Transcript of
Dynatronics Corporation (NASDAQ: DYNT)
Second Quarter Fiscal Year 2022 Earnings Call
February 10, 2022

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

Conference Call Participants
Jeff Cohen – Ladenburg Thalmann
Anthony Vendetti – Maxim Group
Scott Henry – Roth Capital

Operator

Good morning, ladies and gentlemen, and welcome to the Dynatronics Second 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 improve long-term gross margin, operating income and cash flow from operations, 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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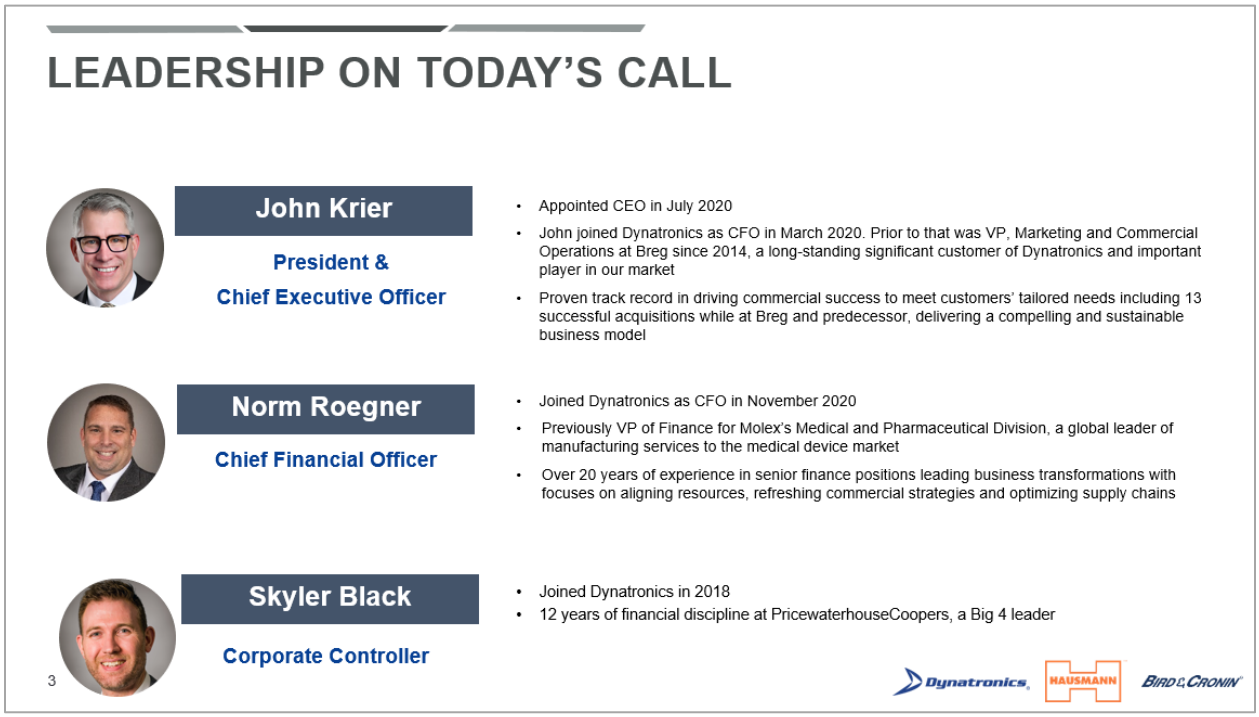
These forward-looking statements reflect our view as of today only, and they involve risks and uncertainties that could cause actual results to differ materially from those discussed today. Important factors that could cause actual results to differ materially from those projected or implied by our forward-looking 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.

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. On today's call, we will cover the recent highlights and achievements. Norm will provide commentary on the financials, and then we will have the operator open the phone lines for questions.

Slide 3



Please turn to Slide 3. With me today are our Principal Accounting Officer, Skyler Black, and our Chief Financial Officer, Norm Roegner. 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.

Slide 4

KEY TAKEAWAYS

Confident in long-term growth

Now growing revenue above the market, after several years of below market growth	Strong execution and business transformation remains our top priority	Confident in our outlook. Maintain FY '22 guidance
▪ **Clear customer strategy rewarding loyalty across all brands** ▪ Q2 FY '22 is the **third consecutive quarter of exceeding the market** and our baseline revenue expectation ▪ **Cross selling into existing customers and dealers driving sales to outpace our expectations** ▪ **Ramped-up cadence of product innovations** utilizing dealer and customer feedback – Launched three new Hausmann™ metal table products in January 2022, new product category for Hausmann™ – Launched Return to Mobility in January 2022: new, exclusive suite of four products	▪ Demonstrated **progress on strategic priorities** ▪ **Managing COVID-19** including advancing Omicron variant and supply chain challenges providing significant headwinds to near-term margin expansion ▪ **Up-level leadership helping to drive growth and win market share** – **Brian Baker rejoined full-time as Chief Operating Officer in January 2022** Addressing gross margin headwinds ▪ **Cash balance of $3.6M, no debt**. Capital is adequate to support existing operations	▪ 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 ▪ **Multiple levers in COGS and SG&A as a percent of sales** ▪ $2.5M inventory investment in Q2 FY '22 to satisfy higher customer demand and protect customer deliveries has been a **strategic competitive advantage** in supply-chain challenging environment ▪ Well-positioned serving **very attractive markets** ▪ **Balance sheet supports M&A in target markets**. Focused criteria: >40% gross margin, cash flow contribution in first year

