Transcript of

Sanara MedTech Inc.

Second Quarter 2021 Financial Results

August 17, 2021

**Participants**

Callon Nichols - Director of Investor Relations, Sanara MedTech Inc.

Ron Nixon - Executive Chairman, Sanara MedTech Inc.

Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.

Mike McNeil - Chief Financial Officer, Sanara MedTech Inc.

**Analysts**

Brandon Folkes - Cantor Fitzgerald

Neil Cataldi - Blueprint Capital Management

**Presentation**

**Operator**

Good day ladies and gentlemen and welcome to the Sanara MedTech Inc. Second Quarter 2021 Results and Business Update Conference Call. All lines have been placed on a listen-only mode and the floor will be open for questions and comments from the web and phone following the presentation.

At this time it is my pleasure to turn the floor over to your host Callon Nichols, Director of Investor Relations at Sanara. Sir, the floor is yours.

**Callon Nichols - Director of Investor Relations, Sanara MedTech Inc.**

Thank you, Karen and good morning everyone. I'd like to welcome you to the Sanara MedTech's earnings conference call for the quarter ended June 30, 2021. We issued our earnings release yesterday afternoon. And I would like to also highlight that we have posted a link to today's deck on our Investor Relations page. This supplemental deck as well as a copy of the earnings release, the 10-Q and a transcript of this call will be available on this page. We'll reference to this information in our remarks today. We expect today's prepared comments from Ron Nixon, the Chairman of our Board, Mike McNeil, the Chief Financial Officer, and Zach Fleming, President of Surgical to last approximately 15 minutes to allow time for Q&A.

Certain statements in this conference call, in our press release and in our supplemental deck include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding, among other things, the anticipated benefits of the Rochal asset acquisition, the development and approval of new products and expansion of the company's business and telehealth and wound care. For more information about the risks and uncertainties involving forward-looking statements, please see our most recent Form 10-Q, and annual report on Form 10-K.

Now I'd like to turn the call over to Ron. Ron, the floor is yours.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Thank you, Callon and good morning everyone. I'll start with an overview of the second quarter and then we'll dive more deeply into each topic in the separate subsequent slides. Sanara generated 6.3 million in sales and a net loss of 1.2 million in the second quarter of 2021. This is the fourth record revenue quarter in a row for the company and was driven by continued growth in surgical product sales. Surgical team has continued to focus on hospital for this product adoption and adding high quality experienced regional and territorial sales managers to our team. Zach will discuss the specifics in his remarks.

We continue to see strong growth and significant opportunity for our products in surgical pending no long-term effects of the COVID-19 virus or it's variant. We're constantly focused on our product pipeline and bringing to market highly efficacious solutions that offer a good value proposition. We continue to seek out partners who have proprietary products that fit within our six focus areas. In addition, following the acquisition of Rochal assets, we now have numerous products development projects in house. We intend to submit 510(k) applications for several of these products in our pipeline within the next 24 to 36 months.

Now, I'd like to discuss our telemedicine and virtual care business. We renamed United Wound and Skin Solutions to WounDerm which we feel is a more appropriate name. Previously, WounDerm referred only to our proprietary wound and skin EMR and mobile app. The team at WounDerm is actively engaged in discussions regarding multiple pilots to prove the efficacy of WounDerm solutions and demonstrate the company's overall value proposition related to costs and outcomes of its comprehensive wound and skin strategy.

Subsequent to the end of the quarter, we completed the acquisition of certain assets for our research and development partner Rochal Industries. We believe this acquisition will be an important contributor to our future development and growth plans and it was structured as a win-win between the parties.

With that overview I'd now like to turn it over to Zach Fleming to discuss our surgical business and the latest on our partnership with Cook Biotech.

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Thanks Ron. Our surgical division continues to grow both in terms of sales, hospital approvals and the size of our team. In the second quarter, we hired eight new regional sales managers bringing the total to 26 regional and territory sales managers. At the end of Q2, CellerateRX had been sold in over 300 hospitals and ambulatory surgery centers across 21 states. The product is currently approved for use in over 900 hospitals and ASCs. And as we've discussed before, we believe that there are over 12,000 hospitals and ASCs in the United States where Cellerate could potentially be used.

