

1 **HESKA CORPORATION 2020 VIRTUAL INVESTOR DAY**

2 November 18, 2020

3 9:00 a.m. MT

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5 **Heska Corporation Participants:**

6 **Kevin Wilson** Chief Executive Officer & President

7 **Nancy Wisnewski** Chief Operating Officer

8 **Steve Eyl** Chief Commercial Officer, President, scil animal care

9 **Catherine Grassman** Chief Financial Officer

10 **Jon Aagaard** Vice President

11

12 **Jon Aagaard:**

13 Good morning everyone, and welcome to Heska Corporation's 2020 Virtual Investor Day.

14 I am Jon Aagaard, Head of Investor Relations for Heska. We are thrilled to have you here
15 with us today.

16

17 We have a full agenda and lots of exciting information to share with you. Before jumping
18 into all of it, however, I would like to remind you that during the course of this event, we
19 may make certain forward-looking statements regarding future events or future financial
20 performance of the Company. We need to caution you that any such forward-looking
21 statements are based on our current beliefs and expectations and involve known and

22 unknown risks and uncertainties which may cause actual results in performance to be
23 materially different from that expressed or implied by those forward-looking statements.
24 Factors that could cause or contribute to such differences are detailed in writing in this
25 morning's presentation, Heska's annual and quarterly filings with the SEC, and elsewhere.
26 Any forward-looking statements speak only as of the time they are made, and Heska does
27 not intend, and specifically disclaims any obligation or intention to update any forward-
28 looking statements to reflect events that occur after the time such statement was made.

29
30 Please remember, today's event is being recorded. To access audio controls throughout
31 the presentation, participants must click on the orange button with the white arrow on
32 the right side of the screen. From there participants can select from two audio source
33 options – computer or phone. If “phone” is selected, an access number, code and PIN will
34 be provided. All participants will be muted during the management presentation portion
35 of the event. To access the presentation slides, participants can select the document icon
36 in the Handout Panel to download the content at any point. The presentation and
37 webcast replay will also be available on the investor relations page on the Company's
38 website.

39
40 OK, now onto the fun stuff.. We have with us this morning, Kevin Wilson, Heska's Chief
41 Executive Officer and President, Nancy Wisnewski, Heska's Executive Vice President and

42 Chief Operating Officer, Steve Eyl, Heska's Executive Vice President, Chief Commercial
43 Officer and President of scil animal care company, and Catherine Grassman, Heska's
44 Executive Vice President and Chief Financial Officer. Mr. Wilson will begin today's formal
45 presentation and hand it off to members of Heska's management team. Upon its
46 conclusion, we will open the event to questions.

47

48 With that being said, it is now my pleasure to turn the presentation over to Kevin Wilson,
49 Heska's CEO and President. Kevin?

50

51 **Kevin Wilson:**

52 Good morning, everyone, and thank you for your interest in Heska. We appreciate your
53 time today. We have a lot for you today in a short amount of time. So let's jump right in
54 and set the stage, answer a few questions, and chase a few rabbits together.

55

56 The first foundational question is easy to answer. Is the market healthy and are the trends
57 favorable to Heska's lines of business now and in the future? On both scores, we believe
58 the answer so resoundingly yes that I won't spend too much of your time this morning
59 making the case. A quick fly over will do pets. Pet families, demographics, global economic
60 trends, the importance of pets in an uncertain world, the central role of diagnostics and

61 pet healthcare, and innumerable other favorable trends and metrics and pet health care
62 are resoundingly positive for Heska.

63

64 The industry-wide tide has been inexorably rising since the early 1990s and will continue
65 to do so for another several decades. And because this is true, the race is on to partner
66 with veterinarian sooner, and for longer periods than ever before, to help them, and to
67 help us to benefit from the secular trends and rapid growth in pet healthcare.

68

69 Additionally, we believe that the animal health global structure has organized itself in
70 ways favorable to Heska's position and focus. The integrated animal health cycle can be
71 divided into four main areas to care for all of the health care needs of pets. Pet's families
72 test. They treat. They control diet. And they go to the veterinarian to ensure great
73 outcomes.

74

75 Within this universe, we believe diagnostics plays a central role in all three, testing begets
76 specific pharmacy. Diagnostics informs and helps to select for specific diet. Diagnostics
77 informs all of veterinary care. Pets don't speak, and diagnostics is the voice of the pet
78 throughout the entire health care cycle.

79

80 Within diagnostics, Heska participates primarily in point-of-care blood testing, and point-
81 of-care imaging, and Heska intends to enter, with its point-of-care blood analyzers, into
82 the single solutions market currently served by Rapids. This is a large market opportunity
83 for Heska.

84

85 Heska also intends to enter the professional services market and telemedical specialty
86 consults, which we will discuss with you later.