The company continues to expect volatility due to the challenges from COVID-19 cases, 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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Dynatronics HAUSMANN BIRD & CRONIN

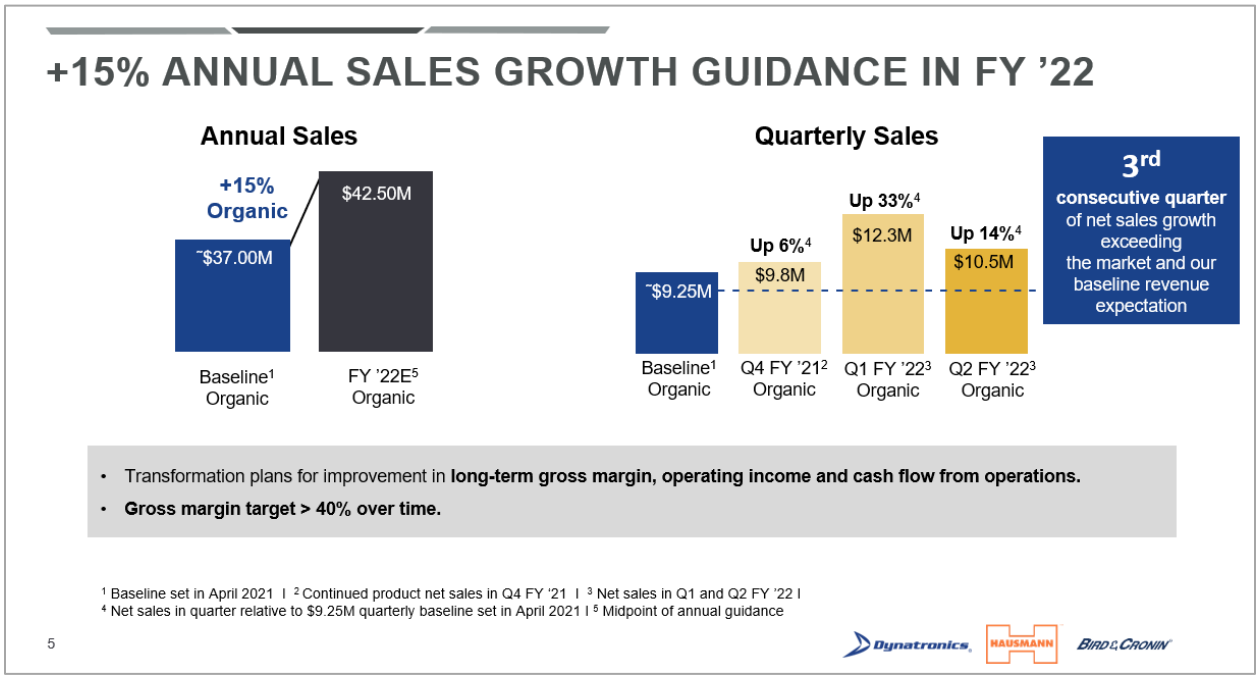
Slide 4 highlights just a few of our more recent accomplishments, all of which drive the company's revenue growth to exceed the market and our baseline revenue expectation for the third consecutive quarter. Our accelerating transformation continues even with greater-than-expected disruption from COVID-19.

Let me begin with 3 headline points: First and foremost, we have a clear line of sight to profitable growth and have a well-defined strategy in place to execute against. We have been executing an ongoing business transformation and consistently performing each quarter to achieve our goals.

Second, we are confident in our outlook. We maintain our fiscal year '22 net sales guidance.

And third, our markets generate 5% to 6% organic growth per year. We plan to take market share and therefore, grow faster than the 5% to 6% organic growth our collective markets generate.

Slide 5



Moving to Slide 5. We will continue 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 similar procedure volume despite the recent surge in COVID-19 cases. The midpoint of this sales guidance represents a 15% growth rate relative to the $37 million annual continued product net sales baseline set in April 2021.

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, 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 to align with historical trends, highest in the first quarter, lower in the second and third quarters with a bounce back in the fourth quarter. This pattern matched our expectations for Q2, consistent with our prior guidance. However, 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.

Slide 6

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 cases, including advancing Omicron variant. 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.
- Q2 FY ‘22 is the **third consecutive quarter of our net sales growth exceeding the market and our baseline revenue expectation.** Customer and dealer reaction to business optimization are driving sales to outpace our expectations.

Gross Margins:

- Transformation plans for improvement in **long-term gross margin, operating income and cash flow from operations.**
- 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”):

- **SG&A of 30.0% to 35.0% of net sales in FY ’22.**
- Strong expense management, Q2 FY ‘22 SG&A of $3.5M, **sequential and year-over-year cost savings.**

The company continues to expect volatility due to the challenges from COVID-19 cases, 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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Dynatronics HAUSMANN BIRD & CRONIN

Slide 6 provides the guidance details. We are 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 and reflects our long-term target. 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 19.8% in Q2. It was 27.0% in fiscal year '21, including the exit activities associated with the discontinuation of third-party distributed products. Gross margin in Q2 was muted by the impact of COVID-19 and supply chain challenges, including extraordinarily high freight, raw materials and labor costs. Specifically, gross margin would have been 29.9% or 10 points higher without the COVID impacts in the second quarter. Excluding the additional freight, raw material and labor cost impacts, our gross margin was higher in the second quarter and first half versus the prior year.

