

Transcript of
Dynatronics Corporation (NASDAQ: DYNT)
First Quarter Fiscal Year 2022 Earnings Call
November 11, 2021

Company Participants

John Krier – Chief Executive Officer
Norm Roegner – Chief Financial Officer
Skyler Black – Principal Accounting Officer

Conference Call Participants

Destiny Hance – Ladenburg Thalmann
Jeremy Pearlman – Maxim Group

Operator

Good morning, ladies and gentlemen, and welcome to the Dynatronics First Quarter Fiscal Year 2022 Earnings Call. It is now my pleasure to turn the floor over to your host, Skyler Black, the company's Principal Accounting Officer. Skyler, the floor is yours.

Skyler Black – Principal Accounting Officer, Dynatronics Corporation

Slide 1



Thank you, operator. Before we begin, let me remind you that during the course of this call, we will make forward-looking statements regarding our current expectations, plans, projections and financial performance relating to our business.

Slide 2

SAFE HARBOR

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Those statements include references to the company's expectations and similar statements. Such forward-looking statements reflect the views of management at the time such statements are made. These statements include our statements regarding expected improvement in overall performance, expectations that the company will deliver higher annual gross margins, operating income and cash flow from operations in fiscal year 2022 compared to fiscal year 2021, expectations regarding reduction in leased space in fiscal year 2022, expectations regarding net sales, gross margin, selling general and administrative costs, and other income in fiscal year 2022, and uncertainties involving the impact of the COVID-19 pandemic on the company's results of operations and financial condition. These forward-looking statements are subject to a number of risks, uncertainties, estimates, and assumptions that may cause actual results to differ materially from current expectations. The contents of this presentation should be considered in conjunction with the risk factors, warnings, and cautionary statements that are contained in the company's annual, quarterly and other reports filed with the Securities and Exchange Commission. Dynatronics does not undertake to update its forward-looking statements, whether as a result of new information, future events, or otherwise.

Continued product net sales as used in this presentation is a non-GAAP measure as defined under the rules of the Securities and Exchange Commission. The company defines continued product net sales as sales excluding discontinued products and sales of physical therapy and rehabilitation products through our direct sales channel. Management uses this non-GAAP measure to evaluate our operating performance and to forecast future periods. Management believes this non-GAAP measure provides investors additional information about the company's ongoing operating performance and is not intended as a substitute for, or superior to, the financial measure prepared in accordance with GAAP. Investors are cautioned against placing undue reliance on this non-GAAP measure.

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These forward-looking statements reflect our view as of today only, and they involve risks and uncertainties that could cause actual results to differ materially from those discussed today. Important factors that could cause actual results to differ materially from those projected or implied by our forward-looking statements are included in our most recent 10-K and other reports filed with the SEC and include uncertainties and risks related to the impact of the COVID-19 pandemic on our business results.

We caution you not to place undue reliance on forward-looking statements we make this morning. We undertake no obligation to update or revise forward-looking statements. During our prepared remarks, we will be referring to slides that are available for viewing in the webcast and posted in the investor relations section of [dynatronics.com](https://www.dynatronics.com).

I will now turn the call over to John Krier, our President and Chief Executive Officer.

John Krier – Chief Executive Officer, Dynatronics Corporation

Thanks Skyler. Good morning, everyone, and thanks for joining Dynatronics call today. Before I begin our call on this Veterans Day, it is our privilege to say “thank you” to all of America’s veterans, to let them know we appreciate them for their service and honor them for their sacrifices.

With me today are our Principal Accounting Officer, Skyler Black and our Chief Financial Officer, Norm Roegner.

On today's call, we will cover the highlights and achievements of the first quarter fiscal year 2022. Norm will provide commentary on the financials, and then we will have the operator open the phone lines for questions.

Slide 3


FOCUSED LEADERSHIP

Proven commercial success and business transformations in medical device markets.
Creating significant growth opportunities.



John Krier
President &
Chief Executive Officer

- Appointed CEO in July 2020
- John joined Dynatronics as CFO in March 2020. Prior to that was VP, Marketing and Commercial Operations at Breg since 2014, a long-standing significant customer of Dynatronics and important player in our market
- Proven track record in driving commercial success to meet customers' tailored needs including 13 successful acquisitions while at Breg and predecessor, delivering a compelling and sustainable business model





Norm Roegner
Chief Financial Officer

- Joined Dynatronics as CFO in November 2020
- Previously VP of Finance for Molex's Medical and Pharmaceutical Division, a global leader of manufacturing services to the medical device market
- Over 20 years of experience in senior finance positions leading business transformations with focuses on aligning resources, refreshing commercial strategies and optimizing supply chains



Skyler Black
Corporate Controller

- Joined Dynatronics in 2018
- 12 years of financial discipline at PricewaterhouseCoopers, a Big 4 leader



Please turn to Slide 3. You can see Norm's, Skyler's and my background on this slide, it provides some color as to our collective resources and the experience that we have brought to the company. I've been CEO of the company since July 2020. Before joining Dynatronics, I was involved in the management of orthopedics and bracing companies for nearly 17 years. I started to get to know the Dynatronics team several years ago, while working for Breg, a significant Dynatronics customer.

At Breg and predecessor companies, I helped execute 13 successful acquisitions, growing Breg revenues significantly by building a compelling and sustainable business model.

We had industry-leading organic growth and we had an unwavering commitment to customer experience with the mantra to make it remarkably easy for our customers to choose us. Our team at Dynatronics has that same focus in mind, and our industry fundamentals are very similar to Breg. Norm Roegner has been CFO of the company since November 2020. He brings over 20 years of executive financial and operational leadership to the company and was most recently Vice President of Finance for Phillips-Medisize, a Molex company backed by Koch Industries. Norm led the team that implemented the product optimization initiatives that we announced in April and substantially completed on-schedule in June 2021. Norm has brought financial and operating discipline and planning talent to Dynatronics.

Skyler is our Principal Accounting Officer, and has provided his valuable expertise to the company since 2018, which helps him guide our historical perspective in this transformation.