87

88 And Heska believes that more central reference lab testing will continue to migrate to the
89 point-of-care focus of Heska – in blood testing, and also in microscopy. In blood testing
90 and microscopy, point-of-care continues to advance and testing menu, speed, accuracy,
91 and instant availability of answers and specialist level support.

92 All without reliance on the out-moated barriers to entry, that have long been enjoyed by
93 central reference labs, which include large capital investments and centralized assets, and
94 millions of annual, inefficient, and polluting auto trips and air-based courier routes.

95

96 Heska believes that these barriers are becoming liabilities, and several key central
97 reference laboratory services will be disintermediated by point-of-care and cloud, and AI
98 technologies that are faster, more reliable, and much more environmentally friendly,

99 because the setup is so favorable and Heska's starting point relative to the size and the
100 growth opportunity is so small, the work is well worth doing.

101

102 So how will we set about doing the work?

103

104 Well, first, let's start with our leadership. The best leadership begins with the truth about,
105 among other things, yourself, those around you, your capabilities and deficiencies, your
106 probabilities, your current state and your end state, the knowns and the unknowns and
107 the steps you will need to take to bridge the gaps. Having told the truth, we can make
108 decisions, move more confidently, and behave properly.

109

110 With regard to leadership, I'm amazed at the team Heska has on its side. We have, in just
111 a few short years, attracted and grown amazing talent. Some of these moves are the
112 subject of bland required filings that never do justice to the talent behind the names.
113 Some are not widely shared at all, but know this, the team Heska is full of energy, and it
114 is at the highest levels of expertise and credentialing in our history. And this team has
115 been enhanced greatly over the last 24 months organically, and also by acquisition of
116 talent in international markets.

117

118 As part of our mission, we continue to bring the very best experts onto our Heska team
119 to represent the company and its owners, even as we trust the next generation of
120 superstars to use their energy and smarts for Heska We believe this is key getting team
121 right from top to bottom.

122

123 As you may have noted on August 24th, we were honored to elect Mr. Steve Davis to our
124 Board of Directors. Steve is amazing. He has deep experience with multinational
125 manufacturing, servicing and installing of products and technologies.

126 As Heska enters its new phase atop the innovation chain, Steve's skills and experience will
127 be invaluable. He has done the things that we are now doing, and we're made much
128 stronger with this addition to Heska's Board of Directors.

129

130 Also, this morning, we're proud to announce the addition to our Board of Directors of Mr.
131 Bob Antin. I have known and admired Bob for over 20 years, and I can think of nobody
132 more central and impactful to the growth of the entire healthcare industry than Bob
133 Antin. Through his founding and growing of Veterinary Centers of America, Antech
134 Diagnostics and numerous other pet healthcare businesses, Bob is widely acknowledged
135 as the key figure in shaping much of our industry. And then the public markets
136 participations in it. Since the sale of VCA to Mars in 2017, Bob has remained active in our
137 industry, and we're thrilled to welcome him to Heska's Board of directors.

138

139 With the stage now set, let's begin by taking a bird's eye view of our complete Heska plan.

140

141 As many of you following Heska already know, I and our leadership team execute to multi-
142 year strategies and tactics, which when consolidated I call "Acts". I've always seen Heska,
143 as a three-act campaign. In Act One, we had to get things healthy and get them right,
144 while clearly demonstrating the results, capability, and culture to, at first, be relevant,
145 and then to move to influence in the markets we want the most. I do not believe you
146 should scale things that aren't firmly on a healthy foundation and aren't focused on the
147 right end state. We succeeded well in Act One.

148

149 In Act Two, Heska is to break free of the constraints limiting Heska's incredible
150 opportunities to grow and when at scale. We will become intrinsically more valuable and
151 central to the diagnostics market. We will possess unique, scarce, and powerful assets
152 and capabilities across global markets. We will build and begin to realize faster growing
153 invisibly sustainable sales and profits.

154

155 In Act Three, Heska is to win at scale while preparing to re-invent itself in the markets we
156 want the most, so we can win again for another 20 years.

157

158 And now, I'd like to take a few moments this morning to do a brief retrospective of the
159 Heska journey since I joined in March of 2013, Beginning with our Act One, I hope a bit of
160 review will provide a good context for the rest of our presentation.

161

162 In March of 2014, I was honored to be named Heska's CEO. And we had a lot of work to
163 do. In May of 2014. At my first Investor Day with you, I shared with you our first five-year
164 plan that we entitled Act One. To set the stage, let's recall where we began.

