

Solésence Second Quarter 2025 Conference Call Script

Operator Introduction

Good day. Thank you for standing by. Welcome to the Solésence second quarter 2025 conference call.

[Operator Instructions]

Today's call is being recorded.

During this call, management will make statements that include forward-looking statements within the meaning of the federal securities laws, which are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

This conference call may contain statements that reflect the company's current beliefs, and a number of important factors could cause actual results for future periods to differ materially from those stated on this call.

These important factors include without limitation, a decision of the customer to cancel purchase order or supplies, agreement, demand for an acceptance of the company's personal care, ingredients, advanced materials and formulated products, changes in development and

distribution relationships, the impact of competitive products and technology, possible disruption in commercial activities occasioned by public health issues, terrorist activity and armed conflict and other risks indicated in the company's filings with the Securities and Exchange Commission.

Except as required by federal securities laws, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new events, uncertainties, or other contingencies.

I will now hand the conference over to your speaker, Mr. Jess Jankowski, President and CEO. Please go ahead, sir.

Jess Jankowski, President & CEO

Thank you, Daniel.

Good afternoon, and thanks to all of you who have joined our call today.

Also joining me on today's call, is Kevin Cureton, our Chief Operating Officer. I'll begin with a summary of our second quarter results and a business update. Kevin will then discuss our operational initiatives, then we'll take your questions.

I am pleased to report we delivered a strong second quarter, both commercially and operationally. It truly was a total team effort that resulted in a sharp increase in revenue sequentially and annually. I'm proud of what we accomplished this quarter and want to use this opportunity to thank our dedicated team.

I would like to remind our listeners that the second quarter is typically our seasonally strongest quarter. This is due to the advanced sunscreen orders for Summer. This made it critical that we executed at the highest level to effectively manage the increased volume load.

This exceptional performance has not only solidified our customer relationships, but also, positioned us well for repeat orders.

Taking a step back, I'd like to highlight some of our key corporate updates that took place during the quarter.

At the start of the quarter, we uplisted our common shares onto Nasdaq, a major milestone for Solésence and our valued shareholders.

As we discussed on our first quarter call, listing on Nasdaq is important because it can deepen our visibility within the investment community, increase our liquidity, and deliver greater value to our shareholders and other stakeholders. We are excited to be a Nasdaq-listed company and look forward to many future investor engagement opportunities.

Since we listed on Nasdaq, we were added as a member of the broad-market Russell 3000® and small-cap Russell 2000® indices. Inclusion on these highly visible indices, further enhances our marketability by opening us up to a wider range of institutional investors. These significant achievements underscore our commitment to maximizing shareholder value, and expanding our presence within the financial markets.

During the quarter, we also amended our existing loan agreements to increase our borrowing capacity to further support our growth initiatives. As Kevin will discuss in greater detail shortly, we not only enhanced our operational efficiencies during the quarter, but also restructured our debt facilities to ensure we have the financial strength to invest in our future.

Let's turn to an update on our second quarter financial results, in approximate numbers.

Revenue for the quarter was \$20.4 million, representing an increase of 56% year-over-year. It was a record quarter for Solésence, driven by the sales of our consumer products to our largest customers, including our new partner, and, of course, Colorescience. These results reflect the continued strength of our commercial execution, and market demand for our products.

We are also pleased with the improvement in our profitability in the second quarter, as we successfully navigated through the one-time

production start-up costs related to the first quarter launch of a new product line, by an exciting new brand partner. Further, as expected, we've had no recurring production issues related to this new partner.

Second quarter gross profit was up 55% at \$5.9 million, compared to \$3.8 million, for the same period in 2024. The gross profit margin was 29% for both periods.

Notably, gross margins expanded by six percentage points from the first quarter of 2025.

Net income for the second quarter was \$2.7 million, compared to net income of nine-hundred thousand for the same period in 2024.

Net income in the second quarter of 2025 benefitted from approximately \$1.2 million in net credits, plus related interest, from the federal government's Employee Retention Credit program, which we applied for in 2022. This was a nice boost to our cash position.

As pioneers in bringing industry-leading, award-winning, protective beauty solutions to leading brands globally, our mission, ***Delivering Joy***, is embedded in our work culture.

We honor this mission through our commitment to continually elevate our product offerings and offer outstanding performance. In doing so, we are transforming skincare and beauty products that protect, nourish, and celebrate every skin tone, type, and identity.

