CEA Industries
Tony McDonald
November 14, 2022
4:15pm ET

Announcer: Good afternoon ladies and gentlemen, and welcome to the CEA Industries Q3 2022 Earnings Conference Call. Joining us today are the company's Chairman and CEO Tony McDonald, as well as the companies CFO Ian Patel. At this time, all participants have been placed on a listen only mode, and we will open the floor for your questions at the end. If you would like to ask a question via the phone lines, you may press star one to enter the queue at any time. Should your question be answered and you wish to leave the queue, please press star two. If you have joined via the webcast, please use the ask question button on your webcast viewer window.

Before we begin, please be advised that this call may contain statements of a forward looking nature relating to future events. These forward looking statements are subject to the inherent uncertainties in predicting future results and conditions. These statements reflect CEA Industry's current beliefs, and the number of important factors could cause actual results to differ materially from those expressed in this call, including the risk factors set forth in the company's form 10K, which was filed with the FEC.

Please refer to their FEC filings for a more detailed discussion of the risks and uncertainties associated with their business. Also, please note the company filed its quarterly report on form 10Q, and issued a press release announcing third quarter results earlier today. These documents can be found on the investor relations section of the company's website at CEA Industries dot com. If you'd like to be added to the companies email distribution list, please send an email to info at CEA Industries dot com.

It is now my pleasure to turn the floor over to Tony McDonald, Chairman and CEO of CEA Industries. Sir, the floor is yours.

Tony McDonald: Thank you and good afternoon everyone. We generated strong revenue growth during the third quarter on a sequential and year over year basis as we benefited from our sales and marketing investments in the first half of 2022. We have also begun to experience improvements in our supply chain, with fewer delays impacting sales relative to earlier in the year. That said, we remain vigilant of the potential challenges we face, given the evolving macro environment.

Subsequent to the quarter we signed multiple new contracts with indoor produce farms located in New York and Florida for our engineering services, which are outside of our traditional cannabis vertical. As I have mentioned on past calls, we recognize the growing opportunity to tap into the larger vertical agricultural market, and these wins reflect our execution of that initiative.

More recently, we entered into a significant new non-equity strategic alliance with Hydro-Builder Holdings LLC. Leading omni-channel platform with 22 retail locations and 10 warehouses serving the indoor and outdoor CEA in hydroponics industry.

This alliance will combine our industry leading CEA systems engineering and technologies with Hydro-Builder Holding's expansive commercial first omni-channel platform, creating a one-stop shop solution for cultivation companies across North America. I believe this will not only be of great value to our customers, but will also be a great source of growth for both of our companies.

Returning to our cannabis vertical, over the summer, we announced a formal partnership with Merida Capital, a cannabis focused private equity firm, in which Merida agreed to use us as its sole provider of certain products and services for its indoor cultivation facilities. In October we signed a contract with one of Merida's Connecticut based clients to provide a suite of HVA systems that include our enviro-pro air handlers, as well as heat recovery fan coils, dehumidifiers, humidifiers, and circulating fans. Our partnership with Merida has quickly materialized with new business, and we look forward to continue growing this relationship, as it presents a high quality, high conversion sales channel for our business.

We are diligently working to grow our marketing efforts and brand awareness across both our cannabis and non-cannabis verticals. In addition to our sales and marketing investments highlighted last quarter, we recently started working with Aggri-Texture an advisory services and technology firm focused on climate smart agriculture. Similar to our success with Merida, we believe this partnership will enable us to accelerate the growth of our sales pipeline in the vertical agriculture market.

On the product development front, we recently announced the introduction of a portfolio of water treatment solutions. We can now offer comprehensive water treatment solutions including sampling, system design, equipment supplies, and system integration, regardless of water chemistries in a specific location. Water treatment is just the latest step in bringing forth our vision of offering a comprehensive full suite of products to our customers.

According to M&A we continue to patiently identify and evaluate opportunities within both the cannabis and traditional vertical agriculture markets. Our judicious approach to M&A has been an effective strategy given how valuation multiples have compressed in both public and private markets. With our strong balance sheet, we can remain diligent in our pursuit of creative opportunities that will bolster our service and product offerings which we believe can accelerate our growth and profitability in the future.

I will not hand it over to Ian Patel, our Chief Financial Officer, to discuss financial highlights for the third quarter. Ian?

