

Zomedica Corp. (NYSE:ZOM) Q2 2023 Earnings Conference Call August 10, 2023 4:30 PM ET

### **Company Participants**

Larry Heaton - Chief Executive Officer

Peter Donato - Chief Financial Officer

### **Operator**

Good afternoon, and welcome to Zomedica's Second Quarter 2023 Earnings Release Call. As a reminder, this call is being recorded and all participants are in listen-only mode. The call will be opened up for questions and answers following the presentation.

On today's call are Zomedica's CEO, Larry Heaton, and CFO, Peter Donato.

Before we begin, the company would like remind everyone that various remarks about future expectations, plans, and prospects constitute forward-looking statements for purposes of safe harbor provisions under the Private Securities Litigation Reform Act of 1995. Zomedica cautions that these forward-looking statements are subject to risks and uncertainties that may cause their actual results to differ materially from those indicated, including risks described in the company's filings with the SEC. Any forward-looking statements made on this conference call speak only as of today's date, Thursday, August 10, 2023, and the company does not intend to update any of these forward-looking statements to reflect events or circumstances that occur after today.

I will now pass the call over to Zomedica's Chief Executive Officer, Larry Heaton. Please go ahead, Mr. Heaton.

### **Larry Heaton**

Thank you. I'd like to start by thanking our shareholders for your support, wishing our prospective investors and analysts and others a good afternoon, and welcome all of you to the Zomedica's second quarter 2023 earnings release call.

On this call, I'll be providing an update on the overall business. Then, Peter Donato, our Chief Financial Officer, will walk you through our financial results. After our prepared remarks, we'll open the line and the webcast to your questions.

Earlier today, Zomedica released its financial results for the quarter ended June 30, 2023. As we reflect on these results, we continue to be pleased and excited with the progress the team is making, not only financially and operationally, but also towards our strategic priorities.

Financially, where our top priority is to grow revenue to the point where we are cash flow positive, we saw considerable growth on a year-over-year and quarter-over-quarter basis. Revenue for the second quarter was \$6 million, a 43% increase over the second quarter of last year, driven by organic growth within our PulseVet and TRUFORMA platforms, and the inclusion of our Assisi and VetGuardian products, which were not part of our consolidated figures last year. The \$6 million in revenue generated in the second quarter also represented a \$500,000 or 10% step-up from the first quarter of this year, and represented not only our best second quarter ever, but also our second best quarter of all time.

TRUFORMA continued to show increased utilization and adoption, producing a 98% increase over the second quarter of 2022. We were also pleased with the 14% year-over-year growth in our PulseVet products as we continue to penetrate the small animal veterinary market.

Overall, since our acquisition of Pulse Veterinary Technologies about 21 months ago, we've grown the installed base of PulseVet systems over 50% to over 1,800 installations. This is important since this system is a razor and blade model, where the consumable trodes produce substantial revenue for the company, averaging approximately 60% of total PulseVet revenue. The trode consumable revenue is up 21% from second quarter of last year, which bodes well for future revenue growth.

We continued selling the VetGuardian zero-touch vital signs remote monitor, which launched in January, and we're encouraged by the market's response. On May 8, we announced that we have exercised our option to acquire Structured Monitoring Products, the makers of the VetGuardian system, and expect to close on this acquisition soon, subject to the completion of due diligence. We believe this transaction will enhance Zomedica's ability to bring the

VetGuardian groundbreaking touchless monitoring products to clinics around the world. And this acquisition also furthers our efforts to improving margins as we will be transferring manufacturing to our facility in Roswell, Georgia.

Overall margins remained strong at 67%, slightly down from Q1 due to costs associated with our TRUVIEW launch, our TRUFORMA transition, and our efforts to fortify the supply chain to keep up with expected demand. We expect margins to return to historic levels in the coming quarters.

While we continue to invest in R&D and sales and marketing to grow commercially and through integration of acquired products, we are pleased to see increasing leverage developing on the G&A line as we continue our journey towards cash flow positive and GAAP profitability.

Strategically, we continue to look for M&A opportunities that meet our rigorous internal financial and strategic hurdles, all while adhering to our five pillars, which are: improving the quality of care for the pet, the satisfaction of the pet parent, and the workflow, cash flow, and profitability of our veterinarian customers.

We used our first wave of acquisitions to build our commercial infrastructure and provide our salespeople with compelling products to establish the Zomedica brand as an innovator in animal health. Now we are focused on acquisitions that will be accretive to earnings from the outset.

