DIRTT

# Q1 2021 Earnings Call

May 6, 2021

# Advisory

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this presentation (this "presentation") are "forward-looking statements" within the meaning of "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 and "forward-looking information" within the meaning of applicable Canadian securities laws. All statements, other than statements of historical fact included in this presentation, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this presentation, the words "anticipate," "believe," "expect," "estimate," "intend," "plan," "project," "outlook," "may," "will," "should," "would," "could," "can," the negatives thereof, variations thereon and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular and without limitation, this presentation contains forward-looking information pertaining to the effect of our strategic priorities on increasing value creation, and on our financial condition and results of operations; the recovery of commercial construction starts and the strengthening of market demand during 2021; and the impact of the COVID-19 pandemic on our business. Forward-looking statements are based on certain estimates, beliefs, expectations and assumptions made in light of management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that may be appropriate.

Forward-looking statements necessarily involve unknown risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed or implied in such statements. Due to the risks, uncertainties and assumptions inherent in forward-looking information, you should not place undue reliance on forward-looking statements. Factors that could have a material adverse effect on our business, financial condition, results of operations and growth prospects include, but are not limited to: the severity and duration of the COVID-19 pandemic and related economic repercussions; global economic, political and social conditions and financial markets; competition in the interior construction industry; our reliance on our network of distribution partners for sales, marketing and installation of our solutions; our ability to implement our strategic plans and to maintain and manage growth effectively; our ability to introduce new designs, solutions and technology and gain client and market acceptance; product liability, product defects and warranty claims brought against us; defects in our designing and manufacturing software; infringement on our patents and other intellectual property; cyber-attacks and other security breaches of our information and technology systems; material fluctuations of commodity prices, including raw materials; shortages of supplies of certain key components and materials; our exposure to currency exchange rate, tax rate and other fluctuations that result from general economic conditions and changes in laws; legal and regulatory proceedings brought against us; the availability of capital or financing on acceptable terms, which may impair our ability to make investments in the business; and other risks described under the section titled "Risk Factors" in our Form 10-Q for the three months ended March 31, 2021, filed with the U.S. Securities and Exchange Commission and applicable securities commissions or similar regulatory authorities in Canada.

Our past results of operations are not necessarily indicative of our future results. You should not rely on any forward-looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. We undertake no obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under applicable securities laws. We qualify all of our forward-looking statements by these cautionary statements.

**Currency and Presentation of Financial Information**

Unless otherwise indicated, all financial information relating to the Company in this Presentation has been prepared in U.S. dollars using accounting principles generally accepted in the United States ("GAAP") and the rules and regulations of the SEC.

# Non-GAAP Financial Measures

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Our consolidated financial statements are prepared in accordance with GAAP. These GAAP financial statements include non-cash charges and other charges and benefits that we believe are unusual or infrequent in nature or that we believe may make comparisons to our prior or future performance difficult.

As a result, we also provide financial information that is not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. Management uses these non-GAAP financial measures in its review and evaluation of the financial performance of the Company. We believe that these non-GAAP financial measures also provide additional insight to investors and securities analysts as supplemental information to our GAAP results and as a basis to compare our financial performance from period to period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt, or foreign exchange movements), asset base (depreciation and amortization), tax consequences and stock-based compensation. In addition, management bases certain forward-looking estimates and budgets on non-GAAP financial measures, primarily Adjusted EBITDA.

Government subsidies, depreciation and amortization, and stock-based compensation are excluded from our non-GAAP financial measures because management considers them to be outside of the Company's core operating results, even though some of those expenses may recur, and because management believes that each of these items can distort the trends associated with the Company's ongoing performance. We remove the impact of all foreign exchange from Adjusted EBITDA. Foreign exchange gains and losses can vary significantly period-on-period due to the impact of changes in the U.S. and Canadian dollar exchange rates on foreign currency denominated monetary items on the balance sheet and are not reflective of the underlying operations of the Company. Additionally, in Q4 2019, Q1 2020, and Q1 2021 we have excluded from Adjusted Gross Profit costs associated with under-utilized capacity. Fixed production overheads are allocated to inventory on the basis of normal capacity of the production facilities. In certain periods where production levels are abnormally low, unallocated overheads are recognized as an expense in the period in which they are incurred. We believe that excluding these amounts provides investors and management with greater visibility to the underlying performance of the business operations, enhances consistency and comparativeness with results in prior periods that do not, or future periods that may not, include such items, and facilitates comparison with the results of other companies in our industry.

**The following non-GAAP financial measures may be presented herein. A description of the calculation for each measure is as follows:**

Adjusted Gross Profit is Gross profit before deductions for costs of under-utilized capacity, depreciation and amortization. Adjusted Gross Profit Margin is Adjusted Gross Profit divided by revenue.

EBITDA is net income before interest, taxes, depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for foreign exchange gains or losses; stock-based compensation expense; government subsidies; and any other non-core gains or losses. Adjusted EBITDA Margin is Adjusted EBITDA divided by revenue.

