Transcript of

Sanara MedTech, Inc.

Third Quarter 2021 Results and Business Update

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**Participants**

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Ron Nixon - Executive Chairman, Sanara MedTech, Inc.

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

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

**Analysts**

Ian Cassel - MicroCapClub

Evan Claar - CBI Capital LLC

**Presentation**

**Operator**

Welcome to the Sanara MedTech Inc. Third Quarter 2021 Results and Business Update. At this time, all participants have been placed on a listen-only mode and the floor will be opened for questions and comments after the presentation. [Operator Instructions] It is now my pleasure to turn the floor over to your host, Callon Nichols, Director of Investor Relations. Sir, the floor is yours.

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

Thank you and good morning, everyone. I’d like to welcome you to Sanara MedTech’s earnings conference call for the quarter ended September 30, 2021. We issued our earnings release Friday afternoon. And I would also like to highlight that we will post the 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 will reference to this information in our remarks today. We expect today’s prepared comments from Ron Nixon, Executive Chairman; Mike McNeil, Chief Financial Officer; and Zach Fleming, President Surgical, to last approximately 15 minutes to allow time for Q&A. Certain statements in this conference call and our press release, and in our supplemental deck include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

For more information about the risks and uncertainties involving forward-looking statements and factors that could cause actual results to vary from those projected or implied by 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 Nixon - Executive Chairman, Sanara MedTech, Inc.**

Thank you, Callon, and good morning, everyone. I’ll begin with an overview of the third quarter, and then we’ll provide an in-depth discussion for each of the subsequent slides that were given to you. Sanara generated $5.8 million in revenue and a net loss of $2 million in the second quarter of 2021, despite an impact from the COVID-19 Delta variant in key large markets, including Texas and the Northeast. This was the second best revenue quarter for the company in history and was driven by surgical product sales.

Our net loss was largely driven by an increase in SG&A, which was $1.8 million higher than Q3 2020, approximately 70% or $1.3 million of this increased SG&A was due to increased direct sales and marketing costs related to the expansion of our surgical sales force, as well as higher commissions due to higher product sales.

Rochal asset acquisition, which we completed in Q3, contributed approximately $260,000 of incremental SG&A when compared to Q2 of 2021, adjusted for a one-time reclassification of R&D expense in Q3. These were planned expenses to expand our sales force, and research and development capabilities, to further advance our 6 focus areas.

The surgical team has continued to focus on adding high-quality experienced regional and territorial sales managers to our team, obtaining hospital approvals, product adoption and introducing new products. Zach will discuss the specifics in his remarks this morning. We continue to see additional opportunities for our products in surgery and are continuing our pursuit of clinical evidence for outcomes.

In the third quarter, we continued introducing our telemedicine and virtual-care business, WounDerm. We executed an agreement and launched a pilot in home health care market to prove the efficacy of WounDerm solutions and demonstrate the company’s overall value proposition related to cost and outcomes of our comprehensive wound and skin strategy. As part of this pilot, the company’s EMR was adapted for home health care market, and we concurrently signed a distribution agreement for our proprietary products with that firm.

For our virtual consult services, our wound care group, Mgroup, is now licensed to provide wound care virtual consults in 48 states, and we expect to be licensed in all 50 states by the end of the year. We are currently having discussions with a number of value-based and managed care companies and are exploring possibilities across all segments of the post-acute and acute settings.

A critical component of our strategy is our partnership with Precision Healing. They are making considerable progress and expect to file a 510(k) for Precision Healing imager by the end of the year. As you know, Rochal Technologies is now a part of Sanara, and we’re working closely with them on our product pipeline with a focus on bringing next generation Cellerate and HYCOL to the market, as well as BIASURGE, our sterile antimicrobial cleanser for the surgical market.

Now, I’ll turn it over to Zach Fleming to discuss our surgical business.

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

Thanks, Ron. Our surgical division continues to grow in terms of sales, hospital approvals and the size of our team. In the third quarter, we added people to our sales team, bringing the total to 29 regional and territory sales managers. We continue to see growth in our distributor partnerships and increased both the number of teams and individuals representing our products.

At the end of Q3, CellerateRX have been sold in over 395 hospitals and ambulatory surgery centers across 21 states. And it was approved to be sold in approximately 990 facilities. As we’ve discussed before, we believe there are approximately 12,000 hospitals and ambulatory surgery centers in the United States, where Cellerate could potentially be used.

In Q3, we continue to see strong demand for and interest in our products. We faced headwinds in a few of our key markets in Texas and the Northeast, due to the COVID-19 Delta variant surge. However, as with previous surges, we believe that the majority of these procedures were postponed and will eventually be performed. Year-over-year, we have seen some headwinds due to cost per case, but we are working to mitigate the impact of this through win-win contracting opportunities in those facilities.

Subsequent to the end of the quarter, we announced the commercial launch of 2 new products that we have licensed from Cook Biotech, FORTIFY TRG Tissue Repair Graft and FORTIFY FLOWABLE Extracellular Matrix. Adding products to our surgical bag has been a strategic goal of ours and should allow us to increase our operating profit as these products begin to generate revenue for the company.

