

Transcript of
Sanara MedTech, Inc.
Sanara MedTech Inc. First Quarter 2022 Results and Business Update
May 17, 2022

Participants

Callon Nichols - Director of Investor Relations, Sanara MedTech, Inc.
Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.
Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.
Michael McNeil - Chief Financial Officer, Sanara MedTech, Inc.

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Sanara MedTech Inc. First Quarter 2022 Results and Business Update Conference Call. At this time, all participants have been placed on a listen-only mode. [Operator Instructions].

It is now my pleasure to turn the floor over to your host, Callon Nichols. Sir, the floor is yours.

Callon Nichols - Director of 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 March 31, 2022. We issued our earnings yesterday afternoon, and I would also like to highlight that we posted today's deck on our Investor Relations page. The supplemental deck as well as a copy of our earnings release, the Form 10-Q and a transcript of this call will be available on this page.

We will reference this information in our remarks today. We expect today's prepared comments from Ron Nixon, Executive Chairman; Zach Fleming, Chief Executive Officer; and Mike McNeil, Chief Financial Officer to last approximately 15 minutes to allow time for Q&A.

Certain statements in this conference call and our press release and 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 materially from those projected or implied by forward-looking statements, please see our most recent annual report on Form 10-K and our Form 10-Q for the quarter.

Now I'd like to turn the call over to Ron.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Callon, and good morning, everyone. In the first quarter of 2022, Sanara generated \$7.8 million in revenue, representing a 56% increase from the prior-year period. Additionally, we had our first \$3 million month -- sales month in March, which was a significant milestone for our sales team, coming at a net loss of \$3.2 million in the quarter. Our net loss was impacted by higher SG&A, which increased \$4 million year-over-year, in addition to higher R&D costs, which rose slightly less than \$100,000.

Losses due to the equity method accounting for our investment in Precision Healing also impacted our net loss, which increased by approximately \$300,000 year-over-year.

Breaking down first quarter SG&A further, total costs related to commissions and selling fees were \$3.2 million. Total Sanara costs related to compensation and benefits were \$2.9 million, excluding compensation and benefits for Rochal and WounDerm, which were \$300,000 and \$200,000, respectively.

Total costs related to sales, marketing and clinical studies were \$700,000. Total costs related to Rochal Technologies were \$600,000. Total costs related to WounDerm were \$800,000, including \$450,000 in transaction costs associated with our Precision Healing merger.

For the rest of the year, we expect to see continued growth in surgical sales, while we further develop new products, seek additional partnerships and evaluate new opportunities that are synergic to our current offering.

Based on the current growth rates in our internal forecast, we're on track to achieve our goal of being breakeven on a cash flow basis in 2023. During the quarter, our surgical team continued to focus on increasing facility approvals, driving product adoption in existing facilities, evaluating new products and supporting research, improving the efficacy of our current product offering. Zach will expand upon more of this in his remarks.

Subsequent to the end of the quarter, in the month of April, we acquired the remaining ownership interest in Precision Healing not already owned by us. Prior to this transaction, the company owned 40.3% of Precision Healing. We view the Precision Healing multispectral imager biomarker assay as an important technology to further enhance the Sanara Technology platform and our comprehensive wound and skin offering.

We believe that wound and skin data collected by the Precision Healing platform will aid clinicians in accurately diagnosing the wound condition and ultimately leading to the development of clinical practice guidelines used to treat the wound, which will also then further lead to increasing healing rates and decreasing costs.

This technology platform is expected to allow the company to develop ongoing evidence-based treatment algorithms, as more wound and skin conditions are analyzed. The imager and biomarker assay 510(k) are being prepared for submission to the FDA and are expected to be filed before the end of Q3 2022.

Now I will ask Zach Fleming to discuss our accomplishments in more detail.

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Thanks, Ron. Our surgical team continues to generate strong sales growth, penetrating further into existing territory and also expanding into new areas. At the end of the first quarter, we had 31 total field sales reps employed, eight of these are territory managers or TMs. We continue to see growth in our distributor partnerships and increase both the number of teams and individuals representing our products.

At the end of Q1 2022, CellerateRX have been sold in 562 hospitals or ASCs across 26 states. During the trailing 12 months, it was approved to be sold in 1,250 facilities as of the end of the first quarter. As we've discussed before, we believe there are approximately 12,000 hospitals and ASCs in the United States where CellerateRX Surgical could potentially be used.

I'll now turn it over -- back over to Ron to discuss our WounDerm platform in detail.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thanks, Zach. As I mentioned earlier, we believe that the Precision Healing multispectral image and biomarker assay are critical to our strategy to use data to drive power comprehensive wound and skin care solution to achieve better healing rights at a lower cost of care.