You should carefully evaluate these non-GAAP financial measures, the adjustments included in them, and the reasons we consider them appropriate for analysis supplemental to our GAAP information. Each of these non-GAAP financial measures has important limitations as an analytical tool due to exclusion of some but not all items that affect the most directly comparable GAAP financial measures. You should not consider any of these non-GAAP financial measures in isolation or as substitutes for an analysis of our results as reported under GAAP. You should also be aware that we may recognize income or incur expenses in the future that are the same as, or similar to, some of the adjustments in these non-GAAP financial measures. Because these non-GAAP financial measures may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

A reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure is presented in the tables at the end of this presentation. A reconciliation of these non-GAAP measures is also contained in DIRTT's most recent Form 10-Q filed with the Securities and Exchange Commission (the "SEC"), complete copies of which are available on the Company's website at www.dirtt.com and on EDGAR at www.sec.gov/edgar

## Commercial Execution

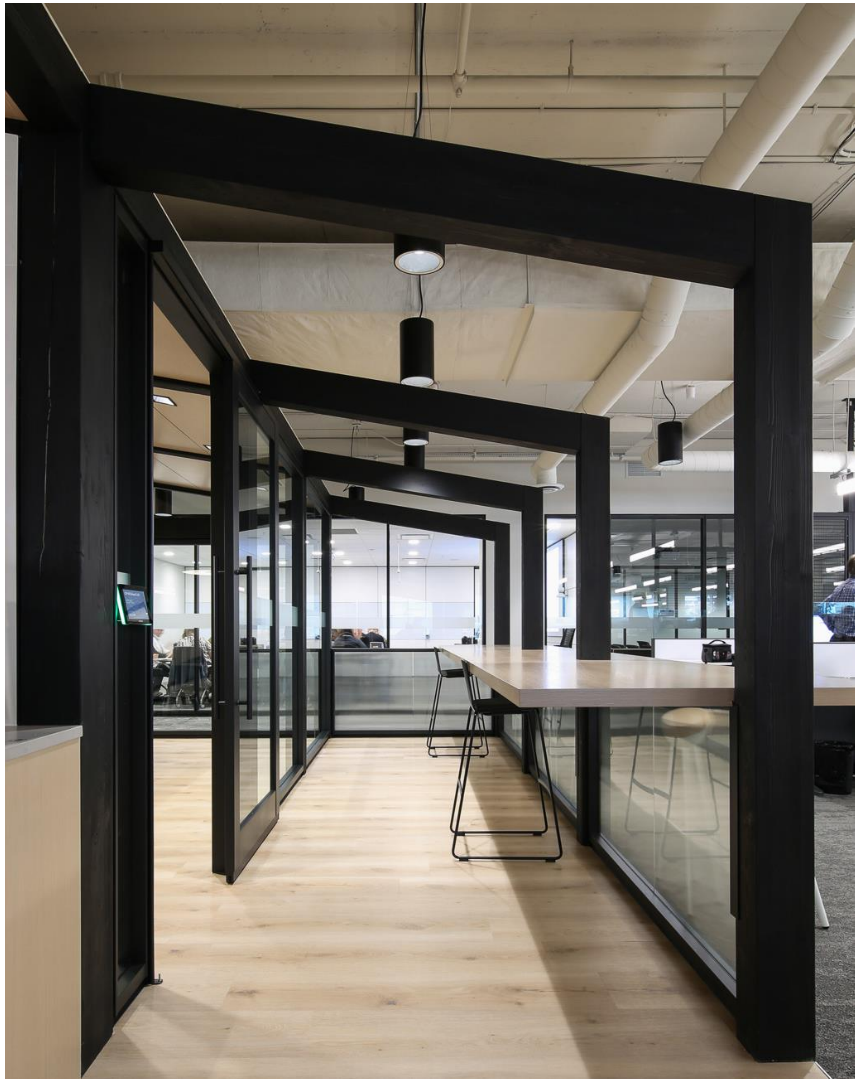
- Expect Q1 to be the low point in the pandemic impacted operating environment
- Cautiously optimistic for recovery starting in 2H 2021; risks include:
  - Additional waves of COVID-19 causing project delays and uncertainty
  - Supply chain disruptions delaying building trades other than DIRTT
- DIRTT's internal capabilities in commercial execution greatly strengthened
- Seeing early signs of recovery
  - Growing customer engagement and opportunities to compete for projects
  - Secured first project through Total Cost of Ownership tool
  - Strategic accounts team nurturing growing number of relationships

## Rock Hill, South Carolina

- Commissioning on track for new manufacturing facility; June 2021
- Provides capacity required to bid for large scale projects