More generally, the company and its customers expect to experience 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 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 to create value for shareholders.

We have not yet provided gross margin guidance for fiscal year '22. We just finished our first half year results in this new model, continue to face significant cost pressure headwinds due to COVID-19 supply

chain disruption, and we need additional experience to feel comfortable discussing where margins might trend in fiscal year '22.

That said, we do see opportunities to expand our gross margins over time by better capacity utilization. We 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. Q2 was a good example of the team managing SG&A appropriately in the face of mounting input cost pressures. As we gain revenue scale, we expect to continually leverage and improve our scale on this SG&A cost base.

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 7

Turning to Slide 7. Each of these bullets is important to our sustainable growth platform. I'm proud of our results and the great work of our team over the past several quarters. I want to provide context to the strategy driving the momentum we generate.

Goal #1 is to expand margins and cash flow over time. As a company, we focus on higher margin, differentiated products that we manufacture. We expect that over time, these changes will deliver higher annual net sales, gross margin, operating income and cash flow from operations that enable sustainable long-term growth.

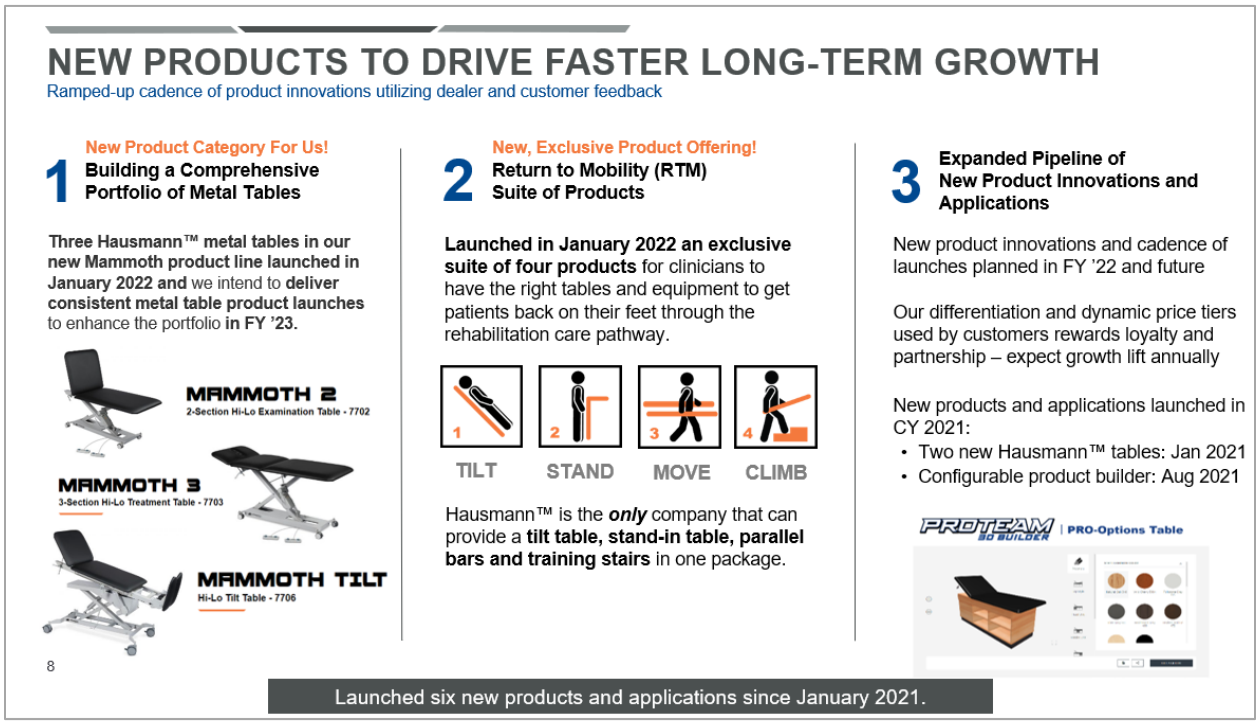
Drivers of future margin growth include dynamic price tiers, according to the loyalty share from the dealer and customer. The advantage there is to position the company to make the dealers and

customers' life as easy as possible and make it easier to do business with us. Pricing that factors in relationship metrics, such as full company loyalty share, in addition to product-based pricing allows us to be much more competitive.

Goal #2 is to strengthen the balance sheet via sustainable cash flow from operations, which can support additional investment in product development and/or M&A in target markets. The recent cost pressure has made this very difficult to achieve. However, we remain focused on what we can control as an organization.

Goal #3 is to build a consistent cadence of new product introductions across both of our growth markets, rehabilitation and bracing and supports. By focusing our energy and resources on the products we manufacture, we are fostering an environment of consistent product portfolio innovation and product life cycle management.

Slide 8



Moving to Slide 8. The three takeaways about our recent new products are: one, ramped up cadence and expanded pipeline of product innovations; two, in January 2022, under the umbrella of Return to Mobility, we launched an exclusive suite of products and additionally 3 new metal tables; and three, dealer and customer feedback drove the product releases. This expansion is additive to our dealer strategy by driving greater loyalty through our dynamic pricing approach. The more products within our product portfolio we offer to our dealers and customers, they are rewarded for buying more from us in our dynamic price tiers.