Turning to the Cook products, we plan to have Fortify TRG, which is the Tissue Repair Graft and Fortify Flowable Extracellular Matrix fully rolled out and available for sale in the second half of this year. We're currently working on the marketing and distribution strategy for VIM Amnion Matrix, and the exact timing of that rollout for that product.

Now I'll turn it back to Ron to discuss our product pipeline in more detail.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Thanks Zack. As I mentioned earlier, we're focused on acquiring or developing novel and innovative products that fit within our six focus areas. We currently have five products in our pipeline at various stages of development. CuraShield an antimicrobial barrier film, an FDA 510(k) cleared product is intended for application on minor wounds and damaged skin as the liquid film forming barrier which creates a waterproof breathable film dressings protecting the wound of damaged skin. Sanara's licenses product from Rochal Industries is currently exploring manufacturing options and potential partnerships to bring this product to market.

We continue to progress our efforts to develop a Debrider that will be complementary to our hydrolyzed collagen and biofilm cleanser products once it's cleared through the 510(k) process. We're currently finalizing and testing the formulation and expect to have the final formulation ready to file a 510(k) application in 2022. Our sales results to date have been driven by our hydrolyzed collagen products. Developing the next generation of these products is a key initiative of ours. I've said this in many previous calls. We're currently working on the next generation product with our newly acquired team at Rochal.

BIASURGE an antimicrobial wound solution is expected to be an additional product for surgery and is derived from our BIAKŌS Skin & Wound Cleanser line. This product which we plan to start testing in the next quarter will be the first lay band biofilm and antimicrobial irrigate for surgery. We believe that could have significant impact on reducing biofilm in surgical wounds, leading to fewer surgical side infections when compared to the current standard of care.

Now I'd like to turn it over to Mike McNeil, our CFO to discuss our Q2 and first half of the year financial results.

**Mike McNeil - Chief Financial Officer, Sanara MedTech Inc.**

Thank you, Ron. During the second quarter we generated revenues of 6.3 million compared to 3 million during the second quarter of 2020 representing 112% increase over the prior year. Year-to-date sales through June 30 totaled 11.3 million compared to revenues of 6.5 million for the same period last year, which represented a 74% increase over the first half of 2020 and a 105% increase over the first half of 2019.

The higher revenues in 2021 were primarily due to increased sales of our surgical products as a result of our ongoing sales force expansion, and our continuing strategy to expand our independent distribution network in both new and existing US markets. In addition, revenues in the second quarter of 2020 were negatively impacted due to the suspension of elective surgeries and restricted access to patient facilities throughout most parts the United States as a result of the COVID-19 pandemic.

We had a net loss of 1.2 million for the second quarter of 2021 compared to a net loss of 1.1 for the second quarter of 2020. For the first half of 2021 we had a net loss of 2.4 million compared to a net loss of 2.9 million for the same period of 2020. The improvement in our net loss was primarily due to much higher sales revenues in 2021. Finally, a quick look at our balance sheet shows we ended the second quarter in a strong financial position with 24.4 million of cash on hand.

I will now turn it back over to Ron to discuss the Rochal asset acquisition.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Thanks Mike. As we mentioned, we recently acquired certain assets from Rochal including intellectual property for 510(k) FDA cleared products, rights to license certain products and technology currently under development, equipment and supplies. In addition, we hired all the Rochal personnel. The Rochal acquisition is strategic to our comprehensive wound and skin strategy as well as the development of additional surgical products.

This transaction which was effective July 1, 2021, allowed us to combine the Rochal technical team and their extensive experience in commercializing technologies with Sanara's extensive distribution network. As we gather more data at the bedside through precision healing, our in house team will have the capability to work on new innovative products based on an analysis of the data that's collected at the bedside.

The addition of the Rochal team is also expected to strengthen Sanara's expertise in their regulatory compliance, manufacturing and quality control. The products that were under development at Rochal acquisition closing date Sanara has the first right of refusal for product license agreements, as well as certain economic rights for products Sanara chooses not to license.