## Sustainability

- Release of ESG report expected 1H 2021



# Financial Liquidity

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### Working Capital

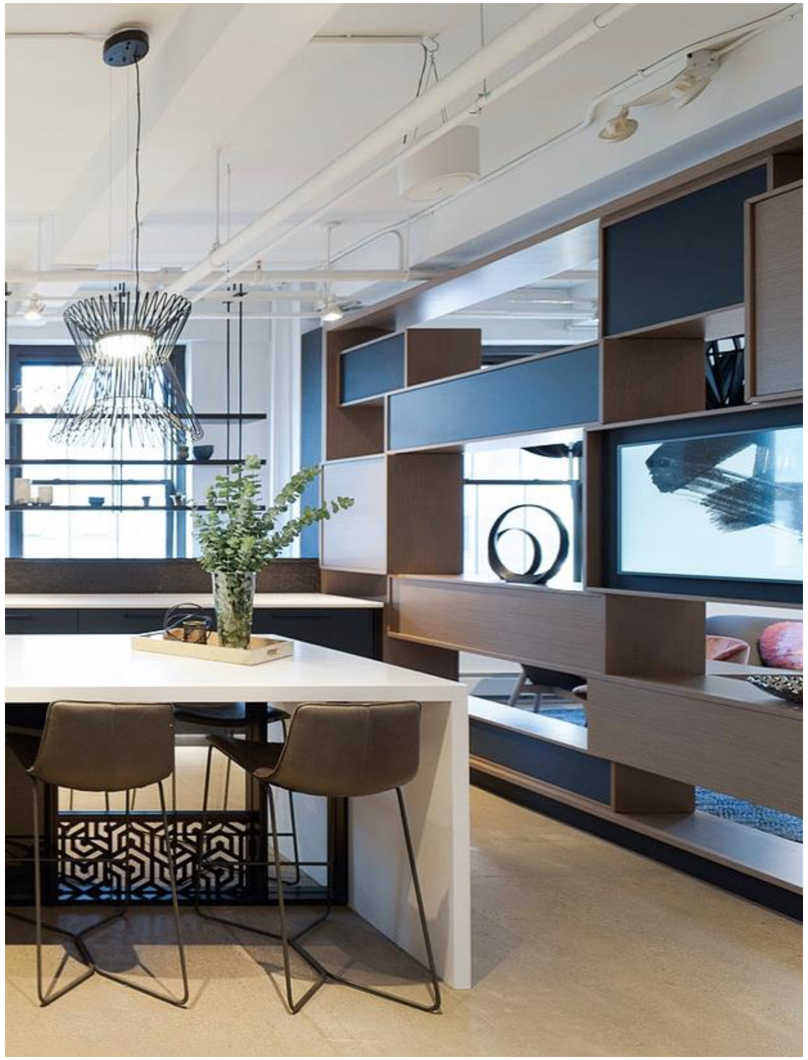
- Net working capital at March 31, 2021, of $70.5 million, including $58.7 million cash

### Leasing Facility

- Subsequent to quarter end, completed $7.2 million draw on US leasing facility
- Anticipate an additional $3 million - $4 million to be drawn by Q3 2021

### Government Subsidies

- Qualified for $4.1 million in Q1 2021; $2 million received in Q1, balance due in Q2
- Canadian government programs being considered for extension to September 25, 2021
- Ongoing eligibility will be evaluated for each qualifying period