165

166 In 2013, Heska was not well positioned for the next 15 years and there was truth and the
167 criticisms of Heska and our ability and our prospects, concerns of relevancy and scalability
168 were valid. Our balance sheet was limited and our cash flows unsupportive of the
169 aggressive growth strategies necessary to be relevant and then to be the winner in the
170 markets we coveted. We were only a 3% holder of point-of-care diagnostics, market share
171 and even then only in the United States. Our point-of-care testing suite lacked key
172 features and key analyzers. There were too many reasons for top veterinarians to not
173 choose Heska, and we were constrained.

174

175 Heska was strictly limited to the United States and Canada. We lacked a digital and cloud
176 data strategy and infrastructure. Our diagnostics customer relationships were
177 unprotected and we're interruptible by our two much larger competitors.

178

179 We lacked the scale and momentum necessary to attract development and commercial
180 partners, innovative new testing platforms, disruptive technology licensing opportunities,
181 and perhaps most importantly, more top talent. Too much of our revenue was weighted
182 to lower margin lines with low defenses against disintermediation. We lacked proprietary,
183 in-house diagnostics platforms, and we were too far down the value creation continuum,
184 our other vaccines and pharmaceuticals segment revenues. And our high reliance on third
185 party distribution in our companion animal segment largely placed our success beyond
186 our own commercial efforts. Heska's growth relied upon the uncontrollable success or
187 failure of the commercial efforts of others.

188

189 It was often noted that Heska didn't make what we sold and didn't sell what we made.
190 And I'm proud to say that this Heska team made the needed fix to each and every one of
191 these circa 2013 criticisms.

192

193 In Act One, we got things largely right with an intense focus on getting product right,
194 getting team right, getting costs right, getting model right and getting narrative, right.
195 Virtually every deficiency and criticism of Heska, circa 2013, could be found and corrected
196 within these tactical areas, and it has worked. These imperatives are today deeply
197 engrained into Heska's DNA and they inform all that we do.

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At warp speed, Heska remade itself following exactly the Act One plan we shared with you in May of 2014. Heska continues to remake itself, following, exactly, the Act to plan, we shared with you, the first time in our May, 2018 Investor Day.

If the goal of Act Two was to create an entirely new Heska, and by the end of 2023, what would that look like? By the end of 2023:

- (1) The new Heska should double sales and be positioned two again, double sales.
- (2) The new Heska should be at the top of the value creation chain. Heska will develop, invent, and acquire rights to highly differentiated, highly valuable, highly effective products.
- (3) The new Heska, should be central within the long-term growth trends in health care, by occupying the most coveted position of closest to the veterinarian, by focusing on diagnostics, analyzers, consumables, and new professional services. And by driving deep pillars into the industries must have geographies. And,
- (4) Heska should accomplish these things, while building a profitable engine on a sustainable culture, backed by a pristine balance sheet.

217 And when we accomplish these things, we will be ready to win globally at scale. And we
218 will be a unique and rare company within the strongest Diagnostic lines with the deepest
219 customer base and the leading positions and geographies that are coveted most by
220 others.

221

222 To get there, in May of 2018 we shared with you that we would focus on several
223 tactics. And we called out some headwinds. We promise to grow market share grow
224 products, grow margin, grow sales team, grow utilization, grow geography, and acquire
225 inorganically. We have done all of these things successfully in 2019 and 2020 and we
226 anticipate doing them well through the end of 2023's Act Two conclusion.

227

228 In addition, we called out headwinds. We have traded delays and new product launches
229 in return for better performance and better margins in the future. These trades have
230 come at the expense of first half, Act Two margins ramping. Offsetting the headwinds
231 realize, we are ahead on many of our strategic imperatives and on many of our growth
232 metrics. For instance, in May of 2018, we shared that 2020 was targeted to deliver 172
233 million in sales, where we now anticipate \$185 million. We also shared the 2022 was
234 targeted to deliver \$216 million in sales, including international estimates, where we now
235 anticipate over \$250 million in sales for 2022.

236

237 Goals are never assured and they are often reached in a non-linear fashion. Regardless,
238 we intend to achieve our goals, and we believe we will. Catherine will share more on these
239 details with you shortly.

240

241 And the way we intend to deliver these goals remains unchanged. We still very much like
242 our plan.

243

244 Through 2023, we will grow market share, grow products, grow margins, grow sales team,
245 grow utilization, grow geography, and acquire. We have stayed closely to this exact plan
246 and aggressively implemented it. These seven tactics can be distilled down to support
247 three clear strategies. Before the end of 2023, we have promised to execute to a three-
248 point strategy to break out of the boxes we were constrained by in Act One so we can win
249 at scale. First, we will double the customers and geographies we serve. Second, we will
250 double the product and revenue streams we serve. And third, we will keep our eye on the
251 ball and continue to win in our current businesses. And today, with the first half of Act
252 Two complete, it is working. And we are on track.