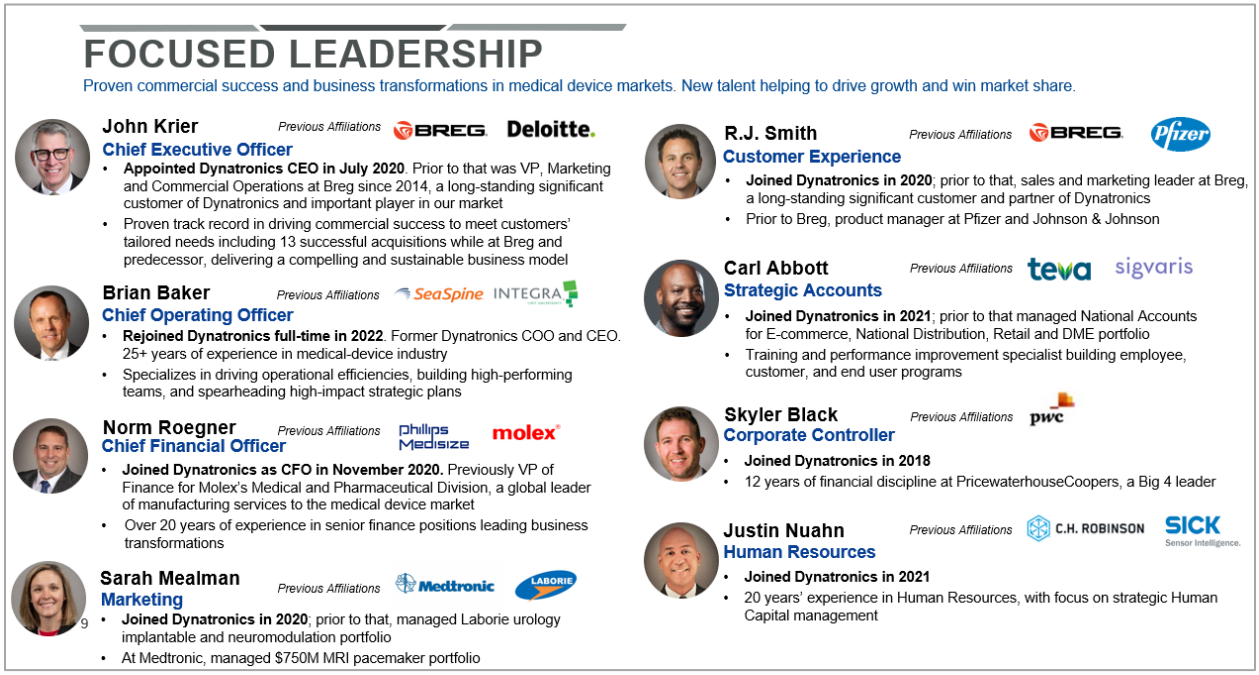
I want to provide the highlights of each of these. Metal tables are a new product category for us. We launched our first company manufactured metal tilt table in January, filling a void in our product offering

since late 2020. We are the only provider in the market that dealers and clinicians can get all 4 products in one place.

Our four distinct products in the rehabilitation care pathway are tilt table, stand-in table, parallel bars and training stairs. We anticipate several new metal table product launches in the first half of fiscal year '23 to broaden our metal tables platform, thereby expanding our presence of metal tables in the rehabilitation market. We are currently a leading company in laminate or wood tables in the rehabilitation market, and this expansion is a natural next step.

We anticipate that our expanded pipeline of new product innovations will lift our growth annually.

Slide 9



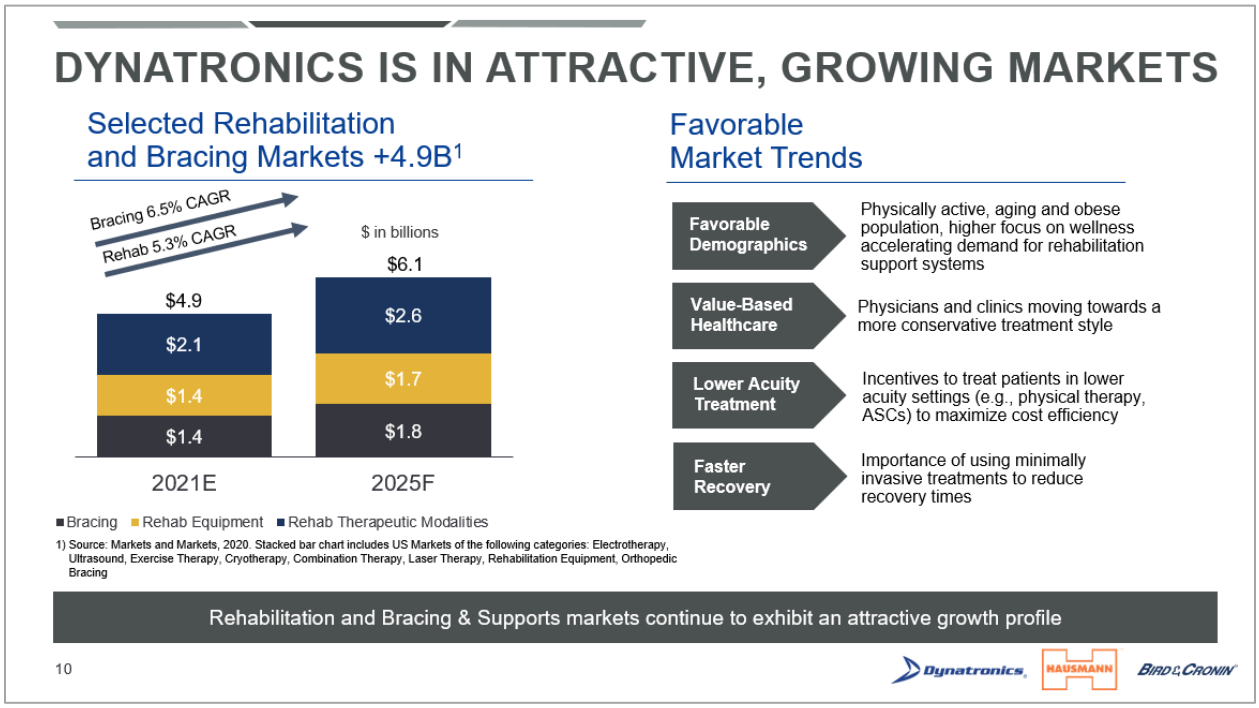
Looking at Slide 9, Brian Baker rejoined Dynatronics full time as Chief Operating Officer in January 2022.