I will now turn it over to our CFO, Mike McNeil to discuss our Q3 financial results.

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

Thanks, Zach. During the third quarter, we generated revenues of $5.8 million compared to revenues of $4.3 million for the third quarter of 2020 represented a 35% increase from the prior year. Year-to-date through September 30, 2021, revenues totaled $17.1 million compared to revenues of $10.8 million for the same period last year, which represented a 58% increase over the prior year period. The higher revenues in 2021 were primarily due to the increased penetration of surgical wound care products by our sales-force additions last year and our continuing present strategy to expand our independent distribution network in both new and existing U.S. markets.

As Zach discussed, we have faced some headwinds, due to the COVID-19 Delta variant and cost per case concerns. We had a net loss of $2 million for the third quarter of 2021, compared to net loss of $1.2 million for the third quarter of 2020. The higher net loss in the third quarter 2021 was primarily due to higher SG&A expenses, which were approximately $1.8 million higher than prior year, partially offset by higher third quarter gross profit, which was $1.4 million higher than the same period in 2020.

Third quarter depreciation, amortization and other expenses collectively were approximately $400,000 higher compared to prior year. For the 9 months ended September 30, 2021, we had a net loss of $4.4 million compared to the net loss of $4.2 million for the same period of 2020. The higher net loss for the 9 months ended September 30, 2021 was primarily due to higher SG&A, partially off by higher revenues. The higher SG&A expenses in 2021 were primarily driven by increased selling costs as a result of sales force expansion and higher sales commissions due to higher product sales.

Finally, looking at our balance sheet, we ended the second quarter in a strong financial position with $22.4 million of cash on hand.

I will now turn it back over to Ron, for a few closing comments.

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

Thank you, Mike. As we’ve discussed historically, our goal at Sanara is to offer a comprehensive wound and skincare strategy that can help providers and patients treat wound and skin conditions in any care setting. In the third quarter, we continue to advance that goal by increasing penetration in the surgical wound care market adapting our EMR to the home healthcare vertical, and executing and launching a pilot for our virtual consult services with a major home healthcare company, while simultaneously pursuing other pilots. We continue to seek opportunities to expand and improve our overall strategy.

That concludes this quarter’s comments, and we look forward to answering any questions you may have. Operator, we’re ready to open the call for questions. Thank you.

**Operator**

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Our first question today is coming from Ian Cassel at MicroCapClub. Your line is live. You may begin.

**Q:** Yeah, I guess the question I would have is on the 2 new products from Cook Biotech. Are those products, do you expect those to be material to the company in 2022? Or do you think that’s more of a 2023 or 2024 materiality on those 2 products?

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

Yeah, Ian, this is Ron Nixon. I’ll turn that over to Zach. And, Zach, if you don’t mind, you can share with them your thoughts on when these will be penetrating the market.

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

Sure. So we believe that they are very good products. We’ve already seen some adoption with the FORTIFY products. I do believe, they’ll produce a reasonable amount of revenue next year. As you know, there’re some difficulties in getting products approved. But, we’re in the midst of that right now, gaining some approvals in different facilities, doctor trials. And those trials are going very positive.

**Q:** Thank you. Maybe a follow-up. I see that you’re up to, I think, 29 RSMs. I was wondering where do you see that kind of peaking out to hit all 50 states.

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

I think we need coverage across all 50 states. We are doing this TM model. I think, you guys have heard about that. That’s the Territory Manager model, where we get higher penetration in each market. And with that model, we’re starting to see that there are some great legs to that. We’re seeing great expansion within those facilities.

And so, that number kind of evolves into somewhere between 40 and 50, we believe, total number of heads. And that’s really dependent on our ability to get into facilities and create kind of a broad network of doctors within that facility, and those TMs are doing a good job of that. So, I think, it’s going to be in that 40 to 50 range roughly one per state, obviously, a little higher density in the Northeast.

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

But, I think, Ian, to your point, the regional sales managers, we have found that we’re able to get leverage off of them, and they can cover more than one state. So as Zach mentioned, that’s the combination of territorial and regional sales managers.

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

Great clarification. Yes.

**Q:** Okay, thank you. Maybe just a follow-up, I feel that you’re going to have your submission filed for the 510(k) for Precision Healing. And what’s the timeline for approval in a product like that? And it seems, in previous slide decks, it seems like that product or that diagnostic is a real competitive advantage to the company, nothing like it on the market.

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

Yeah, thank you, Ian. We actually do believe that has very competitive advantage to it. It provides more data with the biomarkers that we’ve identified than any other device that we know of in the market. As to how long it will take, historically, it had been 90 days or less to receive FDA approval on a device like this. With today’s COVID impact and just hiring impact, the FDA has been constrained and we’ve seen a slowness in their approval process, and it’s been very hard to predict. But we’re hopeful that we will have it by the end of the second quarter.

