

**Transcript of
LFTD Partners Inc.
Q2 2022 Earnings Conference Call
August 12, 2022**

Participants

Gerry Jacobs - Chairman and CEO of LFTD Partners Inc.

Nick Warrender - Vice President and Chief Operations Officer of LFTD Partners Inc. and Founder and CEO, Lifted Made

Jake Jacobs - President and Chief Financial Officer of LFTD Partners Inc.

Operator

Welcome to LFTD Partners Second Quarter 2022 Earnings Conference Call. This call is being recorded. At this time, all participants are in a listen-only mode.

I will now hand the conference over to Gerry Jacobs, the Chairman and CEO of LFTD Partners Inc. Please go ahead.

Gerry Jacobs - Chairman and CEO

Good morning and welcome to LFTD Partners second quarter 2022 earnings conference call. Our earnings press release and financial statements for the second quarter have been filed with the SEC and links to both can be found on our website, www.LFTDPartners.com. On today's call, we'll share some comments on our quarterly performance and we will answer some questions at the end of the call. A replay of this call will be available for an extended period of time accessible through the Investors section of our website.

Here is the Safe Harbor notice. Some of the statements that we will make today regarding our business operations and financial performance may be considered forward-looking. And such statements involve a number of risks and uncertainties that could cause actual results to differ materially. For more information, please refer to the risk factors discussed in our most recent form 10-K filed with the SEC. We undertake no obligation to update these forward-looking statements.

During the second quarter of 2022, the federal and state by state regulatory landscape in our industry has continued to evolve. Our company is spending a great deal of time and money trying to make sure that we stay legally compliant and that we and other hemp-derived product manufacturers continue to educate elected officials and regulators about the important role that high quality hemp-derived products play in consumers' lives. In particular, any language relating to hemp-derived cannabinoids contained in any bill federally legalizing marijuana and the precise language contained in the next farm bill will be very important to our business.

During Q2 2022, LFTD Partners has engaged in discussions with multiple potential acquisition candidates. Currently, we are most interested in one particular acquisition candidate in the cannabis industry, with whom we have signed a confidentiality agreement.

Based on the due diligence that we have conducted so far, this particular acquisition candidate appears to be of significant size, growing profitable and a good fit with our company, and we are actively exploring a potential merger with them. We cannot give any guarantee or assurance that we will enter into a definitive merger agreement with this particular acquisition candidate. And if we do when the deal would close as auditing and a capital raise would be required.

Even though we've paid off all of our secured debt and have been experiencing excellent free cash flow, we continue to have discussions about raising additional debt and/or equity capital. We purchased Lifted Made's headquarters building for \$1,375,000 as we are contractually obligated to do no later than December 31st, 2023. To finance the cash portions of potential future acquisitions, and also to provide additional working capital.

Relating to potential debt, we are continuing to have discussions with potential lenders. One of the principal reasons why we recently prepaid all of our outstanding term debt and terminated the outstanding first-lien security interests on all of our assets was to dramatically simplify our ongoing discussions with potential bank lenders.

On the equity side, we have been reluctant for some time to sell newly issued equity securities, because in our view, our share price hasn't yet fully reflected our company's outstanding growth and profitability, as we are currently trading at less than 11 times our trailing 12-months basic earnings per share of \$0.71.

However, depending upon how our discussions proceed with the ticket with potential acquisition candidates, and especially with the particular acquisition candidate that I discussed earlier, we believe that there may be an attractiveness to raising equity capital in conjunction with a listing of our common stock on an exchange, preferably on the NASDAQ, but if that does not turn out to be possible, then, most likely on the Canadian Securities Exchange. It is our hope that an exchange listing combined with an equity capital raise may help us to obtain some analyst coverage of our stock, and an increase in the daily trading volume of our stock.

We are sometimes presented voluntary unsolicited offers by some of our unrelated shareholders to sell back to the company blocks of shares of our common stock in private transactions at prices less than the then current trading price of our stock in the OTC markets. Our company occasionally accepts these offers.

Between November 2020 and March 2022, LFTD Partners brought – bought back a total of 172,000 shares of our common stock. During Q2 2022, we were presented with some more of these voluntary unsolicited offers. But rather than accepting any of them, we chose to fully pay off our remaining secured debt and to continue building up our working capital.

Depending upon the status of our acquisition discussions, the levels of free cash flow that we're generating and other factors, we may engage in additional stock buybacks either in more such privately negotiated transactions or pursuant to a broader stock buyback program in the public market that may from time to time be approved by our Board of Directors.

At this point, I will turn the presentation over to Nick Warrender, our Vice President and Chief Operations Officer and the Founder and CEO of our wholly-owned subsidiary, Lifted Made.

Nick Warrender - Vice President and Chief Operations Officer and Founder and CEO, Lifted Made

Thank you, Gerry. During the second quarter 2022 Lifted Made added eighth consecutive quarter of GAAP-based positive net income since emerging from COVID-19 pandemic. Second quarter 2022 revenues increased 151% over our second quarter of 2021, which is obviously a dramatic annual increase.