Achieving our strategic priorities requires a combination of growing revenue, efficient manufacturing that produces substantial margins, and investing in commercial capabilities to enable both organic growth as well as growth through acquisition. This means that we will be increasing R&D spending over last year's levels as we transition the development of new TRUFORMA assays from Qorvo to Zomedica. We will be both compensating Qorvo for transition services and also building the internal R&D team at Zomedica. We will be both compensating Qorvo for the development of assays already underway, equine eACTH and non-infectious GI, which are expected to launch later this year, and also beginning development of the next wave of TRUFORMA assays by our own team. Looking ahead, our current assay development costs will be significantly lower than what we've been paying historically. But for this year, we will see increases in overall spend for R&D versus 2022 levels when we outsource R&D totally.

Similarly, as we continue to build the sales organization and execute marketing programs, we'll continue to see increases over the level seen in 2022, when we were first building our commercial infrastructure, but we expect the levels that we are at now to remain fairly steady, aside from expansion of the sales team itself. We're committed to achieving positive cash flow and profitability and see the steps we're taking now as essential in hitting those objectives as expeditiously as possible.

In closing, we're very happy with what we were able to achieve during the second quarter. We look forward to building on this momentum as we continue to be very optimistic about Zomedica's future.

And with that, I'll hand it over to our Chief Financial Officer, Peter Donato, who will take us through Zomedica's second quarter 2023 financial performance and provide additional thoughts on what to expect for the rest of the year. Pete?

**Peter Donato**

Thank you, Larry, and good afternoon, everyone.

Revenue for the second quarter of 2023 was just over \$6 million, an increase of \$1.8 million or 43% from the second quarter of 2022. Our organic growth was 16%, with the rest coming from acquisition/integration of Assisi and VetGuardian product lines. We are happy to report that roughly two-thirds of our \$6 million in revenue came from recurring consumable revenue. In addition, achieving Q2 2023 sales in excess of historical averages is encouraging, given that our second quarter typically represents our second lowest revenue quarter for the year and our first half of the year typically represents about 42% of our annual sales.

Revenue for the first half of 2023 was \$11.5 million, an increase of \$3.5 million or 44% from the first half of last year. This increase was primarily driven by the inclusion of our Assisi, Revo and VetGuardian products that were not part of the consolidated figures last year.

PulseVet continues to grow organically, producing a 14% over the second quarter – 14% increase over the second quarter of last year and an 11% increase over the first half of last year. This reflects an acceleration in growth from Q1, fueled by high margin trodes and consumables.

We believe PulseVet sales will remain strong through the end of 2023, especially given the seasonal step-up observed -- usually observed in the back half of our selling year, and we have continued efforts around developing this small animal market.

TRUFORMA generated a 98% increase in revenue over the second quarter of last year and a 145% increase over the first half of this year. This was driven by organic growth and our cortisol, TSH and TT4 assays and from our new assays launched last year, fT4 and eACTH. We believe the growth seen with TRUFORMA will continue as we continue our investment in the development of additional assays, including the first assay for horses and a panel of assays for non-infectious GI disease that will -- that have planned launches later this year.

Assisi brought in \$1 million of incremental second quarter revenue and \$2.2 million of incremental first half revenue that was not present in the respective periods last year. We continue to leverage our communication and marketing networks as well as new distribution channels and expect the Assisi brand recognition and awareness to increase, resulting in positive revenue growth for the balance of 2023.

We have seen considerable interest in our VetGuardian zero-touch vital sign remote monitoring system and expect to increase revenue as we ramp up introduction of the product through our direct sales force in U.S. animal health distributors that now include Covetrus, Patterson, Midwest and MWI as we enter the third quarter.

We're very excited about our TRUVIEW digital microscopy platform that we launched at the tail end of the second quarter. Early feedback is consistent with macroeconomic trends showing a strong interest in the product's fully automated slide preparation designed to significantly improve veterinary practice workflow as well as reduce the number of unreadable images due to suboptimal slide preparation.

In general, we expect revenue to increase in subsequent periods, benefited from the expansion of our product lines, our recent acquisitions, and our increased investment in sales, marketing and related commercialization efforts. In addition, sales are expected to increase sequentially and hit their historical highs than they have in the past in fourth quarter.

Our gross profit for the second quarter of 2023 was \$4 million, an increase of \$1 million or 33% from the second quarter of 2022. Our margins remained strong at 67%, even with one-time items, and we expect them to return to historically higher levels in the coming quarters.

Our operating expenses were up \$1.9 million or 21% from the second quarter of 2022.

Research and development expenses for the three months ended June 30, 2023 were just over \$900,000 compared to just over \$300,000 for the three months ended during 2022. That's an increase of about \$600,000 or 200%. The increase was primarily driven by the continued buildup of internal capabilities to develop, test and manufacture our next generation of TRUFORMA and other diagnostic products. When backing out one-timers, R&D expense would be about \$600,000, up about \$300,000 or 100% from the second quarter of last year. This is consistent with Larry's previous comments and relates almost exclusively to headcount increases that were associated with acquisitions as we expect to ramp up our Diagnostic segment.