# Revenue

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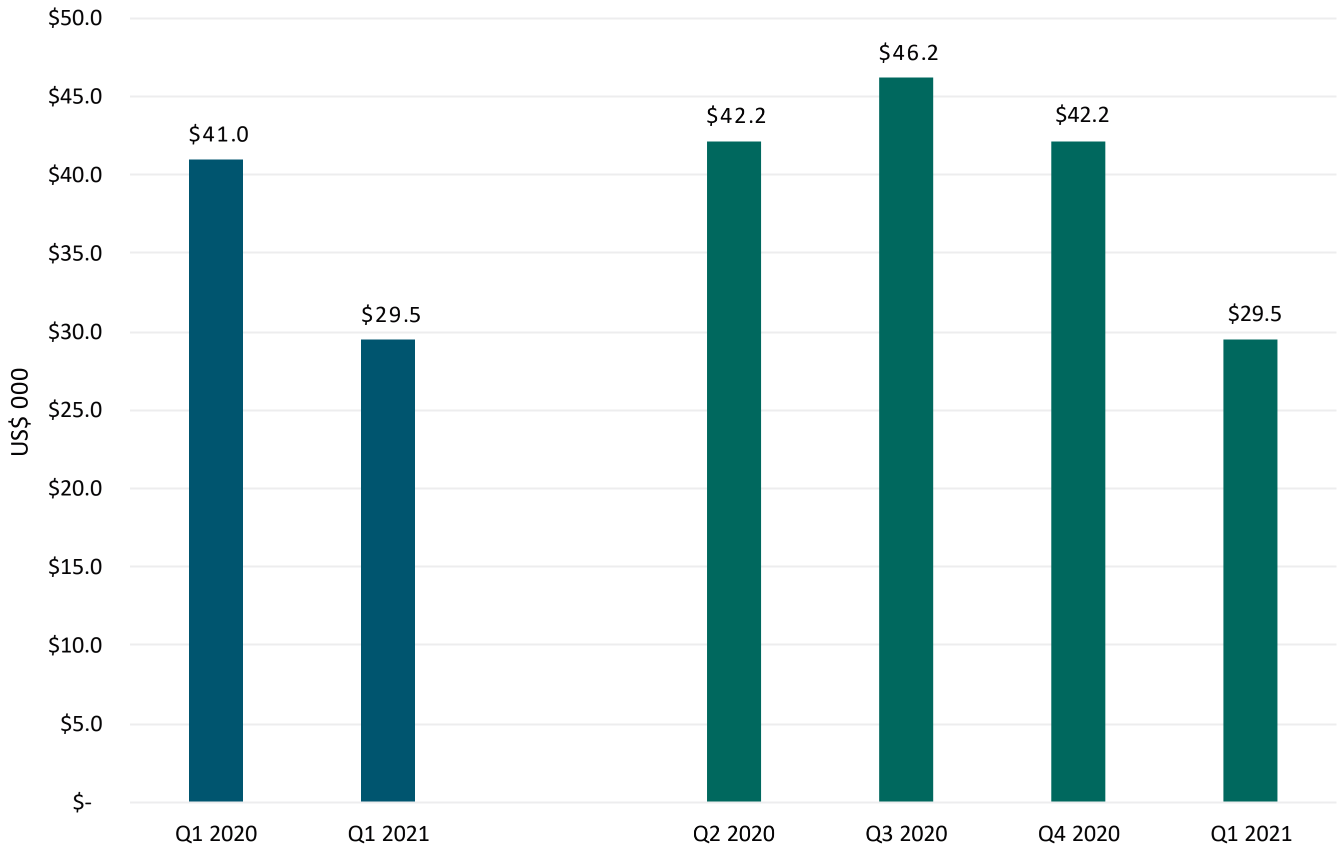
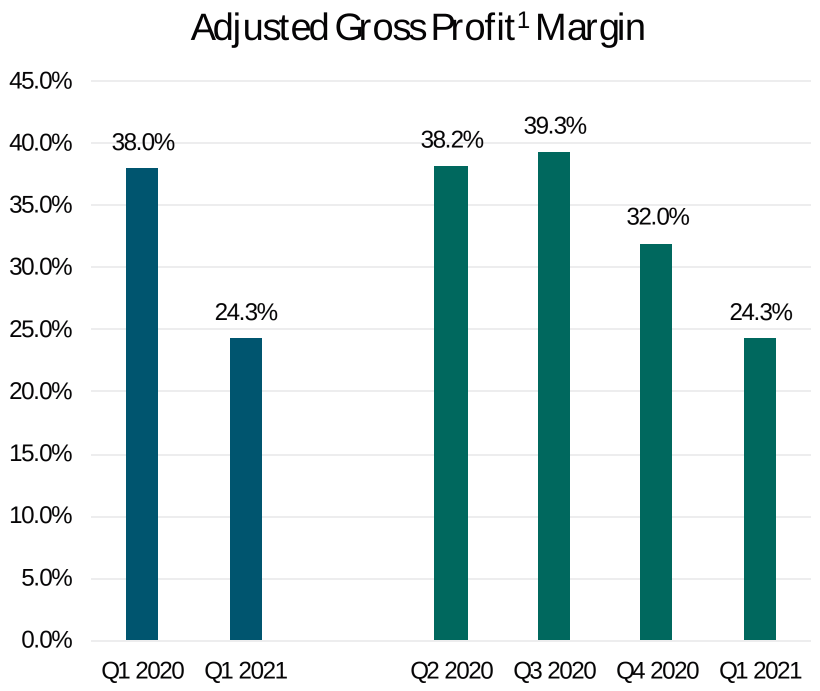
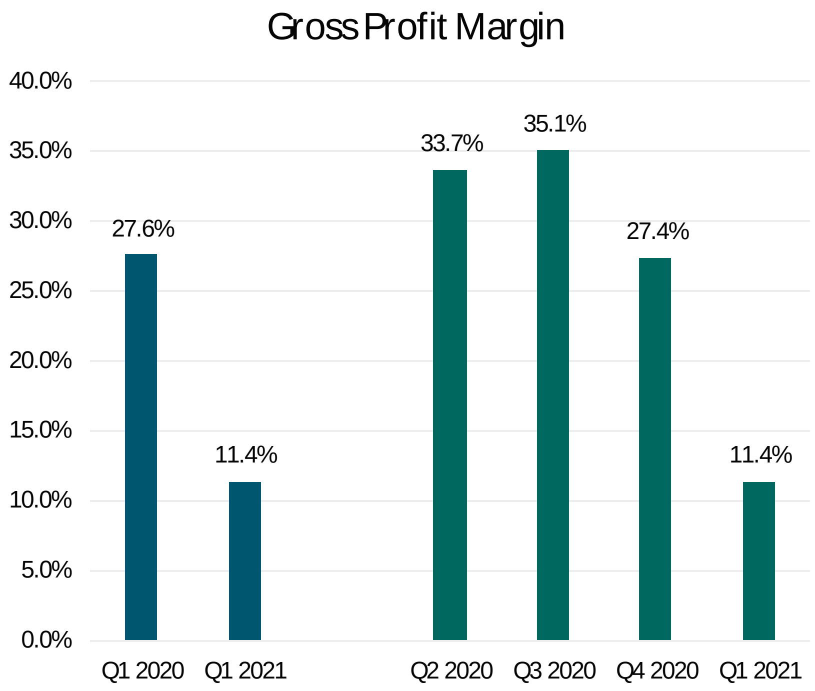



- Projects underway when pandemic began largely delivered in 2020
- Absent further lockdowns or unforeseen delays, Q2 2020 revenue expected to be at or near the quarterly ranges experienced in 1H 2020