Our second quarter 2022 revenues dipped slightly from our first quarter 2022 revenues, which we believe reflects periodic surges and pauses in our largest distributors' orders at the beginning and of particular quarters, which we frankly cannot control, and the fact that there may be an element of seasonality to some of our products. Our second quarter 2022 net income increased 102% over our second quarter of 2021. This net income reflects the growth of our sales team. Our enhanced focused on direct-to-store and direct-to-consumer sales, with a goal of capturing more margin.

During second quarter 2022, we spent a great deal of effort developing some exciting new products that we expect to start rolling out this quarter and next quarter, we've built up our inventory to try to have enough of our current product lineup on hand to meet anticipated customer demand, but also to try to schedule our production so that a significant portion of our lab and production staff to be allocated towards the production of the new products.

However, this R&D took a little bit longer than expected. In addition, we've had experienced delays in supply of certain raw materials from China that are needed for these new products. Also, we've experienced slower sales in the second quarter and in the first half of the third quarter of 2022, which we believe is attributable to at least in part to the seasonality of certain products.

As a result of all these factors, Lifted Made has furloughed some of its lab and production workers for three weeks in August and early September 2022 to allow our supply chain to catch up. Certainly unclear what if any impacts these furloughs will have on our financial reports for the third and fourth quarters of 2022 other than temporarily reducing our labor costs.

During six-month ended June 30th, 2022, we sold our products to 183 distributors, which represents approximately 79% of our sales, and we view our access to these large distributors as one of the biggest barriers to entry in our business. We're also pursuing some exciting new distribution opportunities overseas, and the potential of new distribution relationships in Africa and the potential to expand our existing distribution relationships in South America.

During the six-month ended June 30th, 2022, we sold our products directly to 548 retailers, which includes chains and stores. This represents approximately 13% of our sales. We also sell direct to over 6,500 consumers through our website, LiftedMade.com, representing approximately 8% of our sales during the six-month ended June 30th.

During the past few years, our company has transformed from less than 10 people operating a very small, tiny, non-air conditioned space in Zion, Illinois, into a vibrant organization with about 153 people operating out of five leased locations, totaling approximately 33,000 square feet, with our expansions during Q2 2022, we have now four leased locations in Kenosha and a satellite sales office located in Chicago, Illinois.

We still need more space for inventory and fulfillment, and we are currently looking in the possibility of constructing expansion of our Kenosha headquarters building. During Q2 2022, if continued to localize our supply chain, as close to Kenosha as possible, although we still import certain products from China, they've also now begun insourcing some work previously performed for us by third-parties, which should be immediately accretive to us.

Our Director of Human Resources have done a wonderful job of scaling our personnel during a time of very low unemployment. We have to compete for new staff members with larger employers in Kenosha area such as Amazon Uline. But so far, we've done a great – we've had good success finding and hiring enthusiastic, high quality people. We have been especially focused on building on our sales and fulfillment teams, both in our Kenosha and Chicago offices, we expect to hire more people this year, and we're currently working two shifts during the workweek.

Our R&D expenditures have continued to be very modest. We are very cost conscious. We typically conduct research in the new products and formulations in house. Although we occasionally develop custom formulations in collaboration with third-parties. Nearly all the \$20,300 that we have spent year-to-date on R&D related to hiring an outside lab to investigate the feasibility of chemically synthesizing a particular psychedelic molecule.

This R&D has been more difficult and time consuming than the outside lab anticipated and during our Q2 2022. This R&D effort was put on pause to allow Lifted Made to focus on more immediate product rollouts that don't require any outside R&D. And that we feel can have more immediate and reliable success from a production sales and profit standpoint.

At this point, I'll turn the presentation over to Jake Jacobs, our President and Chief Financial Officer.

Jake Jacobs - President and Chief Financial Officer

Thank you, Nick. We had very strong financial performance during the second quarter 2022. Thank you to our team for their outstanding achievements. My comments will be based on year-over-year comparisons of the second quarter 2022 to the second quarter of 2021, unless I state otherwise.

Our second quarter 2022 consolidated revenues were \$16,776,502, up 151%. This growth can be attributed to innovative first to market products, our growing inventory, our growing national distribution network, our growing sales team, and our growing space for operations. We've added outstanding operational leaders and seasoned sales professionals with extensive sales experience in the vapes and chain store industries.

Our total cost of goods sold was \$8,713,590, up 187%. As our sales have grown, our cost of sales have also grown correspondingly. Also increasing our cost of sales is that we have engaged more frequently third-parties for certain production just to keep up with our sales growth.

Operating expenses were \$3,634,615, up 73% primarily reflecting greater payroll, rent and other operating costs related to our growth. Operating income was \$4,428,297, up 184%. Operating margin was 26%, up 3% which is noteworthy considering the intense competition and regulatory complexities in our industry. Our other income was \$82,385, up 110%. Net income was \$3,219,460, up 102%.

We achieved record quarterly GAAP-based basic earnings of \$0.23 per share and diluted earnings of \$0.20 per share. Basic and diluted weighted average shares outstanding for the three months ended June 30th, 2022 were 14,099,007 and 15,906,205, respectively. This is a dramatically lower number of outstanding shares than most of the publicly-traded companies in the cannabis industry.