Slide 4

KEY TAKEAWAYS – FIRST QUARTER FY '22

- **Business model change and favorable markets are driving sales growth and gross margin improvement.**
 - Completed to date: new exclusive dealer sales model and product mix shift to faster growth, higher margin products.
 - Sales of \$12.3M in Q1 FY '22. Comparative baseline Net Sales of \$9.8M in Q4 FY '21. Net sales of \$12.2M in Q4 FY '21.
 - Midpoint of sales guidance of \$42.5M in FY '22 represents 15% growth rate in FY' 22 relative to the \$37M baseline set in April 2021.
 - 29.8% gross margin in Q1 FY '22, somewhat muted by impact of COVID-19 and supply chain challenges. 27% gross margin in FY '21. Gross margin target > 40% over time.
 - Managing COVID-19 and supply chain challenges.
- **Business transformation remains our top priority: Executing well and leveraging capabilities.**
Dynatronics leadership has proven commercial success and business transformations in medical device markets.
 - Deliver commercial success, emphasizing quality for cost and differentiated customer experience
 - Improve margins
 - Optimize manufacturing and supply chain
 - Continue focus on cash flow from operations
 - Timely commercial launch of new products focused on growth markets
 - Target acquisitions in existing or adjacent markets with customer uptake and > 40% gross margin
- **Cash balance of \$5.5M, no debt, and zero balance on line of credit with a borrowing base of approximately \$5.2M at 9/30/21. Capital is adequate to support existing operations**

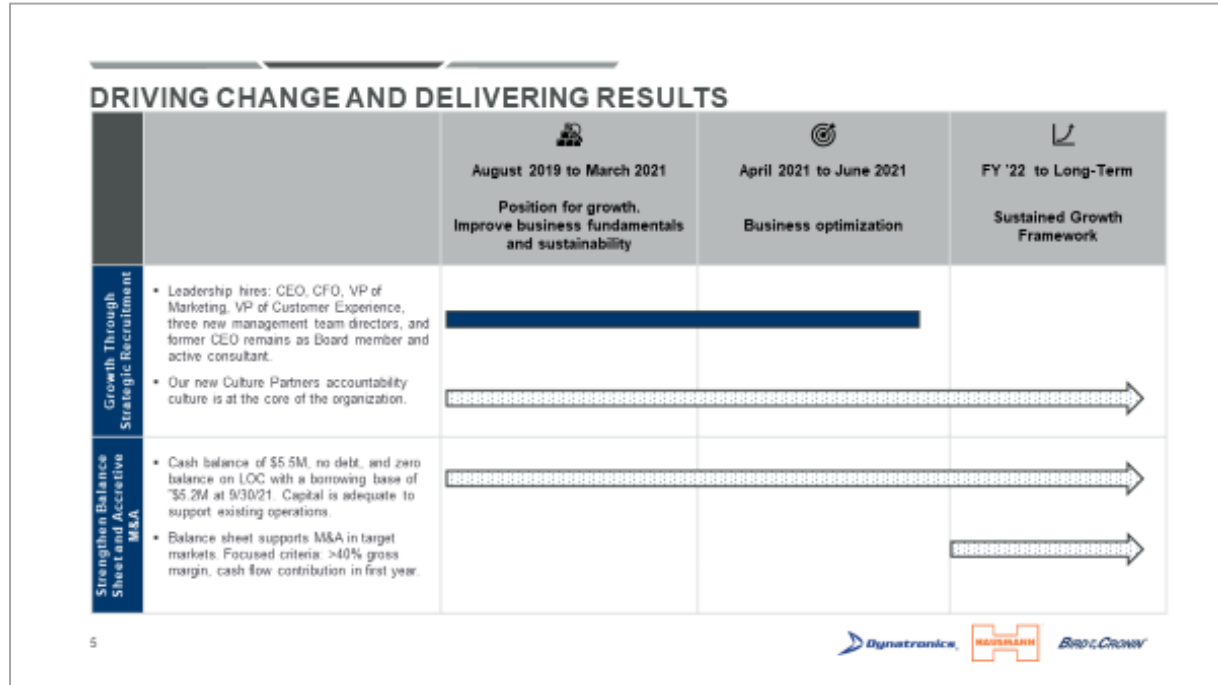
4 The company targets improvement in gross margin, operating income, and cash flow from operations in FY '22 relative to FY '21 and over time (excluding notable impacts in Other Income in Q4 FY '21).



Let's turn to Slide 4. We have been executing an ongoing business transformation. To date, we have implemented a new exclusively dealer sales model in our rehabilitation market and shifted our product sales mix to faster growth, higher margin products that we manufacture. Customer and dealer reaction to Dynatronics' transformation strategy along with favorable tailwinds in the markets we compete in are driving sales that outpace our expectations. That provided the company with the confidence to initiate sales guidance in September.

Our transformation remains the top priority. We are executing at a high level and have operating levers to achieve our goals including improvement in gross margin, operating income, and cash flow from operations in FY '22 relative to FY '21, absent significant impacts of the continuing surge of COVID-19 cases. This year-over-year planned improvement, excludes the notable other income events discussed in Q4 FY '21.