253

254 Our hard work has positioned us well to deliver financially. And our accomplishments to
255 date have made us a much, much more intrinsically valuable and irreplaceable partner
256 for our customers and industry friends.

257

258 These three strategies will guide the remainder of our presentations today with a special
259 emphasis on our innovation strategy to double our products and revenue streams that
260 can be served by Heska, which we believe will be accomplished before the end of 2021.

261

262 Today's Heska has broken out of the United States-only geographic box. In 2018, as we
263 shared with you, Act Two, for the first time, 93% of our sales came from our North
264 America markets. Like we promised, we have launched organic expansion in Australia. We
265 have acquired in core Europe, and we've consolidated in Canada. This is a huge constraint
266 removed from Heska and we have accomplished our goal to double the geographies and
267 the customers we serve in the first half of Act Two – to have direct presence with twice
268 as many installed customers and more than twice as many potential customers, when
269 those customers and supporting trends are anticipated to be so positively growing
270 themselves and ever more reliant on our products for decades... Well, that's huge. We
271 have remade an early Act One significant constraint into a core strength in Act Two.

272

273 We begin the second act of Act Two with leading positions in the geographies we want to
274 win in the most. We have the team, the installed base, the expertise, and the pure play
275 focus on diagnostics to win.

276

277 And in our new international markets, we will go to market largely under the scil animal
278 care brand under the Heska motto and narrative, and targeting the Heska costs. We see
279 a great deal of similarity in key aspects of this international business and these markets,
280 to Heska circa 2013, and our starting financial metrics in this international segment at
281 roughly the same starting point as those of consolidated Heska in 2013. This management
282 team has done this before, and internationally, as we begin today, we are confident that
283 we are better positioned with a much better starting point than in 2013. We continue to
284 believe that international sales, and particularly margins can improve as we continue with
285 our prior experiences to execute our successful tactics. And as we succeed, our own
286 consolidated gross margins will improve. Catherine will share the details with you shortly.

287

288 And we have now, on a consolidated basis, an excellent mix that is firmly founded in the
289 highest growth areas in diagnostics. In addition, we now have a favorable balance
290 between point-of-care lab and point-of-care imaging. Our reliance on less controllable
291 third party engaged lines is now greatly reduced and relative impact. We control our own
292 performance through our own good work.

293

294 Heska is today a respected focus leader in veterinary diagnostics and that focus has
295 allowed us to for the past several years and still today continue to take market share in
296 the most competitive markets in the world. Today's Heska has remade an early Act One

297 deficiency around product mix into a core strength. In our present state we are now ready
298 to support scaling.

299

300 To summarize, as we enter the second half of this Act Two, we're now selling the right
301 things in the right places, to the right people, and in the right way under long term
302 subscription.

303

304 As most investors know, Heska goes to market, mostly under six years subscriptions, and
305 we see remarkable customer loyalty and fantastic subscriptions, renewal rates. Our
306 customer relationships are very long term. Since 2013, retention in Heska's reset
307 subscriptions has been above 95%, and renewals and extensions past the initial six-year
308 subscriptions period, have been fantastic.

309

310 Heska has had a central seat at the veterinarian's family table for decades, because we
311 delight our customers. And to delight our customers, we have dedicated ourselves to
312 innovation.

313

314 I'd like to spend the remainder of my presentation sharing with you some of our recent
315 and upcoming innovations, which is key to achieving our second major Act Two strategic
316 task, to double the product and revenue streams we serve.

317

318 One of the keys to success in point-of-care diagnostics is to have a full line of top quality
319 point-of-care blood lab, microscopy lab, imaging diagnostics, and cloud data and sharing
320 solutions that meet all of the needs of the modern veterinarian who is looking to the
321 point-of-care for more and more of their clinical and business needs. Heska is one of only
322 2 or 3 companies in the world that can meet this need.

323

324 Today's Heska has tightened its focus on diagnostics. Heska's climb to the top of the
325 innovation and value creation chain. This achievement makes Heska much, much more
326 valuable in just about every way. Heska now leads in product breadth features, benefits,
327 competitiveness, and satisfaction. Our customers, and our commercial teams agree that
328 our products and our roadmap are the broadest and most compelling assembly of
329 platforms. Heska now solves better than the others for the currently contested problems
330 and veterinary diagnostics. In fact, let's go ahead and hear from one of our customers
331 now.

332

333 "Hi. I'm Doctor Derek Burney for Veterinary Specialists of North Texas in Fort
334 Worth. We have been using Heska analyzers exclusively for at least the last three
335 years. And we've found their technology easy to use very, reliable, and, very
336 accurate. We're very excited to hear about some new analyzers that are coming

337 out that can do urine analysis and fecal flotations to have some of the most
338 challenging things that we do on a daily basis. Interestingly, the technology that
339 Heska is going to be using involves high definition optics, as well as Artificial
340 Intelligence. We can't wait for the opportunity to use these new diagnostic tools
341 and hope that Heska gets them to us rapidly.”