He served as Chief Operating Officer from May 2019 until his promotion to Chief Executive Officer in August 2019. Brian held that position until July 2020 when he resigned due to health issues relating to COVID-19. Thankfully, he has fully recovered from the COVID-19 virus. Following his resignation as Chief Executive Officer, Brian continued as a member of the Dynatronics Board of Directors and a consultant to the company.

He has continued to deliver significant accomplishments to drive growth and profitability during his tenure as a leader and then later as a consultant to Dynatronics.

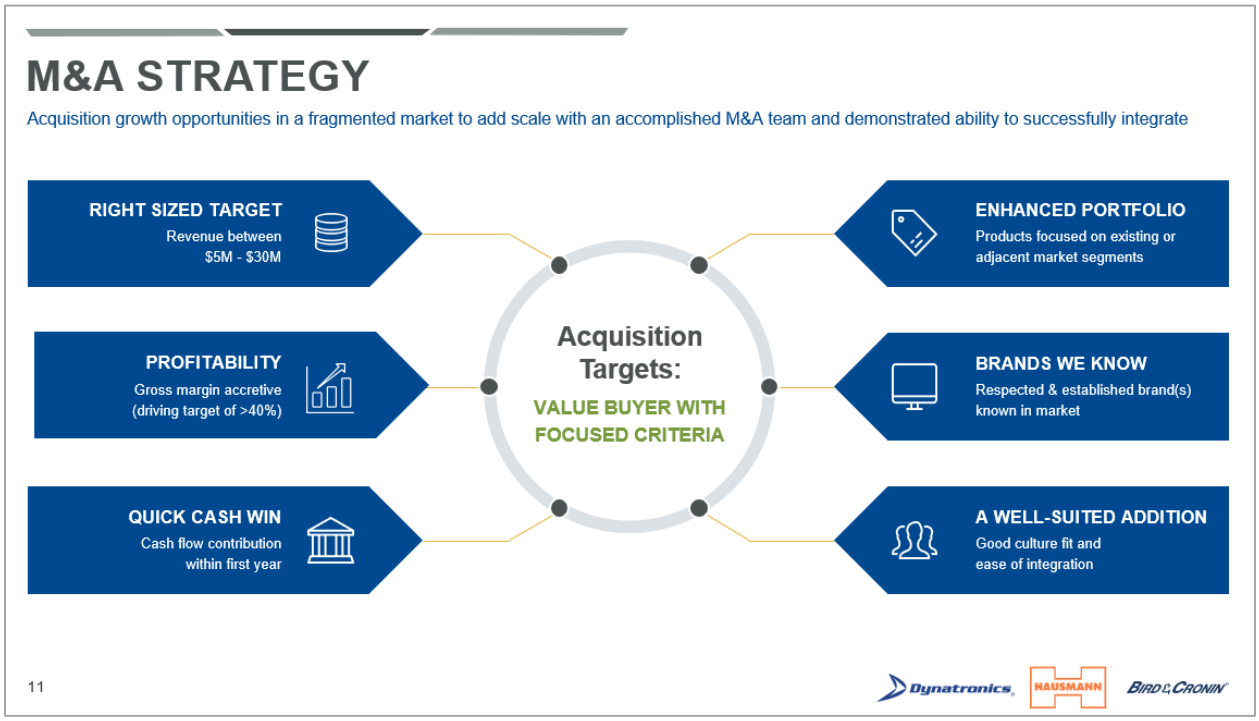
New leadership hires have been a major focus area. We implemented culture partners, leadership culture of accountability and focused our employee actions on overall organic revenue growth and consistent profitability.

Slide 10



On Slide 10, the markets that we serve are large, growing and highly fragmented. The industry research continues to indicate that the rehabilitation and bracing and supports markets exhibit attractive growth profiles. Opportunities exist across Dynatronics' primary brands to expand market share within existing customers as well as additional product offerings within the segments in which we compete as we are likely experiencing or reading about the statistics of facility activity, orthopedic procedures or other peripheral activities like team sports that create demand for our products are volatile based on COVID-19 activity and staffing shortages reported throughout the country.

Slide 11



Building on the foundation in the markets we serve, let's move to Slide 11. 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. We have the 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 million to $30 million revenue range, we believe we can make a smaller acquisition and demonstrate post-acquisition success. We believe our share price is undervalued, and we want to unlock some of that value.

I will now turn the call over to Norm.

