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ImmunoPrecise Antibodies Ltd

First Quarter 2022 Earnings Call

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CORPORATE PARTICIPANTS

John Mullaly, *LifeSci Advisors*

Jennifer Bath, Ph.D., *Chief Executive Officer and President*

Lisa Helbling, *Chief Financial Officer*

PRESENTATION

Operator

Greetings. Thank you for standing by. Welcome to the ImmunoPrecise First Quarter 2022 Earnings Call.

Please note this conference is being recorded.

I will now turn the conference over to your host John Mullaly. Thank you, you may begin.

John Mullaly

Thank you, and welcome. Doctor Jennifer Bath, President and Chief Executive Officer of ImmunoPrecise Antibodies, and Miss Lisa Helbling, Chief Financial Officer, will be the speakers on today's call. A Q&A period and some pre-submitted questions will follow their summary of the quarter, followed by closing remarks.

Before Doctor Bath begins, I've been asked by ImmunoPrecise Antibodies to read the following Safe Harbor regarding forward-looking statements. I would like to remind everyone that ImmunoPrecise remarks today contain forward-looking statements about its current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or other future events or developments. In preparing these forward-looking statements, several assumptions were made by ImmunoPrecise, and there are risks that results actually obtained by the Company may differ materially from those statements. As a consequence the Company cannot guarantee that any forward-looking statement will materialize, and you are cautioned to not place undue reliance on them. ImmunoPrecise refers current and potential investors to the forward-looking section of its management's discussion and analysis issued today at www.sedar.com and on EDGAR at www.sec.gov. Forward-looking statements represent ImmunoPrecise's expectations as of September 9, 2021. Except as may be required by security laws, ImmunoPrecise does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

I would now like to turn the conference over to Doctor Bath.

Jennifer Bath, Ph.D.

Thank you, John, and good afternoon, everyone. We're happy to see such a strong turnout today for our second webcast and earnings call.

As you can start to glean from our recent flurry of press releases, this quarter marks an exciting leap toward earning our position on the market as progressive thinkers for minimal competitors and emerging leaders in our space.

Our investments in major strategic initiatives support our bold vision and reinforce our infrastructure to enable us to unite in our mission and continue our fast growth trajectory on a global scale.

We've embarked on significant investments that will enable us to achieve great new potential in our contract research, our internally-owned therapeutic assets, and new research and manufacturing services.

In the previous quarters, our operational sights focused on the development of complementary revenue-generating service offerings, services which are now resulting in new revenue streams.

Under the guidance of our recently-appointed CSO, Ilsa Roodink, this quarter also saw unprecedented investments driving later-stage preclinical asset development toward clinical manufacturing and lead candidate functional validation, which we will provide some insights for you here today. We progress these assets with a real sense of excitement and great anticipation, while remaining diligent in our dedication to contract research.

I look forward to sharing more details today about several strategic growth events, including exciting progress in our commercial partnerships with Eurofins Discovery, and our recently approved French R&D tax credit.

We have a lot to look forward to this fiscal year, and we're grateful for the ongoing support of our investors, which enables these tremendous strides forward.

This quarter demonstrates the continued successful execution for our strategic development plan. As part of that foundation we have actively expanded IPA's human capital by investing in key strategic essential hires, including Ms. Carla Dahl, who most recently served as the global senior director of marketing and communications at Medtronic. Ms. Dahl's experience leading major global launches, successful brand development campaigns and operational efficiencies will serve us well at this juncture. As IPA's new Vice President of Marketing, she will intensify our active global marketing efforts, including the aforementioned Eurofins partnership.

We have further promoted Doctor Barry Duplantis to Global Vice President of Sales. One of his main objectives is to amplify our increasing presence in North America by actively expanding our world class sales team.

We've also added professional scientific writers to support grant applications, technical documentation, and patent planning.

In addition, a candidate was identified to fill the role of IPA's preclinical specialist, who will oversee aspects of our rapidly progressing programs in Talem starting this fall.

These global roles support additional technical hires at the operational sites, hires that are foundational in our ongoing expansion into new markets.

In this period we also named Doctor Dion Neame from Sanofi as our second strategic advisory board member. He joins IPA with broad industry experience and an extensive network, and is a welcome addition and resource for IPA. We look forward to ongoing contributions from Doctor Neame.

The Company also continues to expand its physical footprint. Our Dutch sites are rapidly approaching their expansion dates, as next spring Utrecht campus from IPA Europe is anticipated to complete its move into the accelerator building, which is alongside major biopharmaceutical powerhouses, Merus and Genmab. This is effectively doubling the square footage of usable laboratory space.