# Gross Profit and Adjusted Gross Profit[1] Margin




- Adjusted gross profit excludes costs of under-utilized capacity of $1.8 million in Q1 2021 ($2.0 million in Q1 2020)
- Lower revenue resulted in negative leverage on costs; gross profit and adjusted gross profit anticipated to remain below historical percentages until sales improve

[1] See Non-GAAP Financial Measures

# Operating Expenses Breakdown[1]

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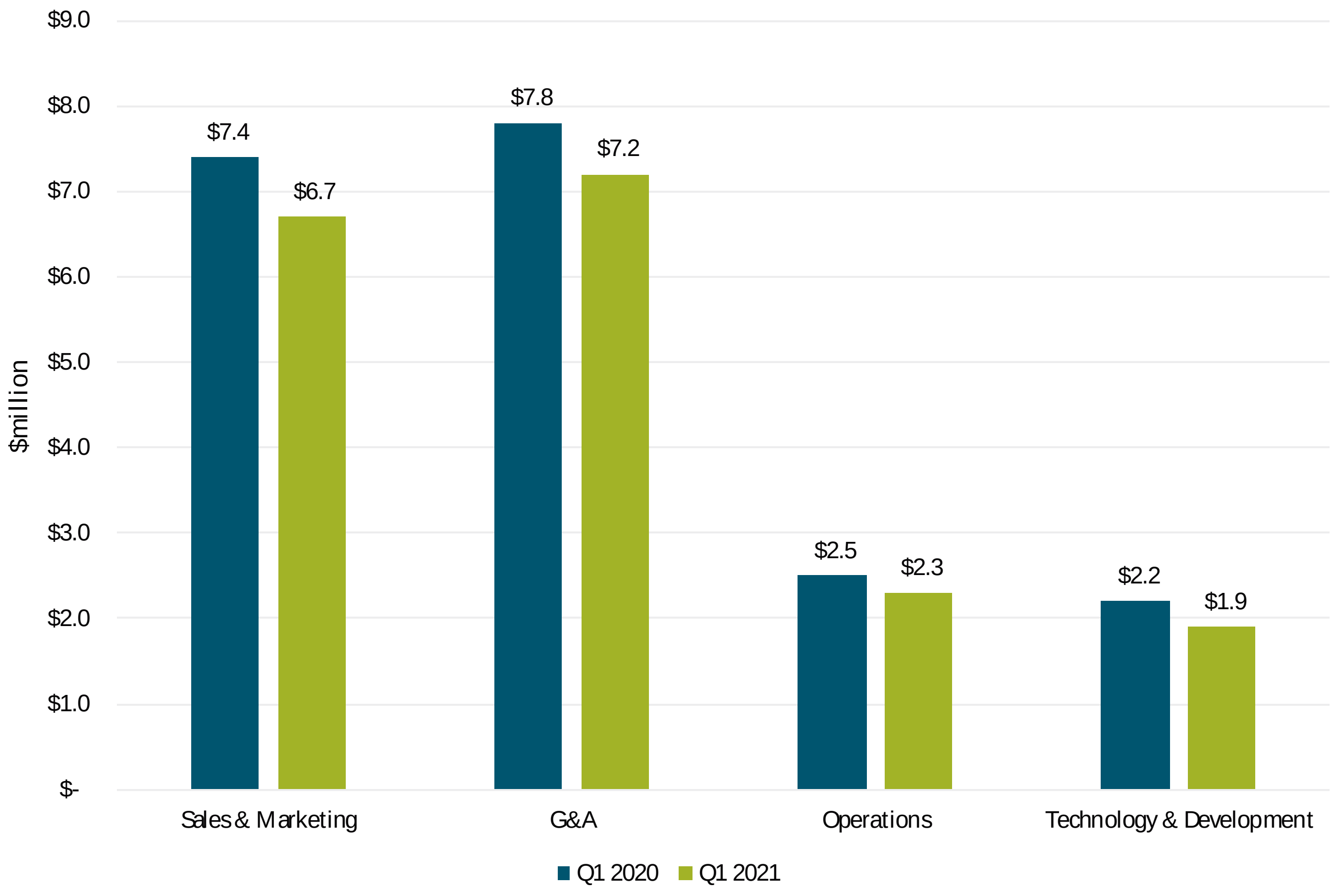


- G&A expenses decreased due to lower professional fees and $0.6 million credit loss recorded in Q1 2020 not repeated in 2021
- Sales and Marketing decreased due to lower commission expense on lower revenue
- COVID-19 related restrictions resulted in lower expenses related to:
  - travel, meals and entertainment
  - reduced building operating expenses