I want to take a moment to review the components of the WounDerm platform and why we think it's unique and will add significant value to the health care system. As I've discussed before, the current reimbursement model for wound care is episodic throughout the continuum. This results in patients moving from care setting to care setting, with limited care coordination across the different care settings, such as the hospital skilled nursing facilities and home health.

The treatment is often inconsistent, not based on detailed wound diagnostics and is focused more on site-specific management of the wounds. This can lead to suboptimal outcomes for patients and higher cost to the system, including readmission back to the hospital.

Our comprehensive offering is expected to diagnose and treat the wound based on data from the wound, allowing the clinician physicians oversight and support through virtual consults in any care setting, wherever that wound patient may be.

We have made these strategic investments to build a complete technology-based solution that we believe will impact outcomes, while lowering the overall cost as we've mentioned. It includes the Precision Healing diagnostic platform, our virtual console throughout -- through the wound and skin platform, proprietary products in our six focused areas and our proprietary EMR collecting data to further develop proprietary treatments for wound patients.

We believe this is a very important part to the payers in Medicare Advantage and other at-risk arrangements, such as bundles, et cetera.

On Slide #8, we have laid out all the pieces of our offering in detail from research and development capabilities to diagnostics and products. We believe that Sanara is the first mover in terms of offering all of these components through a single strategy.

We will continue to compete in a fee-for-service environment. However, this will ultimately position us to partner with managed care companies and offer a value-based solution for wound and dermatological care, where there will be more emphasis placed on these value-based arrangements.

I look forward to answering any questions you may have on this offering in the Q&A. With that, I'll turn it over to Mike to discuss our financial results.

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

Thanks, Ron. First quarter revenues totaled \$7.8 million compared to revenues of \$5 million for the first quarter of 2021, representing a 50% -- 56% increase over prior-year. The higher revenues in 2022 were primarily due to increased sales of our surgical wound care products as a result of our sales force expansion and our continuing strategy to expand our independent distribution network in both new and existing U.S. markets.

SG&A expenses for the first quarter were \$9.4 million compared to SG&A expenses of \$5.4 million for the first quarter of 2021. The higher SG&A expenses in 2022 were primarily due to increased selling costs resulting from our sales force expansion and operational support, higher sales commission expense as a result of higher product sales, higher noncash equity compensation costs and higher payroll costs related to the addition of the Rochal workforce in July 2021.

Breaking down first quarter SG&A further, total costs related to commissions and selling fees were \$3.2 million, total costs related to compensation and benefits were \$2.9 million, excluding Rochal and WounDerm which accounted for \$300,000 and \$200,000, respectively.

Total costs related to sales, marketing and clinical studies were \$700,000. Total costs related to Rochal Technologies were \$600,000. Total costs related to WounDerm were \$800,000, including \$450,000 in transaction costs associated with the Precision Healing merger.

As part of our strategy to expand our sales reach in new and existing markets, we employed 13 additional field sales manager since March 31, 2021. The company had a net loss of \$3.2 million in the quarter. As Ron mentioned previously, our net loss was impacted by increased SG&A costs, which increased \$4 million year-over-year.

Higher R&D costs increased by \$100,000, and higher noncash losses related to our equity method investment in Precision Healing increased by approximately \$300,000 year-over-year. Our cash at the end of Q1 was \$16.1 million.

With that, I'll turn it back to Ron for some closing remarks.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Mike. As we've discussed in the first quarter, our team generated record sales, including first month with over \$300 -- \$3 million in sales.

We believe we have the key components needed for the comprehensive wound offering and are focused on submitting our 510(k) for the Precision Healing multispectral imager and biomarker assay.

That concludes our remarks, 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. [Operator Instructions] And we have one question coming from Michael Lou, Private Investor.

Q: Hi, thanks for taking my questions. And congrats on the very strong quarter, guys. My first question is related to the hospitals that you're currently selling Cellerate into. I'm curious if you'd be able to maybe quantify where the growth is coming from exactly, if it's coming from -- as most of the quarter-to-quarter growth is coming from additional hospitals you've signed on, like the 100 or so, you're selling into additionally every quarter or if the sort of legacy or older hospitals that you've already been in for some time are continuing to grow like where the growth that we're seeing is coming from?

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Sure, I can answer that. This is Zach. We're going to -- we are definitely working hard to expand within our hospitals and get deeper reach, and that would be where most of that comes from.

Q: Okay. Great, thanks. And then I also was wondering if you could update us on the time line for rolling out the second generation of Cellerate that you're developing and if you expect any margin or pricing or any sort of differences with that like what the main purpose of that is and how that will impact the financials in the business?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes, we've -- this is Ron. We continue to work on that in multi-areas of experimentation to see what exactly we can do to improve efficacy. We have such a high efficacy product in Cellerate, but we're further looking at what is it that these surgeons need or require for the continued improvement of our product or complementary products around it.