About one year later we prepare for the expansion of our Oss (phon) campus from IPA Europe into expanded premises within the current Pivot Park (phon) campus.

As we retain our focus on integrating a relatively fragmented service market, we've begun to build a critical mass, while being recognized as a CRO leader and an industry partner of choice. This is clearly reflected in our top line results, with a revenue increase of 22% year over year.

Of note is the continued increase in the number of clients and the size of current contracts, while also recognizing revenue from recently developed and/or expanded services in areas such as high throughput label and fluidic-free antibody characterization, hybridoma sequencing, our advanced second generation B cell select platform, and the geographical expansion of our manufacturing services.

As usual, our CFO, Lisa Helbling, will provide more details on our financial results for the quarter.

We have a lot to share with you today, as we connect the dots for our listeners as to how our new marketing approaches, tax incentive programs, and also commercial partnerships are designed to catalyze growth in both our contract research and also Talem partnering relationships, as well as details on how we have enhanced the potential commercial value of our therapeutic assets in Talem.

We've begun building a robust and global marketing team, headed up by the aforementioned hire of Ms. Carla Dahl. The foundational building blocks are in place for IPA to soar for a market-leading position. With swift and marketing strategies, savvy brand evolution, and omnichannel communication, Ms. Dahl is now leading efforts to highlight and differentiate our value on the market, and compete to win.

We've already begun putting processes in place to drive internal marketing efficiencies and fast-track our efforts to support Company goals, growth goals, and world-class marketing programs.

On a related note, our robust comarketing program with Eurofins are poised to position IPA on a global scale. This marks the first of many partnerships highlighting the value of our unique suite of antibody products and services to industry-leading organizations, and sets the stage for our market narrative as the emerging leader in end-to-end services.

Combining the complementary strengths of Eurofins *in vitro* pharmacology services and IPA's *in vitro* and *in vivo* characterization and discovery technologies, this collaboration provides greater access to solutions that empower scientists to pursue life-changing medicines in a diverse range of indications.

Many notable advancements along this collaboration will be seen over the course of the next couple of months, and both Companies actively promote this unique commercial opportunity at conference exhibitions, through presentations, through comarketing materials, and also in website integration.

Further complementing our Eurofins marketing efforts will be a surround-zone (phon) approach to announcing our CIR tax accreditation status to eligible French companies who engage with us in Europe. This added benefit to the full service advantage of IPA fortifies our platform of industry recognition, added value, and our ongoing expansion in France.

Lastly, additional action on our business development front has been the advancement of sales and partnering activities throughout Brazil, Korea, and Japan, as our global BD platform in conjunction with a few key collaborations have been successful in generating new leads from those jurisdictions.

Our Talem assets are key drivers in IPA's value creation. This underpins the importance of our recent appointment of Doctor Roodink to the role of Chief Scientific Officer, where her impressive (inaudible) within broad scientific disciplines help to propel IPA and Talem in tangible and measurable ways. Doctor Roodink is actively expanding her scientific team to support the rapidly maturing Talem assets. She (inaudible) finalize the discovery phase of our earlier-stage program, as well as the conclusion as to exactly how later-stage lead candidates carry out their specific functions, called modes of action.

Most recently, her team worked to gain insight into the functional diversity of lead molecules to determine their specific but different clinical applications. For instance, for our TATX112 program which we recently announced, we supported pharma inquiries by identifying molecules which are suitable for antibody drug conjugation, also known as ADC, -based therapies, due to their ability to enter a cell upon binding a target, a process called internalization. Additionally we confirmed that antibodies in the same program have the ability to interfere with a ligand binding to a target, which has spurred an investigation at IPA of exactly which candidates may enhance signals, meant to communicate inside the target cells, and which block these critical message. Now why this is important, is that each function may impart different potential therapeutic uses and distinctly different market opportunities.

Additionally, we are pleased to announce that we are finalizing the *in vitro* functionality screening, with the aim of nominating the best lead candidates for further development in our collaboration with Twist Biopharma.

We also have exciting times ahead of us for our TATX-21 program, another one that we recently shared with our investment community, as we are currently evaluating the ability of those leads to directly interfere with LDL uptake *in vitro*. These initial proof-of-concept studies are crucial, and value (inaudible) in determining the potential of these assets to both prevent and treat cardiovascular disease.

