

Crescita Reports Third Quarter 2023 Results

LAVAL, Québec--(BUSINESS WIRE)--November 8, 2023--Crescita Therapeutics Inc. (TSX: CTX and OTC US: CRRTF) (“Crescita” or the “Company”), a growth-oriented, innovation-driven Canadian commercial dermatology company, today reported its financial results for the third quarter ended September 30, 2023 (“Q3-2023”). All amounts presented are in thousands of Canadian dollars (“CAD”) unless otherwise noted.

Highlights

For the three and nine months ended September 30, 2023 and up to the date of this press release:

Financial - Q3-2023 vs. Q3-2022

- Revenue was \$3,033 compared to \$6,032, down \$2,999;
- Gross profit was \$1,499 compared to \$2,938, down \$1,439;
- Operating expenses were \$2,880 compared to \$2,805, up \$75;
- Adjusted EBITDA¹ was \$(988) compared to \$512, down \$1,500;
- Ending cash was \$10,021, down \$205 for the quarter.

Operational

Termination of Agreement with Taro Pharmaceuticals Inc.

- On October 25, 2023, Taro Pharmaceuticals Inc. (“Taro”) delivered a notice to terminate the development and commercialization license agreement for Pliaglis[®] in the U.S. market. Our final entitlement to the annual guaranteed minimum royalties in the amount of US\$1.0 million will be recognized in Q4-2023, with payment expected in Q2-2024.

Update on Manufacturing Segment

- Recent changes in senior management within our largest CMO customer have caused uncertainty in our order pipeline. As previously disclosed, certain manufacturing orders initially scheduled to be delivered in the second half of fiscal 2023 have been deferred to 2024. Our customer’s new management team indicates that they are reassessing commercial options for their products in key markets, which may negatively impact our business with them in the future. Manufacturing revenue is expected to be materially lower in the fourth quarter and for the full 2023 fiscal year, compared to the same periods of 2022. The impact on future sales to this customer beyond 2023 is uncertain at this time.

“Our results were significantly impacted by headwinds in our Manufacturing segment as a result of a major customer’s decision to defer certain purchase orders into 2024. Our customer is now reassessing its commercial options for the product in its target markets,” commented Serge Verreault, President and CEO of Crescita.

Mr. Verreault added, “The termination of the Taro license agreement for Pliaglis in the U.S. will have an impact on 2024 financial results; but, it also provides an opportunity to secure a new partner for the product and explore other distribution alternatives given that Taro has not generated commercial sales of Pliaglis since Q3-2020. Our skincare business continues to grow with a 44% increase over last year, and ART FILLER is gaining momentum through higher adoption by Canadian physicians, in part due to the positive impact and influence of KOLs.”

Corporate Developments

Normal Course Issuer Bid

- In Q3-2023, the Toronto Stock Exchange (the “TSX”) approved the Company’s proposed normal course issuer bid (“NCIB”) to purchase up to a maximum of 1,821,616 common shares (“Common Shares”) for cancellation. The NCIB commenced on August 31, 2023 and is expected to terminate on August 30, 2024 or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. The Company has also entered into an automatic securities purchase plan in connection with its NCIB. During the quarter ended September 30, 2023, 355,110 Common Shares were repurchased for cancellation for cash consideration of \$240.

Re-Launch of Alyria[®] as a Direct-to-Consumer Brand

- We relaunched Alyria[®] as a direct-to-consumer medical-grade dermocosmetic brand in the Canadian skincare market in Q1-2023, following a complete rebranding and various product reformulations. In Q2-2023, the brand was launched in retail outlets of Familiprix, a Québec based chain of independently owned pharmacies. Alyria is primarily targeted at millennials and marketed and sold online in Canada through Amazon.ca and alyriaskincare.com. The relaunch of Alyria strengthens our omnichannel expansion and provides the opportunity to engage with a new consumer group.