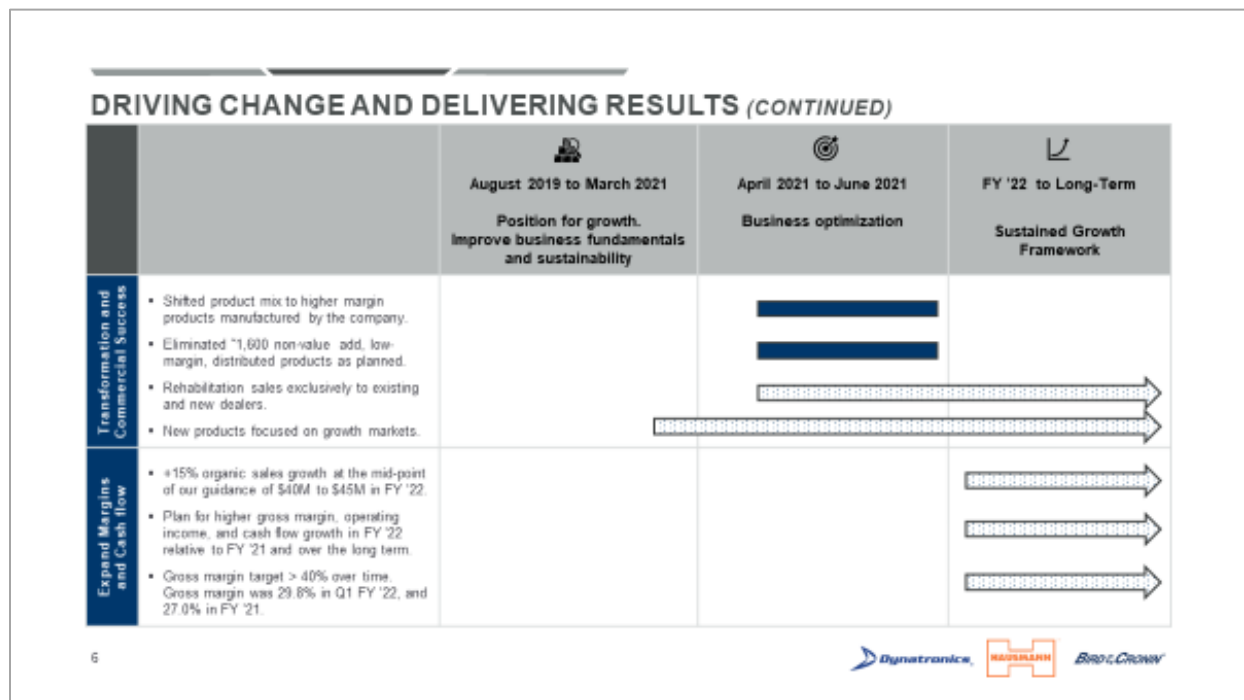
Slide 5



Each of the four initiatives on Slides 5 and 6 are very important to our sustainable growth platform. Looking at slide 5, new leadership hires were a major focus area. We implemented Partners in Leadership culture of accountability and focused our employee actions to overall organic revenue growth and consistent profitability. This newly built leadership team substantially completed in June 2021, as planned, the business optimization and product portfolio rationalization plan announced on April 22, 2021. This achievement was another milestone for our team.

We ended the quarter with cash on hand of approximately \$5.5 million, no debt, and zero drawn on our line of credit with a borrowing base of approximately \$5.2 million. Our capital is adequate at this time to support our existing operations. We will continue to strengthen the balance sheet via sustainable cash flow from operations, which can support additional investment in product development and accretive M&A in target markets.

Slide 6

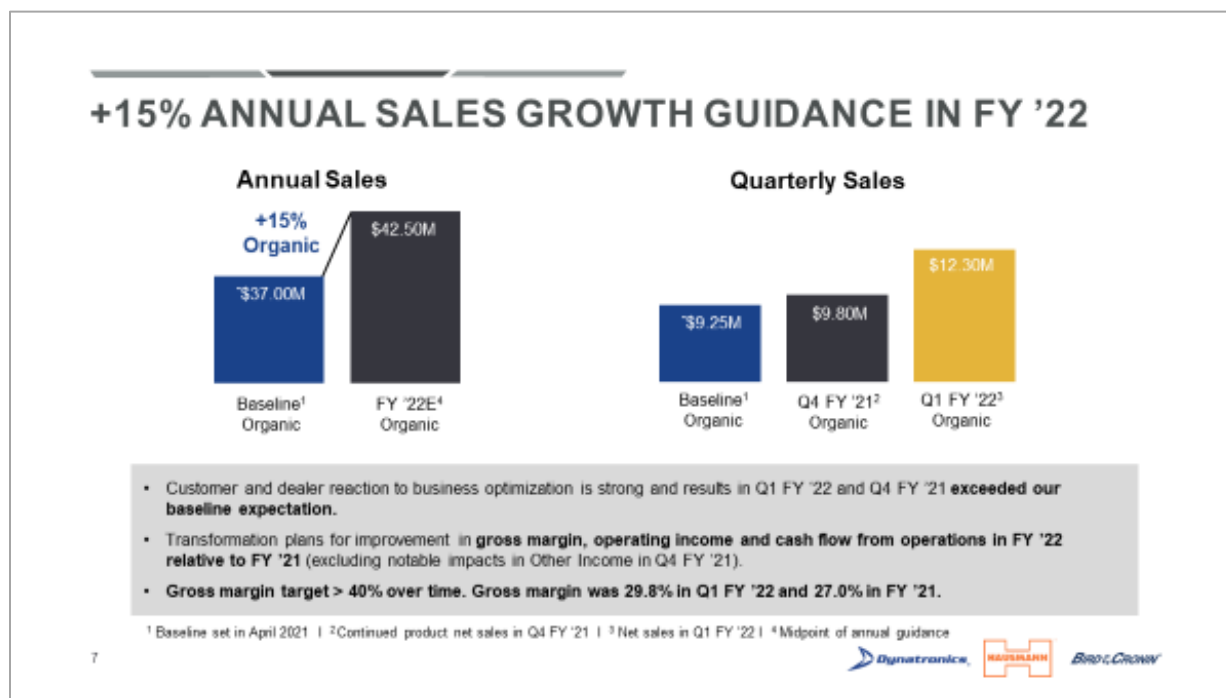


Looking to Slide 6. Over the course of a 10-week period, we went from a standing start to substantially completing by June 30th, the business optimization and product portfolio rationalization plan announced on April 22nd. We eliminated over 1,600 SKUs of low-margin third-party distributed products, an approximate \$11 million annual net sales reduction. These products were low or no growth, carried low or unacceptable margins, and were not our own manufactured products. The rationalized products were at the lowest end of our margin profile. By eliminating these sales, it stands to reason our margins will migrate upwards over time.

A key reason we moved away from the distributed products – our largest dealers asked if we were their customer, competitor, or supplier. In some cases, it was all three. You're seeing the positive early results with the Q1 FY '22 reported net sales and annual guidance we released. We're getting benefits of market volume increases and the favorable reaction to our strategy.

Management focus is on our brands leading to additional support to our customers and product innovation opportunities, so that we can provide consistent, excellent experiences to our customers. Moving to the dealer channel in our rehabilitation market is a strategic move to simplify our business, strengthen our revenue platform and generate cash. In the six months following the announcement, I and my team have been able to discuss this change with our dealer partners, and the response continues to be overwhelmingly positive.

Slide 7



Moving to Slide 7. We intend to provide guidance on metrics that we are confident with, while managing the choppy nature of this business transformation and the impacts of COVID-19. We expect net sales in fiscal year '22 to be in the range of \$40 million to \$45 million, assuming no significant adverse effect on procedure volume from the recent surge in COVID-19 cases. The midpoint of this sales guidance represents 15% growth rate relative to the \$37 million annual continued product net sales baseline set in April 2021.

We developed our annual sales guidance range for FY '22 by taking the Q4 FY '21 revenue from continued products of \$9.8 million, adding market growth of approximately 5% is \$10.3 million per quarter. Three quarters of \$10.3 million plus add our \$12.3 million revenue in Q1 FY '22 results in performance slightly above the midpoint of our annual sales guidance in FY '22.

Customer and dealer reaction to Dynatronics' transformation strategy continues to be overwhelmingly positive, demonstrating our new business model strength, and providing us momentum building upon the favorable tailwinds in the markets we compete. However, it is early in our fiscal year '22 and with significant volatility due to continuing challenges from COVID-19, we believe it is prudent to maintain our guidance for annual sales in fiscal year '22.

