

Company Name: Zomedica Corp. (ZOM)
Event: ThinkEquity Conference 2023
Date: October 19, 2023

<<Analyst, ThinkEquity Partners>>

All right, everyone. We'll begin the presentation for Zomedica. With us we have Larry Heaton, the CEO.

<<Peter L. Donato, Chief Financial Officer>>

Nope. I'm Peter Donato. [Indiscernible] (0:00:11).

<<Analyst, ThinkEquity Partners>>

Peter, you have the floor.

<<Peter L. Donato, Chief Financial Officer>>

Great. Thank you. How is the sound? I'm getting used to the microphone, sounds okay, great. So as I indicated, it's Peter Donato, Chief Financial Officer with Zomedica. We're based in Ann Arbor, Michigan, and a leader in animal health products. Thanks for joining us today. Just a quick forward-looking statement, and this presentation is on our website. So investment highlights. So I'm relatively new to Zomedica. And I went through a similar kind of investment highlight thesis of my own when I joined the company about seven months ago. It's a big industry, really big, every trend, and you'll see here in a moment is growing in the industry and very underserved. What you'll find with our company is we have some unique solutions. These aren't me-too products. These are products that certainly make the veterinarian more efficient and better solutions for the pet and the pet parent.

A very experienced team, and I would dare say atypical for us, a company of our size and where we're at on the maturity curve. So literally decades and decades of experience with my boss, Larry Heaton who has been with the company a little over two years now. A lot of the management team has a really good track record in human health life sciences. We have done a really good job over the last couple years of bringing manufacturing and distribution in-house. And we have industry leading margins there, 70% give or take a point or two, and that number should grow with time as we integrate and bring more manufacturing and distribution in-house. The company, believe it or not, had a \$250 million – over \$250 million at one point, and my boss, Larry Heaton was tasked with putting that money to work.

And since then, we've done a six or seven acquisitions. The more mature ones are PulseVet and Assisi, which we'll talk about in a moment. And those revenues now as we've crossed the year mark we're seeing significant growth. In fact, we have \$11.5 million in sales through the first half of the year with an even bigger second half expected. The company had no revenues just a couple of years ago, delivered \$4 million in Larry's kind of first sub year, which was 2021. And

just under \$19 million a year ago. The number will start with a two. This year mid-20s. We haven't given formal guidance. But as I said, we're expecting a really strong second half of the year.

The balance sheet, as I mentioned at one point, had over \$250 million. I reported \$142 million cash at the end of the second quarter. That number will be down a little bit in Q3 with some recently announced acquisitions, which I'll talk about, but still well north of a \$100 million and a burn rate, that's less than \$3 million on an operating level per quarter profitability in site. So the portfolio is growing. Hopefully, you'll leave today seeing that it's a big attractive market, a high growth top line story for us. Really strong margins and the balance sheet to make all this work.

A lots of graphs and numbers on this chart, but I think it's kind of commonsensical the vet market and the pet market is growing. Worth noting most everybody has a pet. 23 million new animals, dogs and cats were adopted during the pandemic. Those animals are now three and four years old, right? Another really favorable trend is the pet owner is getting multiple pets. They're getting younger, and many are foregoing either marriage or child having children in lieu of pets. So again, a really strong market. And that market is growing not only in the U.S., but in key markets overseas as well.

So that's a nice tailwind for us. And a headwind to the veterinarian is also a tailwind for our company. Specifically vets are really being compressed. Many of them are retiring. Many of them are overextended. And this was compounded by the pandemic a story you hear every day on the news, labor shortages, expensive labor. The folks that were working in the back, cleaning cages, intaking animals were making \$8 or \$9 an hour, now are getting twice that if they walk down the street at work at McDonald's.

So the vet is really having trouble finding labor, no surprise. And more importantly, a lot of their source of profit has been taken away over the years. Not too long ago and I see many people in the room that look about the same age as me. If you wanted fancy accessories or fancy food for your dog or cat, you had to buy it at the vet, Hill's Science Diet, for instance. 30 years ago, you had to drive to the vet and buy that at the veterinarian high profit margin. Now, what do you do? You buy it at Chewy, you go to Walmart even or you order it. An Amazon, it could delivered same day and likely at a lower cost than what you were paying before. So the vets are under duress and looking for solutions to help their practice, better serve animals, and more importantly, make them money.

