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Zomedica

Business Update Conference Call

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CORPORATE PARTICIPANTS

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Larry Heaton, *Chief Executive Officer*

Peter L. Donato, *Chief Financial Officer*

PRESENTATION

Operator

Greetings, and welcome to the Zomedica Business Update Conference call.

(Operator instructions)

As a reminder, this conference is being recorded.

It is now my pleasure to introduce Elif McDonald, Senior Director of Investor Relations. Thank you, you may begin.

Elif McDonald

Thank you Douglas, and good afternoon, ladies and gentlemen. Welcome to Zomedica's January 2024 Business Update Call. On today's call you will hear from Zomedica's CEO Larry Heaton and CFO Peter Donato.

Before we begin, we would like to remind everyone on this call that we will be making various remarks about future expectations, plans and prospects, that constitute forward-looking statements. These forward-looking statements are based on assumptions, and there are risks that results may differ materially from those statements. As such, Zomedica cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place undue reliance on them. We refer current and potential investors to the forward-looking information and risk factors sections of our public filings, available on SEDAR Plus at www.sedarplus.ca, and on EDGAR at sec.gov. Forward-looking statements made on this conference call represent Zomedica's expectations as of today, January 17, 2024.

Finally, we would like to remind everyone that all figures discussed on this call are in U.S. dollars. The numbers discussed today are unaudited, and we expect them to be finalized with the filing of our 10K later.

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

Larry Heaton

Thanks Elif. I'd like to start by thanking our shareholders for your support, and wishing prospective investors, analysts and others a good afternoon.

On today's call, I'll be walking you through a number of key agenda items, including an overview of our record 2023 revenue and operational performance, followed by a discussion about the proposed reverse split, and finally a review of what you could expect from the Company in 2024. We'll then open the line for Q&A.

Let's begin with an update on our recent performance. As announced earlier this afternoon, we just had the strongest revenue year in Company history, including a record fourth quarter, which is a reflection of our strategies and our ability to rapidly execute across each facet of the organization.

While these numbers are preliminary and not yet audited, revenue for the fourth quarter of 2023 is expected to be over $7 million, an increase of over 15% or $1 million more than our fourth quarter 2022 revenue of $6.2 million, and was highlighted by a record quarter in our therapeutics devices segment. Revenue for the full year 2023 is expected to be over $25 million, an increase of over 32% or $6 million more than our 2022 revenue of $18.9 million, primarily driven by an increase in therapeutic device sales, which grew 29% over last year, including an increase in PulseVet product sales and the addition of a full year of Assisi product sales. In the diagnostic segment, sales grew over 250% over 2022, primarily driven by an increase in Truforma product sales and revenue from the launches of the VetGuardian and Truview product lines.

Not only were we able to deliver record quarterly and annual revenue, but we did so while reducing our adjusted operating cash burn and maintaining a high level of liquidity. We expect to report over $100 million in liquidity at the end of 2023. This reflects the $11.4 million we paid to acquire Qorvo Biotechnologies in October, plus a few other one-time costs.

In line with past quarters, we'll report a more detailed explanation of our operating expenses when we report earnings, but we believe that our operating cash burn will be slightly better than our most recent quarters, and less than $3 million for the quarter.

Let's turn now to an update on the exciting new Truforma platform products launched during the last four months of 2023. In mid-September, we announced the launch of the equine eACTH assay for the Truforma platform. This assay enables equine veterinarians, in the clinic or stall-side, to diagnose equine Cushing's disease, known clinically as pituitary *pars intermedia* dysfunction or PPID, to diagnose it and then monitor positive patients as they titrate therapy initially, and then, annually or semiannually, test again for the rest of the horse's life. Accessing such a large and underserved equine market can make a significant contribution to our diagnostic segment in the near term, and it lays the foundation for an annual screening indication for the millions of horses at high risk for PPID. We've been very pleased with the early adoption rates for this new assay.