Total G&A for the three months ended June 30, 2023 was \$9.9 million. This compares to \$8.6 million for the three months ended last year, or an increase of \$1.3 million or 15%. The sales and marketing portion of the total \$9.9 million G&A spend was \$3.1 million or approximately 31% of the grand total of the SG&A spend. This compares to \$1.4 million for the three months ended June 30, 2022, or approximately 16% of last year's total S&A. The increase in the second quarter was primarily driven by funding our commercial efforts that increased significantly over the first half of 2022. The remaining portion of the \$9.9 million SG&A line relates to non-commercial general and administrative expense, and this totaled \$6.8 million for the three months ended June 30, 2023. This compares to \$7.2 million for the second quarter of last year, and a decrease of \$400,000 or 6%. I'm pleased to see that we are seeing leverage on this – on the administrative portion of this costs category, even with the increased growth in integration expenses that we've been talking about.

The operating loss for the second quarter was \$6.7 million, up from \$5.9 million a year ago, but down from \$7.5 million recorded in the first quarter. When adjusted for one-time items, primarily associated with our Qorvo TRUFORMA related transition and adjustments, and other adjustments to Revo earnout liability, our adjusted operating loss fell to just over \$6 million.

Net loss for the three months ended June 30, 2023 was \$5.3 million or \$0.005 per share. That is flat to the net loss of \$5.3 million and again \$0.005 per share from last year's second quarter. Adjusted for one-time items, you can see that the \$0.005 per share is lower.

Non-GAAP EBITDA loss, which includes adjustments for stock compensation, for the three months ended June 30, 2023, was \$3.7 million, compared to a loss of \$2.7 million for the three months ended last year. When adjusted for one-time item associated with Qorvo and TRUFORMA, our transition to a new CFO, adjustments associated with the Revo earnout and other one-time consulting work, our adjusted non-GAAP EBITDA fell to about \$3 million. While this loss is slightly greater than last year, it can be attributed almost entirely to increased headcount. We are up about 40 people from a year ago. And keeping in mind, during that time, we were very early in the process of building the company's commercial and operating infrastructure.

Moving to the balance sheet. Our balance sheet remains strong with cash, cash equivalents and available for sale securities of over \$142 million at the end of our second quarter this year compared to \$187 million last year's second quarter and just under \$148 million at the end of this year's first quarter. The decrease in cash is primarily driven by the acquisitions of Assisi and Revo platforms, Qorvo-related transition payments, and general operating activity. Our cash burn for this quarter was just under \$3 million when eliminating one-time items for investments, acquisition-related activities and other one-times. The burn rate is consistent with my previous guidance and with both expectations in prior periods. We should see improvements in the burn rate as the year progress, absent any additional one-time investments later in the year.

I'll now hand the call back to Larry.

**Larry Heaton**

Thanks, Peter.

So, we had a very strong and record-breaking second quarter. We were able to grow revenue by 43% as we continued to sell more of our established TRUFORMA and PulseVet products, while at the same time benefiting from the sales coming from our Assisi and VetGuardian acquisitions.

With focused marketing and commercialization efforts increasing brand recognition, launches of our VetGuardian and TRUVIEW products, the release of new TRUFORMA assays a little bit later this year, along with expected efficiencies coming through our Qorvo transition work, and the centralization of manufacturing and distribution capabilities to our facility in Georgia, we believe the future is bright for Zomedica.

Looking into the remainder of 2023, we'll continue to work diligently to bring Zomedica's suite of world-leading products to an even greater number of veterinarians and their patients.

So, let me end our call, or at least our prepared remarks, part of it, thanking those of you that have been supportive of Zomedica, including animal health professionals and pet owners worldwide, along with the many shareholders of Zomedica securities.

With that, I'm happy to open the lines for questions.

### **Question-and-Answer Session**

#### **Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

[Operator Instructions] At this time, there are no questions in the queue. Please proceed with any webcast questions.

#### **Larry Heaton**

Absolutely. So, the first one is from, like I say, we won't name them, right? Yes. The first one is, what does the company's debt to income ratio look like?

Peter, that's an easy one.

#### **Peter Donato**

Yeah, we don't have any debt, right? So, we do -- we actually have an operating loss. So we're in a loss position, but we don't have any debt. So the minute we turn profitable, that'll be a very favorable ratio for us. And as you can see, with \$142.5 million in the bank, I think we're in pretty good shape...



**Larry Heaton**

Yes.

**Peter Donato**

...from liquidity perspective.

**Larry Heaton**

So you'll see a little bit of debt on the balance sheet, that represents lease obligations for our facilities. And actually, some of those facilities we acquired along with the acquisitions of Assisi and Revo, and we're actually in the process of trying to see if we can settle those out. So, our modest amount of debt, which is lease obligations, will actually go down as we move forward.

