IMMUCELL CORPORATION
Nasdaq: ICCC

Fourth Quarter and Fiscal Year 2017
Financial Results

Thursday, February 8, 2018
4:30 p.m. Eastern

CORPORATE PARTICIPANTS

Michael Brigham – President and CEO, ImmuCell Corporation
Joe Diaz – Managing Partner, Lytham Partners

PRESENTATION

Operator
Good afternoon and welcome to the ImmuCell Corporation Fourth Quarter and Fiscal Year 2017 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note that today's event is being recorded.

I would like to turn the conference over to Mr. Joe Diaz. Please go ahead.

Joe Diaz
Thank you, Andrea and thanks to all of you for joining us today to review the 2017 unaudited financial results of ImmuCell Corporation.

My name is Joe Diaz. I am with Lytham Partners. We're the Investor Relations consulting firm for ImmuCell. Before we get started, let me say that statements made by the management of ImmuCell during the course of this conference call that are not historical facts are considered to be forward-looking statements that are subject to risks and uncertainties.

The Private Securities Litigation Reform Act of 1995 provides a 'safe harbor' for such forward-looking statements. Words such as believe, expect, anticipate, intend, estimate, will and other similar words or statements of expectation identify forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to those risks and uncertainties detailed from time to time in the filings the company submits to the Securities and Exchange Commission.

Investors are cautioned that forward-looking statements made during the course of this conference call are based on management's analysis as of today and actual results could differ materially from the statements made. The company undertakes no obligation to publicly release the results of any

revision to these forward-looking statements. A more complete safe harbor statement was included in the press release that was filed by the company today.

With that said, let me turn the call over to Michael Brigham, President and CEO of ImmuCell Corporation. After which, we will open up the call for your questions. Michael…

Michael Brigham
Thank you all for taking the time to join today's call. The full details to our fourth quarter and annual financial results are available in the press release that we filed earlier today.

I'd like to highlight some key financial points and then review the current state of the business. So during the quarter ended December 31, 2017, total product sales increased by approximately $919,000 to $3.1 million compared to $2.2 million during the same period in 2016, an increase of 42%. This was a huge quarter.

During the year ended December 31, 2017, total product sales increased by approximately $887,000 to $10.4 million compared to $9.5 million during 2016, an increase of 9%. The total product sales in 2017 included $97,000 in sales of the topical wipes product line that was discontinued during the first quarter of 2017 in comparison to $350,000 in sales of that product line during 2016, so we covered a net drop of $252,000 in sales of the discontinued product line between the periods and we are still up $887,000 for the year.

Sales of the First Defense product line increased by 42% and 11% during the quarter and the year ended December 31, 2017 respectively in comparison to 2016. The First Defense product line comprised 94% and 93% of our total sales during the years ended December 31, '17 and '16 respectively. My point is that this is a product to watch to monitor the health of our core business.

Depreciation and amortization expenses were $904,000 during the year ended December 31, 2017 in comparison to $802,000 during the year ended 12-31-2016. We do expect this non-cash expense to increase as we go into 2018 and begin to depreciate our $21 million dollar Nisin plant investment.

Cash provided by operating activities was approximately $1.2 million during the year ended December 31, 2017 in comparison to cash used for our operating activities of $324,000 during the year ended December 31, '16. I see this as an important financial metric to watch going forward.

Cash is king I am not too concerned about the increasing non-cash depreciation expenses. Our net loss was $195,000 or $0.04 per share for the fourth quarter of 2017 in comparison to net income of $30,000 or $0.01 per diluted share during the fourth quarter of 2016. The fourth quarter of 2017 results did include a one-time licensing fee of $150,000 to the Baylor College of Medicine for the rotavirus vaccine technology underlying our new product.

Our net loss was $168,000 or $0.03 per share during the year ended December 31, 2017 in comparison to net income of $508,000 or $0.12 per diluted share during the year ended December 31, 2016. I would like to point out that our non-cash depreciation expense is far larger than our net loss for 2017.

Product development expenses were $2,047,000 in the year ended December 31, 2017 in comparison to $1,244,000 during the year ended 12/31/16, that's an increase of about $802,000. We are paying the bills to bring our new products to market, because it is about more than just the numbers I would like now to discuss our new product and beyond vaccination marketing strategy.