The company expects the distribution of net sales across the quarters in FY '22 to align with historical trends, which have tended to be a little higher in the first and fourth quarters, highest in our first quarter, and lower in the second and third quarters. There may be some variability in this pattern, as the company adjusts to ordering patterns in its rehabilitation market given the transition to an exclusively dealer-based sales model.

As a reminder, product sales in each quarter in fiscal year '22 will represent products we plan to continue to offer following the optimization initiatives announced on April 22nd, 2021.

Slide 8

GUIDANCE FOR FY '22 DETAILS

Net Sales:

- Net sales of **\$40M to \$45M in FY '22**, assuming continued growth in procedure volume and related site visits despite the recent surge in COVID-19 activity. The FY '22 net sales mid-point is a 15% improvement relative to the \$37M annual baseline continued product net sales set in April 2021.
- Net sales guidance reflects the Company's expected GAAP revenue. Products sales in FY '22 will represent products we plan to offer moving forward since the product portfolio optimization initiatives announced on April 22, 2021 were substantially completed in FY '21.

Gross Margins:




- The company targets improvement in gross margin, operating income, and cash flow from operations in FY '22 relative to FY '21 and over time (excluding notable impacts in Other Income in Q4 FY '21).
- Gross margin is continuing to be impacted by challenges of COVID-19, including higher delivery and shipment costs and overall supply chain disruption.

Selling, General, and Administrative Expenses ("SG&A") and Other Notable Items:

- SG&A of **30.0% to 35.0% of net sales in FY '22**.
- Other Income of approximately **\$0.9M benefit from the Employee Retention Credit in Q1 FY '22**.

The company continues to expect volatility due to the challenges from COVID-19, including higher raw material, delivery and shipment costs, supply chain disruptions, extended handling times and delays or disruption in procedure volume. Dynatronics also expects some ongoing volatility from the company's business optimization.

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Looking at Slide 8, this is the details of our guidance. We are very focused on the top line, but we also plan to drive margins over time. Our target is to achieve 40% gross margins over the longer-term, which would be comparable to what we believe our peers achieve. Our competitors, DJO before they were acquired by Colfax and Ossur when you breakout their bracing segment, maintain margins for bracing and supports of approximately 50% and for rehabilitation of roughly 30%.

Our gross margin was 29.8% in Q1 FY '22, an increase from 27.0% in FY '21 including the exit activities associated with the discontinuation of third-party distributed products. Gross margin in Q1 FY '22 was somewhat muted by the impact of COVID-19 and supply chain challenges including extraordinarily high freight costs and increased costs for raw material. Specifically, freight costs and raw material costs increased \$170,000 and \$195,000, respectively, in Q1 FY '22 than the same quarter last year, which is a 3% increase in cost of sales in the first quarter of fiscal year 2022. Excluding the additional freight and raw material impacts, our gross margin was higher in the first quarter versus prior year.

More generally, the company and its customers expect to experience continued supply chain and other challenges due to COVID-19 including rising raw material costs, higher delivery and shipment costs, supply chain disruptions, and extended handling times similar to those reported by many companies. We are taking multiple actions to help offset these inflationary pressures, including price increases where appropriate, exploring alternate sourcing relationships and improving factory yields.

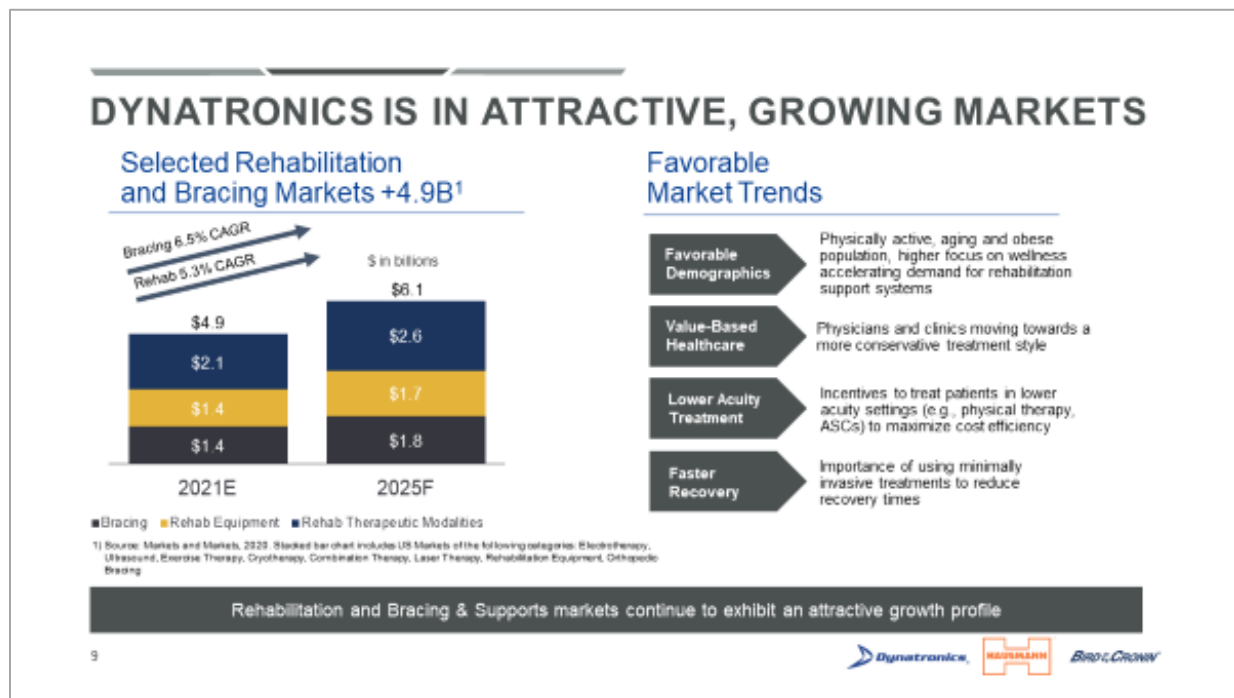
We're going to do what it takes to keep serving demand from our customers. We have a very steady eye on the long term to build a scalable platform to grow our customer and revenue base, deliver margin expansion, and strong cash flow from operations so that we can create value for shareholders. We have not yet provided gross margin guidance for FY '22. We just finished our first full quarter in this new model and we need additional experience to feel comfortable discussing where margins might trend in FY '22. This reality, along with disruptive COVID headwinds and escalated supply chain costs, makes us cautious in this area.

That said, we do see opportunities to expand our gross margins by better capacity utilization. For example, we are operating only one shift in our plants, and gross margin leverage may be achieved by using a second shift. We also are actively working on other process efficiencies to streamline our operations.