Norm Roegner, Chief Financial Officer, Dynatronics Corporation

Slide 12

RECENT FINANCIAL AND OPERATIONS HIGHLIGHTS

Financial Highlights:

- $10.5M net sales in Q2 FY '22. Third consecutive quarter of our net sales growth exceeding the market and our $9.25 net sales quarterly baseline set in April '21
- 19.8% gross margin in Q2 FY '22, muted by impact of COVID-19 including advancing Omicron variant, and supply chain challenges including higher raw material, freight, and labor costs. Gross margin target > 40% over time.
- Cash balance of $3.6M, no debt at 12/31/21. $2.5M inventory investment in Q2 FY '22 to satisfy higher customer demand, protect customer deliveries in supply-chain challenging environment, and new product introductions. Capital is adequate to support existing operations.

Business and Operations Highlights:

- Brian Baker rejoined Dynatronics full-time in January 2022. He was former Dynatronics COO and CEO. 25+ years of experience in medical-device industry.
- Under the umbrella of Return to Mobility – launched an exclusive suite of products and three new Hausmann™ metal tables in January 2022. Metal tables is a new product category for us in rehabilitation equipment.
- 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 to lift long-term gross margin, consistent and innovative customer experience, and additional scale of order fulfillment for growth.

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Dynatronics HAUSMANN BIRD & CRONIN

Thanks, John. Please turn to Slide 12, 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 $10.5 million for the second quarter of the fiscal year. That compares to net sales of $12 million in the same quarter of the prior fiscal year.

$10.5 million net sales in the second quarter exceeds the $9.25 million quarterly continued product net sales baseline set in April 2021. Our net sales across the quarters in fiscal year 2022 aligned with historical trends, lower in the second and third quarters and higher in the first and fourth quarters.

We continue to see an increase in overall activity compared to the prior year, which was impacted by COVID-19 shutdowns and other related disruptions.

Gross profit for the second quarter of the fiscal year 2022 was $2.1 million or 19.8% of net sales compared to $3.3 million or 27.9% of net sales in the same quarter of the prior year. As John mentioned earlier, we are seeing COVID-19 and supply chain challenges, including extraordinarily high freight, raw materials and labor costs in the second quarter. Specifically, gross margin would have been 29.9% or 10 points higher without the impacts from COVID-19 in the second quarter.

Selling, general and administrative expenses were $3.5 million for the second quarter. We delivered sequential and year-over-year SG&A cost savings as we continue to improve operational performance and leverage our resources on a company-wide basis. SG&A was $3.9 million in the same period last

year and $4.1 million in the first quarter of fiscal year 2022. The decrease was due primarily to lower direct selling expenses and reduction in general business fees and administrative personnel costs.

Net loss for the second quarter of this fiscal year was $1.4 million. That compares to a net loss of $0.7 million in the second quarter of fiscal year 2021.

We expect our outstanding shares to increase in the range of $220,000 per quarter, depending on our share price. As of February 7, 2022, the number of common shares outstanding was approximately $17.9 million.

The net cash balance was $3.6 million on December 31, 2021. We invested in inventory due to higher sales in Q2 and supply chain volatility that is causing longer lead times. As a result, the organization made a strategic decision to place additional orders on key raw materials and other supplies. The challenges we had with inventory over the last 2 quarters have caused the organization to incur additional cost. We expect to see improved throughput with the higher inventory levels in place. Inventory levels are expected to remain elevated until issues across the global supply chain returned to pre-pandemic levels.

Cash used in operating activities was $1.8 million for the 3 months ended December 31, 2021, due to the company's working capital investment and the expected double-digit growth. Specifically, inventory related to serve customer demand, additional safety stock to help offset continued expected supply chain disruptions and new product introductions.

We announced that we terminated our agreement with Millstone Medical Outsourcing for order fulfillment effective on January 1, 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 disruption, extended handling times and delays or disruptions in procedure volume. At the same time, Dynatronics also expect 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.

John Krier – Chief Executive Officer, Dynatronics Corporation

Slide 13

INVESTMENT HIGHLIGHTS (NASDAQ: DYNT)

Valuable Products Serving Growth Markets

- Well-respected brands standing the test of time in each market
- Relevant product portfolio serving our growth markets
- Enhanced management focus exclusively on our manufactured brands

Transformation to Accelerate Growth

- Dynatronics is building an accomplished transformational team, which can deliver strong business results
- Developing a culture focused on generating scale by applying disciplined financial models to investment decisions
- Driving change with a sense of urgency to achieve continuous growth

Attractive Investment Appeal

- Shares are trading at 0.3x EV to revenues vs. peer group of 4.2x[1]
- Focus on cash flow from operations and no debt
- Management incentive compensation is linked to revenue and EBITDA growth

1) Enterprise value as of 2/4/22
Peers are USPH, ZYXI, VIVE, OMI, IMAC, KIDS, KRMD (Peer Group Average used is Median)

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Dynatronics HAUSMANN BIRD & CRONIN

Thank you, Norm. Slide 13 is the investment highlights for Dynatronics. Each statement 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 $3.6 million of cash on the balance sheet at the end of December 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 reward our shareholders and provide a consistently differentiated experience to our customers.

We are actively sharing our story with the investment community as we move forward in our markets. We will be presenting and hosting one-on-one meetings at upcoming investor events. Information will be in press releases and on our Investor Relations website. We hope to meet with you.

I will now turn it over for questions.