[1] Excludes stock-based compensation expenses

# Adjusted EBITDA[1]

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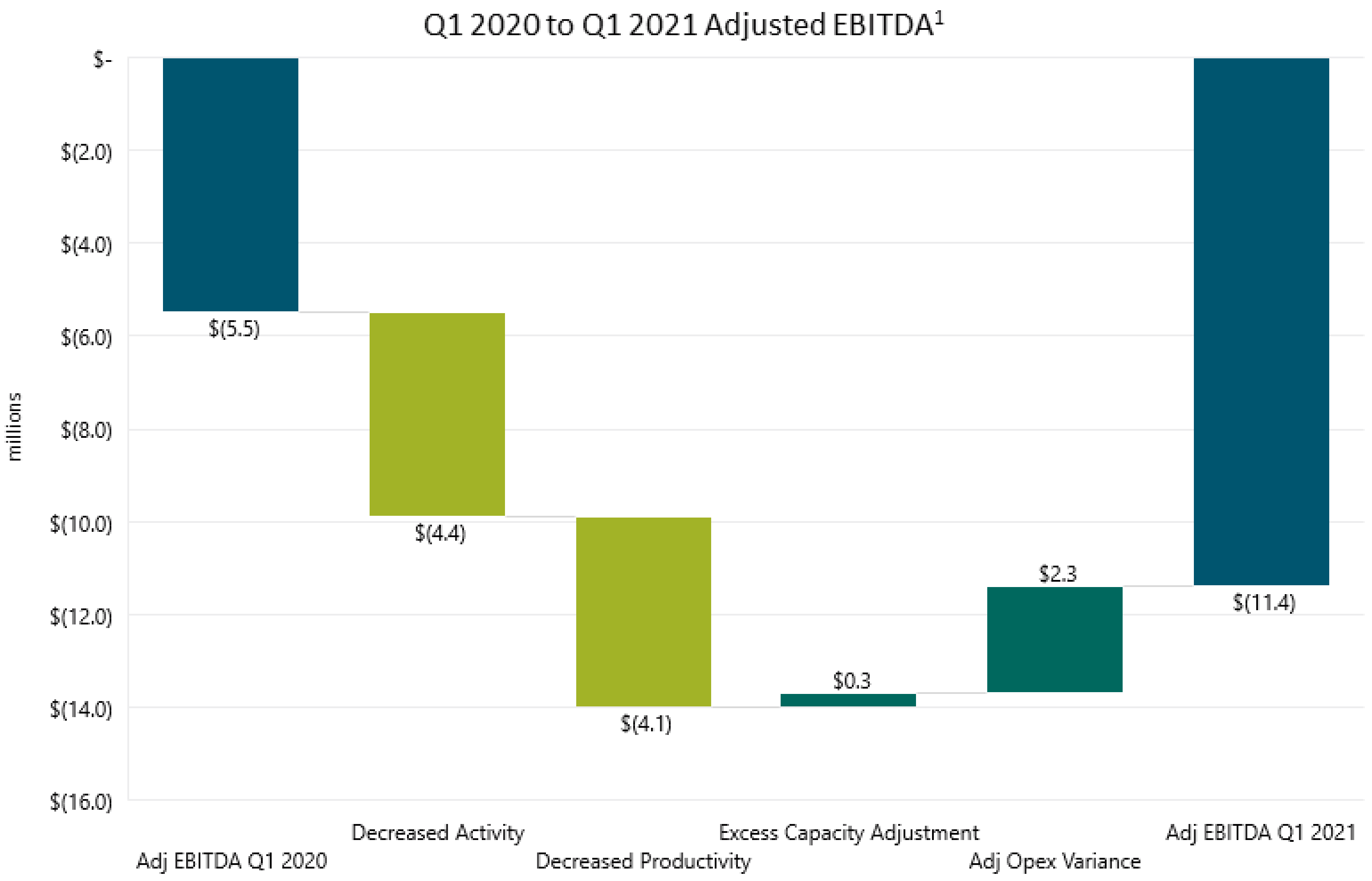


- Adjusted EBITDA calculations exclude government subsidies
- Decrease driven by reduction in adjusted gross profit