For a three year period following the execution of the asset purchase, Rochal is entitled to receive consideration from Sanara for products developed during that time. During the same period Rochal is entitled to receive an amount in cash equal to 25% of the grant proceeds that Sanara or Rochal receives as done by the work of Rochal. For more details on this, please see the license agreement that we filed. We excluded certain assets from the deal including licenses for products already licensed to Sanara, one silicone 510(k) approved product and the rights to five products currently under develop.

The reason for the excluded assets that were not already licensed to Sanara was that at the time of the deal, we could not adequately value these assets. So in order to come up with an appropriate price, we would have had to monetize future royalty streams that we felt we just didn't have enough clarity on them at that point. Sanara will review all of the above products at the appropriate time for commercialization opportunities.

That concludes our prepared remarks and we look forward to answering any questions that you may have during the Q&A. Operator, we're ready to open the call for questions. And thank you.

**Operator**

Absolutely, thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] And our first question comes from Brandon Folkes from Cantor Fitzgerald. Brandon, please go ahead.

**Q:** Hi, thanks for taking my questions and congratulations on the quarter. So firstly just in terms of Cellerate, you've done very well to get approved in over 900 hospitals and ASCs. Can you just elaborate about the opportunity to go deeper in those accounts as you continue to bring on additional hospitals and ASCs? And then similarly, along those same lines, you're approved in over 900 hospitals and ACSs, the products being used in 300, so just any color in terms of what's needed to get the other 600 that are approved, ordering and using the product. And then secondly – my second question, I guess, just in terms of eight additional sales people. Are they covering new territory? Just any splitting of territories there would be helpful? Thank you.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Zach, why don't you answer that if you wouldn't mind?

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Sure. So hopefully I get all your answers. So I think the first question was how do we go broader, deeper into the 900 Hospital across the 300 we're in but also into the 900. So first, I'll go into the 300 that we're in or 300 approximately. And the key is this product is very wide applications across surgical specialties. So if you just kind of stop and think anybody that is working on surgical wounds, this would be appropriate for, so that's a very broad group of surgical specialties. Really, you could go from plastics, general, of course orthopedics, spine, podiatry, you kind of get the point is there's a whole bunch of specialties that could use this product in favor of helping patients that aren't doing well from a healing standpoint, maybe they have a comorbidity that keeps them from healing well, so it really is very widely applicable.

In terms of how do we get from 300 and get closer to the full 900. I think it ties into the next part of your question. And that is we are hiring additional people, as you know, and we mentioned, and then we're going to try to go into new territories of course and try to expand into those territories where we have approvals. So those are obviously very much important to us, we've highlighted each of those IENs, each of those hospitals and all of our people that we've hired, know where those are, and are certainly working very hard to gain interest from surgeons. So it's simply a reach for us. We've been very successful with this model, and have seen it play out very consistently that when you put a person in the field, the product is very promotionally responsive. So in other words, people immediately see the need for this product and start to use it. So it's just a matter of reaching out to those surgeons and getting the product in their hands.

And I think I didn't answer the third part of that – go ahead, sorry.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

No, I was just going to add one other key point to that Zack, and that is Brandon that this product is getting adopted by surgeons that really liked the results that they see. So therefore, it ends up being more word of mouth, as opposed to more selling of the product. This is really adoption of the product. And so you get that fill in within your territory from more and more surgeons talking to other surgeons about the benefits of what they've seen with the product.

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Absolutely and within each surgical group, obviously, there's usually 20 or 15 surgeons with each surgical group and you start to see it spread across that surgical group within that orthopedic group say, or the plastics group, and then across specialty. And that usually is because we will also work with the mid levels, the nurse practitioners, as well as the Pas, the first assists that are in the surgery and helping to work through those surgical wounds.

**Q:** Great, thank you very much. One additional question, if I may. And you've got a lot going on a number of very interesting launches in the back half of the year. But yeah, I'd be remiss if I didn't ask, any color on your thinking around sort of what we're seeing with COVID and Delta variants or any of these other variants of potential timing of product launches at this stage. Thank you.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Sure, I don't think it's actually impacting our product launches, what I would tell you is that we're always mindful and keep an eye on what goes on since we've seen this already once before, and went through this last year. So we're mindful of paying attention to where the elective surgeries may be starting to get temporarily stopped. And Zach, do you want to add any color to them?