You may have seen our November 2017 press release announcing the USDA approval of First Defense Tri-Shield adding a rotavirus claim to our product line. We are pleased with the initial sales of our new product, it's a game changer for the way that we treat scours in the dairy and beef industries.

For years we've competed primarily against products that are given to newborn calves to prevent scours. That calf-level market is worth something like $17 million per year. The market for vaccines that are given to the mother cow known as dam-level vaccines, for the purpose of improving the colostrum that she produces which is then fed to the newborns is about double that size. Previously we could not compete effectively for those sales because the vaccines include the rotavirus claim that we did not have until just now.

Now, we are in this bigger game with First Defense Tri-Shield. We talk to customers and challenge the need to stick another needle in a cow, save that vaccine challenge for the real cow health issues. We argue that it is better for the productivity of the cow and also that we can do better for the calf by delivering the measured dose of protective antibodies directly to the newborn rather than relying on protection from colostrum that we know is always variable even in the best managed program.

I can go on but, I will leave it there and simply say that our sales team is working to introduce our new technology to four different customer groups.

First existing First Defense customers that want to add rotavirus protection.

Two, those that did not previously use scours preventative at all.

Three, those that have been using a competitive product at the calf level instead of First Defense, because that product provided the rotavirus claim that we previously could not offer.

And finally, those that use a vaccine on the mother cow to improve the quality of the colostrum that she produces for her newborn, as I just discussed in greater detail.

So, back to the financials; let me return to our bottom line results. Cost associated with initial production batch of the First Defense Tri-Shield were higher and production output was lower than we expect once this new product is in full production mode. These are pretty typical challenges as we scale up the production process and learn about customer demand during new product launch.

At the same time we were incurring these higher initial production costs, we also experience a decline in the biological yield for the capsule format of First Defense which does happen from time to time for a product like ours. Our production process is very complicated…is a very complicated six month cycle from vaccine to cow to cheese to finish dose. That offers a form of competitive protection for us, but it can also be costly when the biology goes against us.

During the fourth quarter, these negative factors drove gross margin and bottom line results lower than our historical and projected norm. The plan to increase production output and expect yields to improve during the first half of 2018.

Lastly, let's talk about the status of our Nisin product development program. As you may know, we initiated construction of our $21 million Nisin Production Facility during the third quarter of 2016 and obtained a certificate of occupancy from the city of Portland, Maine during the fourth quarter of 2017. Approximately $19.2 million have been spent on this project as of December 31st, 2017.

Our $3.8 million of cash on hand as of December 31, 2017 and the $694,000 of available bank debt plus our cash flows from operations are more than sufficient to fund the remaining $1.8 million of budget expenditures on this project that was unpaid as of December 31, 2017.

Our ground-breaking product innovation is unlike all other antibiotic treatments on the market today. Our goal is to revolutionize the mastitis…the way mastitis is treated by making the treatment of subclinical infections economically feasible by not requiring a milk discard or meat withhold during or for a period of time after treatment. No other products can offer this value proposition.

Nisin the active ingredient is a bacteriocin this is not used in human medicines. It would not contribute to the growing concern that the widespread use of antibiotics encourages the growth of antibiotic resistant bacteria or super bugs. Inherence to our anticipated timeline could lead to a potential product approval by the end of 2019 with subsequent market launch.

With that said, let's have Andrea open the lines for your questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick-up your handset before pressing the key, to withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question comes from Kevin Ellich of Craig-Hallum. Please go ahead.

Kevin Ellich
Hi Michael, I got a few questions for you and thanks for the update. I guess, first, let's talk about gross margin. You know I appreciate the comments on the higher costs associated with the initial batches and lower production, but you know, I guess what are doing to fix that and how quickly do we think gross margin is going to recover?

Michael Brigham
Yes, so it is kind of two-prong, a double-whammy, if you will. So just pure volume over fixed costs and on the Tri-Shield side we will be scaling up as we go. We have…essentially doing some in the market commercial test marketing. And…as I said, pleased with the initial sales of Tri-Shield so, you know, we could have avoided this problem…part of this problem with higher volume and launched with a lot of inventory, tied up a lot of cash and, you know, could have been the other side of the

equation here with a lot of inventory that wasn't moving.

