

.Transcript of
Sanara MedTech, Inc.
Sanara MedTech Inc. Fourth Quarter 2021 Results and Business Update
March 31, 2022

Participants

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

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Sanara MedTech, Inc. Fourth Quarter and Full-Year 2021 Results and Business Update. At this time, all participants have been placed on a listen-only mode. And we will open the floor for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Callon Nichols. 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 and full-year ended December 31, 2021. We issued our earnings yesterday afternoon and I would like to also highlight that we will post today's deck on our Investor Relations page. The supplemental deck as well as a copy of the earnings release, the Form 10-K 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 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 involved in 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 Annual Report on Form 10-K.

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

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Callon, and good morning, everyone. Sanara generated \$7 million in revenue and had a net loss of \$3.6 million in the fourth quarter of 2021. For the full-year, revenues were \$24.1 million, representing a 55% increase from the prior year. Our net loss in 2021 was \$8 million. Despite impacts from COVID-19 surges throughout the year, our surgical team was able to generate record sales in both the fourth quarter and the full-year. Our net loss was largely driven by an increase in SG&A, higher R&D costs and the recognition of losses on equity method accounting for our investment in precision healing.

Throughout the year, the surgical leadership team continue to focus on adding high-quality, experienced regional and territorial sales managers to our sales force, gaining additional hospital approvals, driving product adoption and introducing new products. Zach will cover more of this in his remarks.

In the fourth quarter, we continued to work on our rollout of our EMR WounDerm. We also completed the first virtual consults as part of our pilot in the Home Health Industry segment and continued advancing the development of the WounDerm platform.

Also in the fourth quarter, we made additions to the Board and changes in the leadership team to strengthen our teams. In December, Mike Carmena retired and step down from his position as Vice Chairman of the Board of Principal Executive Officer. I'd like to take this opportunity to thank Mike for his years of service at the company and for helping to set the foundation for where we are today.

The Board made the decision to promote Zach Fleming to Chief Executive Officer in recognition of his leadership skills, strategic vision, and industry expertise. In December, Ross Mack and Eric Tanzberger were appointed to our Board. Both are value-added Board members, and I'm confident that their expertise and experience will add different perspectives as we continue to execute our strategy.

Now I'd like to turn it over to Zach Fleming to discuss our results in more detail.

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

Thanks, Ron. Our surgical team continues to grow in terms of sales, hospital approvals and the size of our team. In the fourth quarter, we added an additional person to our field sales team, and that brought the total to 30 individuals. Seven of these are territory sales managers or TSMs. Going forward, we will continue to increase the proportion of TSMs to regional sales managers or RSMs in our sales force.

The TSMs work to further penetrate markets covered by our regional sales managers, and they generally receive a lower salary compared to the RSMs, while the RSM model will continue to be utilized to open markets and they will establish business and grow our representative coverage. We continue to see growth in our distributor partnerships and increased both the number of teams and individuals representing our products.

And at the end of Q4, Cellerate had been sold in 471 hospitals and ASCs across 26 states that was during the full-year of '21. And we were approved to be sold in over -- or in approximately a 1,100 facilities. As we've discussed before, we believe there are approximately 12,000 hospitals and ASCs in the United States where Cellerate Surgical could be used.

In Q4, we continue to see strong demand for and interest in our products. And as Ron mentioned, our team achieved record sales for both the quarter and the year. December was also a record high sales month for the company. And throughout the year, we saw an increase in our sales across a larger geographic area as well as wider adoption within key facilities.

We also formally launched two innovative Extracellular Matrix products, FORTIFY TRG, Tissue Repair Graft and FORTIFY FLOWABLE Extracellular Matrix. And we saw our first sales of FORTIFY TRG Tissue Repair Graft in Q4. FORTIFY FLOWABLE is included in the facilities medical severity diagnosis-related group payment for each unique case. Where for FORTIFY TRG in the hospital setting, the product is also considered part of the MSDRG payment. However, in ambulatory surgical centers, it falls under a hectic code or HCPC code and is packaged into the facility's payment for each unique procedure performed.