**Peter Donato**

Yes, it'll go up slightly and then it'll go down. And our 10-Q, which we filed earlier today, has a nice table in there that highlights that. So, you can do your own math.

**Larry Heaton**

The next question is regarding -- the question is just buyback, the period.

I don't know if that's a question or a request. But in any event, I'll just say the same thing that we've said up until now, which is that, we're very much in a growth mode. We see significant return on investment of our capital, both to generate organic growth and also to acquire companies and product lines that will serve the company and its shareholders very well in the quarters to come. So, at this point, we are not considering doing a stock buyback. Does not mean that we will never consider it. But I would suggest that we would not be doing. You should not expect something like that until we are cash flow breakeven.

Let's see. The next question is, what percentage of market capitalization has been achieved in Europe?

And I will say not nearly enough, right? I think the international market represents significant opportunities for us to grow to increase our rate of growth, which does not say we're not operating internationally, we are. About 25% of our revenue -- of the revenue from PulseVet when we acquired them was international and about 20%-or-so of Assisi revenue historically has been international. We have a wholly-owned subsidiary in Japan. We have a small sub in Switzerland. We have distributors in Europe and South America and in Asia Pacific. And right now, those distribution outlets have been limited to PulseVet and Assisi.

As we complete our diligence with VetGuardian and look to the future, it's our expectation that we'll see to market that product and get it overseas. And we are in the process just now of qualifying the TRUVIEW device with CE Marking to be able to market that overseas as well. So we have a significant upside opportunity, but we are currently generating about, I would say, somewhere between 20% and 25% of our revenue internationally.

Next is, when will you sell throughout the U.S. with salesman? Well, I'll update that for today's society with salespeople. And are more salespeople being added, especially with a good quarter coming up?

Yeah. So, we currently have a sales -- direct sales force of around 30 territories. In addition, we have inside sales reps that cover everywhere that's not a territory, right? So, you can imagine there are places where it's less populous and we don't have a direct rep there, and those are covered by inside sales reps. We also have a team of professional services veterinarians that are available across the country or clinical questions and for support, dinner programs, things like that. Now, when we were just selling TRUFORMA and PulseVet, we were 100% direct. As we acquired Assisi [indiscernible] on that product, that product is essentially 100% through distribution or online.

We have recently put the VetGuardian product through distribution. As Peter mentioned, we -- during the second quarter, we worked with various distributors, he named them off, and they are now carrying the VetGuardian product line. And we are watching that very closely because that then gives us enough data to be able to decide whether we should put our remaining products through distribution as well. There's a little bit of a margin give up, but if the sales are -- if we're able to really accelerate sales growth, then that would be a good decision.

So, I guess what I'm saying is there is no veterinarian in the country today that is not able to buy our products and to be serviced by either us, a distributor partner or an online representative. We do, actually, also, though, plan on adding a few sales territories as appropriate and opportunistically.

All right. Next question. On the previous call, you said next year, you were expecting the cash flow to breakeven. Are you still holding that same presumption?

That's an easy one. Yes. Peter, you might want give some CFO slant to that?

**Peter Donato**

Yeah, I think that's right, Larry. I think we're sticking to that guidance. I believe it'll be the second half of next year. As you think about cash flow breakeven, we have over \$12 million annually, maybe even higher than that in non-cash expenses. So, if you kind of extrapolate at 70% margins or better and add that to last year's sales, you'll get a number in the mid-\$30 million-s, right, an annual sales number at \$35 million, \$36 million, \$37 million. While we're not in position to give formal guidance for next year, I think you can extrapolate how we're doing growth rate wise with the addition of new products and see that we're a flight path to be profitable on a cash flow basis in second half of next year and then on a GAAP basis thereafter.

**Larry Heaton**

All right, that was a better answer than mine. A lot more words, but said the same thing. Yes. Here's a quick question. Can you ever use TRUVIEW in the human market?

And the answer for that is, again, easy one. Yes. The TRUVIEW -- we own the TRUVIEW technology and intellectual property outright. And our plan is that, as we establish a foothold in the veterinarian market and establish some data around it and get the AI built out and so on, that we would, in some way, monetize the human application for the TRUVIEW device, whether it be licensing to one or to many scope manufacturers or to not nearly as likely, we would also have an opportunity to consider whether we would want to do it ourselves, but more than likely it would be a licensing opportunity.

Let's see. There's another question that's sort of common, which is reverse split, and I'll just repeat what we've said on each conference call before this, which is we have no plans to effect a reverse split. We understand that that's a very important question for people. And while there are reasons on both sides, at this point, we have no plans to do it. And even if we have plans to do it, let me just remind everyone that that requires two-thirds approval from our shareholders that would vote in that kind of a decision. And so, it won't – if we ever do decide it, it won't be us on our own deciding to do it, it would be us in conjunction with two-thirds of our shareholders saying that it was a good idea. And I don't think that would happen just now. So, again, not in our plan right now.