So we are on this side, we are a little short, so our volume is a little low, our yield is low and we will catch up. I don't think it's realistic to expect all that to come through in the first quarter. I think over the first six months as we scale up we will fix the Tri-Shield side of the equation, then back to the other issue, this unrelated but just both hit at the same time. The biological yield on our bivalent product in the capsule. You know, that does come up and down over time, lot of different factors going on there: season, cows, health vaccine, response, immunology that is something that we have a pretty good handle on, and that…I think that fix is going to come a little quicker, but we are still working through a lot, you know, as I said a six-month cycle, so we are not going to toss out this milk that it maybe of a lower titer.

It still got valuable doses in it. We need to work that through the system, you know first quarter and into the second quarter. So I think that one fixes a little quicker as we clinical process out the bad milk and process better titer milk, higher doses per cow. I just think we need to watch this first quarter carefully because these things are a long lead, there is a little lag and I am more comfortable with the six-month views than expecting it all to just turnaround real quickly here in the first quarter.

Kevin Ellich
Okay, great. And then you talked about your…you are happy with the ramp on First Defense Tri-Shield. Anymore color beyond that, you know, how much have you guys generated in revenue and what type of growth should we be expecting from Tri-Shield?

Michael Brigham
Yes, I think it's a little early to really have a good answer to that, because again, we are…our sales are limited by the available inventory, for one and two, it's early. And three, what's most important to me in our disclosures going forward is going to be the product line growth because I am not going to able to track exactly, you know I mentioned those four customer groups, two of them are brand new market, brand new opportunity, brand new sales, the people that weren't using anything, the people that were using these dam vaccines, that's all news to us. But, the extent of their current customers that convert from the Bolus over to the Tri-Shield is much, much…I don't have that tracking data. So, I don't really care if they do switch because they are buying up in pricing and in value. So, it's good, so I don't see there is negative cannibalization, but I don't know how many people did that switch. What I want to see is with all those customer categories that the total product line is growing, and…but certainly that fourth quarter, that strong fourth quarter was influenced by these…the new product sales.

Kevin Ellich
Sure. And then, last question from me, let's talk about the Nisin plant. I guess where we are now with the construction process and the cost associated. Are you through most of that, what other cost do we have left and then also, you know walk us through the timeline on the next steps before you guys get that plan up and running.

Michael Brigham
Yes. So, on the CAPEX side, that number $1.8 million we have to recognize at 12/31 is mostly equipment, the $1.8 million left to spend, I see our original budget here was 20, we did revise that

budget up by 5% to 21, I see us coming in on that budget. And we are pretty late in the game for any surprises, but that cutoff at year end left $1.8 million to spend here in '18. So most of the spending is done, all the construction is done, most of the insulate…all the equipment is on site, in place, most of the connections are done, so the timeline forward is over the next couple of months is we transition from plumbing and connections, as there is a lot of it, it's not just pipe plumbing, it's a lot of computer work, these tanks these and systems are all computer driven, so all the programming and all the controlling that we move…validation and we start making a couple of practice batches.

So, somewhere here in the middle of '18, the earlier the better and we will give clarity on that as we go forward. But we make our first submissions with the FDA, that's because we've at this point made three validation batches, that's really the core…the big nugget to the manufacturing technical sections of the CMC, it's called the CMC through the FDA, that includes these three batches, we give them all the data, they are going to review that for six months, so we go from the middle of the '18, to the latter part of the '18 to the beginning of '19. We do anticipate they will come back with an incomplete. It almost always happens. We think we're in pretty good contact with the FDA, we think there are no big surprises here, so we take a month or two to answer their questions. Kind of…they give us a to-do list. We resubmit, it's subject to the same six month timeline, the same six month review.

We would expect, at that point, a complete because we have answered, we don't submit until we answer the questions they have. So now we are out to the latter…second half of '19, there is a 60-day administrative review at that point to get a technical section complete letter, we hope. The 60-day review is kind of administrative, but that's the timeline then if we could stick to that gets us to FDA approval. At the end of '19, we launch right away with those validation batches, they are saleable product, we will build inventory, as we go forward for launch.

Kevin Ellich
Excellent, thank you.

Michael Brigham
Thanks, Kevin, appreciate it

Operator
Our next question comes from Sam Rebotsky of SER Asset Management. Please go ahead.

Sam Rebotsky
Yes, good afternoon, Michael. It's an accomplishment to finish the year. Now, as far as the Tri-Shield and the First Defense, do we find from the customers that have received both, are they happy, do you see more customers needing to get the product and what's their expectations?