Ian Patel: Thanks Tony, and good afternoon everyone. Jumping right into our results, Q3 revenue increased 37% to $5.1 million, compared to $3.7 million in the year ago period. The increase was primarily due to some recovery and supply chain that enabled us to deliver products with fewer delays. Our net bookings in the third quarter were $2.2 million compared to $5.6 million in the same period in 2021.

The backlog at quarter end was $6.8 million compared to $9.9 million in the year ago quarter.

The quarter end backlog is expected to convert to revenue over the next 18 months. The decrease in net bookings in backlog was primarily driven by fewer new orders to replace our backlog along with greater recognized revenue during quarter. Gross profit for the third quarter of 2022 was $600,000 or 11.8 percent of revenue compared to $700,000 or 20.2 percent of revenue for the same period in 2021.

The decrease in gross margin was primarily driven by an increase in our variable costs, which include the cost of equipment, external engineering costs, shipping and handling, and travel and warrantee cost as a percentage of revenue, as well as the reallocation of certain operating expenses to costs of goods sold.

Operating expenses in Q3 2022 were $1.7 million compared to $1.2 million in the year ago quarter. The increase is primarily driven by higher SGNA in support of organic and inorganic growth initiatives as well as an increase in advertising and marketing expenses. Net loss for Q3 2022 was $1.0 million or negative 13 cents per share, compared to net loss of $400,000 or negative $1.69 cents per share in the year ago quarter. The net loss per share was lower in than the year ago quarter due to the higher issued and outstanding share count as of Q3 2022, driven by our equity financing completed earlier this year.

As of September 30, 2022, cash and cash equivalence were approximately $21.1 million compared to $2.2 million as of December 31, 2021. While working capital increased by $16.4 million during this period. The increase in cash was again driven by our financing completed early this year, where we generated net proceeds of $21.7 million from the sale of our common stock and warrants.

As of September 30, 2022, we remain debt free. This concludes my prepared remarks. I'll pass it back to you Tony.

Tony McDonald: Thank you Ian. Looking ahead, we plan to continue executing our organic and inorganic growth initiatives, while expanding the business outside of Kansas. We are optimistic about the road ahead, but remain cautious, given the inflationary environment and residual supply chain headwinds. As I mentioned earlier, our strong balance sheet enables us to be patient in our pursuit of M&A, and we plan to execute in a creative transaction when the opportunity is right. The expansion of our partnership and product lines, coupled with our investments in sales and marketing will continue to fuel our growth in the coming quarters.

We look forward to exiting the year with strong momentum, and will provide further updates on our business initiatives during the next conference call. Operator, at this time, we will open the floor for questions.

Announcer: Thank you, ladies and gentlemen, the floor is now open for questions. If you have joined via the webcast, please use the ask question button on your webcast player window to submit a question. If you have dialed in today, please press star one on your phone at this time. We ask that while posing your question you please pick up your handset if listening on speakerphone to provide optimum sound quality. Please hold while we poll for questions.

Tony McDonald: As we wait for people to enter the queue, I will field some questions received by email, and the webcast. Question, regarding the alliance with Hydro-Builder, how should we think about the ramp of this partnership? Any benefit to Q4 or more so 2023? Well, given that we formalized the alliance with Hydro-Builder just a couple weeks ago, it is too early to expect a benefit in Q4. However, we do expect to see the partnership benefits next year as we collaborate on sales efforts and sales opportunities as our delivery pipeline can take many months.

Next question, any update on R&D outside of the water solutions you mentioned earlier? Should we expect to see new product come out in 2023? We are continuing to develop new generation of products that complement our suite of offerings to provide a more comprehensive CEA solution for customers.

Next question. On the M&A front, can you provide some additional color on what you're seeing in the market and the types of targets you're evaluating? We have a couple thoughts on that. First we're looking to partner with companies that are profitable and margin accretive to our business, preferably with deep roots in either the traditional cannabis or vertical egg industry. Second, valuation multiples have been coming down. Public markets typically see the first hit which we've been experiencing all year, but there was a delay in seeing that permeate into the private markets. We are now seeing that multiple contraction in private transactions and expect to take advantage of that in 2023.

That concludes the pre-submitted questions. Operator, are there any questions from the line at this time?

Announcer: There were no questions from the line at this time Tony.

Tony McDonald: Well, then, this concludes today's conference call. We look forward to presenting our fourth quarter and annual results in the New Year.

Announcer: An audio replay of this call will be available on CEA Industries dot com forward slash investors beginning on November 15th at 5:00 PM Eastern Time and will remain available until November 28th, 2022. You may disconnect your lines at this time and have a wonderful day. Thank you for your participation.