Someone else asked a question about where we expect to be in five years. And I would just say that, as a company, I would expect that we have much higher revenue. We continue to maintain really solid margins. Beyond that, I would say that our technology, all of it, is on the cutting edge of technology in animal health. And we intend to continue to refresh that technology, either with extensions of our product line or additional features. For example, the TRUVIEW we've launched it. We're now working rapidly on developing an AI component to the device, and we'll roll that out as soon as it's ready. We expect to continue to be at the cutting edge of technology, so we think we'll always be relevant to veterinarians.

Frankly, our goal is for – when veterinarians hit a major trade show, over our booth, they'll make a beeline for it, because every time they come and see us, we have something for them that is helping them not only improve the quality of care for the pets and the satisfaction of the pet parents, but also is increasing their cash flow, workflow and profitability.

I recently visited in the field with some veterinarians and the sales rep and went into an account and they had all of our existing products and wanted to know what was new, what was next. And before we left there, they had ordered the TRUVIEW, and they just got it installed yesterday, and they're thrilled with it. So, we want every veterinarian to have that same experience.

Here's one. How are the shows going? Are new customers being added on a regular basis?

Yes. I think we invested in the infrastructure necessary to be able to do these trade shows, because it's an important part of the purchasing that veterinarians do. And so there was an

expense at first. It was only sort of shouldered by TRUFORMA and then TRUFORMA and PulseVet, and now all of the other products are seamlessly added into our trade show booth, in our speaking events and so on and so forth. And so, we're starting to get some considerable leverage in there -- leverage there on the marketing side.

A question here. Most of the quarterly revenue comes from therapeutic products. When do you expect diagnostic products to generate significant revenue growth?

Well, they're certainly generating significant growth in terms of a percentage as they are taking off nicely. But the revenue growth, it's all -- the growth to date has been off of a small base. So remember in diagnostics and animal health, it's industry standard to place the instrument at no charge, and then to charge for the consumables that are used. And so with our TRUFORMA, that is what we do. And then, with the TRUVIEW, that is also what we're doing, but a little bit differently with the TRUVIEW.

But with TRUFORMA, I would just say that that we've had very nice uptake in the TRUFORMA instruments being brought into vet practices. And the growth in the revenue speaks for itself. And yet I will also say that TRUFORMA -- we established TRUFORMA as really solid, incredible technology, market-leading technology in terms of the accuracy of the test. We established that with some tests that are like really difficult to do in the clinic. None of the -- all the one of tests that we do with TRUFORMA, you can't do it at any other device at the point of care.

Having established that now with our next assay or assays, I should say, with non-infectious GI, which we expect to launch in the fourth quarter, these products are not only not available at the point of care, which is a big deal, but they're also some of the most commonly run tests by veterinarians. Because these, the three assays, Cobalamin, cPL, and Folate, these assays are what a vet needs to run when you bring your dog or cat to the vet because it has diarrhea or is vomiting. And that's one of the top three reasons why people bring their pet to the vet on an emergent basis. So, we expect a couple of things. One, we expect all of our existing installed base to quickly bring those assays in. And we expect that that will actually accelerate our -- the growth of our installed base. That's on the companion animal side.

When you get to equine side, we're super excited, because the next assay, which we'll be launching, which we currently are in clinic with as we sit here today, we're currently in the clinic, having them do the very first -- have the very first experience with it. That's part of our process. This assay is for horses. And it is for the diagnosis of a disease called equine Cushing's disease, or PPID. Cushing's disease for a horse is not a good thing, right? Horses that are over 12 or 13-years-old, they're susceptible, highly susceptible to Cushing's. If they get it and it's quickly diagnosed, it could be easily and straightforwardly treated with medicine. On the other hand, it's hard to diagnose. And if they miss it, then the horse could develop laminitis, which in many cases means they get put down. But even if they survive, it's a very rough experience for the horse. They'll never be the same.

Well, the screen for equine Cushing's disease is endogenous ACTH. Now today, if you wanted to do a screen for endogenous ACTH, you would have to capture this -- you'd have to get the sample, freeze it as soon as it comes out of the horse, keep it frozen, and send it to only one facility in the country, and that's Cornell. Whether you send it to IDEXX or a lab, and then they send it to Cornell or you send it directly to Cornell, it's a week or so before you're going to get it back, and it's not really widely used.

On the other hand, our eACTH for horses is something that they can do stall site. We'll provide the equipment at no charge. We will charge them a fair price for the assay. They'll double that and charge a fair price to the horse owner. And when you think about it, I can't imagine a horse owner saying no to a reasonable price for an assay once a year to help them keep their horse from getting Cushing's. I can't imagine a vet not offering it to all of their equine customers, because they'll be able to make a nice amount of money with no capital outlay.