342

343 In addition to our ongoing upgrade and add-ons cycle, which is just heating up and is on
344 schedule to be the busiest in our history in 2020 and 2021, we have recently launched for
345 full commercial deliveries, several new lines to reach new revenues that were outside of
346 our capabilities in Act One.

347

348 We have succeeded because we have and will continue to prioritize creativity, agility, and
349 smart investment that delivers products to the market. We think big and we're very
350 creative with new analyzers now or soon to be released into the market.

351 Menu expansion into a large installed base will yield positive returns on investment
352 quickly.

353

354 The addition of major features and menu expansions to existing platforms often requires
355 between one and three million of investment and one to three years of time to reach our

356 markets. We see several menu additions that exhibit strong and rapid rates of return and
357 we're excited to pursue them on Heska owned and controlled platforms.

358

359 Each menu addition to successfully launched analyzer platforms, returns investment
360 faster, at scale, generates margin and long-term price opportunity, and makes Heska
361 owned analyzer platforms more valuable and more useful. Because of this, we have been
362 and continue to pursue upgrades to our current lines, and we anticipate several releases
363 in 2021, and of course we will continue to in-license analyzer and menu technologies from
364 third party innovators, in addition to continuing to invest in features and capabilities
365 within our own inventions.

366

367 In business development, we have strong capability, and we see opportunities to
368 advance, and current and new products, and current and new markets in creative ways.
369 Our work in this regard has been quite strong in Act Two. And we're optimistic to continue
370 our momentum with multiple smaller advances throughout the second half of our Act
371 Two.

372

373 In imaging, we have most recently launched a new standard definition offering alongside
374 our premium high definition digital radiography solution for small animal diagnostics. This
375 will help us hit new price points, both domestically and internationally.

376

377 For equine imaging, we have launched for Slate Hub users, the all new denti slate – the
378 world's only equine DR solution of its kind to help equine doctors and owners with a key
379 health care problem. And an ultrasound in 2020, we have launched the all new Heska
380 US10 premium, digital ultrasound for cardiologists, radiologists, and general practices
381 looking for the best in color flow and digital ultrasound technologies. This ultrasound
382 advances the Heska brand and has been well received. These products have assisted
383 Heska imaging in 2020, and we see them contributing to our international segment going
384 forward.

385

386 In 2020, we have also completed the full upgrade of our cloud bank to our all new cloud
387 infrastructure called HeskaView Plus. HeskaView Plus saves and protects for archival
388 sharing and reporting millions of digital radiographic and ultrasound customer studies.
389 We have migrated millions of our customers, radiographic, CT, MRI, and ultrasounds
390 studies to HeskaView Plus. We are excited about the new speed, scalability, and user
391 experience to desktop and mobile environments for our Cloud strategy under Heska View
392 Plus.

393

394 HeskaView Plus also now supports the receipt, storage and sharing point-of-care lab
395 reports and critically microscopy-based imaging studies like those we expect from our

396 new automated AI microscopy solutions. With our integration rights secured to the
397 Covetrus Practice Management Solutions, and others for our Heska analyzers and the
398 fantastic and scalable capabilities of HeskaView Plus, we are positioned with our digital
399 strategy to support our customers and to enter new lines of business.

400

401 While we are just getting started with what HeskaView Plus can do, and our new features
402 launches will be phased in over the next year, we are well along the way in our Cloud and
403 data strategy, and we're pleased with our progress and capabilities relative to the
404 competition.

405

406 Also in 2020, Element RC has launched for international markets and is being well
407 received. To remind you Element RC is our rotor chemistry solution. We see continued
408 expansion in the Element RC family and menu for 2021, and believe rotor chemistry will
409 be a positive Heska strength through our international markets, when combined with our
410 unique subscriptions offerings that we plan to offer with customer flexibility between
411 rotor and dry chemistry technologies. We think, especially for first- and second-time
412 adopters, this is a key and unique benefit that cannot be done well by the competition.

413

414 Continuing with our innovation in rotor chemistry, just this month, we began with our
415 excellent Spanish team to install our first Element RC3X systems. Initially targeted to

416 Spanish and German markets, the revolutionary multi-bay Element RC3X is the highest
417 throughput point-of-care rotor analyzer diagnostic solution in the world.

418

419 Element RC3X can serve the needs of the most advanced and largest users. The menu on
420 Element RC3X is the broadest and most flexible available in a rotor configuration, and like
421 our dry chemistry element DC5X, it is designed to complement the baseline model.

