

# Nanalysis Reports Third Quarter 2023 Results

CALGARY, AB, Nov. 29, 2023 /CNW/ - [Nanalysis Scientific Corp.](#) ("the Company") (TSXV: NSCI) (OTCQX: NSCIF) (FRA: 1N1), a leader in portable NMR machines and MRI technology for industrial and research applications, releases its third quarter results ending September 30, 2023. Chief Executive Officer, Sean Krakiwsky, and Chief Financial Officer, Randall McRae, will host a conference call at 5 P.M. Eastern Time today to discuss the results.

"We had a good third quarter with continued strength in Security Services and we are encouraged by the results we are seeing in Benchtop Sales NMR with a 61% improvement sequentially over Q2, 2023," said Sean Krakiwsky Founder and CEO of Nanalysis.

"Security Services, mainly led by the CATSA project, showed significant improvement in margins during the quarter and I expect the project to start generating positive EBITDA<sup>1</sup> in Q4 as the roll-out continues successfully. We still have some more work to do with Benchtop NMR sales, but we like the current trajectory, and we are seeing see that momentum carrying into the current quarter as we pursue our stated objective of generating positive EBITDA from the business," stated Mr. Krakiwsky.

## Financial and Operational Highlights<sup>2</sup>

Financial highlights for the three months ended September 30, 2023:

- For the three months ended September 30, 2023, the Company reported consolidated revenue of \$7,036K, an increase of \$158K from the comparative period in 2022. This includes \$3,941K in product sales and \$3,095K of service revenue, predominantly related to security equipment services.
- Gross profit margins on product sales were 43% for the three months ended September 30, 2023. Benchtop NMR margins continue to be compressed in the quarter due to downward pressure on selling prices as a result of a slow scientific instrumentation market and higher costs related to post-COVID supply chain issues as well as ongoing inflation. Starting in the second, and into the third quarter, the Company began cost-cutting measures including the reduction of its manufacturing labour force to better align with its current manufacturing requirements. This is expected to have a positive effect on margins going forward. Additionally, the Company continues to analyze its supply chain to manage its material costs.
- Service gross profit margins were (2.6%) in Q3 as the successful rollout of the project continued. Revenue is expected to continue to grow as the project ramps to full capacity. As at the release date, the Company has completed approximately 76% of its rollout of the project. With this increased roll out in Q4 2024, it is expected the project will begin generating positive EBITDA.
- There was continued training for the CATSA project that began in the first quarter of 2023, resulting in net training expenses of \$689K for the three months ending September 30, 2023, and \$2,580K for the nine months ending September 30, 2023. As stated previously, while training will be an ongoing part of the Company's security service group, expected training costs are coming down, and are not expected to continue at this pace once the CATSA project ramp-up is complete. The Company now has a presence in all airports, however, wages related to airports not yet being fully serviced by the Company continued to be deferred as prepaid expenses, with the Company capitalizing \$912K of wages during the quarter.
- Loss before other items for the three months ended September 30, 2023, was (\$1,354K) versus (\$618K) compared to the same period last year.
- Net loss for the three-month period ended September 30, 2023, was (\$6,287K) as compared to the three-month loss for September 30, 2022, of (\$2,599K). Included in this net loss is a \$2.8MM loss related to the deconsolidation of QUAD and associated revaluation of the Company's investment,

and as well as an additional \$256K loss from associate in Q3 2023.

- During the quarter, the Company continued its cost reduction plan, including layoffs, in some of its segments to better align its resources and reduce its fixed costs. To date, the cost savings program will generate annualized fixed cost savings in excess of \$2.5 million. The Company continues to explore other fixed cost reductions, not related to labour reductions, to further increase annualized cost savings. In conjunction with this initiative, the Company recognized total restructuring expenses of \$437K in Q2 and Q3 2023.
- The Company had cash on hand of \$1.3 million, an undrawn available credit facility of up to \$5 million, working capital of \$5.6 million, and undrawn government contribution funding of \$1.1 million as of September 30, 2023.

