

Transcript of
Tivic Health Systems, Inc.
Third Quarter 2022 Earnings Release Call
November 14, 2022

Participants

Jennifer Ernst - Chief Executive Officer & Co-Founder, Tivic Health Systems, Inc.
Veronica Cai - Chief Financial Officer, Tivic Health Systems, Inc.

Presentation

Operator

Welcome to the Tivic Health Systems Q3 2022 Shareholder Update Conference Call. All participants will be on a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that the conference is being recorded.

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

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 the company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission on March 31, 2022. As updated by the risk factors included in the registration statement on Form S-1 filed by the company with the Securities and Exchange Commission on October 26, 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 over the call to Jennifer Ernst, Tivic Health's Chief Executive Officer. The floor is yours.

Jennifer Ernst - Chief Executive Officer & Co-Founder, Tivic Health Systems, Inc.

Hello, everyone, and thank you for joining us today. My name is Jennifer Ernst. I'm the CEO of Tivic Health. And I am pleased to have this opportunity to once again review with you our quarterly business results. I'm particularly proud of the achievements during Q3 and some of the announcements that we made immediately after the quarter. Also joining me on the call today to give the financial results will be our CFO, Veronica Cai. Now, as you know most of you who

have tracked us our vision into they just to be creating a company based on bioelectronic medicine, specifically based on the non-invasive forms of bioelectronic medicine.

We have our first product in market ClearUP, and immediately after quarter closed, we announced the signing of a definitive agreement for the acquisition of another set of assets, a Reliefband portfolio of products from the company Reliefband Technologies, LLC, would expand our portfolio from the sinus conditions also to treat nausea. So I will be covering today both our growth during the Q3 and our core product lines, as well as looking forward to what the Reliefband acquisition means for the company and for our investors.

So, as I do that, I will begin with the growth of the business update then will go into the financial portion of the call. Now, I've had a few comments over the last several months from our investors that we may have been a little bit quiet on the news for us. So I hope that with today's call, you will understand why a certain measure of quiet discretion has been in order.

And as we move into the business updates, I am very pleased with the results we continue to deliver. We continue to grow revenue. You recall growing revenue was one of the core objectives I had, when I took the company public just about a year ago. So the 3 months ended September 30, 2022, revenue increased 72%, our direct-to-consumer unit sales volume increased 130% and our gross margin improved 22 percentage points.

Now, this quarter supply chain uncertainties were actually a particularly strong factor for us. Through the summer, those supply chain uncertainties were escalating, resulting in a \$26 purchase price variance, a temporary increase in pricing over our standard costs. Nonetheless, we continue to maintain that margin improvement that we've achieved throughout the year and delivered 130% increase in unit sales through our direct-to-consumer channel.

In addition, we've made some important cost down initiatives coming to culmination in recent weeks. As we just announced a new partnership with Microart, these are incredibly exciting opportunities from the business standpoint. They just obviously are newsworthy events we could have been communicating in advance.

For example, we just finalized arrangements with a new supplier Microart, our printed circuit board assemblies. I'm absolutely thrilled about these new arrangements, we expect to see about a 70% cost reduction in the most expensive components in the ClearUP product. It's also introduces redundancy in our supply chain having both a primary and a secondary site manufacturing. And, even though we are moving a significant portion of our manufacturing out of the San Francisco Bay Area, we are keeping production in North America, which allows us to maintain the advantages of having a land based shipping.

You may recall in recent times, the ports have been a particular source of difficulty is getting parts in, while maintaining land based shipping to continue to have that advantage for critical sub-assemblies. That is level it has allowed us over the course of our time, over the course of the past month to maintain on-time delivery levels well over 95%.

Now, at this macroeconomic level, those industry-wide global supply chain issues, as I said before, we're not immune. But we have seen supply availability starting to open up again in October. We've made advanced purchases to secure improved pricing, we're helping protect against unforeseeable or erratic supply chain issues into next year. So we have a combination of both continued strong growth in revenue, continued improvement in the cost structure of our products. And with the completion of our most important cost reduction initiatives, we are well positioned to drive a strong ramp going into the holidays and into next year.

So, so far, I've talked to you about 2 pillars of our strategy for 2022. First, was to grow revenue with a focus on our direct-to-consumer channels that we have done with an increased volume of 130% this quarter in our direct-to-consumer. We continue to drive cost out of the product. And the third piece of our strategy is to expand our product roadmap. We have done that work with some internal developments. But perhaps the most exciting part for today's call is our discussion of the acquisition opportunity for Reliefband.

In October, we signed a definitive agreement for the acquisition of the Reliefband product line for treatment of nausea, as a condition impacting about 1 in 6 U.S. adults. Reliefband currently has 5 products in market that have been FDA-cleared for the treatment of nausea and vomiting, from motion sickness, from morning sickness, chemotherapy, from certain medication uses, from nausea that comes from anxiety, nausea from physician diagnosed migraines, and even nausea from hangovers.

So to sum it up, it was 5 products in market, 7 FDA cleared indications already peer-reviewed clinical studies, and over 3,500 Amazon reviews averaging 4-plus stars. This is truly our first step in creating a diversified health tech portfolio of non-invasive bioelectronic products.

We are bringing together ClearUP and Reliefband selling through similar channels, similarly strong foundations in science, multiple FDA clearances for both product families, strong clinical publications, and bringing these two product families together under a single corporate brand creates opportunities to enhance the selling proposition and accelerate sales for both product families simultaneously.

Both Reliefband and ClearUP offer consumers' ways to manage health related conditions without all the issues that are usually associated with pharmaceutical products without the side effects that can knock you out for days at a time, both provide customers, the assurance of being FDA-cleared, being safe, being highly, highly effective, both are fast acting, both incredibly convenient, and both are drug free, with none of the side effects that are associated with pharmaceutical use.