We anticipate selling, general and administrative expenses of 30% to 35% of net sales in fiscal year '22. Our first quarter SG&A tends to be the highest for the year due to financial audit and other timing related events. In addition, we expect operating leverage as we grow sales.

We believe there continues to be opportunity to improve all of our financial metrics. This guidance is based on our current operations and is subject to the risk factors and other forward-looking statements and uncertainties contained in this presentation and in our filings with the SEC.

Slide 9

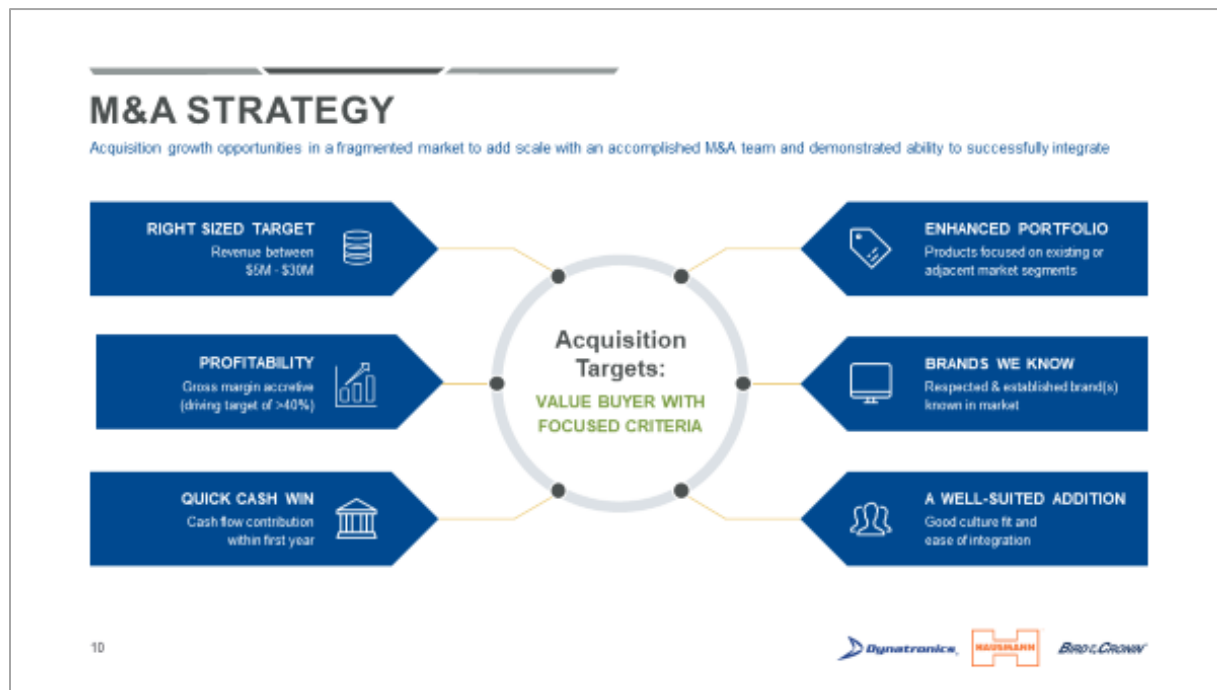


On to Slide 9, the markets that we serve are large, growing and highly fragmented. The industry research continues to indicate that the rehabilitation and bracing and support markets exhibit attractive growth profiles. Opportunities exist across Dynatronics primary brands to expand market share within existing customers, as well as add product offerings within the segments in which we compete. As we are all likely experiencing or reading about, the statistics of facility activity, orthopedic procedures, and

other peripheral activities, like team sports, that create demand for our products are volatile based on COVID-19 activity and staffing shortages being reported throughout the country.

Our markets generate 5% to 6% organic growth per year. If we take market share, our growth can be higher than that. We have ramped-up our cadence of product introductions, we released two products and a configurable product application in the first seven months of calendar year 2021. We are routinely talking to customers and have new products in the pipeline.

Slide 10



Building on the foundation in the markets we serve, let's move to Slide 10.

Our M&A strategy is detailed here to give you an idea of what we will be looking for. We continue to have conversations and pursue acquisitions, innovation partnerships, and other business ventures, and have the balance sheet and leadership team to execute on any that meet our well-defined criteria. Our focused criteria include greater than 40% gross margin and cash flow contribution within the first year.

Our focus is on our current markets. Our near-term targets are at the lower end of the \$5 to \$30 million revenue range. We believe we can make a smaller acquisition with our balance sheet and not use equity, then demonstrate post-acquisition success. We believe our share price is undervalued and want to unlock some of that value.

I will now turn the call over to Norm.

Slide 11

RECENT FINANCIAL AND OPERATIONS HIGHLIGHTS




Financial Highlights:

- \$12.3M net sales in Q1 FY '22, compared to the \$9.8M net sales baseline from continued products in Q4 FY '21. Net sales of \$12.2M in Q4 FY '21.
- 29.8% gross margin in Q1 FY '22, somewhat muted by impact of COVID-19 and supply chain challenges. 27% gross margin in FY '21. Gross margin target > 40% over time.
- Cash balance of \$5.5M, no debt, and zero balance on line of credit with a borrowing base of approximately \$5.2M at 9/30/21. Higher inventory investment to serve customer demand and protect customer deliveries. Capital is adequate to support existing operations.

Business and Operations Highlights:

- Debuted our new Hausmann "3D PROTEAM Builder" in July 2021, excellent feedback from large dealers. It is an online configurable product application that customers can customize our product offerings to suit their needs.
- Director, Strategic Accounts joined in July 2021, along with additional senior account managers to strengthen dealer relationships.
- Announced in October 2021 termination of Millstone Medical Outsourcing for order fulfillment effective January 1, 2022.
 - Dynatronics' order fulfillment will be shifted to its distribution center in Minnesota providing the opportunity for gross margin expansion, consistent and innovative customer experience, and additional scale of order fulfillment for growth.

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Thanks, John. Please turn to Slide 11, which contains our quarterly financial and business highlights. As a reminder, the full income statement and management discussion and analysis can be found in the 10-Q. I will summarize some of the key financials here. Net sales were \$12.3 million for the first quarter of the fiscal year. That compares to sales of \$12.1 million in the same quarter of the prior fiscal year. We continue to see an increase in overall procedures and activity compared to the prior year which was impacted by the COVID-19 shutdowns and other related disruptions.

Gross profit for the first quarter of fiscal year 2022, was \$3.7 million or 29.8% of net sales compared to \$3.9 million or 32.2% of net sales in the same quarter of the prior year. As John mentioned earlier, we are seeing inflation on raw materials and significantly higher freight costs in the quarter, which are drivers of the year-over-year decrease in gross profit and gross margin for the quarter.