Turning to our comprehensive strategy. We continue to have discussions with a number of value-based and at-risk health care companies. In Q4, our pilot for virtual consults in our home health care space saw positive results and our partners committed to expanding the service offering from one to an additional six agencies in the Midwest in Q1 '22. WounDerm/Mgroup is now licensed in all 50 states, expanding our ability to offer wound care virtual consult services.

Additionally, in Q4, we started the implementation process with Homecare Homebase, the largest EHR provider in the home health market, integrated the WounDerm mobile app. The Precision Healing Imager 510(k) is being prepared for submission to the FDA and is expected to be filed before the end of Q3. The submission target make was changed due to a strategic decision to file with the commercial unit design rather than the beta unit design. If we had filed using the beta -- excuse me, if we had filed using the beta design, we would have been required to file a new submission on the commercial unit as well.

The Rochal assets are now fully integrated into Sanara as Rochal Technologies, and we continue to work with the added Rochal employees for a number of products, including next-generation Cellerate and HYCOL as well as BIASURGE, our sterile antimicrobial cleanser for the surgical market.

I'll now turn it over to Mike McNeil to discuss our financial results.

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

Thank you, Zach. For the year-ended December 31, 2021, we generated revenues of \$24.1 million compared to revenue of \$15.6 million in 2020, an increase of 55% over prior year. The higher revenues in 2021 were primarily due to increased sales of our surgical wound care products as we continue the execution of our strategy to expand our sales force and independent distribution network in both new and existing U.S. markets.

SG&A expenses for the year ended December 31, 2021, were \$28.1 million compared to \$18.7 million in 2020. The higher SG&A expenses in 2021 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 non-cash equity compensation cost, higher payroll costs related to the midyear addition of the Rochal workforce and higher costs associated with the launch of our WounDerm technology platform.

Breaking down SGA a little further sales expansion, sales force expansion and operational support were responsible for 16% of the increase, while higher commissions related to our higher sales represented approximately 39% of the increase. Non-cash equity compensation was responsible for 9% of the increase and costs related to WounDerm and Rochal accounted for 22%.

In addition, the costs related to travel and in-person promotional activities increased in 2021 after those activities had been canceled or postponed in 2020 as a result of the COVID-19 pandemic. These costs accounted for 8% of the increase in SG&A. As part of our continued strategy to expand our sales reach in new and existing markets, we employed 11 additional field sales managers since December 31, 2020.

For the year ended December 31, 2021, we had a net loss of \$8 million compared to a net loss of \$4.4 million in 2020. The increase in net loss in 2021 was due to the higher SG&A costs discussed, higher R&D expenses and the recognition of our equity method investment in Precision Healing. Cash on hand at the end of the year was \$18.7 million. Cash used in operating activities for the full-year was \$4.8 million. Cash used in operating activities in the fourth quarter was \$1.8 million. The large increase in the fourth quarter was partly due to our strategic year-end inventory build, which negatively impacted fourth quarter cash by approximately \$500,000.

I'll now turn it back over to Ron for a few closing comments. Ron, you may be on mute.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thanks, Mike. As we discussed in both the fourth quarter and the full-year of 2021, our team generated record sales and saw the continued adoption of CellerateRX. We continue to pursue potential partnerships for our comprehensive wound strategy, while progressing on the Precision Healing Imager and new product development.

That concludes our remarks, and we look forward to answering any questions you may have. Matt, we're ready to open the call for questions. Thank you.

Operator

Certainly. Ladies and gentlemen the floor is now open for questions. [Operator Instructions] Your first question is coming from Ian Cassel from MicroCapClub. Your line is live.

Q: Congratulations on amazing year and also an amazing quarter. One of the questions I had was about Q4. I mean, you guys showed some nice acceleration in the numbers in Q4 when almost every other med tech company I track was making excuses on why they were contracting. And I just thought that's obviously a sign that you guys are executing. But I also wondered, was there anything abnormal about Q4, sort of a one-time stocking order or anything that positively skewed kind of Q4 over and above kind of normal execution?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Ian.