On the heels of the eACTH launch, in December we launched three new assays for noninfectious gastrointestinal conditions in dogs: canine pancreatic lipase or CPL, cobalamin or B12, and folate. We're now offering the last two of these assays together in one cartridge, which represents our first combination or multiplexed assays on the Truforma platform. The combination of these assays enables veterinarians, for the first time at the point of care, to perform diagnostic tests, make decisions, and offer appropriate treatment to patients for some of the most common reasons dogs are brought to the vet, like vomiting and diarrhea, and to make all of that happen before the patients and pet parents leave the clinic.

These new assays provide vets with novel, highly sought-after point of care solutions for some of the most common issues faced by horses and dogs, which in turn significantly expanded our addressable market opportunity for the Truforma platform.

Overall, we're very pleased with the growth we were able to deliver throughout 2023. The combination of strength across our existing portfolio, the anticipated adoption of these new products, and the future positive impact of our recently closed acquisitions has positioned us very well for the future. As we move forward, we continue to invest in our portfolio, to support our top line growth goal both organically and inorganically, while being mindful of our expense levels, in order to maintain progress on our path to profitability.

We will also continue to be opportunistically acquisitive, especially for immediate top line growth opportunities that do not delay our path to profitability.

I would now like to shift to a discussion of our proposed reverse split.

As you may have heard, we filed a preliminary proxy statement on January 5, and we have been following the rules and staying quiet, not soliciting votes, since then. But with the filing of our definitive proxy statement earlier today, we are confirming that we are pursuing an 80:1 reverse split, and asking for your support.

We spent some time during our third quarter earnings call explaining how the notice of potential delisting we received from the NYSE American exchange had accelerated our timeline for proposing a reverse split and outlining its practicalities. Given that the ball is now rolling, we wanted to remind you of, first, why we are pursuing it, second, how it impacts our shareholders, and third, the logistics around the process.

Let's start with why we're pursuing a reverse split.

At the highest level, we believe a reverse split can remove barriers that are potentially excluding certain groups of both individual and institutional investors from considering the purchase of Zomedica shares.

Now before continuing, I want to take a moment to thank our shareholders. We appreciate our current loyal retail shareholder base, and we've heard from some of you, maybe many of you, of your frustration that, despite Zomedica consistently delivering higher revenue, strong margins, new products and acquisitions quarter after quarter over the last several years, that you have not seen a higher share price. We appreciate you sticking with us, and would like to see your holdings increase in value. Through this reverse split, we are looking to strengthen our shareholder base by allowing new large long-term investors to take a position alongside you, many of them that share the same passion and love for animals that we all do.

Specifically, by adjusting our capital structure through a reverse split, there are a number of potential positive downstream impacts that we can take advantage of.

First is helping to appeal to a broader range of investors. Many institutional investors, investment funds and brokerage firms are prohibited by policy from investing or trading stocks below certain price thresholds, such as $5 or $1 per share. There are also individual investors who would not consider purchasing shares in a company that they consider to be penny stocks. We believe that a lower outstanding share count and a higher share price will increase the appeal of our shares for these individual and institutional investors, which in turn could increase ownership among investors with longer-term investment horizons, just as many of you have.

Along similar lines, an increased share price could allow Zomedica to be included in stock indices, many of which have minimum price per share requirements to qualify for inclusion. Inclusion in popular indices, such as the various Russell indices, increases demand for shares and facilitates investment by institutional and individual investors who track these indices.

In addition, a higher per share price could increase interest from the equity research analyst community, potentially expanding the coverage of Zomedica by these analysts, which would also expand the pool of individual and institutional investors who are being exposed to the Zomedica story.

Now, another factor which influenced the timing of our decision, and remember, when I took over as CEO a few years ago, we had already almost a billion shares outstanding, and we've been talking about the need to do a reverse split to reduce the share count since then. What's changed is really the timing.

A reverse split now would ensure compliance with the NYSE American exchange, which addresses the potential of being delisted. If we fail to comply with the listing requirements, the Company would be delisted and would no longer be able to utilize the exchange to sell its shares. Instead, investors would only be able to buy and sell shares in the over the counter market, where typically there is reduced trading volume, fewer buyers and sellers, and fewer regulations requirements, meaning buying or selling shares can involve a higher risk. In fact, if we are forced onto the OTC market, we are further limiting the number of investors that could actually trade our stock; and, worse yet, many current institutions that hold shares in Zomedica may be forced to sell those shares.