So the vision for us here is to we call it, and I'll talk about it here in a moment. We want better outcomes for the animal, first and foremost. And we want the pet parent to feel like they got a better outcome or value for what they put into the pet. And more equally as important, we want the vet make their life easier. We don't want them to have to put out a lot of cash, and we want them to be more profitable in the end. This slide is up at the top, in the top two circles is our therapeutics product line. And again, I'll get into a little more detail as we drive through this short presentation today. If you look at the company, the \$4 million and the \$19 million that I mentioned over the prior two years, almost all of it was in the therapeutics, which are the top two circles.

It's the pulse wave – shockwave system and the Assisi Loop. Quickly on both of those. The PulseVet system, again, is a therapeutic device. You can see in the picture there's a capital sale. But interestingly enough over 60% of the revenue is from the attached device, which is a Trode, that's a consumable and has a shelf life if you will. A number of treatments very profitable for the vet. When we acquired it, we had about 1,100 or 1,200 of these out in the field. When Larry acquired it about six quarters ago, that number is approaching 2,000. It's over 1,800 today. And interestingly enough, the company developed a smaller Trode for small animals, dogs and cats that do not require the animal to be put to sleep during the treatment. So really bullish on that. And as I said, if you looked at last year's 19 million, the lion's share of that was our PulseVet system.

I'd call that a fully integrated company at this point. As Assisi that is a loop, and what differentiates that product from the rest of our portfolio is when we bought that product line, it was never going to be measured in tens of millions of dollars of annual revenue, but it gave us access to Amazon and Chewy and direct to consumer. So if you use your phone and Google that, you'll see that these devices are sold on Amazon. And as I shared with you that was the lion's share of the revenue last year, and will be a big portion of this year's number. As we think about the future that's our bottom three circles, and that's our diagnostic product line. The flagship is over to the right. That's the TRUVIEW that is a placed instrument with consumables.

We have a panel of assays that test, and later in the deck, you'll see all the things that we test for. We had a major announcement in the middle part of September on a new assay for Cushing's disease for horses. I'm really bullish on that. It's a big market. And as you think about the PulseVet system that I talked about earlier, we're already talking to about 40% of the equine vet market. The dedicated practices already have a PulseVet. So we have a ready market for this new assay, and we've been promising, and it'll occur here shortly, a new assay for GI in small animals. So further expansion of that platform that is a consumable recurring revenue stream. And it's further fortified by an acquisition that we announced in early October. We announced the acquisition of Qorvo, which was the manufacturer of those assays.

So we're going to bring those in-house and in short order, those will be pretty accretive to margins that we'll be doing that ourselves. More importantly, we bought the know-how directly. We were in the process of transitioning that from them to us in our Roswell, Georgia facility. And now that we have employees in know-how, we have a facility in outside of Minneapolis for that. So real excited about where TRUVIEW goes. In the middle is VetGuardian. We started distributing that product about a year ago. We announced in September that we acquired that company, which was structured monitoring products in its entirety. So the team in earnest started selling it here in the last month or two really bullish. That is a wireless monitoring device. So a small capital outlay, call it \$4,000 or \$5,000 and then there is an annual fee.

What's interesting about that product, any of us who have pets who put the pet into the vet office. The biggest risk for the animal is postoperatively, kind of behind the curtain in the cages. There's not a lot of monitoring or it's wired monitoring. This doesn't wirelessly and uses a Doppler technology. Again, I'm not doing a deep dive on any of the technologies. Happy to do that with anybody one-on-one or visit the website. I'm just hitting the high points of the investment thesis here.

Lastly is the TrueView microscope, and I misspoke before. The TRUFORMA that I talked about with the cartridges is on the left. The TRUVIEW is in the pink colored box, and that came as a result of our Revo acquisition, which occurred about a year ago. I'm real excited about that. That's a digital microscope, and it has two recurring sources of revenue. It has a monthly charge, and it also has the ability for us to do the reads ourselves with our own pathology almost real time within two hours. So, very intriguing.

I spent a lot of time on this slide because this is our business, and these are the products. As you think about next year, and we haven't given formal guidance. I said that we'll end in the – call it mid-20s, probably this year. The top two products will have some kind of growth rate, and we talk about those, and we'll update that here on November when we do our earnings. So you can expect those products to deliver 30 plus million dollars probably next year. And as you think about the bottom products you can handicap those, those will all be almost entirely incremental.

So as you think about our growth rate and our ability to get to profitability at a 35 million, 40 million or 40 million and beyond, it's those bottom products that are the wildcards as, as you model out how you think about our business in the future. And one of the reasons I joined is I believe and we don't have to hit it out of the park, really, on any of those. As I said, experience management team, no need to dig in deeply. You can see some of the logos. Many of you have dealt with me or Larry in the past that some of those companies we've been around a while. And at the bottom is Greg Blair. I get the question all the time is, who's generating all these deals because we have been so inquisitive. Greg brings 30 years, and Greg also brings the most animal health experience to the table.