Supplemental Slides

Dynatronics Corporation

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Dynatronics® HAUSMANN™ BIRD & CRONIN®

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 12/31/21)	$0.80 to $2.56
Market Capitalization(1) (as of 12/31/21)	$17.9M
Average Volume (12 month)	969K
Net Sales in FY '21	$47.8M

(1) Excluding preferred stock

Customers

Memorial Hermann, Sutter Health, Minnesota Vikings, Ohio State, UnityPoint Health, BREG, Raiders, Kaiser Permanente, Allina Health, Los Angeles Chargers, Dallas Cowboys, US Speedskating, Owens & Minor, Alabama Athletics, Direct Supply, Performance Health, Boston Red Sox

+ Thousands of Private Practice Therapists and Athletic Trainers

CAPITALIZATION / OWNERSHIP

Share count as of December 31, 2021

Common Shares Outstanding		17,732,440
8% Convertible Preferred Stock[1]		3,351,000
Total Shares		**21,083,440**
Market Cap of Equity (including convertible preferred stock)[2]	**$**	**17,499,255**
Debt[3]		$0
Less: Cash		3,600,000
Net Bank Debt as of 12/31/2021	**$**	**(3,600,000)**
Enterprise Value (including convertible preferred stock)	**$**	**13,899,255**
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 $0.83 on 2/4/22
(3) Includes Line of Credit only

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Dynatronics HAUSMANN BIRD & CRONIN

Question And Answer

Operator

Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question for today is coming from Jeffrey Cohen. Please announce your affiliation and pose your question.

Jeffrey Cohen - Ladenburg Thalmann

So just a few from our side. So could you talk about some of your pricing elasticity and how that's been playing out over the past few quarters as compared to the marketplace in general as well as other products out there? Does it feel like the trend is toward more inelasticity or elasticity?

John Krier – Chief Executive Officer, Dynatronics Corporation

As we have these conversations with our customers, Jeff, they understand the cost pressures that we're all seeing. And so that conversation goes with how we generate more loyalty across all of our brands and a willingness to share in that conversation around price. So we've absolutely been able to have those and been successful with that, and we'll continue to do that.

Jeffrey Cohen - Ladenburg Thalmann

Okay. Got it. And talk a little bit about some of the impacts from this past quarter and how that plays out going forward. I know that the margin hit from the previous quarter was about 10% and how much that play out as you are aspirationally grow towards that 40% gross margins?

John Krier – Chief Executive Officer, Dynatronics Corporation

Yes, that's right, that's proven to be the most difficult element. We've been able to achieve the top line now for 3 consecutive quarters, demonstrating that organic revenue growth. We've managed the SG&A base and line with that using that to toggle and the most difficult one is that gross margin and the biggest factor for us is trying to understand when will some of these inflationary pressures begin to abate or how much of that can we share with our customers or get other efficiencies in the business. So we don't have any guidance going out forward, but those costs and those pressures have not stopped as we go into the next -- the back half of our year.

Jeffrey Cohen - Ladenburg Thalmann

Yes. Okay. Got it. And then one more on your guide for the year in the range of $40 million to $45 million. How does that play into -- is that all inorganic or organic, and is it exclusive of any M&A transactions or how are you thinking about that as it relates to the guide?

John Krier – Chief Executive Officer, Dynatronics Corporation

Yes. Our guidance of $40 million to $45 million that we're continuing to demonstrate this part would be all organic. Any acquisitions would be additive to that, but organically, $40 million to $45 million.

Operator

Your next question is coming from Scott Henry. Please announce your affiliation then pose your question.

Scott Henry – ROTH Capital

Roth Capital. A couple of questions. First, on the revenue growth how much of that do you think is volume versus price?

John Krier – Chief Executive Officer, Dynatronics Corporation

At this point, relative to the market, all of that organic growth is largely going to be volume based. There may be a little bit of price that's in there. But for us, it's around volume and the demand that our customers are sharing with us.

Scott Henry – ROTH Capital

Okay. And 10% hit on the gross margin is significant for onetime events. How would you break that up? I mean, I guess, it sounds like a lot of it is freight, but I just wanted to get a sense of what factors are going into that kind of 10% gross margin hit?

Norm Roegner, Chief Financial Officer, Dynatronics Corporation

This is Norm Roegner, Scott. Thanks for jumping on the call today. In terms of that breakout, we've talked about the higher freight and higher raw material costs as well as labor. We would say that 60% of that -- those 10 points are related to freight, the remainder is really raw material, labor and primarily on the raw material side.

Scott Henry – ROTH Capital

Now I mean I would think, and this is why I asked the question to get your commentary on it. But if freight goes up, why wouldn't you pass that on to your customer or is that freight from the raw materials coming to you, is that -- the product being shipped to the customer, but it would seem like freight would be something you would have to pass on, if not immediately, eventually?

John Krier – Chief Executive Officer, Dynatronics Corporation

Yes, Scott, this is John. It is something that we have to do over time. And then we really have to look at what are our contracts with our customers and how can we do that, they all vary. Some have more contractual obligations around timing than others. But we have to because we can't continue to absorb those costs on the inbound side especially.

Scott Henry – ROTH Capital

Okay. And then I guess, final question with regards to that. Do you think this is the worst in terms of quarter in terms of this impact, do you think Q3 will it move along that bottom, or would you start to see some improvement in Q3, Q4 next year? How should we think about that trajectory of when that might turn?