Now, as it relates to regaining compliance with the New York exchange, we have received a number of questions from investors about what our plans for the reverse split would be if we regained compliance organically.

So first, let's talk about what regaining compliance organically means. While it is completely up to the discretion of the NYSE exchange, our understanding from them is that what is required to regain compliance is that the average trading price over the most recent 30 trading days needs to be above $0.20 per share. So it is not a certain number of days in a row above $0.20, like 10 days or 15 days. It's the 30-day trading average that matters. Given that our share price has been trading considerably lower than $0.20 recently, and the number of trading days remaining before our special meeting date of February 28 to bring it into compliance, we believe it's unlikely that we regain compliance organically. Even if we did, however, we would still likely proceed with our meeting and shareholder vote.

Over the past two years we've spoken many times about our need to reduce the share count through a reverse split. Each time until last quarter, we've said that, while we need to do a split, our plan was to propose one when we became cash flow-positive and/or profitable. Our position changed when we received the notice of potential delisting from the exchange, just before that last call, and we shared that change in position with you then.

So, given that we believe that a reverse split is ultimately to the benefit of our shareholders, and we've made arrangements to accomplish that now, we would proceed, for all the reasons mentioned above, as well as our outlook for the future of the business. We believe this is the right move to create long-term shareholder value for all of our shareholders, that appropriately reflects our operational performance.

We believe that now is the right time to do the split. We are in a position of strength, in that we have grown revenues from zero in 2020 to $4 million in 2021 to $19 million in 2022 and over $25 million in 2023, and we're projecting significant growth for 2024 and beyond.

Our margins are strong, as we've built our manufacturing capabilities, and we've completed building the infrastructure of the Company to consistently grow revenues significantly in the years to come. While not yet profitable, we're burning a modest amount of cash and have a line of sight to profitability. With $100 million in liquidity, we're certainly not in a position of weakness with respect to our balance sheet; we're certainly not seeking this reverse split because we need to do a capital raise and dilute shareholders.

So, how does this impact you as an investor?

At the highest level, effecting a reverse split, in and of itself, does not impact your investment in Zomedica. The dollars you invested and your associated percentage ownership of the Company remains generally the same. In a reverse split, the total number of shares outstanding is reduced, and with the market capitalization of the Company unchanged the share price is proportionately increased. So, in an 80:1 reverse split the shares are reduced by a factor of 80 and the share price is increased by 80 times.

There is nothing inherent about a reverse split that changes the market capitalization of a company. Changes in market cap are completely determined by trading after the reverse split, and at least conceptually should be based on investors' outlook for the future of the business, if not immediately after then later, as both existing and potential new investors assess the Company's prospects going forward.

A simplistic example would be if you trade 25 pennies for a quarter, you have only one coin versus 25, but you still have $0.25.

Let me give you an example of how this split will affect me personally. I purchased 200,000 shares in the open market during the times that I've been allowed to do so by our trading policies and SEC rules. These 200,000 shares at, let's say, $0.16 per share are valued at $32,000. Following an 80:1 reverse split, these 200,000 shares become 2,500 shares, but the price per share becomes $12.80 per share, so my holdings are worth the same $32,000.

Also, when I joined Zomedica, I was issued options to purchase 10 million shares at a price of $0.52 per share, meaning that when the share price goes above $0.52 per share, I can buy the shares from the Company for $0.52 and then turn around and profit from the difference. The reverse split also affects options. So, the options to acquire 10 million shares become instead options, following a reverse split at 80:1, to acquire 125,000 shares, and the strike price, the price I have to pay for the shares to the Company, becomes $41.60 per share. So, for me to profit from these options post split, the price needs to rise from $12.80 to above $41.60 per share for me to be able to realize a gain.

All of the Company's issued stock options are treated the same. The number of options is reduced by 80 times, and the strike price is increased by 80 times. So, you can be sure that the incentive for all of Zomedica's employees remains aligned with our shareholders, at least those that are long and want to see the share price rise.