Recent strategic and operational highlights during and after the third quarter of 2023 include:

- **Benchtop NMR:** The Company has promoted Nick MacKenzie to VP Sales to lead the sales teams for the Benchtop NMR, High Field, MRI, and the 3<sup>rd</sup> Party Equipment service lines. The previously implemented restructuring changes are starting to deliver an improved sales pipeline, which we expect to yield sales growth going forward.
- **Security Service:** Sime Buric, former VP Sales, is being made an officer of the public company with the title Executive Vice President – Services and will head up our Services business unit. As part of this transition, effective January 1, 2014, Sime will also become President of the K'Prime subsidiary. The CATSA Project made significant progress in Q3 and is expected to generate positive gross profit in the fourth quarter. As of today, the Company has completed approximately 76% of its roll-out of the project.
- **MRI:** The Company continues to make progress on its large pre-clinical MRI project and expects to recognize significant revenue related to the project in the fourth quarter. We continue to incubate the medium-term opportunity with niche product sales and services.
- **High Field NMR:** The Company sold two of its proprietary High Field NMR consoles to its associate, Quad Systems, during the quarter, and has had other recent successful customer installations of consoles in Europe.
- **3<sup>rd</sup> Party Equipment:** Slower sales in the scientific equipment market continue to hamper 3<sup>rd</sup> Party Equipment and results in Q3 were not as strong as those in Q2, however they remain above Q1 2023.

Financial highlights for the nine months ended September 30, 2023:

For the nine months ended September 30, 2023, the Company reported consolidated revenues of \$18,666K, an increase of \$1,048K from the comparative period in 2022. The primary driver of growth was continued growth in the Security Services business led by the CATSA Project which was not yet generating revenue by Q3 2022. Offsetting that was K'Prime 3<sup>rd</sup> party product sales which were down \$987K year over year as a result of softness in the scientific equipment market, particularly in its US regions. The Nanalysis segment was down year over year by \$3,883K because of downward market pressure, continuing effects from the significant turnover in its Benchtop NMR sales organization, and the fact that Quad revenue is no longer consolidated effective July 1, 2023. The Company believes that the effects of the sales organization turnover were felt most prominently during Q1 and Q2 of 2023, and in the third quarter has begun to overcome those challenges.

Gross profit for the nine months ended September 30, 2023, was \$2,252K (a margin of 12%) compared to gross profit of \$9,258K (a margin of 53%) for the nine months ended September 30, 2022, driven mostly by the fact that the CATSA Project has been ramping up through 2023, bringing down average margins.

The Company's net loss for the nine months ended was \$(14,661K), as compared to the nine-month loss for September 30, 2022, of \$(6,623K). Lower product sales and lower margins on those products, combined with costs associated with the ramp-up of the CATSA project, resulted in an increased net loss for this period. This includes one-time up-front training costs related to the CATSA Project, and other non-deferrable project-related costs. Partially offsetting decreased gross profits were savings realized in sales and marketing expense, general and administration expenses, and lower research and

development expenses. Furthermore, this net loss includes the loss on associate from QUAD as well as the \$2.8MM loss on deconsolidation referenced above.

## Comments and Outlook

"We are encouraged by sequential growth of our benchtop sales from Q2 to Q3, and we are seeing that continue into Q4," said Sean Krakiwsky, Founder and CEO of Nanalysis. "On an operational level we feel we are better aligned with our recent leadership changes Security Services and our sales organization. Sime Buric was instrumental in landing the CATSA Project and continues to show leadership and expertise in this space. He has tremendous customer relationships and has established excellent partnerships that will drive growth of this business unit in Canada and the United States in 2024. In 2023, Sime's CATSA team has hit their targets as we transition to profitability and are now poised for impressive growth. Promoting Nick MacKenzie to VP of Sales lets Sime focus on growing the Security Services business, while it allows Nick to step up and leverage the changes we have made earlier this year to continue to grow all product sales. Nick is an accomplished sales professional in the analytical instrumentation industry with over 15 years' experience with mass spectrometers, chromatography machines, and other established products. He is now excited about growing the market for Benchtop NMR and leading the management of our High Field NMR sales initiative.

"Regarding our High Field NMR partnership with Quad Systems AG of Switzerland, we are pleased with their technical accomplishment of developing a full system that they are demonstrating to customers. Although Quad has not yet shipped a full system to a customer, Nanalysis and Quad have made several console and probe shipments, respectively, to customers, from which feedback has been positive. We have attended several exhibitions in 2023 and will continue to grow this initiative with our partner in 2024. With Benchtop NMR, we are a leader in a nascent market and driving new applications, while in High Field NMR with our console product and our strategic investment in Quad, we are focused on taking market share away in an already established large market with only two competitors. Our High Field and Benchtop initiatives are synergistic in terms of both technology as well as cross selling," continued Mr. Krakiwsky.