The Launch of ART FILLER[®]

- In Q1-2023, we launched the ART FILLER injectables (the “Fillers”) in the Canadian medical aesthetic market through our new dedicated sales force. ART FILLER is an exclusive collection of dermal fillers made of hyaluronic acid (“HA”), designed to smooth and fill in wrinkles, and create or restore the volumes and contours of the face. We distribute the Fillers under an exclusive Canadian distribution and promotion agreement with Laboratoires FILLMED.

Q3-2023 Summary Financial Results

Note: Select financial information is outlined below and should be read in conjunction with Crescita's Condensed Consolidated Interim Financial Statements and related Management's Discussion and Analysis (“MD&A”) for the three and nine months ended September 30, 2023, which are available on SEDAR+ at www.sedarplus.ca and on Crescita’s website at www.crescitatherapeutics.com.

<i>In thousands of CAD, except per share data and number of shares</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Commercial Skincare	2,412	1,672	7,589	5,600
Licensing and Royalties	163	92	483	319
Manufacturing and Services	458	4,268	4,725	11,576
Revenues	3,033	6,032	12,797	17,495
Cost of goods sold	1,534	3,094	5,493	8,198
Gross profit	1,499	2,938	7,304	9,297
<i>Gross margin (%)</i>	49.4%	48.7%	57.1%	53.1%
Research and development	143	161	481	449
Selling, general and administrative	2,360	2,286	7,539	7,797
Depreciation and amortization	377	358	1,127	1,094
Total operating expenses	2,880	2,805	9,147	9,340
Operating profit (loss)	(1,381)	133	(1,843)	(43)
Interest expense	21	25	65	134
Interest income	(113)	(81)	(350)	(168)
Foreign exchange (gain) loss	2	(7)	23	182
Share of (profit) loss of an associate	(9)	1	(26)	30
Net loss on convertible note measured at fair value through profit or loss	-	-	22	95
Income (loss) before income taxes	(1,282)	195	(1,577)	(316)
Deferred income tax expense	-	-	259	-
Net income (loss)	(1,282)	195	(1,836)	(316)
Adjusted EBITDA¹	(988)	512	(613)	1,224
Earnings (loss) per share				
Basic	\$ (0.06)	\$ 0.01	\$ (0.09)	\$ (0.02)
Diluted	\$ (0.06)	\$ 0.01	\$ (0.09)	\$ (0.02)
Weighted average number of common shares outstanding				
Basic	20,367,631	20,627,424	20,345,435	20,791,517
Diluted	20,367,631	20,912,159	20,345,435	20,791,517
Selected Balance Sheet Information				
Cash and cash equivalents, end of period			10,021	10,738
Selected Cash Flow Information				
Cash provided by operating activities	125	456	2,337	1,195
Cash used in investing activities	(28)	(2)	(28)	(216)
Cash used in financing activities	(324)	(272)	(524)	(1,625)

Revenue

We have three reportable segments: 1) Commercial Skincare (“Skincare”), which manufactures and sells our branded non-prescription skincare products for the Canadian and international markets, and also commercializes Pliaglis[®], NCTF[®], ART FILLER[®], and Obagi[®] Medical in Canada; 2) Licensing and Royalties (“Licensing”), which primarily generates revenue from licensing our intellectual property related to Pliaglis or our transdermal delivery technologies; and 3) Manufacturing and Services (“Manufacturing”), which generates revenue from contract manufacturing and product development services.

For the three and nine months ended September 30, 2023, total revenue was \$3,033 and \$12,797 compared to \$6,032 and \$17,495 for the three and nine months ended September 30, 2022. The net year-over-year decreases of \$2,999 and \$4,698 were driven by the Manufacturing segment, where the revenue decrease for the quarter was mainly due to the deferral of orders previously scheduled to be delivered in Q3-2023 into fiscal 2024, while the year-to-date decrease was also impacted by the difference in the timing and value of orders, including the fulfillment and completion of a previously announced purchase order of approximately \$7.0 million in 2022. During the same periods, we experienced continued growth in Commercial Skincare from branded product sales across all channels, mainly driven by new product launches and promotions, including the launch of Alyria in select retail outlets in the province of Québec, and ART FILLER.