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Yeah, I just think that the launch is a targeted opportunistic launch that will be based on where we have access and volume and influence into the facilities, volume meaning of an availability of cases that would fit the product. And we're using existing relationships, rather than via agents that sell for us, our regional sales managers, and/or surgeons that like to work with Sanara.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

I also think Brandon, they're one of the things we will do is continue to focus on expansion of our geographic reach, so that if there are hotspots of COVID, or the variants that we have hope that those – the impact into those other geographies, which are less impacted can pick up the difference if we see any of that decline.

**Q:** Great, thank you. I appreciate all the color and taking my questions. Thank you very much.

**Operator**

[Operator Instructions] And our next caller is Neil Cataldi from Blueprint Capital Management. Please go ahead, Neil.

**Q:** Hi, guys, great quarter. Can you give us any further updates on the WounDerm pilots and maybe elaborate a little bit on what the go-to-market strategy is there? How it ramps to revenues and maybe a timeline for that.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Yeah. Very happy to Neil. The pilot, first pilot is going to begin within the next two weeks. And it is in a very large home healthcare, it will include multiple facilities. And so therefore, we'll get a much better feel. This is a company that's very much focused on PDGM and so that's that patient driven group modeling and understand the value that that brings to them as it relates to being focused on conditions like wound care, where there is higher value ascribed to that patient that has multiple comorbidities and has a wound. So we will be testing our virtual console, we will be testing – obviously, our products will be used in that.

And we'll be gathering our data to see how our overall value proposition plays out. And so that will – I will assume that within the next quarter or by the end of the next quarter, we'll be able to give updates on exactly how that is progressed. Because typically we'll be able to judge that on 30 day episodes since that's the way home health is done today. We're not abandoning the skilled nursing facilities, but the skilled nursing facilities have been under pressure ever since COVID. We've seen a decrease in their census. They're scrambling just to make sure that they can keep people safe in their facilities.

And you're seeing a movement towards more acuity, higher acuity patients going to the home to be dealt with. You're seeing the coming of the hospital at home. You're seeing a lot of focus on bypassing the snip with these patients. So we think the home health is an area that we need to be focused on while the snip is kind of getting their situation under control with what they've had gone with COVID over the last year. So that's probably all we can say at this point in time. We have other pilots that we're exploring right now with other different providers. And we'll keep you updated as those become material and as we execute those agreements.

**Q:** All right, great. Thanks Ron. One or two more, if I may, I know the first analyst asked the question around the RSMs and the hospital counts. I was just wondering maybe a different spin on it. How many more RSMs do you have to hire to penetrate the 600 hospitals that you're not currently in? And maybe how many more are you looking to hire through the balance of this year?

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Go ahead Zach.

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Okay. Yeah, I would say in terms of our current way we're looking at this is that we go to market through 1099 agents. And as long as those agents are able to be managed via the number we hire I think that's really the key. And so roughly you can kind of imagine that a RSM can cover about two states. Now we've seen the Northeast, that's a little bit tighter geography, however, there are travel demands that are difficult there. So approximately somewhere around 30 to 40 is where we think we're probably going to need to be to get all of the coverage with regional managers.

And one of the reasons as well, we're appointing a new strategy, which is the TM model. And I don't know if you heard us say TM, that's really a territory manager that's going to be stationed in a large MSA, where you have a lot of concentration of hospitals and where we're trying to go exactly what the first question was, which is trying to go deeper into facility. So this TM really sits on a few accounts, identifies additional surgeons where we can use CellerateRX more and further and deeper into the facilities. So hopefully that answered your question.

**Q:** Yeah, thanks. How should we think about the training ramp? Is it three to six months? Or is it more six to 12, any color there?

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Yeah, I think – so we really want our people to be trained well. And so internally, we have about a five week track that they go through, which includes field rides, internal training, et cetera. So just in terms of being up to par and be able to talk to talk and be able to go out and serve the customers well, roughly about six weeks, by the time they get back to the field. And then in terms of the impact it's starting to get quicker because we are seeing with the approval sitting out there, now that can go right in and just find surgeons. If you're going into a blank territory, which we do have a few of those where we don't have a lot of penetration in hospitals, it does take a little bit longer.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

The other thing Neil is we're really focus on finding experienced people from the beginning, where they have some surgery experience so that they're not totally green, when they come in and we're training them. We don't want to have to educate them fully on what goes on in surgery. We want them to come with at least three years of experience in surgery.