So we don't have a date specific yet, but we are moving forward on it, and it's a top priority for us to continue to seek out solutions that are better for our customers.

Q: Okay. Great. And on the -- I noticed you said you had your first \$3 million a month sales record in history, which is a very strong accomplishment. I was wondering if you could elaborate on that, if there was anything specific in this quarter or this month that there were like stocking orders or anything or if that's sort of what you see as a new run rate for the business or just business as usual, the business continues to grow and that's representative of where the business is growing, too.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Zach?

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Yes. Thanks for the question. So we are doing everything to keep our business running at a fast rate. And as you know, we hired quite a few new representatives that we mentioned earlier, and they are now starting to get up to speed and start having impact in their territories. So we expect to continue on a great path and do exactly what we've been doing.

Q: Okay. Great, thanks. And my last question was, I was wondering if there were any updates on the WounDerm pilot and the expansion of the pilot that you're doing right now. And maybe like what, I guess the milestones for that product offering would be for this year, like everything you're trying to accomplish?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes, it's progressing nicely. So with all pilots, we had some just logistical issues getting set up, but we have expanded it into a larger pool of agencies to be able to draw patients from. The one thing that this pilot does not include to date is the imager nor the biomarker assay. We're looking forward to when we can incorporate that as well to complete the full strategy. But it is going fine, and we're continuing to work through that. And when we have the data from that, we will let the shareholders know.

Q: Okay. Excellent, thanks. And I did have one more question. So related to -- I think you mentioned anticipating achieving breakeven by 2023. Just to clarify, is that breakeven across the whole business? And I'm also curious if you think that just Cellerate sales can get you there, so Cellerate can sort of continue to cover the cost of the R&D and the WounDerm side and create breakeven by itself, even covering those expenses, if you could just clarify that.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Sure. We have high expectations for Cellerate to continue on its path of success. However, we also have expectations that the WounDerm platform will be implemented hopefully, by the beginning of 2023. So we do expect to see contribution from the WounDerm platform as well.

Q: Excellent, okay, thanks. Thanks for taking the questions and congrats again on the great quarter.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Michael

Operator

[Operator Instructions] Up next, we have Ian Cassel with IFCM. Your line is live.

Q: Yes, my question is about Precision Healing. Once that device is approved, is that something that's going to be -- can that be sold through your current sales reps? Or will that be more or less sold kind of through a bundled solution through the comprehensive wound care solution as a whole? Or would that be sold through your sales force?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

It can be both, it can be both, Ian, because it is -- there is a lot of attention being paid to diagnostics. Currently on the market, there is nothing like the Precision Healing technology, especially in combination with our biomarker assay and our imager. And currently, reimbursement centers around infection and -- which is just one aspect of wound healing.

And so we think that it's going to be impactful. We think it's going to have application throughout the continuum, so it should have application in home health, it should have application in wound centers, it should have application in the skilled nursing facilities.

So we think anywhere where you've got wound patients, ultimately, you need to have a diagnostic tool or you're only guessing. And so we do see a -- it going through multiple types of channels. And so -- but all those channels are on the selling side or to reach what I just described in terms of the different care settings.

Q: And then I think a question I asked in the previous earnings call. Both you and Zach were really enthusiastic about BioSurg, which I believe you hope to have one market at some point in 2023. Can you maybe get an update on that product and if it's still on track?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Sure. Zach, do you want to take that?

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Sure. Yes, it's still on track, still enthusiastic. We'll be looking at that, as you said, in 2023.

Q: Maybe Zach, could you explain a little bit why you're excited about that product and how it fits into the portfolio?

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Yes, sure. It kind of fits into the sense that, right now, there's a lot of focus on, as we talked about, these bundles and owning patient in the wound post-surgical and making sure that those outcomes are good long term.

So this product feeds into that in terms of reducing the bacterial load on incision or surgical wound. And so therefore, as that gets decreased, that patient has a better chance to heal and get very outcome.

Q: And is that -- is there a product that you're displacing with BioSurg? Or is that sort of a greenfield opportunity?

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

I think it's been a standard to do things for the incision in wound over the years, whether that be a doctor's kind of cocktail of treatment with a medicated wash or saline. And so this is just the next phase, and you see some other products out in the market that do this as well.

Q: Yes, thank you.

Zachary Fleming - Chief Executive Officer, Sanara MedTech, Inc.

Thank you, Ian.

Operator

[Operator Instructions] Okay. It looks like we have no further questions in queue. I'd like to turn the floor back to Ron Nixon for closing remarks.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

All right. Thank you, everyone for joining us. We really appreciate it, and we hope the information today was helpful to you. And we look forward to speaking again in the next quarter.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.