

Transcript of
Tivic Health Systems, Inc.
Fourth Quarter 2022 Earnings Conference Call
March 31, 2023

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 Year End 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, 2022, filed with the Securities and Exchange Commission, today, March 31, 2023 and its other files 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.

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

Hello, everyone, and thank you for joining us today. I'm Jennifer Ernst, the CEO of Tivic Health. I'm pleased to have this opportunity to review with you our 2022 business and financial progress. I'll also be talking with you today about the upcoming year and what investors can expect as we move forward. Joining me on the call today is also our CFO, Veronica Cai.

So I'd like to take a step back and look at where we started in 2022. Fresh to the public market and IPO in November of 2021 with a focus on three key areas of our business; increasing direct-

to-consumer sales of our first FDA approved product, ClearUP, for the treatment of allergies and sinus conditions using advanced neural modulation known as bioelectronic medicine; our second area of focus was on improving our gross margins; and the third on broadening our commercial pipeline. In these three areas, we made important progress. Year-over-year revenue increased 46%. In direct consumer sales, unit volume increased 104% and revenue increased 114%. It was due to steady increases in our average order values.

Our gross margin improved nine-fold through the course of the year, despite unusually high component pricing through the second and third quarters. And we've recently announced qualification and production starts with new suppliers that will continue to drive costs down and broadening our pipeline. We initiated an investigator led and funded study with one of the Northwest leading medical research centers, a study that focuses on using bioelectronic technologies for the reduction of pain following sinus surgeries as an alternative to opioids. The program is ongoing and we will expect to expand that to additional types of surgeries in the coming months. We also have developed a clinical roadmap for expansion of these treatments into the migraine area. So I'm proud of the progress we've made but we've also faced some challenges.

We had estimated at the time of our IPO about an 18 month runway based on the estimated public market expenses and the investments in the initiatives I've just described. We also took on significant additional costs to pursue a merger that we ultimately did not close given market headwinds. So as a result, it's no secret for those tracking us that we incurred an unusually high burn rate and faced a very difficult capital raise in February. As the New Year began, we closed 5 million in equity financing on terms that none of us were particularly happy about. I am pleased though that, despite the pricing issues, we were able to keep the cap table clean, providing the right structures from which to rebuild. And that's without mindset that I'd like to talk about the future.

Where do we go next? First Well, I do want to highlight that our revenue opportunities with ClearUP are significantly enhanced on two fronts. The first is the improvement in gross margins as I mentioned in Q1. We completed the move of our printed circuit board assembly out of the San Francisco Bay Area. We moved production to Microart and this partnership is expected to realize 70% savings on the printed circuit board and importantly, increase our production capacity by 25 fold. We also completed manufacturing startup at ALOM Technologies Corporation, who is managing our final product assembly and our third-party logistics. ALOM is a privately held company, 25 year history of operational quality and sustainability excellence, including two consecutive years as a multichannel merchant top three PL, and 2022 Manufacturing Leadership Award from the National Association of Manufacturers. These partnerships are instrumental in positioning us to decrease the overall production cost by approximately 30% to 40% and scale our current and future product lines.

At the beginning of the year, we completed a detailed market study that also identified new customer segments that are significantly less cost sensitive and have a higher likelihood to purchase than our traditional audience has been. So armed with that data, we're implementing new sales programs that more deeply engage the healthcare community, and an ideal target customer profile. You will also be hearing from us about new partnerships and programs to

expand our footprint in bioelectronic therapeutic and adjacent areas. We believe these initiatives focusing increasingly on more advanced applications of non-invasive neurostimulation are opportunities to build value for investors beyond the revenue streams of our current product. Those I look forward to sharing more information as we make progress.

Now Tivic is and like we always will be part of my personal DNA will remain acquisition minded. We are certainly open to discussions not only with partners in the therapeutics area, but in complementary areas, and are continuing to seek combinations that will be beneficial to our investors. And finally, with many of the initial non-recurring public market and hiring expenses behind us in 2022, we are focused on creating a leaner, more cost efficient operations, optimizing expenses across the organization.