**Q:** Yeah, we've done some work on the new hires already and the pedigree looks great. So kudos to you guys on the people that you're able to find right now. My last question just pertains a little bit to the pipeline. A majority of your revenues today come from Cellerate. I'm wondering which product in the pipeline you would expect to be the next one that might make an impact on financials? Could you share anything on that?

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Zach do you want to talk a little bit about the Cook products and then I'll start BIASURGE.

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

Sure. Yeah. Absolutely, so we're really excited about the Cook products, wouldn't have added them if we weren't into. The products really spit a need that really isn't being served by other products, so I think that's why that's an exciting space. Our big challenges as with any company or any product that you're launching is just the approvals and gaining acceptance out in the field. So we are actively out with initial trials where we're providing product and getting reviews from surgeons, they've been very positive in their use cases for Fortify TRG, Fortify Flowable will be coming up in the next month or two, where we'll have that in the field and the doctors will be giving us response. Both are already approved products. They are already backed by a lot of science around SIS technology. So we're going to the field with a lot of kind of armamentarium. And we're really excited about that.

Now in terms of projections and market size, we're still working to assess exactly what this product could be, both those products that one is the Fortify Flowable, that's the micronized product that's – it kind of comes in a capsule and then you swish it back and forth between two syringes and then it becomes gel and the neat thing about that product it goes down into a wound fills cavities really works a really big part into what a surgeon needs. And then the other one is the Fortify TRG. And again, that is the product that is going to help to reinforce soft tissue, very broad label, which we like and it's able to be implanted as well.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

And then Neil, also, in addition to that, on the other side of the business on wound care, we think these pilots will prove out that what we have seen in the field and data that we've gathered that our BIAKŌS, both our cleanser, and our gel, as well as our HYCOL powder and gel will be well received. And they will see the economic benefits that we have seen in the value proposition that we believe is there. You add the virtual console to that to make it more efficient wound care strategy, we think that the kinds of groups that we're talking about to right now to do these pilots are going to recognize that and that'll be where we'll get a lift in those product sales as well in a bigger way through 2022.

**Zachary Fleming - President and Chief Operating Officer, Surgical Division, Sanara MedTech Inc.**

I think you also mentioned BIASURGE, I don't know if you guys want me to touch on that. But BIASURGE is a little ways off, still very much in a development process right now. But certainly that market looks very attractive with some of the other product entrants that are in that space, which are the medicated washes that would go into wounds in surgery.

**Q:** Okay, great. And while you were talking right now, I sort of listening and seeing and looking at the deck you provided. I think in there you mentioned CuraShield and a possible partnership. I was just wondering maybe what that means or what that looks like, Can we look back more partners with the other products as well.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

That is a product that is really geared towards more in hospital use and nursing home and home health. But it's specifically considered to be more of a skin product than a wound product, even though it is indicated for wound and damaged skin. And we believe it's a head to head competitor with Cavilon. And so that's the 3M product and Rochal was the original inventor of the original formula for Cavilon that is the 3M product and its early days 20 something years ago. So that's an area that we think is well needed. It's the first antimicrobial barrier film, and it's the first to have an indication for wound. And so it's hard to say exactly what the adoption rate would be. But we're looking at partnerships that potentially maybe in certain segments that we're not in today on the skin side that could help escalate that sales channel penetration.

**Q:** Got it, well, thanks guys. Thanks for taking all the questions and I look forward to seeing what comes in the rest of the year.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Yeah. Thank you, Neil.

**Operator**

[Operator Instructions] And there appear to be no further phone questions at this time and there are no questions on the web. I'd like to turn the floor back over to Ron Nixon for closing remarks.

**Ron Nixon - Executive Chairman, Sanara MedTech Inc.**

Alright, thank you everyone for listening in to our first of many to come earnings calls. Thank you all for participation. Thanks for the good questions, Brandon and Neil, and we look forward to reporting on our next quarter. Thank you all for attending.

**Operator**

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