Now over to our SARS-CoV-2 programs, we're actively preparing for first-in-human study. We are excited to announce that we have committed to ChemPartner Biologics for clinical batch production. This global CMO has a rare capability and capacity of producing all five components of our therapeutic cocktail in parallel, and in a relatively short timeframe. We're also looking forward to reporting data on additional preclinical data points. Currently we are working with Eurofins yet again, to fine-tune the final details of the IND-enabling tox and PK studies, which are scheduled to start in October. In parallel to these and with the support of our third-party regulatory teams, we are compiling the required data for the IND submission. To facilitate a successful IND application, we also have engaged the FDA, and we expect feedback on our proposed clinical strategy and supporting data package at the end of our fiscal quarter two.

Over all, as the CDC and global regulatory authorities decide on the recourse for addressing COVID and associated variants in the long term, I am again suggesting that COVID is unfortunately here to stay and is a long-term problem that will require a sustainable solution. We firmly believe that IPA's PolyTope program has the potential to address all current and future SARS-CoV-2 variants of concern, and we're very excited that our cocktail therapy, which has been shown to have 100% efficacy in a very well established SARS-CoV-2 animal model, in both the treatment and protection of SARS-CoV-2 infection, has held up in *in vitro* preclinical screenings to all tested variants of interest and all variants of concern. We believe that we have developed and possess the only first generation anti-SARS therapeutic that has retained this broad efficacy.

Also importantly, our strategy has enabled us to rationally design a sustained efficacious antibody cocktail, as our platform has been designed to enable the rapid prediction and reformulation, should it be required.

Lastly, these internal projects are designed to ultimately drive transformative revenue generation opportunity for IPA, with upfront payments as well as clinical milestones and competitive commercial royalties.

In the case of our assets developed through Talem, the majority of the novel molecules' commercial rights are completely unencumbered, providing for strong upside on the commercial end for IPA across a class of assets including monotherapies and cocktail therapies, as well as across multiple disease indications. These efforts to unlock shareholder value, while nascent, are extremely promising. We are leaving no stone unturned in realizing the successor programs that are selected to move forward for development.

With this I'd like to turn the call over to Lisa to discuss the quarter's financial results. Lisa?

Lisa Helbling

Thank you, Jennifer, and good afternoon, everyone. I'm Lisa Helbling, IPA's CFO. Unless otherwise noted, all numbers referred to are in Canadian dollars.

For those of you with visuals, this first chart shows our revenue and gross profit trend. The Company achieved revenues of $4.6 million during the three months ended July 31, 2021, compared to $3.8 million in 2020 and $823,000 or 22% increase in its core CRO business. The Company's strong organic revenue growth of its core CRO business continues, as a result of increases in both the volume and financial values of client contracts and continued focus on the development and expansion of revenue-generating services.

The Company's gross profit was $2.5 million, with a 55% gross profit margin, compared to $2.4 million and a 64% gross profit margin in 2020, a $96,000 gross profit increase.

I mentioned at year end the Company has been implementing a new ERP system. Beginning May 1 of 2021, the method of allocating overhead cost from operating expense to cost of sales is now being done consistently across the Company, which caused the decline in the gross profit margin as more overhead costs were allocated to cost of sales.

The Company's operating expenses for the first quarter were $6 million compared to $3.4 million in 2020, an increase of $2.6 million. There are four main expenses that primarily make up the increase. I'll discuss in order of the largest expense.

The Company invested $1.1 million in research, compared to $309,000 in 2020, for COVID-19 and other research projects, an $810,000 increase.

Share-based payments expense increased—was $1.1 million compared to $97,000 in 2020, an increase of $1 million. Stock options are awarded to employees and certain advisors to align their interests with the goals of the Company and our shareholders. Stock options are expensed over the vesting period or the period in which service is received.

The Company became dual listed on NASDAQ in December 2020. Ongoing costs of being listed on NASDAQ for the quarter were approximately $600,000 compared to nil last year. These costs are spread in various accounts. D&O insurance increased to $406,000; office and general expenses are up $110,000 from stock exchange and related fees and technologies, and advertising hosts our Investor Relation costs of $65,000. Advertising also increased as a result of participating in industry conferences this year, which had been canceled last year due to the pandemic.

The Company also had $249,000 of increased consulting and professional fees, related to engaging advisors to support our strategies, and higher auditor and legal fees.

Also notable is a $200,000 reduction in management fees, which is the result of the final profit-sharing payment being made last year related to the U-Protein Express acquisition and no longer having an independent contractor as the site general manager.