And so, when we think about the market size, there are 2,500 equine vets in the country. And about 1,250 of those equine vets, about 150 times a year, because that's the average usage, pick up currently -- pick up a PulseVet device and provide shockwave therapy to a horse. So they know PulseVet, they know Zomedica, and there's such a large pool of horses. There are 5 million horses over the age of, well, thirteen years of age or older in the United States. So huge opportunity for us to grow that business.

Now with TRUVIEW, we charge a monthly fee for them to have the instrument, that covers their first 100 slides that'll be automatically processed by the device. And then thereafter, we charge a certain amount per slide. And then each time they get a pathology report, we charge the industry sort of standard fee for that pathology report.

So, what all that means is that when we put -- for example, we put some devices out in June, we won't see revenue for those. And because we bill in arrears, we won't see revenue for those until July, and then the ones in July and August and so on and so forth. So it's going to take a little bit of time for that revenue to build as we build the installed base. But as we look to the future, it's going to be interesting to see whether PulseVet continues its historical dominance of our revenue or whether or not we're able to surpass that with diagnostics. And that's -- I didn't even get into the VetGuardian, but I think probably that's enough on that question.

I'm not seeing here. Have you done any sales in Canada? Vets I spoke to in Canada haven't heard of Zomedica even in Alberta where we're incorporated.

So, we do have sales of PulseVet and Assisi in Canada, and also TRUFORMA in Canada, but not a lot. We don't have a representative there. We don't have a salesperson there. And we don't have a national distributor. But I will tell you that, I met at a conference, gentleman who is consolidating equine practices, they have 10 or 12 of them or so in Canada, and he's planning on doing that same thing in the U.S. And I was really impressed with them because, on their slides that they were showing at this conference, they were showing one of their technicians using PulseVet on one of the horses. And so I made his acquaintance. He's the CEO. I made his acquaintance. And we talked a little bit, and I told him about the equine Cushing's disease screen, that we have coming up, and they are now participating in that -- the early clinical experience gathering. So, I expect that we'll see more of an increase in business in Canada as we move forward.

One question here is, do you have financing options available to help vets acquire the product?

And the answer to that is, yes, absolutely. We don't finance directly ourselves. We could, but we haven't had a need to. So, with TRUFORMA, no capital outlay required. With TRUVIEW, it's a certain amount a month, it's a very reasonable amount. With Assisi, there's no need to finance it.

With PulseVet, which we sell the generator for \$32,000, and even with VetGuardian, which we sell for \$4,500, we do have a third-party arms linked to us finance company. So -- and it's a really good deal for the vet.

So, for the PulseVet, there is no money down. There's no payments for six months. And then for the next six months, it's \$100 a month, literally \$99, but \$100 a month. So the first year, they're out \$600. Now our experience with the small animal market has been that they're picking up the PulseVet on average 100 times a year. They're going through two trodes or two handpieces, that each have 50 treatments in them. So, as they buy those trodes, we know how many treatments they've done. And so, we're seeing that in that first year that they could do 100 procedures at \$300 a pop, that's \$30,000. So really within a year, while they've only paid \$600 in cash out, they've generated almost enough cash to pay for the whole thing, lock, stock and barrel, and that financing program doesn't have an early prepayment penalty.

Same thing with VetGuardian, typically they're buying the machine. It's only \$4,500, but there is an annual subscription beginning in second year. So, they're bundling three years of subscription in the machine and financing it over three years. And so that's been working out really nicely.

Let's see. Why are the assays taking so long to come out?

That's a question that I, myself, asked when I first got here. And while I won't really belabor all the reasons up until now, I will tell you that we have not had the ability until this year to develop our own assays at our own pace. And that's the reason why, in January, we renegotiated our deal with, Qorvo -- Qorvo Biotech, to where we have the ability now to develop our own assays to manufacture those cartridges that include the assays and to also manufacture the instruments.

Now as I previously announced, we announced this in January, and we began a process, which will go through into next year, during which they're continuing to manufacture. At the same time, we've ordered the equipment. The equipment will be installed in Georgia later this year. They're training our people on the manufacturing process. They're training our people on the R&D process. We've hired people to do the R&D. We've begun working on the next wave of assays. They're finishing up the assays that they're doing.



All that means that our OpEx is higher this year. Our margins are lower this year, because of the transition where we're basically paying them to do things, hiring people for ourselves, and then paying them to train our people. All mean a higher cost this year and very early into next year, but well worth it, because once we get beyond that, we'll spend a third to 50% developing an assay of what we were developing before. More importantly, unlike, our partner company, which also had a human health business and was kind of getting the lion's share of the focus, our focus will be completely on assays for the vet market. And so -- not so much why we took so long, but rather what can we expect going forward, we'll be launching an assay this quarter for the equine market and next quarter for the human market.