So in short, both product families provide consumers with a brand partner, new ways to manage chronic and recurring health conditions, so that our consumers, our customers can spend more time doing what they love to do. Whether that means outplaying with the grandkids in the field of hay, whether that means bike rides, whether that means being out on a boat, or giving people a chance to spend more time doing what they love. This particular acquisition consists of consideration of \$33.5 million, of which up to \$1.5 million can be paid at our election in restricted common stock.

With our team focus and with the partnership of the team members at Reliefband, we are working hard to complete this acquisition in the fourth quarter of 2022, or the first quarter of 2023. Of course, the deal is subject to satisfying the customary closing conditions and securing necessary financing. In that process, we are being advised by ThinkEquity LLC, the same financial advisors that supported our IPO. And we will look forward to providing more details on the structure of the financing at the appropriate time and as we are able.

So taken in total, revenue growth and then exciting the high growth area of medicine. We're delivering stronger and stronger gross margins, we continue to advance product portfolio, we are setting the foundation to become a leader in the area of non-invasive bioelectronic medicine.

With that, I would love to turn it over to Veronica to take us through the financials.

Veronica Cai - Chief Financial Officer, Tivic Health Systems, Inc.

Thanks, Jennifer, and good afternoon, everyone. I'm very pleased to walk through our third quarter results. Since achieving gross profit in the first quarter of this year, we continue to demonstrate strong commercial execution of ClearUP, while furthering all manufacturing cost reduction program, and more to come as Jennifer mentioned. We posted solid third quarter revenue of \$477,000, which is a 72% growth compared to the same quarter last year. This growth was driven by a 37% increase in unit sales and a 16% improvement in average selling price or ASP. In particular, our direct-to-consumer or DTC sales increased by 130%; an ASP in our reseller channels increased by 33%.

On a year-to-date basis, our revenue grew 65% to \$1.4 million. This strong growth was primarily driven by higher sales, also a 37% increase. B2C sales were the lion's share with a growth of 146% compared to same period last year. Both of these reflect our channel optimization efforts this year. Our third quarter cost of sales was \$414,000, a 37% increase compared to the same quarter last year. This increase was due to higher sales volume, a 72% increase as I mentioned, and a temporary price increase in several electronic components due to the ongoing global supply chain issues, which resulted in an additional \$26.02 for each of the units sold during the quarter.

In the absence of this temporary purchase price variance or variable product costs would otherwise have decreased by a low double-digit percent compared to the same quarter last year. Our fixed product costs also decreased by 55% compared to the same quarter last year. This is as expected with the higher units absorbing the fixed costs. Our third quarter gross margin was 13%, an improvement of 22% compared to the same quarter last year.

Total operating expense for the third quarter came in at \$2.6 million compared to the \$1.2 million for the same quarter in 2021, approximately half of the increase is cost associated with the pending Reliefband acquisition. Remainder, if additional investments we made in marketing, product candidate research and operating as a public company. As a reminder, we went IPO in November last year.

Our third quarter net loss was \$2.6 million compared to the \$2.3 million in the same quarter last year. Lastly, our cash and short-term investments balance at the end of the quarter was \$6.3 million and we continue to maintain a no debt balance sheet.

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

Jennifer Ernst - Chief Executive Officer & Co-Founder, Tivic Health Systems, Inc.

Thanks, Veronica. Yes, we've had a couple of questions come in ahead of time written in the head. So let me address some of those. One of the big ones we're hearing is how is the \$33.5 million for the acquisition going to be raised?

I should know that we are working with ThinkEquity, our financial advisory firm to develop that financing structure. We will be happy to be communicating details on that once we are able to. At this point, there's no further comment that I can give about particulars of the structure. I will note, though, that we have filed in S-1. And many of the details, particularly as it performs to Reliefband are available in the S-1 filing.

I've been asked, are we concerned about being a going concern, when we IPO-ed in November of last year, we communicated that we expected the capital raise at that time to provide for at least 18 months of operation. So we're running consistent, actually a bit ahead of that for a bit better than that forecast, and with the board, with this where the management team, we're continually assessing the investments we're making, as we create shareholder value over a multi-year perspective. But, again, with that context, we'll continue to be managing the finances of the company to keep an eye on the downside, while we operationalize for success.

And at this time that includes having filed, as I said, the S-1, I communicated our intent to raise additional capital, in conjunction with the acquisition of Reliefband and creating a diversified health tech company.

I've been asked if the company being covered by analyst? And is it possible to have a list on the website. We are currently covered by one paid analyst. It is a goal of mine and of our advisors this year now that we have a full year of operating history under our belts or as the year horizon approaches to begin to secure additional analyst coverage in the coming year. When those are available, we will make them available and we will not be able to make direct reports available. But we will obviously be able to communicate the analysts that are covering.

How much revenue is released and generating and what are their gross margins? Why are they selling? Again, the details on the numbers are in the pro-forma financials that we filed in the S-1. Revenue generation Reliefband generated just over \$14 million in sales in 2021 compared to \$1.3 million that we've sold for ClearUP, they were on track for \$7 million of sales for the first half of this year, and across that operating generally with better than a 70% gross margin.

Overall, the transaction is part of an estate planning arrangement, and it's really quite fortunate timing for us. It has worked out well. And I am excited not only about the product family that has been built that Reliefband, but about the team Reliefband and we are very much enjoying and looking forward to working with them as we continue to grow the businesses together.

And with that, I'd like to go ahead and wrap up the call today. Veronica and I, thank you very much for the time that you are taking to learn about Tivic, about our current business and about the future opportunities for the company. Thank you.

Operator

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