Michael Brigham
Yes, that sort of the beyond vaccinations or the positioning of our product, that story, that product positioning is going very well. I mean people get it, I think it's something new, it's a new way of thinking as I said, a game changer, and as we visit farm-by-farm and try and train distribution to do that with us, people are really intrigued by the idea of yes, one less needle. So, I think clearly right now demand is outpacing supply, and so with that sort of market feedback on the good side

of…there is a good side of a backlog as opposed to just sitting here with a lot of product that wasn't moving at the launched price point. We are scrambling, we are pushing hard to catch right up and meet that demand. So yes, we've got some people that are frustrated because the supply is under the demand, but I mean that's not a good thing. But it's less bad than the alternative. So I don't know if I answered your question, Sam.

Sam Rebotsky
Okay.

Michael Brigham
I think the question…but it's more we're in catch-up mode. We are pleased with the launch and we are over the first half of the year we are going to catch-up and keep…the sales team is just…they are having a lot of fun and being very successful with that position of the new technology…positioning of the new technology.

Sam Rebotsky
So as far as the supply, we feel we are at the proper quality and it just…to manufacture more you have the proper size facility. Previously with the First Defense we thought we could sell $20 million and we had inventory of $2.7 million at September, which I assume was mostly the First Defense. So have we reduced that number at December 31, and I guess…I believe we have solved the problem or on the way to solving the problem to get the proper way to manufacture the Tri-Shield and increase the production.

Michael Brigham
Right, yes and yes. So the facility is not the limiting factor. I mean, I can't imagine…we would be in a really bad position if we hadn't invested in that doubling of capacity. So we need every tank, every freeze dry run, every square foot we have. And so that double in capacity is…I wouldn't want to be starting that investment right now or we'd be talking about a much longer time…much longer timeline to catch-up. So the facility is good and the technology is better and now with the feedback that this is the right price point, this is the right technology, there is value in the product, now we just double down and running through like I said from a vaccine to a cow to a cheese tank, to a finished dose…five or six months. We just got to fill that pipeline…fill that production pipeline.

Sam Rebotsky
Well, that seems reasonable. When you are bring a new product that takes a while, it doesn't happen overnight. Now with the two members of the board of directors, Bobbi who was there before, but Mr. Rosgen up in Calgary and you are speaking of hiring additional people to sell overseas, and with Mr. Rosgen being in Canada, do we see…once you can supply enough product, I guess the First Defense, to the extent you have enough product to supply the market for overseas, do you see that Mr. Rosgen helping ImmuCell get to sell overseas, or what do we see there so that we could sell more product?

Michael Brigham
Yes, so, your question makes sense, just one clarification. We are not going to hire people in these international markets, but we are more aggressive and more active at finding partners or consultants that can get us there. We will always…our sales team will be North America-based and we will work with partners that have that sales and marketing presence in these other territories.

So there is the regulatory challenge and then the sales challenge, and we will look to do that with consultants, not employees.

Steven Rosgen is a great add to our board. We are pretty successful up in Canada where he is based through Kane. So I'm sure he can help there, he's definitely not going to hurt there, but that market is pretty…we are pretty well established there. I think what he brings more specifically is just a lot of years of expertise in new product launches branding, ag space branding. He's going to…he is jumping in a little bit late on the Tri-Shield launch, but working well with Bobbi on that as we go forward. And then, he will be right with us up and running as we get up to that new launch with the Nisin product. So good add for our board. The other independent member made room for getting Bobbi back on the board as a non-independent member, which has been important to me and to us and we are just getting started, but I'm looking forward to working with him.

Sam Rebotsky
Congratulations, Michael and for the whole ImmuCell team. Good luck. I'll step out and if there's…I may step back in. Thanks.

Michael Brigham
Okay, great, great. Thanks, Sam.

Operator
Again, if you have a question, please press "*" then "1." This concludes our question and answer session. I would like to turn the conference back over to Mr. Joe Diaz for any closing remarks.

CONCLUSION

Joe Diaz
Thank you, Andrea. And again, thanks to all of you for participating on today's call. We anticipate completing the audit of our financial statements and filing our annual report on Form 10-K somewhere around the end of March. We look forward to talking with you again at the conclusion of this current first quarter around mid May or thereabouts. So have a great rest of your week. And again, thank you for taking the time today.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.