Now, even though in all of this we understand the apprehension some may feel about a reverse split, and data would indicate that some, many, stocks have performed poorly subsequent to a reverse split, for sure. However, after analyzing approximately 70 recent reverse splits of companies in the $100 million to $200 million market cap range, which is where we sit today, the average decline was less than 10% in the six-month period post reverse split. Now, this includes many examples of similar companies that actually traded up post reverse split. In particular, those with over $75 million in cash on the balance sheet, that achieved a post reverse split share price of over $10, have performed very well to date since their split. We have $100 million plus on the balance sheet, and this 80:1 reverse split would take our share price over $10.

Of course, look. We're aware that there are many, in fact actually the majority of companies who have done a reverse split and performed poorly afterwards. We believe that we don't fit the typical profile of a company doing a reverse split. We are a fast-growing well capitalized company with strong future prospects. As we have $100 million in cash and equivalents on the balance sheet, we're clearly not using the reverse split to raise capital under duress.

Because of this, and what we believe is a better operational profile, along with the potential increased institutional awareness, we feel that we may be one of the companies less negatively impacted by a reverse stock split.

Turning to some logistics on the reverse split process. Earlier today, we filed a proxy statement that includes all relevant information on the process. This action is subject to a special shareholder vote, which will be held virtually via a webcast on February 28, 2024. Shortly, you will receive your individual proxy materials from your financial institution, with details on exactly how to vote your shares. We would encourage you to review all the materials within the proxy, and ask for you to vote for the proposed reverse split.

Assuming the vote is in favor of the reverse split, it would become effective upon Board approval after the special meeting.

Shifting gears. We would like to provide insight into what you should expect to see from Zomedica in 2024. As we have continued to grow and our trajectory has become more predictable, we are now in a position to provide formal revenue guidance for the full year 2024. For 2024, we expect revenue in the range of $31 million to $35 million, an increase of up to 40% over the full year 2023 revenue of just over $25 million. Please remember our business is impacted by seasonality, with the first quarter being the lowest, and a majority of revenues coming in the back half of the year; we expect this year to be no different.

Bolstering our top line growth in 2024 will be a number of factors: the strength of our existing portfolio and recurring consumables revenue, driven by increases in our growing installed base; the investments we are making to grow our sales and marketing capabilities; contributions from a number of new products and new product features, such as AI functionality, that we expect to launch during the year; and expansion of our international distribution networks and sales.

Please note that this guidance does not incorporate any positive benefits from acquisitions we may make during the year. As always, any acquisitions would be carefully vetted through the lens of our five pillars, to enable additional top line growth, but importantly without delaying our pathway to profitability.

Twenty-twenty-three was a fantastic year for the Company. But we are extremely excited about what is to come in 2024.

Moving forward, we remain highly focused on execution of our plan to profitability, which includes a combination of growing revenue, improving the efficiency of our manufacturing, to expand margins, thoughtfully investing in commercial and development capabilities to enable organic growth, and continuing to evaluate acquisition opportunities that will support our vision for the future of Zomedica.

We appreciate your support as investors, and are laser-focused on implementing strategies to deliver long-term value for our shareholders by advancing animal health and veterinarian success.

With that, I'd now like to turn to Q&A. I believe we have a number of questions that we have gotten in, and we will get through as many of these as we can in the time allotted.

First question. "What is the reasoning behind a reverse split ratio of 80:1?" Pete, you want to take that one?

Peter L. Donato

Thanks Larry, and thanks to everyone on the call. So, it's a real good question. Just want to start with the basics. These are mathematical exercises, right, that involve lots of data and crunching, lots of professionals looking at the data, and a number of factors go into determining that. One, the data will clearly indicate that, as Larry said in his prepared remarks, you definitely want to be above $10 per share, and in many cases closer to $20. Easier said than done, right, because there's tradeoffs there. So you want to certainly approach $20, but you also want to maintain a healthy float that allows those institutional investors and others that Larry mentioned to take positions in the stock. So, the short answer is, we examined numbers higher than 80 and certainly lower than 80, and reached the decision that we could have 12 million or 13 million shares remaining at 80:1 and be comfortably above the $10, which we thought was a really important data point, as Larry pointed out in his prepared remarks.

Larry Heaton

Thanks Pete.