John Krier – Chief Executive Officer, Dynatronics Corporation

I think that's the most difficult part for all of us in managing in this COVID environment and with all these cost pressures. We just do not have a feel for when will some of these pressures abate. So that's why one of the reasons we're not providing gross margin guidance for the going forward. At the same time, internally, we've said, look, we're going to have to operate in this environment, so we have to find other efficiencies, and we continue to work on those every day as well.

Scott Henry – ROTH Capital

Okay. Do you get a sense of what your competitors are doing, are they raising price, are they exiting industries or exiting products? I mean at some point, someone has to absorb the higher cost and I just try to get a sense of what you think your competitors are doing and is going on in the industry.

John Krier – Chief Executive Officer, Dynatronics Corporation

I think we're all managing that same thing. As you look across our competitors, we're all reporting rising costs from freight and raw materials in our results. We're all reporting that we're having conversations with our customers about costs. Some industries or some of the products that have reimbursement caps

on them, or limitations makes that harder and others, it does not and so we have to be able to pass that on. So I think we're all having these same conversations whether it be about cost and efficiency or about discussing price with our customers.

Scott Henry – ROTH Capital

Okay. And then I guess, final question on the acquisition side, and I guess it's a 2-part question. Given these dynamics, is it becoming a more favorable environment to look at targets and then related question, do you think that you'd be able to pursue an acquisition largely debt-based given the current equity valuation, it would seem less desirable to exchange equity for an acquisition at this price. How do you think of those 2 factors?

John Krier – Chief Executive Officer, Dynatronics Corporation

Scott, our line of thinking is directly along your line, which is we very much are sensitive to our share price and the value of our equity and not diluting that. And so we'd want to be looking to the strength of the candidate that we'd be acquiring and trying to avoid any further dilution of our share price in those terms. And we are continuing to have conversations and pursue whether they be acquisitions or innovation partnerships because we do know that we have to continue to drive our portfolio broader to take more share with our customers. So those are continuing as well.

Operator

Your next question for today is coming from Anthony Vendetti. Please announce your affiliation, then pose your question.

Anthony Vendetti – Maxim Group

Maxim Group. I want to follow up on the gross margin and then sort of the pricing. From what I've heard so far, most of the revenue growth is coming from volume. So it sounds like in terms of price elasticity, you don't have a lot of room to take price. Is that because of contracts you already have in place or is it because of competitive pressures, if you raise the price too much, you risk losing that business?

John Krier – Chief Executive Officer, Dynatronics Corporation

It's going to be a combination of both. We compete in competitive markets and so we have to be mindful of that and the more products we can offer to our customers, the greater share that they're going to reward from us. The first part you mentioned as well, we do have certain limitations around the timing of when we can increase price because of third-party distribution contracts or hospital contracts that we might hold. We're acutely aware of the timing of those and executing those conversations with those customers as soon as at the earliest possible chance that we can. But then once we have that conversation, there is an understanding that this is a unique environment, and the price increases are more than what they've been in the past from an industry perspective. But we are limited by the contractual nature of the timing.

Anthony Vendetti – Maxim Group

Okay. That makes sense. In terms of -- in terms of what you said about some of the new products, and I know they are long-term plan, and obviously, we're far from that right now based on the gross margin this quarter but long-term plan is to get to 40% gross margin. And as you mentioned some of the new products on the table side and some of the others that you're contemplating, are those newer products, are they at that targeted 40% gross margin or near that or can you give us an idea as you're looking at some of these new products, what the threshold is, do all of them need to be at 40% on the new product side or some will be below that, some will be above it?

John Krier – Chief Executive Officer, Dynatronics Corporation

The way to think about that, Anthony, is just like the way we think about our acquisition strategy. We want to acquire targets that have greater than 40% gross margin. The same exact logic has to prove out in our product innovation. We need to innovate products that are exceeding that target. Now time will tell. We have to be able to deliver that and improve that. So often we're asked, how do you get to that gross margin target over time. One, we got to get a little release here from these COVID pressures but two, releasing these new products over a consistent cadence of time that meet that requirement will also lift us up. And then again, as we generate some revenue scale and have some scale in our facilities, we'll get some additional expansion.

Anthony Vendetti – Maxim Group

Okay. That makes sense. Just in terms of -- Norm, you outlined kind of the hit, the 10 percentage point hit, the gross margin 60% of that was freight the rest was raw material and labor, most of that being raw materials. Obviously, freight has been well documented. In terms of the raw materials, is that something that you think freight, I don't know how much that is going to abate and it's going to take some time. But raw materials, is that something that's more transitory and should resolve itself fairly soon or do you have an expectation there?

Norm Roegner, Chief Financial Officer, Dynatronics Corporation

It's a tough one to answer. Definitely it's more transitory so we have seen some cases like plywood, for instance, where it spiked early in the first quarter and started to come down already and we're hoping that trend continues. Stainless steel is still on the higher side of things. So it's going to depend on the commodity. I think over time, we're going to see it they'll come back down, I believe. I just can't say that timeframe what that looks like right now.

Operator

There are no further questions in queue. I would now like to turn the floor back over to John for any closing comments.

John Krier – Chief Executive Officer, Dynatronics Corporation

Thank you, operator, and thank you all for your interest in Dynatronics. 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.

If you have any further questions, please direct them to Skyler Black or Jeff Christensen. Their contact information is in this presentation and our press releases. Have a great day. Operator, you may end the call.

Operator

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