Selling, general and administrative expenses were \$4.1 million for the first quarter of fiscal year 2022, compared to \$4.2 million in the same quarter of the prior year. The decrease was due primarily to lower direct selling expenses and the benefit of the employee retention credit, partially offset by higher marketing investments.

Other income totaled \$0.9 million for the first quarter, an increase of \$0.9 million from other expense of (\$0.03) million in last year's period.

Net income for the first quarter of this fiscal year was \$0.5 million. That compares to a net loss of (\$0.4) million in the first quarter of fiscal year 2021.

We expect our outstanding shares to increase in the range of 180,000 per quarter depending on our share price. As of November 8, 2021, the number of common shares outstanding was approximately 17.7 million.

The balance sheet is in a strong position with a net cash balance of \$5.5 million on September 30, 2021. We are investing in inventory as a result of the higher sales in Q1 FY '22 and supply chain volatility that is causing longer lead times. The organization made a strategic decision to place additional orders on key raw material and other supplies early in the spring 2021. That inventory is beginning to make its way into the facilities and will be consumed over the coming quarters. We have a zero balance on our line of credit and a borrowing base of approximately \$5.2 million as of September 2021.

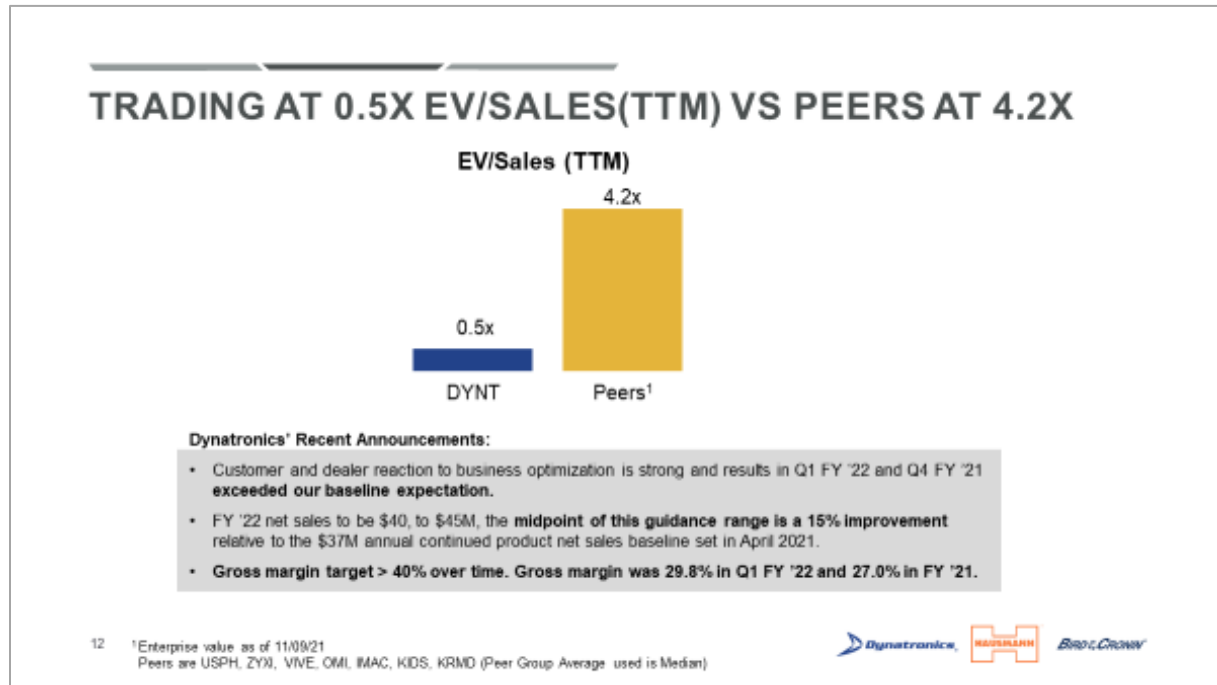
Cash used in operating activities was \$0.65 million for the three months ended September 30, 2021 due to the company's working capital investment on the expected double-digit growth, higher spending on inventory to serve customer demand growth, and additional safety stock to help offset continued expected supply chain disruptions. We target cash flow from operations to be positive in FY '22 relative to FY '21, absent significant impacts of the recent or future surges of COVID-19 outbreaks.

We announced in October that we terminated our agreement with Millstone Medical Outsourcing for order fulfillment effective on January 2, 2022. Dynatronics order fulfillment will be shifted to our distribution center in Minnesota for most of its brands to drive gross margin expansion, consistent customer experience, and scale our fulfillment for growth.

Before I turn the call back over to John, I will note we continue to navigate a volatile landscape due to the continuing challenges from COVID-19, including higher raw material prices, delivery and shipment costs, supply chain disruptions, extended handling times and delays or disruption in procedure volume. At the same time, Dynatronics also expects some continued volatility from the company's business transformation.

This concludes our summary of the financial and operating results. I will now turn the call back to John.

Slide 12



Thank you, Norm. Looking to Slide 12, we believe the current share price undervalues our balance sheet strength and position to drive this business forward. For example, the enterprise value to sales is well below the medical products peer group average.

We have a clear line of sight to profitable growth and our strategy going forward has clarity. We have been executing an ongoing business transformation and consistently performing each quarter to demonstrate we achieve our goals.

We are actively sharing our story with the investment community as we move forward in our markets. We hope to meet with you at upcoming investor events. We will participate in the virtual Q4 Investor Summit conference on November 16th to 17th.




Information about this event is available on the investor relations section of dynatronics.com.

Slide 13

INVESTMENT HIGHLIGHTS (NASDAQ: DYNT)

Valuable Products Serving Growth Markets	<ul style="list-style-type: none">Well-respected brands standing the test of time in each marketRelevant product portfolio serving our growth marketsEnhanced management focus exclusively on our manufactured brands
Transformation to Accelerate Growth	<ul style="list-style-type: none">Dynatronics is building an accomplished transformational team, which can deliver strong business resultsDeveloping a culture focused on generating scale by applying disciplined financial models to investment decisionsDriving change with a sense of urgency to achieve continuous growth
Attractive Investment Appeal	<ul style="list-style-type: none">Shares are trading at 0.5x EV to revenues vs. peer group of 4.2x⁽¹⁾Cash flow from operations and no debtManagement incentive compensation is linked to revenue and EBITDA growth

1) Enterprise value as of 11/09/21
Peers are USPH, ZYX, VVE, OMI, IMAC, KIDS, KRMD (Peer Group Average used is Median)



Slide 13 are the investment highlights for Dynatronics, each statement is reflective of a set of actions designed to deliver results. Our clear focus is on driving organic revenue growth, profitability, and cash flow from operations. We are well capitalized with approximately \$5.5 million of cash on the balance sheet at the end of September and no debt.