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

This is Zach. I'll go ahead.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Zach, go right ahead and answer that.

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

Sure. There was nothing unusual. I would just say that the kind of gate from COVID had opened, more surgeries were being done. Some of the backlog was -- of course, a lot of our surgeries are elective and so those were starting to be done. So we had less problems, I would say, related to COVID in that fourth quarter, but it was nothing unusual or large stocking order or anything of that nature.

Q: And maybe a follow-up question to that, Zach. What is like the normal cadence during the year? I know historically, kind of Q3 is normally the weakest quarter because a lot of the surgeons go on vacations and things like that. Is there any other kind of seasonality amongst the year?

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

I think you nailed that. We see that the fourth quarter tends to be pretty heavy, as you can imagine, as people start to come to the end of their deductibles and have the ability to do their surgery so maybe they've been putting off vacation time, et cetera. So that tends to be heavy. We see sometimes a lag right after the holidays. And I think that's fairly typical throughout medical. And as you mentioned, the summer time can be a little seasonal with vacation. So I think you actually hit it right on the head.

Q: Okay, thanks.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Ian, I would say that one of the things that leads to our outperformance of the other equivalent med tech companies that you're tracking is the fact that with the expansion of our geographic coverage and penetration into more hospitals, we have a larger pool that we're fishing in now, and we continue to grow that pool. So consequently, it aids us in outperformance.

Q: Maybe kind of on the other side of that question is, obviously, COVID may had impacts in January. Did you guys see material impacts from COVID in January? Or was it kind of mainly business as usual, and you're able to kind of pick up in other areas?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Zach?

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

In 2022, go ahead, Ron.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

No, I was just going to say I think Zach will confirm this. But our continued strategy is being executed, and we think things are much more back to normal. And so we're not seeing anything unusual.

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

So I'd echo that.

Q: Maybe one last question, then I'll just jump back in the queue. You mentioned your WounDerm pilot expanding from one agency to six agencies. Can you explain that a little bit more, like what is an agency? Is that a building? Is that a territory? Maybe kind of explain kind of what the potential of that partnership would be if it's successful.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes, an agency is where the location of the home health care company is that they cover up. They differ in terms of the quantity of patients that they have in that region, but they do have a -- it's typically a 50-mile radius or less that they've got that they draw from for those patient populations.

Q: Okay, thank you.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Ian.

Operator

Thank you. [Operator Instructions] Your next question is coming from Scott Weis from Semco Capital. Your line is live.

Q: Good morning guys. Great quarter, great year. As a follow-up to Ian's question now that we are through the first quarter, can you comment on January, February, March trends? Did you see a continuation in the strong growth you saw through the fourth quarter?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

You know Scott, we really tried to avoid giving any forward-looking statements, but I think it kind of summed up what I said earlier, which is we're continuing to execute our strategy and we're not seeing any disruptive factors that are hurting that. So I would just say for us, it's business as usual.

Q: Okay. Understood. As a follow-up, can you talk about your Investor Relations strategy? Do you have any intention in 2022 to participate in conferences, investor events, anything like that, that we can expect because I'd like to meet you some time on the road, if possible.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes, we haven't decided that yet, Scott, because everything turning back to normalcy now. We're trying to figure out travel schedules. We're looking at conferences that we want to go to, et cetera. But we'll post that when we determine what our schedule is going to be and let you know in advance.

Q: Okay, thank you.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Thank you, Scott.

Operator

Thank you. [Operator Instructions] Your next question is coming from Ian Cassel from MicroCapClub. Your line is live

Q: I had a follow-up question on Precision Healing, kind of your disruptive wound diagnostic product. Can you talk a little bit more about how Precision Healing kind of fits into your long-term strategy? And maybe also how you intend to monetize that as part of the strategy? Is there a reimbursement code that you can tap into on the reimbursement side for diagnosing wounds? Like how should we think about that?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes, very good question, Ian. I'm happy to take that. So Precision Healing is an important part of our overall comprehensive strategy because as we've said on many calls before, this is an

industry that has not had the diagnostic capability and a lot is done by visual site and experience through wound care providers. We believe that having a hyperspectral imager system that includes our biomarker assay will give us a distinct advantage in terms of understanding what is going on in the wound bed to then be able to develop precise treatment protocols and formularies for the wounds.