Licensing revenue was \$163 and \$483 for the three and nine months ended September 30, 2023, compared to \$92 and \$319 for the comparable three and nine months of 2022. Licensing revenue of \$163 and \$483 for the three and nine months ended September 30, 2023 reflected royalties above the annual contractual minimum under our licensing agreement with Cantabria Labs Inc. (the “Cantabria Agreement”), product sales from supplying Pliaglis under our licensing agreement with Egis Pharmaceuticals PLC. In addition, year-to-date Licensing revenue included a regulatory milestone payment under our licensing agreement with Croma Pharma GmbH. Licensing revenue of \$92 and \$319 for the comparative periods of the prior year mainly reflected royalties above the annual contractual minimum under the Cantabria Agreement.

Gross Profit and Gross Margin

For the three months ended September 30, 2023, gross profit was \$1,499, representing a gross margin of 49.4%, compared to \$2,938 and 48.7%, respectively, for the three months ended September 30, 2022. The net decrease in gross profit of \$1,439 was mainly due to lower high margin Manufacturing segment revenue.

For the nine months ended September 30, 2023, gross profit was \$7,304, representing a gross margin of 57.1%, compared to \$9,297 and 53.1%, respectively, for the nine months ended September 30, 2022. The net decrease in gross profit of \$1,993 resulted primarily from lower high margin Manufacturing segment revenue, while the gross margin increase of 4.0% was mainly due to favorable product and channel mix, and to a lesser extent, the favourable impact of cost savings in the first half of 2023.

Operating Expenses

For the three and nine months ended September 30, 2023, total operating expenses were \$2,880 and \$9,147 compared to \$2,805 and \$9,340, respectively for the three and nine months ended September 30, 2022. The year-to-date net decrease of \$193 was mainly due to lower headcount-related expenses, partly offset by higher advertising and promotion spend.

Cash and Cash Equivalents

Cash and cash equivalents were \$10,021 at September 30, 2023, reflecting a decrease of \$205 for the quarter.

Non-IFRS Financial Measures

We report our financial results in accordance with International Financial Reporting Standards (“IFRS”). However, we use certain non-IFRS financial measures to assess our Company’s performance. We believe these to be useful to management, investors, and other financial stakeholders in assessing Crescita’s performance. The non-IFRS measures used in this press release do not have any standardized meaning prescribed by IFRS and are therefore not comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. The following are the Company’s non-IFRS measures along with their respective definitions:

1. EBITDA is defined as earnings before interest, income taxes, depreciation of property, plant and equipment, and amortization of right-of-use asset and intangible assets.
2. Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation of property, plant and equipment and amortization of right-of-use asset and intangible assets, share of (profit) loss of associates, fair value (gains) losses, share-based compensation costs, goodwill and intangible asset impairment, and foreign exchange (gains) losses, as applicable.

Management believes that Adjusted EBITDA is an important measure of operating performance and cash flow and provides useful information to investors as it highlights trends in the underlying business that may not otherwise be apparent when relying solely on IFRS measures. Below is a reconciliation of EBITDA and Adjusted EBITDA to their closest IFRS measures.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<i>In thousands of CAD dollars</i>	\$	\$	\$	\$
Net income (loss)	(1,282)	195	(1,836)	(316)
<i>Adjust for:</i>				
Depreciation and amortization	377	358	1,127	1,094
Interest income, net	(92)	(56)	(285)	(34)
Deferred income tax expense	-	-	259	-
EBITDA	(997)	497	(735)	744
<i>Adjust for:</i>				
Share-based compensation	16	21	103	173
Foreign exchange (gain) loss	2	(7)	23	182
Share of (profit) loss of an associate	(9)	1	(26)	30
Net loss on convertible note measured at fair value through profit or loss	-	-	22	95
Adjusted EBITDA	(988)	512	(613)	1,224