"With the changes implemented right-sizing our R&D and manufacturing capacity, particularly as it relates to Benchtop NMR, we believe we are poised to return to growth in 2024, and to begin our era of profitability. We continue to hold our place as a leader in Benchtop NMR and plan to retain that position through continued innovation and cross pollination of technologies used in our product lines," continued Mr. Krakiwsky.

"Finally, I would like to make a very important announcement, regarding the current President of K'Prime, Mr. Kham Lin: After a 30-year prolifically successful career in analytical instrumentation and security services, Mr. Lin will be retiring from his full-time role, effective December 31, 2023. Among Mr. Lin's many professional accomplishments are building a prosperous company in K'Prime Technologies, which culminated in the winning of the \$160 million CATSA contract and successful ramp up of that project. We all wish Mr. Lin a fruitful retirement, where he will focus on spending more time with family and generously donating his time, resources, and expertise to his various philanthropic activities, especially the Alberta Cancer Foundation and the Lin Family Foundation. I know that Mr. Lin has full confidence in the team that he has built, including Sime Buric who will succeed him as President of K'Prime and Executive Vice President - Services, heading up the CATSA Project and other services contracts," concluded Mr. Krakiwsky.

## Conference Call

Investors interested in participating in the live full year call can dial 1-888-664-6392 or 416-764-8659 from abroad. Investors can also access the call online through a listen-only webcast here:

<https://app.webinar.net/r3VaMyOQbg1> or on the investor relations section of the Company's website [HERE](#).

The webcast will be archived on the Company's investor relations webpage for at least 90 days and a telephonic playback will be available for seven days after the conference call by calling 1-888-390-0541 or 416-764-8677, conference ID # 964847.

Additionally, the Company will be hosting a Q&A session for its European investors that is at 8:30am ET tomorrow, Thursday, November 30, which can be accessed by the following link:

[Click here to join the meeting](#)

## **About Nanalysis Scientific Corp. (TSXV: NSCI, OTCQX: NSCIF, FRA: 1N1)**

Nanalysis' business is what we term "MRI and NMR for industry". The Company develops and manufactures portable Nuclear Magnetic Resonance (NMR) spectrometers or analyzers for laboratory and industrial markets. The NMRReady-60™ was the first full-feature portable NMR spectrometer in a single compact enclosure requiring no liquid helium or any other cryogenics. The company has followed-up that initial offering with new products and continues to have a strong innovation pipeline. In 2020 Nanalysis announced the launch of its 100MHz device, the most powerful and most advanced compact NMR device ever brought to market.

Nanalysis' devices are used in many industries (oil and gas, chemical, mining, pharma, biotech, flavor and fragrances, agrochemicals, law enforcement, and more) as well as numerous government and university research labs around the world. The Company continues to exploit new global market opportunities independently and with partners.

In 2022 the Company acquired K'(Prime) Technologies Inc. (K'Prime), a North American sales and service company which provides sales services for scientific instrumentation for pharma, food, chemical and oil & gas customers, as well as imaging systems for security applications. K'Prime's service organization provides airport and commercial security installation and maintenance solutions across North America.

Additionally in 2022, the Company acquired a 43% ownership in Quad Systems AG ("Quad Systems"), a Zurich-based Nuclear Magnetic Resonance (NMR) company focused on high-field NMR for pharmaceutical and other vertical markets.

## **Notice regarding Forward Looking Statements and Legal Disclaimer**

This news release contains certain "forward-looking statements" within the meaning of such statements under applicable securities law. Forward-looking statements are frequently characterized by words such as "anticipates", "plan", "continue", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed", "positioned" and other similar words, or statements that certain events or conditions "may" or "will" occur. These statements are only predictions. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this news release. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. The Company is under no obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable law.

Neither TSX Venture Exchange nor its Regulation Services Provider accepts responsibility for the adequacy or accuracy of this release.

<sup>1</sup> Please refer to the Company's Q2 2023 Management Discussion and Analysis for a discussion of non-IFRS measures.

<sup>2</sup> Financial Highlights should be read in conjunction with the Company's Q3 2023 Management Discussion and Analysis as well as the Q3 2023 Interim Condensed Consolidated Financial Statements.

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