have a couple of questions come in. So, let me go ahead and take a minute to address those that have come in. The first, of course, is status of the Gen 2 program. I hope I've covered some of that in the comments I made earlier.

It really is a process of continuous improvement that includes some design features that were rolled out early in the year, as well as improvements to our manufacturing and supply chain. Those are things that we'll be announcing more about coming into the Q3, and we will communicate information as each of the steps is completed.

Some elements of the Gen 2 program will continue into next year having more to do with cosmetic options, cosmetic enhancements and providing more choice in the product kind of design for the ClearUP product, the majority of what we describe as our Gen 2 program is expected to be completed this year.

Are you considering any acquisitions? And it's funny that I keep getting the question, because you know I can't answer it. As I've said before, we will continue to evaluate opportunities as we are able, and specifically, we're looking for those opportunities that we believe will create both short and long-term value for our shareholders.

Third question. Sales and marketing expenses seem quite high relative to revenue. Could you give more information about your spending and plans in this area? And the last question. Sales and marketing expenses seem high relative to revenue. Could you give more information about your spending and plans in this area?

Absolutely. Our sales and marketing over the first couple of quarters has been about building up infrastructure, and sales and marketing, much like operations and manufacturing, actually has a number of fixed and non-recurring expenses. Those are the things that have made up a substantive portion of the current quarter's result. So we believe advertising is absolutely essential to grow, we expect it will, over time become a more substantive part of our sales and marketing investments.

For the first two quarters, we've been testing a variety of new advertising channels and vehicles that allow us to get the algorithmic learning under our belt. This is the kind of algorithmic learning that the online advertising channels really required to begin optimizing and began performing at scale.

So in Q3, Q4, we expect to see those investments paying back and are planning a more conservative spend in the paid media as we begin to leverage the investments that we have made to-date. Again, some of those major investments I touched on earlier are things like improving

the mobile readiness of our site, adding new payment options, and overall, improving the responsiveness of the architecture and the website in support of our e-commerce business.

And with that, I would love to wrap up. Not only is this a strong quarter, it has been a strong several quarters in a row, we've had increasing sales, increasing gross margins, increasing ASP quarter-over-quarter-over-quarter. This quarter, we saw 265% increase in our direct-to-consumer channels over last year. This is fundamental to the strategy we laid out at the beginning of the year, in which we outline increasing our direct-to-consumer sale, improving margin, and seeding our pipeline.

We have made traction on all three of those areas, delivering the kinds of results that can progressively build shareholder value. So with that, I will restate with my absolute fervor and passion, we are proud of the results that we have achieved today. And I am looking forward to continuing to deliver those kinds of results for our shareholders into the future.

Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.