422

423 We believe this will be a powerful and exclusive addition to scil's arsenal in two of our
424 largest and most important European markets, and we look to begin commercial
425 installations in volume in the first quarter.

426

427 Moving over to immunoassays, where we believe Heska is especially well positioned,
428 Element i+ is also now commercially launched for Heska.

429

430 Targeted for use in all of our markets, Element i+ is a smaller, faster, sleeker, higher
431 sensitivity multiplexing, Heska exclusive upgrade to our successful Element i analyzer.

432

433 With the analyzer now launching and selling, we anticipate menu expansions for the
434 platform for many years, including continuation on pursuing four-plex capabilities in
435 infectious disease, which we believe is a very large market opportunity. With improved

436 performance and economics, launching Element i+ in full commercial quantities is a big
437 milestone that we believe will pay dividends for decades.

438

439 And most impactful, of course, is our new Element AIM. Prior to release, we have code
440 named this Project Element UF. We're launching this exciting new innovation as Element
441 AIM. Element AIM stands for artificial intelligence microscopy. For those investors
442 following Heska for these past couple of years, you recall that Heska originally intended
443 to launch Element U as a urine-only analyzer, with the additional ambition to later
444 develop and launch Element F as a separate fecal-only analyzer.

445

446 Long on our pipeline objective has been also to launch an Element M for automated
447 cytology slides analysis to open up even more very large markets to Heska.

448 We now believe we can do all three in one single premium platform and that, by doing
449 so, we will capture great benefits to quality, customer experience and business model.

450

451 At launch in 2021, Element AIM will be the world's first and only analyzer, designed
452 specifically for veterinary medicine to do both fecal and urine imaging in a fully automated
453 manner that is supported by AI for the best user accuracy and efficiency. We are
454 convinced that customers will appreciate doing both tests on a single analyzer.

455

456 All testing modes will utilize the latest imaging software and experience that will be
457 familiar to our many thousands of imaging customers. Element AIM is DICOM compliant
458 and it takes advantage of the very latest technologies and artificial intelligence and
459 automation.

460

461 We're thrilled with the progress and the possibilities, and we believe this new product
462 will define a whole new category of point-of-care lab testing and associated telemedical
463 specialist consultations. Built for purpose with Heska technology, Element AIM can
464 change the game.

465

466 When designing Element AIM, we took into account a multitude of factors. Element AIM
467 is designed exactly for veterinary teams and workflows. It is best-in-class for design, and
468 it is a workhorse.

469

470 Element AIM resolves complaints of analyzer fatigue. In this case, one is much better than
471 three. At Heska, we believe veterinarians deserve more than just a multitude of
472 repurposed devices from the lower end of human medicine. Element, AIM is the
473 premium, tailor fitted answer for veterinarians.

474

475 And Element AIM will become the benchmark for accuracy. Consistently accurate results
476 come with ease of use. Fewer steps, fewer complications, mean fewer chances to fail.

477

478 We also know from our extensive experience in imaging that what's not on the screen's
479 dataset cannot be diagnosed. Sample size does matter. If you are looking for needles in
480 the haystack, you have to look at more of the haystack. If you don't, false negatives are
481 much more likely and confidence fails. To overcome limitations in other designs, Element
482 AIM images nearly three times more sample, and can capture nearly 12 times more image
483 data for each dataset than the currently leading urine-only analyzer.

484

485 And when compared to long-available slide scanner technology, when used on a
486 traditionally prepared fecal float cover slip, Element AIM images nearly five times more
487 sample.

488

489 An element AIM is built with the highest quality image optics chain. And that image
490 objects chain is leveraged across urine, fecal, and all other microscopy images run through
491 Element AIM.

492

493 Element AIM is easy to use and easy to train on, because users only have to learn one
494 platform, one software, and one workflow. Element AIM provides the highest levels of

495 consistency with sample handling and full control of the process from sample insertion to
496 test completion is performed within the analyzer.

497

498 While today is not designed to be a marketing release complete with data and
499 comparisons, we do want to assure investors that we had Heska are well apprised of the
500 current manual methods veterinarian teams are required to follow for urine and fecal
501 imaging, and we are convinced Element AIM offers immense benefits. We're also aware
502 of recent launches of slide scanner solutions for fecal imaging, and we're similarly
503 confident that Element AIM offers substantial benefits. And we'll have a strong place at
504 the head of the class upon commercial launch. And we can't wait. So, what's the wait
505 going to be?

506

507 Well, we're still on track. We are progressing with US-based manufacturing of analyzers.
508 We intend for early adopter installations to begin in the second quarter.