**Q:** What is the form-factor like of that product? Is it sort of like an iPhone-looking device? Or how should somebody think about it?

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

Yeah, the original prototype was a little bit larger than an iPhone, and the thickness of it is a little larger, because of the room that you need for the lenses and the filters that are on that camera. Over time, we see that adopting into a different form-factor that potentially could be smaller and easier to use. And that’s what our engineers are working on now for that next generation already.

**Q:** Okay. And, I think within your prepared remarks, you mentioned BIASURGE. Can you talk about the potential of that product, and when you’d expect that to be on market?

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

Yeah, Zach, I’ll let you take that.

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

Sure. We think there’s a great potential there. Medicated washes are kind of a new thing in the hospitals. You’ll see a few different market entrants in there already. And what we’re looking for or what they’re looking for in a hospital’s consistency and, obviously, another way to battle some downstream infection problems in the surgical space. So when they put an implant in, they’re trying to reduce bacterial seeding as well as any kind of deep infection.

So this type of a product is very useful and washing the surgical area, the cavity and then obviously rinsing it out and then closing the wound. So, we think it’s a really good opportunity. We do think that that’ll come into fruition towards the start of 2023. So we should get through everything and some additional testing trials, approvals everything by the end of this coming year 2022.

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

And, Ian, we expect to have the same type of results that we have seen on our existing BIAKŌS product in terms of impact on bacteria.

**Q:** Okay. And maybe one last question. There is a lot of moving parts to the story, and you’re working on a lot of things. I mean, looking out maybe even just 12 months, where do you hope to have the company positioned?

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

Well, looking out 12 months, I would tell you that as it’s obvious from the amount of capital that we have spent on our advanced wound care strategy, which involves all the component parts of the 6 focus areas beyond what surgical needs are. And then, you look at the support of the virtual consult, our EMR that has been developed, and to be able to add skin as well. We see that the conversations with our managed care, potential partners, home health, et cetera, should be evolving to where those are starting to have penetration into those markets within the next 12 months in a more significant way to offset some of the losses that we’ve incurred by spending ahead of the curve on advancing that strategy.

**Q:** Good. Thank you. Thanks for taking my question.

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

Thank you, Ian.

**Operator**

Thank you. [Operator Instructions] Our next question is coming from Evan Claar at CBI Capital. Your line is live. You may begin.

**Q:** Thank you. Good morning. I have somewhat remedial questions that maybe require some education. I’m interested in CellerateRX’s traction in the marketplace. And I see the large number of hospitals approved against 395 hospitals using it in the quarter. Can you give us some inkling of, of the 395, how many are new and how many are repeat users from prior quarters? And what it costs per use or how much revenue you get per use?

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

Yeah, Zach, I’ll let you take that. And, Zach, you can just – a lot of that is already in the press release and some of the historical data. So you could just cite that to him, if you would.

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

Yeah. Hi, there. So, 395, it’s roughly about a, I believe, 100 or so more than the previous quarter. Callon might have that right in front of him as far as the exact number. But we are making good headway there. Our goal of the 900 or so that is approved, what we’re really trying to do there is find those hospitals where there is a need, where they do have some patients that fit the type of patient, the profile that we’re looking for.

And that’s that patient that is comorbid and has a lot of different issues that might impact their healing. And so, that’s the type of hospital we’re looking for and, of course, looking for the surgeons that treat those patients. And so, it is a little bit of kind of seek and find within those 990 hospitals.

And as we start to do that, as we’ve been doing that, we’re starting to expand both in those 400 hospitals roughly, but as well into more hospitals. So that’s really the goal of the whole thing, and it’s going very well. So we’re really excited about that. But it is a little bit of a needle in a haystack to try to find those patients, not every hospital has those types of patients as you know.

**Q:** Thank you. What I’m guessing is that we’re seeing 1 to 2 uses per week per hospital on average. And is this a much smaller TAM or addressable market, because you need people with these special ailments? Can that rise materially?

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

Yeah, I don’t think probably describing it as a needle in a haystack is quite accurate, because if you look at the population of people that are having hip replacement and having other types of ortho, spine surgery, et cetera – general surgery, when you start talking about the aging population, and the look at how the baby-boomers are aging, many of those patients have comorbidities.

Then it’s a matter of education to the surgeons to let them understand there is a product out there now that can help them with the healing aspect of these patients due to the high number of comorbidities that they have.

**Q:** Got you. And do you get about $700 in revenue per use?

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

We don’t like to give out that number for many reasons. But, I would just say, you’re in the ballpark.

**Q:** Okay. Thank you very much.

**Operator**

Thank you. We have no further questions in queue at this time. I will now turn the floor back over to management for any closing remarks.

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

We really appreciate everybody participating today. Thank you very much. And we look forward to continuing to do this in the future. Thank you all for being in attendance.

**Operator**

Thank you, ladies and gentlemen. This does conclude today’s event. You may disconnect at this time and have a wonderful day. We thank you for your participation.