This is a summary of those acquisitions. As I said, the company has spent over a \$100 million of the 250 plus million dollars that it raised on these acquisitions. I think it's fair to say that PulseVet and Assisi are successful, right? We've integrated those. Those are selling nicely. And TruView and VetGuardian recently launched, and TRUFORMA recently expanded. So jury's still out, but we feel very bullish on what we can do with those diagnostic products and will continue to be acquisitive. As I mentioned, not on this slide, as the Qorvo acquisition, which didn't – won't generate any revenue, but will give us control of the supply chain and ultimately accretive to margins as we expand the TRUFORMA product line.

Again, lots of numbers here, big market – big market, lots of veterinarians. Still, we're targeting those small and mixed practices. As I indicated, we're already in half or so of those equine practices. So I'm real excited what we can do with anything new on the equine market. I'm also excited about the continued usage, right? They're replacing those trodes three or four times a year and that number is trending to more usage, not less, which means that people are pretty excited about the product.

Again, this just breaks out our products. I encourage you all to think about our business in two buckets: therapeutics and diagnostics. And I encourage you, as you think about our future and it kind of fact check whether we think the company can get to a 100 million or beyond. It really is growth rates on the left side and what you handicap on the right side. And as I indicated, we're

placing bets all over there. So I think that we feel pretty good about what we can do on the diagnostic side of the business, and it's not measured three or four years out. This is real time.

We don't talk a lot about it, but we do have a gentleman that's dedicated to the technology. We have a technological advancement over anything that's out in the field. We have portals, the ability to use your phone, ability to capture data and potentially even stratify that data. Most of us in human – worked in human health, find that very interesting. So we do spend a lot of time with it. Our vet installed group and customers find the interaction to be pretty favorable.

Revenue, a couple of takeaways on this slide is the fact that we do have seasonality in our business. Candidly, we did do a real good job prior to this year of talking about that. The quarters go up over time, Q1 is low, Q4 is high and generally the Twin Towers are about the same second and third quarters. So what you saw last year was a record quarter for the company \$6.2 million. We were hopeful that we might break that record in Q2, we just missed. We're confident that we'll have a record quarter.

That said, our Q1 as you can see was a record first quarter and the second best quarter in the company's history at the time. And then in Q2, we darn near beat it and had the best second quarter ever and the second best quarter. So hopefully when we report out here, Q3 and Q4 will be reporting data that's just like that, that are record quarters for the company in one form or another.

Again, you guys can download this and take a look. We break it out acquired revenue, organic revenue in a variety of different buckets and everybody looks at this a little differently, but the storyline is the same. The integrations are going according to plan. The revenue is going up and to the right. The usage is going in the right direction. What's not on this slide, and I found pretty compelling when I joined the company, about two-thirds of the revenue is recurring revenue. And that number – while it might go down in Q4 with some capital purchases in Q4 is trending in the right direction. So two-thirds of the revenue is consumables.

And as I mentioned, the PulseVet, which is the lion's share of our revenue right now is north of 60 on the high margin consumables revenue. So very inquisitive, I think that's a pretty easy takeaway so far about what I've talked about. I get asked the question all the time. So I created this slide and, you know, I'm an accountant so it's not graphically that great, but it does have the five pillars, and that's what we talk about consistently.

Is it a better outcome for your pet? Is it better for the animal period than the standard of care of what they're doing today? And will the pet parent feel that way? Are they willing to open their wallet and at the end of the day spend money on this because they know it's a better alternative for their pet? And then we cannot in any way burden the veterinarian. They're not going to want to write big checks, so we improve their cash flow. We absolutely have to improve their efficiency for all the reasons I cited.

More animals and less work and a variety of other, less vets out there and more pets. And at the end of the day, can they make money doing it? So if it meets that criteria we have discussions around that and as you can see we found five or six that do. The company remains inquisitive. I

get that question all the time. We're not going to stop. That said, we will be applying the five pillars and we will be looking for things that absolutely drive that top line, but at the same time we're committed to profitability. Get that question all the time.

I didn't touch upon it yet today, but as we think about next year when the revenue gets approaching \$40 million, call it \$35 million to \$40 million the company will be cash flow break even; so really important. I tie that back to this slide because we're not going to necessarily do anything that slows that train down. That is really important to the management team to get this thing across the finish line. Cash flow positive, hopeful that that'll happen in the second part of next year, if not sooner. And then GAAP profitability will follow.