Strategically, we have clarified our position in the market with our well-established brands and a leadership team focused on the future.

We anticipate good progress in all of these key strategic areas in our fiscal year 2022. We are excited to be moving Dynatronics in a direction that will both reward our shareholders and provide a consistently differentiated experience to our customers.

I will now turn it over for questions.

Dynatronics Corporation

Investor Relations Contacts

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ir@dynatronics.com

Jeff Christensen
Darrow Associates
jchristensen@darrowir.com





DYNATRONICS AT A GLANCE

- Provider of high-quality restorative medical device products to the orthopedic and rehabilitation industry designed to accelerate achieving optimal health – favorable market trends
- Driving change and results to deliver a compelling and durable business model, demonstrating strong financial performance from emerging scalable operations
- Leadership Team, prior to joining Dynatronics:
Proven commercial success and business transformations in medical device markets

KEY STATISTICS	
Headquarters	Eagan, MN
52 Week Share Price Range (as of 9/30/21)	\$0.52 to \$2.56
Market Capitalization ⁽¹⁾ (as of 9/30/21)	\$26.6M
Average Volume (12 month)	975K
Net Sales in FY '21	\$47.8M

(1) Excluding preferred stock

Customers


















+ Thousands of Private Practice Therapists and Athletic Trainers

FOCUSED LEADERSHIP

Proven commercial success and business transformations in medical device markets.
Creating significant growth opportunities.



Brian Baker
Board Member and Active Consultant
Former COO and CEO

Previous Affiliations:

- 25+ years of experience in medical-device industry
- Specializes in driving operational efficiencies, building high-performing teams, and spearheading high-impact strategic plans



Carl Abbott
Strategic Accounts

Previous Affiliations:

- Joined Dynatronics in 2021; prior to that managed National Accounts for E-commerce, National Distribution, Retail and DME portfolio
- Training and performance improvement specialist building employee, customer, and end user programs



Sarah Mealman
Marketing

Previous Affiliations:

- Joined Dynatronics in 2020; prior to that, managed Labeo urology implantable and neuromodulation portfolio
- At Medtronic, managed \$750M MRI pacemaker portfolio



Skyler Black
Corporate Controller

Previous Affiliations:

- Joined Dynatronics in 2018
- 12 years of financial discipline at PricewaterhouseCoopers, a Big 4 leader



R.J. Smith
Customer Experience

Previous Affiliations:

- Joined Dynatronics in 2020; prior to that, sales and marketing leader at Breg, a long-standing significant customer and partner of Dynatronics
- Prior to Breg, product manager at Pfizer and Johnson & Johnson



Justin Nuahn
Human Resources

Previous Affiliations:

- Joined Dynatronics in 2021
- 20 years' experience in Human Resources, with focus on strategic Human Capital management

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CAPITALIZATION / OWNERSHIP

Share count as of September 30, 2021

Common Shares Outstanding	17,604,296
8% Convertible Preferred Stock ⁽¹⁾	3,351,000
Total Shares	20,955,296
Market Cap of Equity (including convertible preferred stock)⁽²⁾	\$ 31,432,944
Debt ⁽³⁾	\$0
Less: Cash	5,500,000
Net Bank Debt as of 9/30/2021	\$ (5,500,000)
Enterprise Value (including convertible preferred stock)	\$ 25,932,944
Warrants @ \$2.75 weighted average exercise price	4,323,500
Options @ \$1.56 weighted average exercise price	140,000
Unvested RSU	102,502
Total Options and Warrants	4,548,500

(1) Convertible one for one into Common; 8% annual dividend payable in cash or stock at Company preference
(2) Share price of \$1.50 on 11/09/21
(3) Includes Line of Credit only

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Question And Answer

Operator

And our first question today is coming from Jeffrey Cohen at Ladenburg Thalmann.

Destiny Hance – Ladenburg Thalmann

Hi, this is actually Destiny on for Jeff this morning. How are all of you doing?

John Krier – Chief Executive Officer, Dynatronics Corporation

Good morning Destiny. Great.

Destiny Hance – Ladenburg Thalmann

Glad to hear. Well, congratulations on a nice quarter considering you've really restructured and streamlined the business. I was hoping we could maybe start at a high level. Can you remind us of the TAM currently now that you've restructured your business?

John Krier – Chief Executive Officer, Dynatronics Corporation

Yes, absolutely. I mean, we compete in two markets, right Destiny. We compete in the rehabilitation market, and we compete in the bracing and supports market. We really focus largely on the U.S. market when we think of those two markets that we compete in, it's roughly \$4.9 billion overall in the categories that we're active in.

Destiny Hance – Ladenburg Thalmann

Okay. Got it. And as you're chatting with these dealers and getting feedback, I'm wondering if they're noting gaps in their portfolio that your innovation and your current in-house development are aiming to fill? Or if that's something you prefer to do or are looking to do inorganically?

John Krier – Chief Executive Officer, Dynatronics Corporation

We absolutely are having those conversations with our customers and dealers to understand what they're seeing in the marketplace and how we can evolve our product portfolio to match them. That's both innovating inside the platforms that we currently have, but they're also giving us feedback about other brands or other technologies that we should be considering in our acquisition pipeline. So, they are absolutely our source of where our products will be not only now, but going forward.

Destiny Hance – Ladenburg Thalmann

Okay. Got it. Thank you. Maybe I'll just switch over to some of the financials for a second. You noted some favorable tailwinds could you talk a bit more about those in terms of revenue? And do you believe you'll see those moving into calendar year 2022?

John Krier – Chief Executive Officer, Dynatronics Corporation

Generally speaking, in the markets we compete in, so both rehabilitation and bracing and supports enjoy mid single-digit organic growth on their own, in the range of 5% to 6%. So, we naturally get the benefit of that from the favorable dynamics that play out of folks wanting to live healthier lives and what have

you. Then we have the ability -- that's not going to stop anytime soon, but we have then the ability to generate even higher growth than that if we take market share.

Destiny Hance – Ladenburg Thalmann

Okay. Got it. Got it. And then in terms of SG&A, we should expect it to be higher in Q1 I think that's pretty standard for most companies. But I also -- you also noted the termination of the Millstone agreement as well as second shift in your facility. So, I'm wondering how -- in that SG&A, does that take into account additional FTEs and could you just remind us of where the FTE count is currently?