Our product advancements were on full display at the 22nd Edition of Cosmoprof North America, held in Las Vegas two weeks ago.

For those new to our company, Cosmoprof North America is the leading business-to-business beauty trade show in the Americas, and the single most important networking opportunity in the U.S., for all sectors of the global beauty industry.

It is here where we showcase our novel products, and unveil new technologies, while forging new relationships and partnerships with leading brands globally.

We really shine at Cosmoprof!

At this year's event, we were excited to demonstrate a new white-label product that was featured in CosmoTrends, which is a widely circulated report that provides early insight into the most influential product, ingredient, and consumer behavior trends shaping the global beauty market.

Our new product, **Color Ninja, Correcting Cream SPF 50+**, is developed to cater to those consumers seeking both anti-aging, and sun care products, tailored toward sensitive skin.

Infused with our patented ingredient, Kleair™, this color-correcting cream promotes skin longevity, while offering a perfected skin finish that counteracts redness.

Additionally, we exhibited two new skin health technologies that we believe will further support our future growth initiatives. As a recognized leader in the beauty industry, we continue to strengthen our foundation for growth, and evolve our technology to adapt to a rapidly changing demand environment.

It is our relentless commitment to scientific excellence and innovation that sets us apart, enabling us to deliver on our mission. We look forward to sharing further technology updates, product developments, and new launches in the months ahead.

At this time, I'll turn the call over to Kevin Cureton, our Chief Operating Officer, to share an update of our progress and outlook. Kevin?

Kevin Cureton, COO

Thanks Jess. And as I always like to begin, I would like to thank our amazing team for their tireless commitment and demonstrating through our results their ability to consistently deliver solid performances for our investors, our brand partners, and for ourselves.

We are pleased to generate another quarter of record revenues and unit volumes shipped. This resulted from our ability to successfully ramp up inventory production earlier in the year in order to meet a higher level of customer orders during our seasonally strongest quarter. Importantly, we not just grew, but grew profitably as evidenced by our increase in EBITDA, which expanded to \$3.5 million in the second quarter, up from \$1.4 million in the year ago period.

Overall, for the quarter, shipment volume increased 102% and production volume increased 127% compared to the year ago period. These increases are a testament to our team's efforts to successfully work through large order quantities on time and produce high quality solutions for our customers.

I'd also like to highlight that we continued to receive new orders from our new brand customer from the first quarter in which we resolved all production issues related to that account. This shows our unyielding dedication to our work that customers equate to the Solésence brand.

While improving manufacturing execution, we continued efforts in rebalancing our inventory levels. During the quarter, we reduced inventory levels by approximately \$2 million – or about 9.5% of the inventory level we held at the end of Q1. Our goal remains to reset inventory levels and mix so they are fully aligned with our growth plans. On our Q3 call, we will share more specifics about our progress here.

Our improved manufacturing execution also yielded lower overall labor expenses – as these were reduced as a percentage of revenue by four percentage points during the quarter as compared to Q1 2025.

Our investments in increasing scale and automation are starting to achieve the expected payoff, so over the next few quarters, we expect further cost reductions, which ultimately will raise our overall gross margins to be in-line with what a technology driven company like ourselves should achieve.

Now turning to the broader macro environment. Solésence is a well-diversified business with brand partners spanning various skin care, color cosmetics, and sun care categories, as well as those operating in prestige and mass markets. We believe our broad market mitigates some of the effects if macroeconomic conditions weaken.

Having said that, we anticipate demand to slow in the second half of 2025 as tariffs affect global purchasing decisions and consumer buying

habits. This will likely have an impact on our revenues, but we are still projecting a record revenue year.

On the expense side of the equation, we also expect a muted impact to our packaging component costs, however, as stated on our last call, we do anticipate that we will be able to pass all of the new tariff expenses through without adversely affecting our margins. We will continue to monitor the situation closely.

In addition to our strong commercial and operational execution, as Jess mentioned, we enhanced our financial flexibility to support our future growth initiatives. In May, we amended our loan agreements to increase borrowing capacity from \$14.2 million to \$23.0 million and extended maturities to April 30, 2027. This expanded financial flexibility is crucial for executing our objectives, allowing for favorable raw material procurement, improved lead times for product launches, and stronger support for our brand partners.