Caution Concerning Limitations of Summary Financial Results Press Release

This summary earnings press release contains limited information meant to assist the reader in assessing Crescita's performance, but it is not a suitable source of information for readers who are unfamiliar with Crescita and is not in any way a substitute for the Company's Consolidated Audited Financial Statements and notes thereto, MD&A and latest Annual Information Form ("AIF") which can be found on the Company's profile on SEDAR+ at www.sedarplus.ca.

About Crescita Therapeutics Inc.

Crescita (TSX: CTX and OTC US: CRRTF) is a growth-oriented, innovation-driven Canadian commercial dermatology company with in-house R&D and manufacturing capabilities. The Company offers a portfolio of high-quality, science-based non-prescription skincare products and early to commercial stage prescription products. We also own multiple proprietary transdermal delivery platforms that support the development of patented formulations to facilitate the delivery of active ingredients into or through the skin. For more information visit, www.crescitatherapeutics.com.

Forward-looking Information

This press release contains “forward-looking information” within the meaning of applicable securities laws. All information in this press release, other than statements of current and historical fact, represents forward-looking information and is qualified by this cautionary note. Often, but not always, forward-looking information can be identified by words such as: “anticipate”, “intend”, “plan”, “goal”, “seek”, “believe”, “aim”, “project”, “estimate”, “expect”, “strategy”, “future”, “likely”, “may”, “should”, “will” and similar references to future periods. Examples of forward-looking information include, but are not limited to, statements made in this press release under the heading “Financial Highlights”, and regarding the Company’s objectives, plans, goals, strategies, growth, performance, operating results, financial condition, business prospects, opportunities and industry trends, and similar statements concerning anticipated future events, results, circumstances, performance or expectations.

Forward-looking information is neither historical fact nor an assurance of future performance. Instead, it is based only on current beliefs, expectations, and assumptions regarding the future of the Company’s business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions.

Because forward-looking information relates to the future, it is subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company’s control.

Crescita’s actual results and financial condition may differ materially from those indicated in forward-looking information. Therefore, you should not unduly rely on any forward-looking information. Important factors that could cause Crescita’s actual results and financial condition to differ materially from those indicated in forward-looking information include, among others:

- economic and market conditions including the uncertainty in the global economy;
- the impact of inflation and rising interest rates together with the threats of stagflation and recession;
- the Company’s ability to execute its growth strategies;
- the degree or lack of market acceptance of the Company’s products;
- reliance on third parties for marketing, distribution and commercialization, and clinical trials;
- the impact of changing conditions in the regulatory environment and product development processes;
- manufacturing and supply risks;
- increasing competition in the industries in which the Company operates;
- the Company’s ability to meet its contractual obligations;
- the impact of product liability matters;
- the impact of litigation involving the Company and/or its products;
- the impact of changes in relationships with customers and suppliers;
- the degree of intellectual property protection of the Company’s products;
- the impact of the COVID-19 pandemic and the response thereto of governments and consumers;

- developments and changes in applicable laws and regulations; and
- other risk factors described from time to time in the reports and disclosure documents filed by Crescita with Canadian securities regulatory agencies and commissions, including the sections entitled “Risk Factors” in the Company’s most recent annual MD&A and AIF.

As a result of the foregoing and other factors, no assurance can be given that future results, levels of activity or achievements indicated in any forward-looking information will actually be achieved. Any forward-looking information in this press release is based only on information currently available to management and speaks only as of the date on which it is provided. Except as required by applicable securities laws, Crescita undertakes no obligation to publicly update any forward-looking information, whether written or oral, that may be provided from time to time, whether as a result of new information, future developments or otherwise.

¹ Please refer to the *Non-IFRS Financial Measures* section of this press release.

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