

Cyanotech Corporation (NASDAQ:CYAN)

Q2 2018 Earnings Broadcast

November 9, 2017; 5:00pm ET

Executives:

Gerry Cysewski – Chief Executive Officer

Jolé Deal – Chief Financial Officer

Investor broadcast

Gerry Cysewski

Aloha from Kona, Hawaii. Thank you all for joining us today. We're pleased to finally be reporting Cyanotech's second quarter fiscal year 2018 earnings results. I am Gerry Cysewski, Founder and Chief Executive Officer. Joining me here in Kona are Jole Deal,

Jolé Deal

Let me start by saying our discussion today may include forward-looking statements which are current as of today's date. We do not undertake any obligation to update forward-looking statements either as a result of new information, future events or otherwise. Our actual results may differ materially from what is described in these forward-looking statements. Some of the factors that may cause results to differ are listed in our publicly filed documents. For additional information, we encourage you to review our 10-q and 10-K filings with the Securities and Exchange Commission.

Gerry Cysewski

Thank you Jole. Before Jole discusses the details of the quarter, I would like to point out that the second quarter was an improvement over the quarter a year ago; our gross profit margin increased by 5.5% and we reported a net income of \$475,000 compared to \$99,000 a year ago.

Jolé Deal

Thanks. Now the results for the second quarter: Total revenues decreased 18% compared to the second quarter of fiscal 2017. Our revenues from our Nutrex packaged products decreased 16%, due to the quarterly variance year to year in the

timing of orders – on a year to date basis, revenues from our Nutrex packaged products are up 7% over last year.

Our revenues from bulk products decreased 28% due to lack of sufficient spirulina supply. We had engaged in various alternative cultivation methods for spirulina during the quarter prompted by self-imposed water conservation methods related to county wide water restrictions, and these methods had a negative impact on spirulina production for the quarter. The restrictions were lifted by the end of the quarter.

Our gross margin increased 5.5 percentage points from 39.4% to 44.9%. This was driven a favorable mix toward higher margin customers and products, along with lower product costs from improved astaxanthin production practices.

Our operating expenses decreased 18% driven mostly by lower legal expenses.

As Gerry mentioned, net income was \$475,000 for the quarter versus a \$99,000 for the same quarter last year. Our effective tax rate for the quarter was 2.1% compared to 20.8% for the same quarter last year, and the tax rate is low because we are using our net operating loss carryforward and offsetting the valuation allowance on our deferred tax asset. As of the end of our last fiscal year, our federal NOL carryforward was \$11.8 million

Diluted earnings per share were \$0.08 in the current quarter compared to \$0.02 per share in the prior year.

Gerry Cysewski

We actually did not receive any questions from investors or shareholders. We would however like to take this opportunity to expand on some items in the press release.

We were under an emergency water restriction in the second quarter. We are not under water restrictions at the time. Future water restriction are possible if the Department of Water experiences continued problems with the well pumps. Water restriction and/or allocations could restrict our future growth. However, we are exploring alternative water sources. I should also point out that we are no longer using the alternative culture methods used during the water restriction with lowered Spirulina production.

Costco is one of our largest customers and our relationship with Costco remains solid. Over the last 3 quarters, our sales to Costco are up 58%. With Costco's concurrence,

we slowed our nation-wide expansion in order to increase sales in the regions we already occupy and our plan is still, when the time is right, to expand nationwide with Costco. We're currently in 5 of 8 Costco regions representing 264 warehouses or 53% of all warehouses nation-wide.

Our other major customer is Amazon, but we have many other large domestic retail customers such as Whole Foods, iHerb, Sprouts, Fresh Thyme, Vitamin Shoppe, and GNC. In Hawaii we are also in Target, Longs, and Walmart. In addition we sell to over 500 independent natural food retailers. We also sell to e-tailers which include Vitacost, iHerb, and Swanson.

For the quarter ended September 30th international sales represented 19% of net sales and for the six months ended September 30th international sales were 23% of net sales.

Well, that's all we have for the call today. I want to thank you very much for listening to us and wish you all a good day.