John Krier – Chief Executive Officer, Dynatronics Corporation

Absolutely. So roughly speaking, termination of that Millstone agreement will happen at the end of this calendar year, so roughly December 31, 2021. That activity will be shifted over into our Minnesota operation. Overall, our headcount is approximately 175, which is similar to where it was at the end of June.

Destiny Hance – Ladenburg Thalmann

Okay. Got it. And how soon might you engage that second shift? Is there a particular driver that would encourage you to flip that switch, if you will?

John Krier – Chief Executive Officer, Dynatronics Corporation

Where I would put that Destiny is in the different tactics that we're looking at, to drive gross margin improvement. We are focused on that over time to not only improve our operations, but to get to the level that our peers are at competition wise. A second shift is one potential possibility in that vein, not committing to any specific time frame on that, but it's an indication of one of the various levers that exist for us to expand our margin.

Destiny Hance – Ladenburg Thalmann

Okay. Got it. I believe that does it for me. I'll jump back in queue.

John Krier – Chief Executive Officer, Dynatronics Corporation

Thank you Destiny.

Operator

Our next question today is coming from Anthony Vendetti at Maxim Group.

Jeremy Pearlman – Maxim Group

This is actually Jeremy Pearlman on the line for Anthony. How are you guys doing?

John Krier – Chief Executive Officer, Dynatronics Corporation

Good morning Jeremy.

Jeremy Pearlman – Maxim Group

Good morning. So, just a couple of questions related to gross margins and the inflationary environment that we're in. So, you mentioned on the call that you're passing on some higher cost price increases to customers. Is that across all your brands, all your products or are you picking which products you think would have the best elasticity to take a price increase?

John Krier – Chief Executive Officer, Dynatronics Corporation

Jeremy, let me jump in on this pricing related question and Norm can also comment over time on the overall gross margin. Price is a very sensitive topic for all customers and for anybody that's operating in the environment. Our preferred path with our customers is to talk with them about loyalty and how they can increase our overall wallet share with us to then mute some of those price increases that we would otherwise have to pass on to them. Relative to where we pass on those prices, we absolutely have to look inside of our portfolio and understand where it is appropriate, what exact products are driving the increases, where do we have that opportunity.

It's a very sensitive conversation that we always have to have, and so we're very targeted. But to be clear, our first priority with our customers is to drive loyalty and have them increase their share with us to offset those increases.

Jeremy Pearlman – Maxim Group

Okay. Understood. I assume that these price increases are here to stay -- usually inflation, it doesn't go -- this inflation is not a good thing usually. So I guess it's just a matter of how you're going to work around the inflation going forward. Then moving to the supply chain. I know you mentioned that in the past, you increased your inventory for your supplies and you think you're going to start dipping into that soon. Do you see, aside from increased costs, do you see anything else about supply chain disruption, having a meaningful effect on your business, in any -- unfortunately, not such a positive way or are you prepared for that in the future?

Norm Roegner, Chief Financial Officer, Dynatronics Corporation

Right. So Jeremy, I'll take that John from the COVID side and the supply chain disruption, I mean, I think we've done a great job of dealing with it from an inventory perspective this quarter, making some investments. Obviously, the cost side, it's hard to predict. I think you look at different economic measures, and there's a good chance that we may see inflation continue to rise. But that said, we also do see some areas where it's declining and I think that there's an opportunity rollback some of those costs and things like wood and some of the petroleum-based products. So, I don't know if it's going to be here forever -- I do think there's a chance to roll back. But for now, we're looking at it, it's going to be here for at least by the next fiscal year, and that's how we're approaching it.

Jeremy Pearlman – Maxim Group

And there's -- you don't think it's not going to -- it's not going to affect your business in anyway, you're prepared to handle any sort of future disruption, you have enough supply in hand, you have enough ways -- alternative means to get the supply that you need for your products, et cetera?

Norm Roegner, Chief Financial Officer, Dynatronics Corporation

We feel pretty -- yes, we've made a sizable investment this quarter in the inventory. So, I think we're comfortable that we've got a lot of the products we need and we have a line of sight to anything that is out in the water and in the supply chain. Now, you never know with some of the disruptions we've seen in ports and the rails, if something is going to pop out and change that. But right now, I think we're comfortable that we've got the inventory to move forward and satisfy our customer demand.

John Krier – Chief Executive Officer, Dynatronics Corporation

This is John. I might add to what Norm just said there around -- that's one of the reasons that we're cautious around our future quarters and our overall net sales guidance of \$40 million to \$45 million, despite what was a really strong Q1 for us is those potential disruptions from COVID in future periods that we just simply can't account for as of yet.

Jeremy Pearlman – Maxim Group

No, I understand. But it seems like you do have enough inventory on hand to at least in the medium to short -- in short to medium term to handle any sort of increased demand for your products or any other disruptions, so that's good. And then just last -- one question I know you mentioned that you're seeing the procedure volume increase and practice visits go up. Is that trend -- has that continued into this current fiscal quarter as you talk to your customers and do you see any -- I know we had a Delta resurgence in the last couple of months, that doesn't seem to impact your business. Do you see any future impact due to COVID even if there's a resurgence or anything at this point -- the facilities have adopted -- so adapted to the new norm, so to say?

John Krier – Chief Executive Officer, Dynatronics Corporation

There are mixed signals in the market at this point. When you look at the period of July to September and you look at some of the largest physical therapy chains, you saw patient visits per day being reported as very strong. Simultaneously, you had folks reporting their financial results for that same period discussing that they were planning for slowdowns in the October, November, December time frame, not only from the Delta variant of COVID-19, but from staffing shortages.

So we're seeing mixed signals in the marketplace. We're constantly talking to our customers about this and it's just going to be something that we're going to have to be watching and we're going to be cautious on and that's why you see our guidance staying where it is as well.

Jeremy Pearlman – Maxim Group

Okay. Understood. Thank you very much for taking the questions, and I'll hop back in the queue.

John Krier – Chief Executive Officer, Dynatronics Corporation

Thank you Jeremy.

Operator

Thank you. I will now turn the floor back over to John Krier for any closing remarks.

John Krier – Chief Executive Officer, Dynatronics Corporation

Thank you Kate, and thank you for your interest in Dynatronics. If you have any further questions, please direct them to Skyler Black or Jeff Christensen. Their contact information is in this presentation and in our press release. Have a great day, and operator, you may end the call.

Operator

Thank you, ladies and gentlemen, this does conclude today's event. You may disconnect at this time, and have a wonderful day. We thank you for your participation.