509 Followed by limited pre-order and key account installations in the third quarter.

510 We anticipate general release of pre-orders in Q4 of next year, and full general release a
511 quarter thereafter. In each case, we project the international timelines will be one quarter
512 later than domestic timelines.

513

514 And now, let's take a look. But before we do, I want to level set your expectations.

515 We have spent thousands of hours and much sweat and treasure to make Element AIM
516 easy and simple to use. What you're about to see proves that we have succeeded. It's
517 simple. Element AIM is straightforward, and we're thrilled to say that simplicity is a key
518 design feature. So let's check it out.

519

520 I love it. As you can see, with Element AIM and the rest of our shared innovation pipeline,
521 Heska can now answer the needs of veterinarians in highly differentiated ways, and in
522 entirely new markets, better than the others. Our growth has given us momentum to
523 produce the best innovations and the biggest disruptions. Our internal research and
524 development is in high gear, because we see so much opportunity. Our licensing
525 development is in high gear with leading innovators because they see so much
526 opportunity and they see that Heska is the path to that opportunity. And our business
527 development is in high gear, because we see so much opportunity, and others want to
528 join with us to get at it.

529

530 As we end 2020 and throughout 2021, Heska entering the most busy, products' release
531 schedule in our history. We intend to launch major new products, new updates to existing
532 products, new menu items to currently installed products, and we intend to enter the
533 professional services market for diagnostics in teleradiology by leveraging our installed
534 base of thousands of digital radiographic and ultrasound solutions, and in cytology as we

535 push forward, with our intelligent microscopy technologies and software. We believe this
536 professional services market, while small for Heska, initially, can grow over time to an
537 annual opportunity, well in excess of \$25 million.

538

539 As you can see, our innovation pipeline at Heska is robust and exciting, and our
540 commercial teams will have a lot of work to do. And now I'd like to turn the presentation
541 over to Steve Eyl, our Chief Commercial Officer, for an update on our commercial efforts
542 and our commercial integrations. Steve?

543

544 **Jon Aagaard:**

545 And with that, we will take a three minute break before handing it over to Steve Eyl.

546 See you in three minutes...

547

548 Alrighty, we had a minor technical difficulty, which we have worked through. And with
549 that we will now be handing the presentation back over to Mr. Steve Eyl.

550

551 **Steve Eyl:**

552 Thank you Kevin, and good morning everyone. As Kevin has shown, we are very busy.

553 I'm going to limit my comments to a few areas of interest in our commercial progress.

554 Obviously, for competitive reasons I will limit my content and comments.

555

556 To begin with context, I'd like to share with you that our newly enlarged international
557 teams, commercial opportunities, and the tactics to benefit both our North American
558 and unifying International businesses are all in line with our expectations prior to
559 executing our acquisitions over the past 18 months. scil, throughout broader Europe
560 and CVM in Spain continue to be what we thought they would be, and despite COVID-19
561 challenges, they have both performed well. Our confidence to leverage our newly
562 doubled geographies, installed customer base, and combined volumes to capture
563 benefits of scale remains quite strong. The anticipated optimization areas continue to
564 be largely what was expected prior to our ownership, and we continue to see clear
565 points where we can add meaningful value. While not a perfect analog, our
566 International markets current state and our commercial efforts in them seem
567 wonderfully suited to the tactics we have followed in Heska's North America markets. In
568 light of our Heska learnings since 2013, we remain confident in our roadmap to leverage
569 our new, much larger global volumes and our thousands of coveted, close relationships
570 with customers in key geographies.

571

572 We continue to focus on three key tactics that are now familiar to those following
573 Heska. Not in order of importance, in both North American and in International markets,
574 we will:

- 575 1. **Get the Model Right and Scale.** With our past success in this area, we remain
576 confident to transition our commercial relationships with thousands of
577 veterinarians to subscriptions. As Kevin indicated earlier, we will grow with
578 veterinarians for decades in diagnostics, and we will continue to deepen our

579 unique position of close proximity to our end-user which is one of the most
580 coveted places in veterinary health. While conversion to a universal subscriptions
581 offering may drag on reported margins, we will follow the path of Heska circa
582 2013-2017 and we believe we will get it right. While we Get the Model Right and
583 Scale, we will also:

584 2. **Get the Product Right and Scale.** We intend to share in a more focused and
585 unified global product mix, while allowing for some localized variation, to drive
586 volumes and performance across all of our major diagnostics platforms. This has
587 already begun, but it is important to note that it will take time to flow through
588 the financial reporting. Our key priority is always to benefit end user
589 veterinarians and to provide for their needs without disruption. We will move
590 quickly in some analyzer platforms and more carefully in others. We are being
591 careful to manage our inventory planning, negotiations, internal team training,
592 external messaging, and upgrade cycles. As we move through these key initiatives
593 and our first in – first out inventories, we are confident we will delight our
594 existing customers with substantial upgrades to new platforms under
595 subscription, grow utilization of testing, increase volumes from the supplier and
596 end-user standpoint, launch into related profitable diagnostics services on the
597 foundation of our now larger footprint, and improve margins on both sides of the
598 Atlantic. While we Get the Model Right and Scale and Get the Product Right and
599 Scale, we will

600 3. **Get the People Right and Scale.** We have acquired great talent and deep native
601 cultural relationships with customers. The new Heska is one of a very limited

602 number of teams in the world that can claim to be experts focused in veterinary
603 diagnostics in both North American and core International markets.