In regards to our June 30th, 2022 balance sheet compared to our December 31st, 2021 balance sheet: cash on hand increased 134% to \$3,751,144, up from \$1,602,731; inventory increased 164% to \$10,049,245, up from \$3,809,944; current assets increased 50% to \$19,678,947, up from \$13,152,696; working capital increased 725% to \$10,284,320, up from \$1,246,426.

At June 30th, 2022, we had total outstanding options and warrants of 3,627,198, with a weighted average exercise price of \$3.85, which, if all were exercised would generate proceeds of \$13,968,899, ignoring any cashless exercise features. Of the outstanding options and warrants as of June 30th, 2022, 2,882,000 and 198,000 options and warrants are vested and exercisable with a weighted average exercise price of \$3.55. After our full prepayment of our secured debt, which occurred in July, our cash on hand currently is in excess of \$2.8 million.

Thank you.

Gerry Jacobs - Chairman and CEO

Thank you, Jake. Nick, Jake and I will now answer some of the questions that have been submitted to us. Again, if you would like to ask a question and are connected via – teleconference, please press one, please press asterisk one on your telephone keypad.

A confirmation tone will indicate your line is in the question queue. You may press asterisk two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Webcast

participants please click on the Ask Question box on the left side of your screen, type in your question and hit Submit.

So the first question, looking at is, LFTD Partners involved in marijuana? I'll answer that. Marijuana and hemp, you know they're both cannabis plants. But they're plants that have different physical characteristics, and they're governed under obviously very different legal frameworks.

Delta-9 THC which gets you high, is present in both marijuana and hemp, just at lower levels in hemp. We aren't currently involved in manufacturing or selling manufacture – marijuana products, just hemp-derived products and psychedelics. However, in our view, the marijuana and hemp industries you know they're in the process of a slow consolidation. So, there is a possibility that we will get involved in marijuana at some point in the future.

We have another question here. Is LFTD partners interested in growing, extracting or processing hemp? Nick, maybe you want to answer that?

Nick Warrender - Vice President and Chief Operations Officer and Founder and CEO, Lifted Made

Sure thing. No, today we haven't gotten into farming, extraction or processing hemp; as more farmers, labs and processors have entered the industry and grown their operations, their profit margins have suffered; in our view, manufacturing high quality CPG well-branded and packaged hemp-derived products is the industry segment with the most sustainable margin and profit potential.

Gerry Jacobs - Chairman and CEO

Okay. Another question is, do you have a timetable for listing your common stock on a national exchange either in the US or Canada?

I will answer that. We don't have a timetable yet. You know the timing will probably be driven by how our acquisition discussions proceed, by how much capital will be needed to consummate our next acquisition, and also relative – the relative size and attractiveness of debt and equity capital options that are available to us. That would be my answer to that.

Another question we have received, why were your gross margins in Q2 2022 higher than in Q1 2022? Jake, you better take that?

Jake Jacobs - President and Chief Financial Officer

Yeah, all right. So we had large one-time write-offs of inventory in first quarter of 2022 that caused our COGS, our cost of goods sold, to be a larger percentage of revenue compared to this quarter in Q2. During Q1 ended March 31st, a total of \$561,417 of inventory was written off, because our QC, our Quality Control department, concluded that it was not up to Lifted's standards. But in comparison, this quarter Q2, our inventory write-offs totaled just \$238,048.

Gerry Jacobs - Chairman and CEO

Okay, all right. Here's another question. There seem to be a lot of hemp companies in the market. In your opinion of what differentiates Lifted Made and its products compared to the other companies? Nick, do you want to take a crack at that?

Nick Warrender - Vice President and Chief Operations Officer and Founder and CEO, Lifted Made

Sure. Falling back to 2014, we always striven to launch innovative products that improve people's lives. We're laser-focused on innovation, whether it relates to new cannabinoids, new formulas, new terpenes, ingredients, delivery systems; our goal is always to be at the forefront of that innovation. We also distinguish ourselves with our branding and packaging as a consumer goods company in a crowded industry. It's important to stand out on the shelves we understand that people do love our products because they're effective and they're extremely attractively packaged.

Gerry Jacobs - Chairman and CEO

Okay, all right. Here's another question. Why is bad debt expense a benefit in Q2 2022 compared to an expense in previous quarters? That is definitely for you, Jake.

Jake Jacobs - President and Chief Financial Officer

So as of December 31st, 2021, the company implemented a new accounting policy, a more conservative accounting policy, regarding allowances for doubtful accounts, ADA accounts, which is that, all AR, accounts receivable that is older than 90 days at quarter end, we accrue for an allowances for doubtful accounts. So the benefit recognized for bad debt expense in Q2 of \$311,209 is due to improved collections in the quarter and improved receivables aging by quarter end.

Gerry Jacobs - Chairman and CEO

Okay, I'm not seeing any other questions. So this concludes today's conference and you may disconnect at this time. I thank everybody for participating.