So we think it's a very critical component to what we're doing. And the way it would be reimbursed, it's either going to be reimbursed under a code. And there are some predicates out there that have already received a code. And obviously, you have to have coverage for that code, meaning somebody's got to pay for that. And then ultimately for us, as we've said many times, the value-based side of this business is where we believe it should go and head and that we want to be an integral part of bringing that solution to the table.

And therefore, the imager -- the imaging system, which includes the biomarker assay, will be something that will be very critical for us to really understand where we are and how we need to treat in order to be able to provide lower cost treatments and better outcomes.

Q: And on Precision Healing, Ron, is that a product that you think has also the potential for you to license that out perhaps internationally to get broader adoption at the same time?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

I think it has several potential opportunities. We haven't explored any of those yet because we're ready to get it into the field and get it used and beyond the extensive study that they've done on patients at University of Miami and Brigham and Women's up at Harvard. But yes, we will be exploring that for applications and that's probably not something that we would pursue if it's out of our field, and the wound care would be in our field and skin, it would be in our field. But outside of that, any applications that could utilize that technology would probably be under some sort of a partnership or license if we identify it.

Q: I saw in the 10-K, you began co-promoting, I believe, starting early this year in '22, some products with Scendia Biologics. Could you kind of explain potential of those products?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Yes. Zach, I'll let you take that.

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

Sure. We felt like we needed to offer what the surgeon needs to make surgeries go well. We had this partner, Scendia, that's out of Orlando. They were a distributor for us initially and had done a really nice job. We started to really understand their business and they have these complementary products that you saw. And those products, we noticed in all these other surgery that we go to, they were often being used in either bone biologic type products as well as amniotic products. And we felt there's a great handhold between that and Cellerate in order to complement.

And then in a real quick fashion, we were able to put together a relationship with them and grow that. And it's been able to now go into a joint venture, and I think that's going to be a real boon for us. And I do think there's some good long-term with that as well. I don't know, Ron, you might have some additional comments.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

No, I think you did a great job summing that up.

Q: Okay. Maybe one other question and either Zach or Ron, you can take this, maybe you both have different opinions. But which product that you're working on today that isn't on-market are you most excited about?

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

For me, probably BIASURGE because that's something that we think would fit nicely in the surgical market. But quite frankly, if it's in our portfolio for development, excited about it because it means that we see a fit to our either overall comprehensive strategy or to surgery.

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

Yes. And I would echo BIASURGE, but I'd also add Precision Healing. They're both very unique, one-of-a-kind great products, potentially game-changers in certain spaces. That BIASURGE is very complementary to what we already carry, again, kind of complementing the surgeon in terms of putting things in his hand or her hands that can complement the outcomes of their surgery.

Q: Okay, I lied, one more question. I saw this week that the largest health insurer acquired the largest in-home health provider. And I was wondering if you think that's a catalyst for your business and your vision, just some overall thoughts on that.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Every home health care company and every provider is a potential partner for us. So I don't think it hurts at all that you see more vertical integration of the provider and their services extending all the way through the home, and we think the home will be a critical part of our overall strategy as well.

Q: Thank you.

Operator

Thank you. [Operator Instructions] Thank you. That concludes our Q&A session. I will now hand the conference back to Ron Nixon for closing remarks. Please go ahead.

Ronald Nixon - Executive Chairman, Sanara MedTech, Inc.

Well, thank you, everyone, for joining our call this morning. We greatly appreciate having the opportunity to report our results. And thank you all for participating. And Matt, thank you for hosting it.

Operator

Thank you. Ladies and gentlemen, this concludes today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.