Other income. I mentioned the Company invested $1.1 million in research and development. The Company did not receive grant income in the first quarter of this fiscal year, where last year the Company recorded $568,000 in grant income to support its research efforts, and recorded $139,000 for COVID-related subsidy programs to retain employees and subsidize rent.

One last thing of note in the other income section: the Company recorded $443,000 of unrealized foreign exchange gains due to the cash held in our U.S. dollar account as a result of our capital raise. This is unrealized and non-cash.

For those of you with visuals, this next graph depicts our change in net loss. The Company recorded a net loss of $3.2 million for the quarter compared to $549,000 in Q1 2020. The increased loss can be summarized as a result of $96,000 higher gross profit offset by an increase in insurance, primarily directors and officers, related to being listed on NASDAQ, of $444,000; $810,000 greater investment in research and development, without the benefit of $706,000 in grants and subsidy income related to COVID-19 and $1.019 million higher share-based payment expense, and $443,000 in unrealized foreign exchange gains related to cash held in our U.S. dollar accounts at the end of July.

This next chart is a waterfall chart depicting the change in EBITDA. But before I touch upon Adjusted EBITDA, I must caution the investor that Adjusted EBITDA is a non-IFRS measure. Do not place undue reliance on Adjusted EBITDA. I urge you to read all of the IFRS accounting disclosures presented in the condensed interim consolidated financial statements for the three months ended July 31, 2021 and 2020.

Adjusted EBITDA is management's view of operating earnings. For the period ended July 31, 2021, the Company's adjusted EBITDA was a loss of $1.3 million, compared to a gain of $932,000 in 2020. The decline in Adjusted EBITDA is primarily a result of increased gross profits of $96,000 offset by an increase in professional and consulting fees of $249,000 and increase in insurance, primarily D&O, of $444,000, $810,000 higher investment in research and development, without the benefit of $706,000 of government research grant and subsidies related to COVID-19.

This final chart shows our changes in our cash balance, so a few comments about IPA's liquidity. As of July 31, 2021, the Company held $40.7 million in cash and had working capital of $40.2 million. During the first quarter, the cash used in operating activities was $965,000. As part of our investment activities, the Company made equipment purchases of $340,000; and as part of our financing activities, the Company received $25,000 from issuing common stock and made lease payments of $236,000.

The Company continues to operate as a going concern, and according to management's estimates there is sufficient cash reserve to sustain existing operations and associated NASDAQ costs for at least the next two years.

So in summary, the financial highlights for the quarter include: the Company earned $4.6 million in revenue, a 22% increase over the same period last year from its core CRO business; the Company continued to invest in its future through its R&D activities, and its people, both of which are needed to support these strategies; and as of July 31, 2021, the Company held cash of $40.7 million.

With that, I'll turn the call back over to John and Jennifer for Q&A.

John Mullaly

Thank you, Lisa.

Before Jennifer has any closing remarks, I would like to spend a little time asking some questions that we received from analysts and investors. I would like to say generally, thank you for submitting your thoughtful and concise questions today.

The first question reads as follows. Can you give an update on the TATX-03 PolyTope program? Then there's two parts to this question. When will the final preclinical results be announced, and then when will clinical trials begin?

Jennifer Bath, Ph.D.

Sure. Thanks John, and thanks to all of you investors for submitting questions.

First, when will the final preclinical results be announced? First, we have selected Eurofins, as I mentioned, as our partner for performing the PK and tox studies for IPA's SARS-CoV-2 program, and together the two Companies have scheduled these programs for Q4 of this calendar year. We're aiming to finalize that corresponding data package for the IND filing in Q1, which is also calendar year Q1 2022.

When will clinical trials begin? That's a common question we get. First, I do want to say we're excited about our commitment to and working relationship we have with Chem Partners for clinical manufacturing. One thing that many people may not be aware of is that we've actually been working with this group substantially for the past six to eight months, we've developed a really good relationship with them, and we're wholly confident in their ability to not only produce these products in a quality manner but also in a very timely manner. As mentioned previously, I think another important aspect here is that CDMO is one of the few CMOs with unusual capabilities and capacity to produce all five components of our PolyTope cocktail in parallel.

The first batches of those clinical products for the clinical studies are also expected to be ready in calendar year Q1 of 2022. As you can see, we are really actively running all of these aspects of the IND filing, the PK/tox studies and the clinical manufacturing preparations, all in parallel, and all hopefully emerging at about the same time in Q1 calendar year 2022, so.