Here's one: "Will all owners be able to vote on a reverse split?" So, yes, and as you will see from all of the materials, all shareholders of record as of January 9 of this year are entitled to vote on the reverse split.

Here's a question: Is it not far better to be delisted than to reverse-split the stock? Pete, you want that one?

Peter L. Donato

I think you touched upon a lot of these, Larry, in your prepared remarks. The short answer is no. Right? The reality is, and we've done, again, a lot of looking at the data. In most cases, stocks that are delisted go down in value pretty significantly and pretty rapidly. Now, that does speak a little bit to a lot of the companies that fall into that category, as Larry mentioned, they're under distress.

That said, the bigger issue, at least from where I sit, is the lack of liquidity. I know there's a lot of misinformation, right, that there is actually more trading; the data doesn't indicate that. In most cases it's 40%, 50%, 70% declines in those trading volumes, and as Larry indicated, it would block a lot of larger investors from participating in the stock, and certainly pension funds and Canadian pension funds and others are expressly prohibited from participating in stocks that are pink-sheeted. Worse yet, the little bit of institutional ownership that we have, and we don't know for sure, but certainly there are institutions that have rules that they would have to liquidate their positions, which would put even more downward pressure on the stock.

Larry Heaton

Thanks Pete.

Here's one: "What is the direct cost to stockholders of doing a reverse split?" There is none. You'll simply follow the instruction that your financial institution, however you hold the shares, and there should be no charge to individual shareholders for doing that.

Next, we have a number of questions with respect to a—some of them are more nicely worded than others, but: "Why not do a buy-back?" Pete, you want that one?

Peter L. Donato

I think we've been pretty clear that we do think about these things. Right? We do think about buy-backs, and what's the best use of shareholder money? Again, and I sound like a broken record. The data for buy-backs is actually worse than reverse splits. Right? You see very little share appreciation, and it's very temporary. We like to say in the building, those share gains are temporary, the loss of cash is permanent. I think we can all agree—and you heard all the great things we have going on within the walls of this building. We feel very strongly that deploying the money for commercial expansion, for hiring an extra salesperson when we need to, and certainly being acquisitive, right, we've been pretty good at our acquisitions; I'd like to have that dry powder to do that, and not be worrying about having to raise capital, certainly in this environment.

Larry Heaton

Here's one: "A reverse stock split alone will not save this or any other company from devaluation thanks to the shorts. To be successful, several positive and progressive initiatives run alongside a reverse stock split. Is Zomedica strategically ready with said positive and progressive initiatives to take place or be announced to take place following a reverse stock split if approved?"

I can assure you that we have studied this over the last several years in great detail, and we have a great year ahead of us, and we believe that, with our initiatives to move forward, generating sales, maintaining high margins, additional acquisitions, we're putting ourselves in the best possible position to realize a benefit following the reverse split.

Peter L. Donato

Yes, and I'll take it one step further, Larry. As you can see, I think this—and I've only been here for about a year. We've put ourselves on record today. Right? We gave formal revenue guidance, we're doing it earlier than most, to give you guys a taste for the type of growth that we believe we can achieve this year, at $31 million to $35 million, and then Larry outlined a number of things that he's committed us to within the building, and you can look back at what we already achieved last year, and I think it's quite an impressive number of accomplishments. So, I believe that we're strategic—and again, it's a work in process. We're going to get hopefully a lot more right than we do wrong, but we do have the strategy and we've put ourselves on record today and we'll continue to do so, with public comments and metrics that you can evaluate us on.

Larry Heaton

Here's one, I'll put you on the spot, Pete: "Do you just have speculative anecdotes about gaining more investors after a reverse stock split, or have institutions you've met with actually said they would invest more if price was higher?"

Peter L. Donato

Yes. No. We have, you know, I won't mention any firms by name, but it's a large number. It's not one or two, it's a half dozen, a dozen or more, that have said either very directly or anecdotally that, boy, they wish they could invest, and we touched upon a lot of those comments. Boy, if it were over a dollar! Boy, if it were over $5! Man, if you had less shares outstanding! Variety of reasons, all of what you talked about, Larry, so the short answer is there's a number of firms that have expressed an interest in investing, and a large number of individuals as well.