And with that, I'd like to hand it over to Veronica Cai to go over the financial results and then we'll come back to some of the questions we've received in advance in the Q&A portion.

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

Thanks, Jennifer, and good afternoon, everyone. I'm very pleased to walk through our 2022 financial results. Let me start with revenue. Our revenue from the sales of ClearUP, net of return reserves, increased 46% to 1.8 million. Sales volume is the main driver, a solid 22% increase in unit sales compared to 2021. We increased the price of ClearUP modestly in September, which also helped in driving the revenue. One of our key commercial focuses in this past year was to expand our direct-to-consumer sales and we increase our revenue in this channel by 114% to 1.6 million. Compared to 2021, our units sold in this channel increased 104% and the channel's average selling price increased 6%. Our direct-to-consumer sales made up approximately 80% of the ClearUP revenue. Our reseller revenue decreased 32% to 416,000. In the early part of the year, we strategically exited several low margin arrangements. This move decreased units sold in the reseller channel by 43% but lift the channel's average selling price by 19%, along with some savings in operating overhead.

Now let's turn to cost of sales. Cost of sales increased 19% to 1.5 million. The increase was primarily a result of the 22% increase in overall unit sales. Our variable cost was 1.3 million or approximately \$87 per unit, a 6% per unit increase from 2021. The increase in our variable cost was primarily due to dramatic price increases in several electronic components during the second and third quarters, stemming from the global supply chain shortage phenomenon. Our fixed cost was 203,000, a 21% decrease from 2021. The decrease was primarily due to lower indirect overhead costs as we refined our production management process. I've just covered our revenue and cost of sales. Our gross profit was 299,000 for the year, a nine fold improvement from the gross loss of 38,000 in 2021.

Moving on to our functional area expenses, our R&D expenses totaled 1.7 million, a 97% increase from 2021. The increase is primarily due to more investments in the area. In 2022, we invested in product research in the migraine therapeutic areas. We initiated a double-blind randomized controlled trial for pain relief following sinus surgery, and we enhanced our intellectual property protection, whereas in 2021, we're only primarily focused on seeking approval for a second indication for ClearUP. Sales and marketing expenses total 2.8 million, a

56% increase from 2021. The increase is primarily related to various marketing efforts, which include expanding our advertising platforms, optimizing our e-commerce infrastructure, and a number of other marketing initiatives. G&A expenses totaled 5.9 million, a 103% increase from 2021. The increase is primarily due to Tivic being a public company for the first full year and building out our sales team. Also included in the G&A expenses are legal and professional fees associated with the attempted acquisitions of Reliefband Technologies. Our net loss for the year was 10.1 million, versus 8.5 million in 2021. Lastly, we had cash and cash equivalents of 3.5 million at the end of 2022 with no debt on the balance sheet.

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

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

Thank you, Veronica. Now we have had a few questions come in ahead of time, and I'll take on a couple of the tough ones right up front. The first one is why did the company raise 5 million at a 50% discount to market, particularly having seen significant share depreciation immediately ahead of that?

Frankly, the company needed a capital infusion to continue operations at what we deemed to be a particularly critical point, given headwinds we've been experiencing in the supply chain, as well as the overall market uncertainties that I think we're all witnessing. The Board made a very difficult decision, not without considerable consideration, to take on financing at a deep discount to market. And as I noted earlier, though, an important consideration was that we were keeping the cap table free of the toxic [Phonetic] terms, so many others have had to accept. It has been a very difficult market but, at this point, our cap table has no warrants on it besides those that were issued to the underwriters and no anti-dilution provisions. So no one was happy about the pricing. I fully understand absolutely the feelings of the investors that have been in contact with me. Being a pretty significant shareholder myself, I can only say we are committed to the work ahead to rebuild.

The second question, is the company planning on making budget cuts since it's burning so much money?