Let's see here. We all know market manipulation is a real thing. Is the company worried that short sellers are keeping the stock at a flat rate?

Peter, that one's for you.

**Peter Donato**

Yes. No, I don't -- no, we're focused on executing the business here. Folks, we'll let the market determine what the share price should be and go from there. Clearly, we're going to put things out there that make sense to explain stuff to shareholders. But as Larry -- and you can tell by our prepared remarks, the level of focus, we are on driving top-line growth and profitability. So that's what we're focused on. And as a long-time finance professional, I think the markets generally handle themselves if you execute.

**Larry Heaton**

All right. So, there are several questions on new acquisitions. And without trying to give away whatever, I would say that as this year, right now, we are, as you know, completing the diligence on Structured Monitoring Products. That's a big product for us. And we anticipate moving forward with that. And so that would be one that we would finalize.

And I think I mentioned earlier, when we did our first wave of acquisitions, we were building the infrastructure and we're also getting a bunch of products that were compelling to vets and putting them in our bags. So, at this point, having done that, right, I think we're all should be on

the same page when it comes to we have built quite an organization at this point, we now are setting our sights a little bit higher in terms of what the impact on the company will be, right? So, we're looking for things that have revenue currently, margins that are reasonable or attractive, things that will, of course, meet our five pillars, but also things that will be accretive to earnings, so that we can sort of accelerate our attainment of profitability. Not to say that we won't look at things that require some development, because we've -- I think we've demonstrated that we're pretty good at that, but our focus right now is on those things that will be accretive to earnings. And I really can't say really much more than that at this point.

And let's see. Let's see if there's anything else. What are some of the countries that you may consider for international markets?

Really any country that -- those populations sort of shares the same appreciation for pets that we do here in the United States, pets, dogs, cats or horses. There're certainly countries where resources are so scarce that they're not looking to spend a lot of time or a lot of resources on their pets. But there's lots of countries where they're very avid in the horse racing and also in their consideration of animals. And so there's plenty of them out there. It's a very target rich environment for us as we consider new companies as we move forward.

Someone said...

**Operator**

Excuse me. We do have a question in the dial-in queue.

**Larry Heaton**

Sure.

**Operator**

Question comes from [James Brogna] (ph), who is a private investor. Please go ahead. Excuse me, Mr. Brogna, you may proceed with your question.

**Unidentified Analyst**

Hello? Hi. I'm sorry. I was having trouble with the phone. Larry, I was just wondering, is there going to be more updates more frequently? We've only seen, I think one piece of news in the last couple of months. Is there anything else to report on as we go along?

**Larry Heaton**

I think anytime that there's news that's significant, we'll certainly share that with you. We issue press releases whenever we do anything that's material. So, I would say, as we do things that would be appropriate to issue a release for, we will. I'd also -- we also speak frequently at investment conferences to attract new investors to the company and provide education. All of those are announced. I think we have one coming up here a week or so at the Sidoti Conference. There's a webinar that our IR firm is going to be hosting. They did another one recently. We've done two or three conferences within the last three months or so. We expect to continue to do those as appropriate. So, I would say, at any point, we have news -- I'm not -- we're not looking to just put something out just because we haven't put something out in a week or two.

**Unidentified Analyst**

Got it. Very good, Larry. I think you're doing a good job. I'm looking forward to the future.

**Larry Heaton**

Thank you very much. And I hear someone that might not think the same thing. It says, Larry said all these good things, but why don't we see insiders buy any shares?

So, I would say, that over the last -- first of all, insiders here at Zomedica are not allowed to buy shares except during certain periods of time. So, 48 hours after earnings are released, through two weeks before the end of the quarter, we're allowed to buy shares, unless we have knowledge of something that's happening that's not known to the public, right? So if I know even if it's in the window and I know that we're about to close an acquisition, I can't buy shares. The first time the window opened for me as a individual was back in May, and I took the opportunity to purchase some stock on the open market.

As you probably know, if you followed our filings, I have a boatload of options. So it's not like I necessarily need the extra shares. But I have, three grandchildren and one on the way. And so I

thought 100,000 shares would split nicely into 25,000 each. So that they have some money to buy a car or go to college when they're older. They're young, right? So I think Johnny Powers on our Board of Directors. He actually beat me to it and bought some shares at similar amount the day before.

I can't speak for the rest of our insiders other than to say that one of the things that is important to me and I would hope would be important to you all as shareholders is we have issued stock options to all of our employees, so that their incentives are totally aligned with our shareholders' incentives. If it's good for one of our employees, it's good for the company, it's good for our shareholder as well. And so they do have the opportunity to basically own those shares over time. And so that might be a reason.

But so limited windows being open, is one.