And I'll just blow through this to make sure that we save enough time for questions here in the end. But some key takeaways here. This is our TRUFORMA product line, a good visual and I'll just touch upon and to drive the points home. This is a free instrument. It does not impact us very much from a COGS perspective. It doesn't cost us too much to make it. And the depreciation once it's placed hits the COGS line over ten years. So it's a real small headwind and it does not take a bunch of usage to offset that, and it is that point of care.

And the panel continues to be very attractive to vets and pet owners. Won't hit all these, but as you digest this and if you want to have a further conversation these are what we're testing for. These are very common ailments and assist the veterinarian in making that diagnosis, because all of us who have pets know the pet is not right, but they can't tell us necessarily what's wrong. But their key is the adrenal and the thyroid right, are very important and we continue to expand that panel and recommitted ourselves to this business with the acquisition of Qorvo earlier this month.

As I mentioned, I'm real excited about the microscope. This would be a several hundred thousand dollars instrument if this were in human health. This is a placement as well, again not a big burden to our COGS line. There will be a monthly service fee as well as potentially an optional pathology fee; so high margin business. Personally excited about this space, I entered human healthcare 20-plus years ago with a company called IRIS and we digitalized urine – human urine in the central lab and hospitals and made a pretty large business out of that, measured in hundreds of millions of dollars over time; so a real similar kind of strategy here that I'm excited about. And this is again part of the Revo acquisition and will likely be incremental as you think about 2024 and beyond for our business.

The wireless system, the picture at the front was the box itself and it's up in the right corner on this slide. Some pretty cool images; right, where the vet can measure the vitals of the animal, right, and it can send an alert to the phone. It doesn't necessarily require someone to be sitting in those back cages, it can be done remotely. And if the animals in duress would trigger some kind of sensor or care, I find that very attractive.

As a pet owner, I would think we would want that. I'd be willing to pay more for that. So it's a pretty unique monitoring system and there's a variety of future products that we can derive off of that for the animal. The other thing that's not on the slide, or maybe it is, is as you can see no wires. Why is that important? Humans pull at their wires, right, anyone has had a sick relative,

but animals chew at those wires, especially dogs, right, that's why they have the cones on the dogs and all that. No need for that going forward, so pretty impressive technology.

And again, incremental as you think about the out years for us, PulseVet is already established. We're working that. We're increasing usage on that that as a capital sale. It requires the vet to make a capital purchase, that's the bad news. The good news is the payback's less than a year; in fact it's about six months. Most of them can finance it if they can't write the check. And as you can see pretty high volume usage, it's unstable side and there is also some neat things in the pipeline that we can do with that technology. Horse owners swear by it, and as I said we're at least 40% penetrated with that market today and a nice ready market for our new diagnostics in the equine space.

The Assisi has – the primary product is the Loop, as I said, I encourage you go ahead and put that in Amazon. There's the variety, there's also a lounge. What we got with that was access to direct to consumer, which we're excited about. And it also developed our marketing department. Keep in mind this was a startup in Ann Arbor, Michigan with 25 or 30 people. The marketing department at Assisi came with us. They're still with us, right? And it was cash flow positive to acquire that marketing capability. And we put that on there. It was not on the pillars, but we think about those things qualitatively.

So I'll pause there. Hopefully I hit the highlights. The timer says I have about two or three minutes for questions, if anybody has any questions.

<<Analyst, ThinkEquity Partners>>

Any questions anybody? I guess I would like to ask, how did you guys finance the mergers and acquisitions?

<<Peter L. Donato, Chief Financial Officer>>

It's our own cash, right, we had \$271 million at one point. As I said, we still had as of June 30th \$142 million.

<<Analyst, ThinkEquity Partners>>

And then for the remote monitoring device what's your profit margins on those?

<<Peter L. Donato, Chief Financial Officer>>

Yeah. I don't think we disclose those, but what we do talk about is most of our products are right around 70% on a blended. The capital is obviously a little less and the consumables are obviously a little more. The subscription base stuff tends to be higher margin business. We have quarters where we're a point or two below 70, we also have we're appointed to above 70. I've said very publicly, especially once we get Qorvo integrated that things will start with a seven and start progress upwards from there margin wise, which gives us plenty of wiggle room.

<<Analyst, ThinkEquity Partners>>

Any other questions? All right, thank you. Thank you, Peter.

<<Peter L. Donato, Chief Financial Officer>>

Thank you.

<<Analyst, ThinkEquity Partners>>

Thank you, everybody.