We have been actively reducing costs and continuing to streamline the business and that is particularly I'm focusing in our G&A area. Worth noting, we incurred a number of expenses in 2022 that are non-recurring and we have seen some decreases in our public company expense expenses directly such as our D&O insurance premiums would be an example. We have also recently completed some market testing and are rolling out these initiatives to target customer segments with a higher willingness to pay and a higher likelihood to purchase. So with that you will see next month a price increase linked to these segments and it's the combination of increased pricing, sales to less price sensitive segments, improved cost and manufacturing that are expected to markedly improve our cash generation from sales. This will only be further enhanced through the development of additional channels and partnerships. So, overall, bringing down manufacturing cost, increasing average selling price, increasing advertising effectiveness, we believe that the structural improvements, along with streamlining the administrative costs of the business should support an overall improvement in our run rate.

Now, does the company intend to explore other areas of the healthcare sector that may be advantageous to Tivic?

Absolutely. If anybody has met me, you know, I'm definitely opportunistic in my mindset. We are evaluating opportunities, both that could enhance directly our therapeutic portfolio, and also perhaps expand revenue and build our pipeline in and around those areas. So, primarily, these opportunities are focused around chronic inflammation and the related diseases that stem from that. We have been approached, though, with adjacent opportunities, and we will continue to evaluate those on a case by case basis.

I was also asked about the barriers to entry, can you provide an update on intellectual property? The person who wrote this in Hunter [Phonetic], thank you, I know you have a number of patents and patent applications, but how much of focus is on additional IP investment?

So Hunter, as you noted, today, the focus has been on what we described as our monopolar neural modulation architecture. That is the core of the ClearUP product family. That's where the currently filed IP resides. We believe that that family is really well protected, though, with what has been issued and with the pending patents. We also recently received allowance of an additional patent in that family. We have recently started prosecution related to some new areas, as well as a new architecture that will have a much broader focus in terms of treatment targets. Now, this is linked to new research partnerships, areas that have not been published yet, but I definitely expect to have more to say on this area by our next earnings report. So this is a watch this space this quarter, but not a lot more I can tell you today.

Given the recent -- so the next question was given the recent capital raise and tough macroeconomic market, how is the company weighing the focus on growth versus near-term profit?

This is always an interesting question when it's framed as an either or, so I'd like to reframe this slightly. We are focusing first on growth through near-term profit. Everything is described today hope you hear that we are expecting to turn a corner with ClearUP delivering positive cash flows from sales. So our focus is very much on profitable growth and near-term profits. Now, we also know though, that the greatest opportunities for bioelectronic medicine and for increasing the value of the company are likely to come from some of the higher value therapeutic areas that we have been and will be seeding over the next six to nine months. Given the market conditions and the way that that is factoring into our strategy is really the focusing on partnerships and combination of external evaluation. So partnerships like the one we have with Mount Sinai, where we're able to leverage their infrastructure to run the run trials. It becomes a low costing non-diluted partnership. Those type of partnerships will be an important part of building our pipeline.

So given the termination of one M&A activity and a focus on in-house development, can you provide more information on what areas you're looking to invest further in and what indications?

So specifically, no, I can't at this time other than as I've described before, to say chronic inflammation is likely to be a focus area. We have also previously discussed expanding the monopolar architecture. So we continue to assess the opportunities and ways to test those expansions, for example, into the migraine area and into some of the other tests opportunities. The other areas, though, are subject to patent filings. So until I have the patents filed, well, they'll say watch the space and expect to be able to say again, more on our next earnings call about some of the new areas where we are building partnerships and expanding therapeutic options. So M&A as well as licensing and partnerships will continue to be key strategies for us and as the market conditions become more favorable for investment, we can accelerate those opportunities to invest in future growth.

And finally, I'd like to close out today by saying thank you again to those that are continuing to support us, support and have your patience, as we continue to deliver on both our mission and our ambition. Our vision from the beginning has been to become a market leader in non-invasive bioelectronic medicine. We are seeking to offer a portfolio, a complete portfolio, of trusted therapeutic solutions that will be preferred both by consumers and by health care practitioners. All of that in service of improving health, fighting disease, and increasing vibrancy of life, and we deeply, deeply appreciate your continued support and patients on that journey.

Operator

Thank you everyone. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.