Taking a 30,000-foot view, we are now better positioned to scale operations and broaden the scope and depth of the type of offerings we present to our brand partners, all of which is reflected in the strong confidence of our finance partners. We appreciate their continued support.

I'll now turn the call back to Jess. Jess?

Jess Jankowski, President & CEO

Thanks, Kevin.

Looking ahead, we anticipate moderating demand levels based on softer macro-economic conditions.

While we continue to receive re-orders, and exceed client expectations for our beauty care solutions, the combination of typical seasonality, longer brand purchasing decision processes, and an uncertain tariff environment, will likely have an impact on our top-line for the second half of 2025.

Our shipped and open orders are currently in excess of \$60 million, compared to about \$50 million in the second quarter of 2024, and \$45 million when we last reported in May.

For those listeners who are new to Solésence, this metric refers to the total value of customer orders, that we've either already shipped, or are still awaiting fulfillment. It represents a snapshot into our business, which we believe helps investors better understand current demand trends.

While we navigate through this expected choppy market in the second half of 2025, I would like to highlight three reasons why we are confident in our long-term prospects:

First – Leveraging our patented technology, unique performance products, and regulatory expertise, our specialized formulations for skin health, sun care, and color cosmetics, position us at the forefront of the beauty care market.

Our ability to cater to both prestige and mass-market brands is further amplified by our diversification across various beauty segments. As the preferred CDMO for top brands, we constantly innovate with new technologies to retain our pole position, giving us an edge over the competition.

Second – We have an impressive roster of loyal leading brand customers, which we do not take for granted. These brands, such as BASF, Colorescience, Tatcha, Credo, and others appreciate our differentiated offerings. They know that we’re adding to their consumers’ confidence, self-expression, and well-being.

Our high brand retention rates ensure recurring revenue and sustainable growth. Furthermore, we are relentless in meeting the specific demands of our customers.

As we detailed *last quarter*, we perfected the delivery for a new multi-SKU product launch with a new brand earlier this year.

Despite the start-up challenges we shared, this key brand partner has now placed a series of future orders. We mentioned last time that these challenges helped to build the relationship with this brand, and follow-on orders are commercial proof.

And Third – We have rightsized our operations, and improved our financial flexibility, giving us added capability to not only invest, but also scale for growth.

Much of the work associated with streamlining our operations occurred in late Q2 and early Q3. And as a result, we are well-positioned to expand our gross margin and drive stronger EBITDA performance, which will be more evident throughout the second half of the year.

You know, we work with several brands that do a great job in conceptualizing compelling concepts that drive the initial consumer purchase.

The challenge, and the opportunity, are translating that excitement into second and third purchases.

This is where Solésence breaks through and makes a difference.

By creating "loyalty" with consumers, our patent-protected products live up to their expectations. That's the part that's difficult for other brands, *those brands not working with Solésence*, to replicate.

It reinforces our strong competitive position, which drives our long-term value creation.

With three proprietary technology platforms, we are well-positioned to generate continued growth, that we anticipate *will happen at a multiple of the industry's current growth rate*.

Now, before we open the call for your questions, I'd like to share a brief update on our Chief Financial Officer search. We've been actively engaged in the process and are very pleased with the caliber of candidates we've interviewed. We are at a point where we expect to make an announcement regarding our new CFO soon.

Now, we would be happy to take some questions. Afterwards, I'll offer a few closing comments.

Daniel, please open the call for Q&A.

Q&A SESSION

Jess Jankowski, President & CEO

Thank you for your questions and to all those who took the time to join us today.

We remain confident in our long-term prospects, driven by our cutting-edge, patented technology, and specialized formulations, that position us at the forefront of the beauty care market. Our ability to serve both prestige and mass-market brands, coupled with our relentless innovation, and position as a preferred CDMO, gives us a distinct competitive edge.

We are proud of our impressive roster of loyal, leading brand partners, ***our customers***, who value and promote our differentiated offerings, ensuring high retention rates and sustainable growth. Furthermore, we've proactively strengthened our operational foundation and financial flexibility, ensuring we are well-equipped to invest and scale for future growth, and guard against potential near-term demand headwinds.

Our recent Nasdaq uplisting, inclusion in the Russell indices, and increased borrowing capacity, all underscore our commitment to *maximizing shareholder value*. I'd like to close by thanking our shareholders for your continued support, and look forward to updating you on our progress next quarter!

Daniel, you may close the call.