[1] See Non-GAAP Financial Measures

# Net Loss

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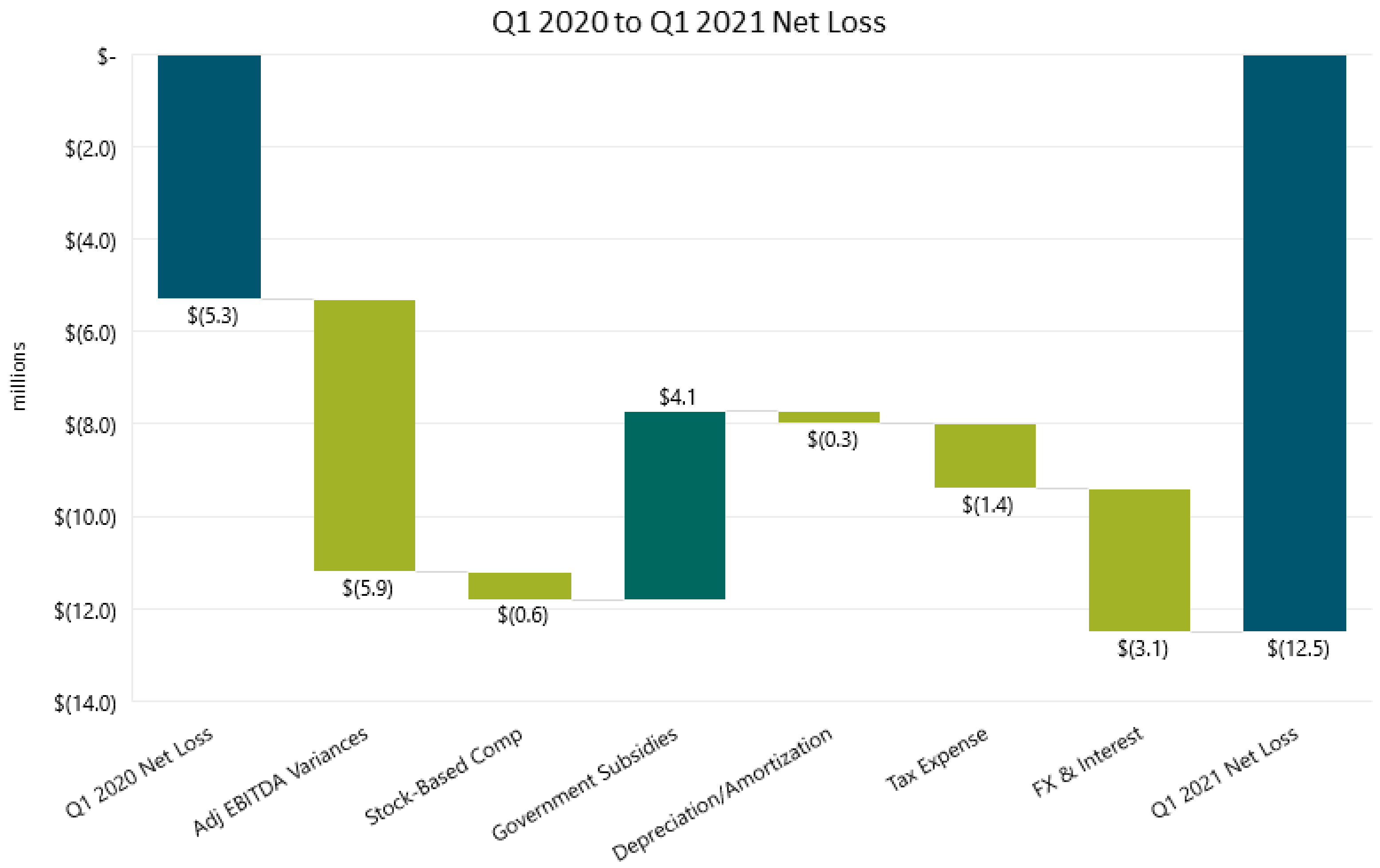


- Government subsidies and operating expense reductions offset by decreases in gross profit, foreign exchange gains and increased tax expense

# Conclusion

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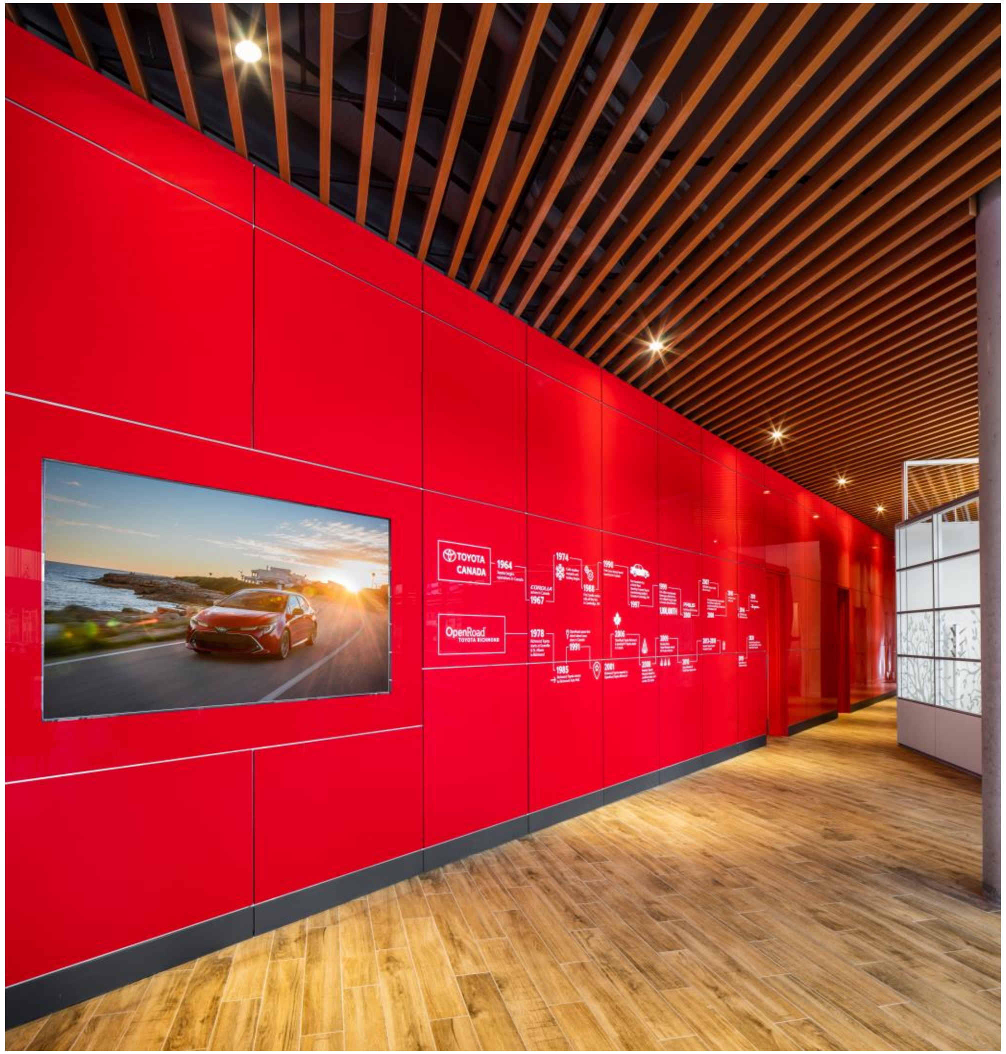
- Impact of COVID-19 slowdown on revenues
  - Resulted in cash utilization within the business
  - Deliberately holding manufacturing capacity steady