Larry Heaton

Here's one more operational. "Are we at a scalable range now for employees, as in can we expect sales to continue to grow with around the same amount of staffing costs?"

Peter L. Donato

Yes. So, I think we talked about the sales, with the revenue guidance that we gave, we've said very publicly, and I've said in my prepared remarks even back in November, right? We're starting to see leverage in some areas of the business. You personally, Larry, spent a lot of time kind of right-sizing the sales force. We have thirty-plus territories now, that number is going to grow, and we're going to be smart about how we grow it. That said, it's not going up by a factor of two or three. We will see some opportunistic R&D spend, right, we've brought on Qorvo and some different things last year, where spending will go up.

But the short answer is that we've committed very publicly to being on a pathway to profitability, and you can't get there without seeing leverage across the organization.

Larry Heaton

I think we're definitely seeing that leverage. As I mentioned in my prepared remarks, we've spent the last two years and three months building the infrastructure; we've now done that. So, we need an extra person to take more orders or ship more orders, sure. But for the most part, we're done building the infrastructure, and now it's time to leverage it.

"When do you expect margins to get back into the low to mid-seventies range and higher?"

Peter L. Donato

So, we've been pretty public; our target remains 70%. That said, I believe that we're in that 65% to 70% range. I've been very public that that's the range. There's a lot of factors. We have a capital business, right, so that tends to be less margin, right, than say consumables, right, which is about 60% of our business today, and we also have retail channels in different places where we drive top line growth for a little less margin, but that said, no one around here is upset at 65% or 66% margin business, right, that is a really healthy robust margin business, and coupled with the leverage that we just talked about, we'll ultimately drop down to a very nice operating margin for us over time; that said, the longer-term planning horizon, we hope they start with a 7 in the not too distant quarters.

Larry Heaton

We'll be sharing detailed information about that when we release earnings for the fourth quarter and the full year of 2023, I think people will generally be pleased, and we could certainly give some color around that.

"Can we please obtain a second 180-day compliance extension and so on?" Why don't we talk about …

Peter L. Donato

I'm happy to talk about that. So, March 12 is the date, right, we announced publicly we received a formal notification on September 12, so it's on or around March 12. The short answer is yes. It goes both ways. The exchange has been very receptive to listening, very communicative with us, we've shared our plans and vice versa, and we certainly can go back to the exchange and ask for an extension. Conversely they could deny that, and conversely they could halt trading or delist us at any time. We don't anticipate that happening, but certainly we feel very strongly, for all the reasons, again, print out the transcripts and read, the benefits of the split far exceed asking for an extension. But like anything else, we consider all options.

Larry Heaton

There's a number of questions here about dilution. Let me just address that. "Is dilution a possibility if reverse split is passed? Big concern is further dilution, should it be?"

In a word really, no. Right? The reverse split itself has no impact on the percentage ownership that's owned by any individual investor or group of investors. It's the same before and after. A lot of times, companies that do a reverse split do so because they need to have the ability to issue additional shares and raise funds. We have over $100 million in liquidity, in cash and equivalents, and liquidity. So, we certainly do not have any need to do that. So, we do not see that dilution should be an issue …

Peter L. Donato

The short answer, and there's a fair amount of misinformation. The reverse split does not cause dilution.

Larry Heaton

Thank you.

"What are the new products coming up in 2024?" Well, first of all we have, as you know, with the acquisition of Qorvo Biotechnologies, we are excited about that because we now have the ability to perform our own R&D and develop our own assays and launch them, and so we have a number of new assays that we'll be launching; we're working on adding AI functionality to several of our product lines that already exist, in the VetGuardian line, to an extent, we're looking to add that to the Truview line as we move forward, and we have some other products that you'll hear about as we move forward, and that's not including any that might come from an acquisition.

Let's see what else we got here.

"What is the expected number of shares outstanding post-split?"

Peter L. Donato

I think I commented on that: 12 million or 13 million, don't hold me do it, but you could just take the number of shares that we have today and divide by 80 and there'll be some adjustments for fractional shares etc., but I think we'll be north of 12 million and maybe as high as 13 million.

Which, if I could point out and supplement that answer, as I answered earlier, we do benchmarking on what similar companies look like, and that's a share count that would look a lot like our peers.