**Peter Donato**

That's the primary reason.

**Larry Heaton**

Yes. And I'm going to give Pete a kick next time the window opens and say, hey. But beyond that, I think it's just individual discussion. But let me assure you everyone here is looking for that stock price to appreciate. And I see a lot of questions about when will the stock price go up or when will it hit this level and so on and so forth. And honestly, I mean, I'm not a fortune teller. I can't look into the future. My answer would be not soon enough. It would be when more people [indiscernible], it would be some kind of a flip answer, and I don't want to do that. Other than to say that everybody here is working very hard and we'll be -- we'll experience the same kind of reward that our loyal stockholders do as that share price increases over time.

There's some questions about social media. Are you increasing your social media presence, so animal owners will question their vets if they have your products? And how much do -- how much does it play a role?

And I would tell you that we're very active in social media. It's one of the things when we acquired Assisi. That's one of the reasons that we appreciated that acquisition, because it

brought over a marketing team that had a very strong social media presence. So we're very active on different forums. So, we do a lot of things on Instagram. We do things on LinkedIn. We do things on Facebook. They even have some stuff on TikTok. I can't -- I've never seen those, because I won't download TikTok on my phone. But other than that -- and we do see vets seeing this and coming to us through our web channels.

So, I mean, for me personally, I have the emails when we get leads that come in from the web unsolicited, right? So it's not leads from a trade show or leads from a webinar that we did, but unsolicited leads that come in, those come -- the number of people get them, and they know how to act on them and get them to the salespeople and follow them up. I have them come into my email box as well, because I just like to see what's happening out there, what's the demand. And I'm very pleased with what we see. And I can call up my VP of Marketing and say, "Hey, did you just do something within the last few days? Because we're seeing a lot of leads for TRUVIEW. We're seeing a lot of leads for VetGuardian. We're seeing a lot of leads for PulseVet, and so on." So, we're very active in social media.

Of course, the different platforms are done different right? So, at LinkedIn, it's more trying to get to the vet, whereas on Facebook and Instagram, it's more trying to get to the consumer. We have a significant presence with consumers, right? So, we're the official PulseVet sponsor of a lot of equine societies, barrel racing, quarter horse, the U.S. Olympic team and so on. That is all because we are appealing to and marketing to directly to the horse owner, so that they can then go to the vet and say, "I got to have this." And we're doing the same thing now with dog owners. I suppose we'll do it with cat owners, too. But I know of things that we're doing with dog owners, especially agility dogs and things like that. So, very active.

And one thing I will say for those of you that are fans of horse racing, in Las Vegas here shortly, there's going to be a race called The Run For A Million. And we are one of the sponsors of that. And in fact, our VP of Equine Sales and Client Education will be speaking at that event, which is, I guess, the toughest ticket to get in Vegas, for that period of time.

So that would be that. And I think, I'm not sure that there's -- I'm not sure that there's -- well, here's one. Any concerns about delisting because of the stock is below \$1? And are you concerned about being close to being out of compliance?

So let me say this. First of all, \$1 is not relate to -- is not relevant to us because we're traded on the New York American exchange. If we were on NASDAQ or on the New York exchange, then \$1 would be the threshold. But our threshold is \$0.20. So that brings us into the set. So, not concerned about being below \$1.

With respect to being close to \$0.20, the way it works is that you need to close below \$0.20 for 30 days before you would get a notification from this exchange that you're out of compliance. And we have not been in that situation. And while we're close to it, I mean, we closed today close to \$0.21, between \$0.20-\$0.21.

**Peter Donato**

[indiscernible] above the threshold for quite a period of time.

**Larry Heaton**

Does it concern me? Yes, it does. It's one of those things that makes me come to work and look for ways, how can we accelerate revenue growth? How can we accelerate getting the cash flow positive? How can we better communicate to our shareholders? How can we do all of these things to build confidence? So I'd be silly to say I'm not concerned ever about it. But I haven't -- I don't have any reason to believe -- I haven't had any in a while to be acutely concerned about it. I don't know if that answers the question, but that's as close as I can get to an answer.

And I think that pretty much covers, right, what we're looking for. I think there's a number of questions, and I appreciate all of them. I appreciate your interest, I appreciate you being on the web, and I appreciate your concern and also your support of Zomedica. If you didn't -- if you have a question and you didn't get it answered, please feel free to reach out to me directly. We have a mailbox called [investors@zomedica.com](mailto:investors@zomedica.com), and I get those emails too, and so does Peter, who will give you better answers on some of the stuff.

So, with that, I would thank you very much for your participation in the call today and your support of Zomedica. I look forward to talking to you again next quarter or, to someone's point, sooner if we have news that we think is important for us to share. Thank you very much.

**Operator**

Thank you. This concludes your conference call for today. You may now disconnect your lines.