- Anticipation of recovery beginning in 2H 2021
  - Supported by financial liquidity; including lease financing and convertible debenture issuance (January 2021)

- Believe we are well poised from both a sales and production standpoint to take full advantage of a normalized construction environment



# Summary of Consolidated Financial Results

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| For the period-ended March 31<br>($ thousands, except per share amounts) | Three months<br>2021 | 2020 | % Change |
|---|---|---|---|
| Revenue | 29,465 | 40,981 | (28) |
| Gross profit | 3,370 | 11,315 | (70) |
| Gross profit margin | 11.4% | 27.6% | (59) |
| Adjusted Gross Profit[1,2] | 7,155 | 15,586 | (54) |
| Adjusted Gross Profit Margin[1,2] | 24.3% | 38.0% | (36) |
| Operating expenses | 19,237 | 20,391 | (6) |
| Operating expenses % | 65.3% | 49.8% | 31 |
| Operating loss | (15,867) | (9,076) | 75 |
| Adjusted EBITDA[1] | (11,371) | (5,483) | 107 |
| Adjusted EBITDA Margin[1] | (38.6)% | (13.4)% | 188 |
| Income tax expense (recovery) | 39 | (1,326) | NA |
| Net loss | (12,499) | (5,328) | 135 |
| Net loss per share - basic and diluted | (0.15) | (0.06) | 150 |
| Net cash flows used in operating activities | (12,094) | (760) | 1,491 |
| Net cash flows used in investing activities | (3,589) | (2,455) | 46 |
| Net cash flows provided by financing activities | 29,337 | - | 100 |

1. See "Non-GAAP Financial Measures"

2. Recalculated to exclude $1.7 million and $2.0 million of costs attributable to under-utilized capacity in cost of sales in the first quarters of 2021 and 2020, respectively.

# Non-GAAP Financial Measures

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The following tables present a reconciliation for the three months ended March 31, 2021, and March 31, 2020, of our non-GAAP measures to the most directly comparable GAAP measures, being Adjusted EBITDA to net income and Adjusted Gross Profit to gross profit.

| For the period-ended March 31<br>($ thousands) | Three Months<br>2021 | <br>2020 |
|---|---|---|
| **Net loss for the period** | **(12,499)** | **(5,328)** |
| Add back (deduct) | | |
| Interest Expense | 500 | 35 |
| Interest Income | (19) | (138) |
| Income Tax Expense (Recovery) | 39 | (1,326) |
| Depreciation and Amortization | 3,402 | 3,132 |
| **EBITDA** | **(8,577)** | **(3,625)** |
| Foreign Exchange (Gains) Losses | 180 | (2,319) |
| Stock-based Compensation | 1,094 | 461 |
| Government Subsidies | (4,068) | - |
| **Adjusted EBITDA** | **(11,371)** | **(5,483)** |
| **Net Loss Margin** | **(42.4)%** | **(13.0)%** |
| **Adjusted EBITDA Margin** | **(38.6)%** | **(13.4)%** |

| For the period-ended March 31<br>($ thousands) | Three Months<br>2021 | <br>2020 |
|---|---|---|
| **Gross profit** | **3,370** | **11,315** |
| **Gross profit margin** | **11.4%** | **27.6%** |
| Add: Depreciation and amortization expense | 2,029 | 2,261 |
| Add: Costs of under-utilized capacity | 1,756 | 2,010 |
| **Adjusted Gross Profit** | **7,155** | **15,586** |
| **Adjusted Gross Profit Margin** | **24.3%** | **38.0%** |

# Additional Financial Highlights

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| ($ thousands) | Mar 31, 2021 | Dec 31, 2020 |
|---|---|---|
| Cash and cash equivalents | 58,656 | 45,846 |
| Restricted cash | 1,147 | - |
| Trade and other receivables, net | 19,249 | 18,953 |
| Inventory | 15,912 | 15,978 |
| Property, plant and equipment, net | 51,322 | 49,847 |
| Capitalized software, net | 8,337 | 8,344 |
| Operating lease right-of-use assets, net | 32,512 | 33,643 |
| Accounts payable and accrued liabilities | 15,747 | 20,350 |
| Other current liabilities | 4,495 | 3,677 |
| Long-term debt | 34,837 | 5,069 |
| Lease liabilities[1] | 34,293 | 35,284 |

1. Current and long-term portions

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