I think one aspect, too, I just want to leave here as a thought with regard to when clinical trials begin, it's important to note that, when we're giving you these timelines, we're also not assuming any acceleration in the speed based on emergency use authorization.

John Mullaly

I will read the next question. Can you give us an update on the rest of the Talem pipeline? Are you in talks with pharma companies or other potential partners to bring any of those programs into preclinical trials? If so, for how many programs?

Jennifer Bath, Ph.D.

Yes, sure. We are in active communication with many different companies, on quite a few are Talem's pipeline assets. As you know, we have about five or six later-stage candidates, which are moving into preclinical analysis and functional studies. We do allow pre-IND enabling discussions with various companies, and we do accept input from those groups, especially if they have particular platforms of

interest, so one example I mentioned previously was the antibody drug conjugate format. Sometimes we also get requests from groups that want to use things in what's called a CAR T format, or as a bispecific. Oftentimes their input on those IND-enabling studies can help us to ensure that we're getting the type of output that they're looking for when they are a serious potential partner.

We do solicit that information, we do accept meetings with those groups and have conversations with them. There are numerous partners in discussion around each of those later-stage candidates.

I think probably another important thing to point out is that we also do routinely solicit input on the earlier-stage assets, and work alongside interested parties of those programs. Right now we have a number of them that are actually progressing in terms of initial lead characterization.

Again, when we have serious interest, we think it's really important to take that communication into consideration as we're moving them forward.

John Mullaly

Next question reads as follows. How will the collaboration with Eurofins impact the CRO business? When do you expect this collaboration to start bringing in revenue for IPA?

Jennifer Bath, Ph.D.

Okay, great question. As I mentioned previously, the collaboration with Eurofins will allow IPA to reach more clients and in a broader geographic area. So we've done—it couples really well with our initiatives in marketing and with our new sales team. Our VP of Marketing, Carla Dahl, has actually been working very actively in developing a market strategy right alongside Eurofins' marketing team, so that's been really exciting for us to watch that unfold. They've been really—Carla's really headed up accelerating and intensifying that relationship between IPA and Eurofins, and being really purposeful about how we're addressing this.

This does, as I mentioned, it includes co-branded brochures across marketing efforts; we will be attending live conferences as well as virtual conferences with their team, and then also providing co-marketing details on the Company's website.

More to your question around kind of how this impacts us directly and the timing, so we'll be gaining access obviously to a broader spectrum of services for our clients, and we expect to generate more business opportunities starting likely around late Q3 this year, and then likely permanently thereafter with regard to these efforts. It's about the time that we expect the joint marketing efforts will bear their first fruit.

John Mullaly

Great, thank you.

Next question reads as follows. How should investors think about the growth of base customers in the CRO business: in terms of adding new clients, or is it more growth within existing clients?

Jennifer Bath, Ph.D.

Okay, so, yes, it's both, really, and then a couple of other areas. We do continuously add new clients. We do also maintain really good business relationships with our existing customers. One of the things we've definitely become known for is really trusting the quality of our services, and our word, when we talk about our scientific rigor and the quality of the products that we're returning. We are engaged with most of the top

20 pharmas, as most of you know, and our average contract size, during Q1 it was around $120,000 per program. We do still keep a very solid and diversified client portfolio. We don't have any clients that are in concentration higher than 10% of the revenue at any particular site.

John Mullaly

Great. Thank you.

That concludes the Q&A portion of our program. We hope that your questions were answered, either in our script or the Q&A or in the MD&A. I'll now turn the call back to Doctor Bath for closing remarks.

Jennifer Bath, Ph.D.

Sure, thanks, John.

All right so, once again, I would really like to thank our employees, our clients, our partners and our shareholders for your unending support and your belief in our corporate mission to become a global leader in the antibody market, and as the "go to" CRO and partner of choice.

We are confident in the foundation we've built, on which we aggressively seek to solidify our mission with a focus on meaningful expansions, M&A activities, and multifaceted revenue opportunities, with the ultimate goal of becoming the global leader in all aspects of quality antibody discovery, and the global recognition for our scientific rigor.

We are full steam ahead right now on strategic growth, from the building of human capital to physical global footprint, to engaging partners in even more meaningful ways with our rapidly advancing high-value assets addressing many disease indications.

We truly believe this fiscal year will be the most exciting yet. We sincerely look forward to sharing our successes with you every step of the way. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.