Larry Heaton

"So if the investment firms are pining for it to be over only $5, why does it need to be reverse split to $12 to $13 now? You guys are contradicting yourselves."

Peter L. Donato

I think we've already answered that, Larry. The data clearly indicates that you want to be over $10, right, the data indicates that the closer to $20 you are the better, right, so we certainly sliced the dice, we probably looked at 300 or more reverse splits and then further subsetted it to 70 or so. So yes, there are firms that have $1, $5, $10 thresholds, right, but that said again, we're a data-driven organization, and the data clearly indicates you want to be above $10.

Larry Heaton

I think we are coming up on our time for this call. I'm seeing really pretty much the same questions that we've pretty much asked.

Here's one, though, that I think deserves an answer, right? "I have full confidence in the leadership team." I like that start to that question. "But what is the plan to build confidence with investors not just on sales but on managing expenses? It seems like we are growing in revenue via acquisitions but our expenses still remain relatively high and sales somewhat flat." I'll take the sales part. Not somewhat flat, we've been growing sales very nicely. Year over year, quarter over quarter. We generally …

Peter L. Donato

We just committed to very large growth rates for next year as well.

Larry Heaton

Yes. But what about the expenses? Pete, you want to comment on our expenses?

Peter L. Donato

I think we've commented very publicly, right, you view the expenses at 10, you were building infrastructure, judge us on operating burn, right? In each quarter that I've been here, it's been improving, right, and we're going to report a number less than $3 million in the fourth quarter, I think that will be the best since I've been here. The operating expenses, if you go and look at some animal health companies in their early days, you'll see that we benchmark pretty good to that, and we've also commented publicly that we're trying real hard to get profitable. Right? You can't do that without controlling expenses. So, we have the administrative side of the business right-sized, and I think, on my last two earnings calls, I think we've talked about some of the leverage there, and we talked, I just answered a few moments ago on the sales side of it. So, I think expenses are starting to level off, and as Larry said we'll start each quarter should be a little better with the increase in the top line.

Larry Heaton

So, let's just take one more, and this one is interesting. "Are you not confident in your leadership to guide company to success without reverse stock split?" I'll take that one. Right?

The leadership of the Company, our job here is to build a great company that is dedicated to helping vets and the pets that they treat. It's to create and market and manufacture and deliver products, and make a profit. That's the job of the Company. It's not within our control to determine what the market will value the shares. That is a function of the market. So, I have great confidence in our leadership team to make the Company successful, and I think that with this reverse split, this will go a long way towards removing the barriers that have kept the stock from appreciating. When you think about quarter after quarter after quarter, we have presented record revenues, high margins, reducing cash burn, exciting acquisitions, and yet we haven't seen an appreciation in the stock price.

So, what's keeping it down? Well, everyone—maybe not every single person, but many of the investors I've spoken to have been concerned with the nearly billion dollar shares outstanding, which is highly unusual for a company of our size. How we got here, it's a subject of debate over a beer. But we are where we are, and we need to do something about it, and I believe that now is the time.

So, I think with that, I think the other question, and there's quite a few of these, it's not so much a question as just an exclamation, "No to reverse split." I see that echoed many times on various social media platforms.

So, let me just riff off of that, and in conclusion say, what I would like you to do, what we're asking you to do, all of our shareholders, is avail yourself of all the available information about this reverse split in particular, and make your own decision. There are a lot of opinions out there, and they're not all based on facts. Filter out the misinformation, the "just say no." Someone says "just say no," ask them why. Know that not every stock goes down after a reverse split, and if they do they don't all stay down. A reverse split is not dilutive in and of itself; a reverse split does not produce cash for the Company; and a reverse split certainly does not enrich management or have us feel good about ourselves. In fact, we're all in the same boat, and we all want the same thing: to build a great company, dedicated to helping vets and the pets that they treat, and to see the value of our shares increase over time, for ourselves, for our families, and for our grandchildren. We believe this reverse split is the best way to see this happen, and I ask for your vote on February 28.

I thank you for your time today.

Operator, that'll be it.

Operator

Ladies and gentlemen, this does conclude today's teleconference; thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.