604

605 In January of this year we acquired CVM Companies to move to the head of the
606 class immediately in Spain. In April of this year we acquired scil, to move to the
607 head of the class in Germany, France, Italy, and the Nordics, and even further to
608 the head of the class in Spain. After some months of COVID-19 work-visa delay,
609 we launched Ellie Baker to lead our European efforts from scil's Vernheim
610 Germany headquarters. Our Spanish leadership is fast at work blending CVM's
611 decades long success with scil's strong position in Spain and Portugal. Work with
612 key customers and teams in Scandinavia continue to advance. France, Italy, and
613 our other teams across Europe continue to do good work. In most International
614 markets in and adjacent to Europe, we will go to market under the decades
615 strong scil banner. And in Australia, where Heska has developed organically and
616 quickly in less than two years under fantastic Australian leadership, we will go to
617 market under the Heska brand. While it's never a perfect or an easy thing to
618 blend families, we are doing well, and are largely on track with where we expect
619 to be in our International segment people integrations.

620

621 In North America, we have folded scil Canada into our North America business
622 under the power and leadership of the scil Canada team. Heska has for many
623 years gone to the Canadian market through scil Canada and we have been friends

624 for some time. Integration has gone well and the performance has been solid in
625 preparation of 2021.

626

627 In further preparation for 2021, in the middle of this year our North American
628 teams undertook and completed our strategy to create one salesforce that offers
629 the full range of Heska diagnostics products to their local relationships. Imaging
630 diagnostics and point of care laboratory diagnostics are doing well under this
631 approach that is strongly supplemented by product experts in support of certain
632 markets. At the same time, we have undertaken efforts to add substantial clinical
633 expertise in support of our field commercial teams by bringing on additional
634 licensed veterinarians and PhD's with expertise in core areas such as clinical
635 pathology. We like our new model and increased skill sets as we finish out 2020
636 prepared for a very busy 2021. Except for already identified positions, we believe
637 we are largely at the levels of field commercial team and clinical products
638 expertise required to succeed in our efforts for 2021 product launches and we
639 have budgeted for and planned for our growth in 2022 and 2023. We will focus
640 our teams to win to grow market share in individual and corporate site
641 subscriptions and to expand, extend, and renew our subscriptions with our
642 valued customers. We will grow our utilization with new tests on our thousands
643 of installed analyzers and with the launch of new analyzers. We will position
644 ourselves closest to the veterinarian to answer their most difficult challenges so
645 that we will grow with them for decades as our broader market rises, as
646 veterinarians migrate to more diagnostics and away from other disintermediated

647 revenue streams, and as point of care diagnostics continues to win a great share
648 of testing away from centralized reference laboratories through convenience,
649 speed, and new testing methods and test menus, all in a much more efficient and
650 environmentally friendly way.

651

652 As we do these things, we will continue to follow Heska's simplified playbook in both of
653 our geographic segments. We will Get Product Right. We will Get Model Right. And we
654 will Get Team Right.

655

656 Of course, we remain mindful of the strength of our competition and the current macro-
657 environment challenges and unknowns. Despite these challenges, our historical
658 learnings, our clear strategy, our understandable tactics, our strong new capabilities,
659 our robust new products pipeline, our new and growing scale, and our early results in
660 new initiatives continue to point to success in our Heska plan.

661

662 And now, with this context in mind, and before turning the presentation over to
663 Catherine Grassman, I would like to introduce a few of our key country leaders to share
664 some thoughts with you.

665

666 "I'm Justin Choo, the New South Wales territory manager. I'm pleased to report
667 that COVID 19 has minimally impacted me and my territory as I've been very
668 active in rolling out the installation, integration, training, and support at 30

669 practices in the last quarter. This effectively triples our customer base and I have
670 more in the pipeline. I give credit to the great support of our small Australian
671 team for punching above their weight. We have set the bar high above our
672 competitors and will aim to continue to go above expectations.”

673

674 “I'm David Miskimmin, Country Manager here at Heska Australia. I'm currently
675 standing in our Melbourne headquarters where we're set up with both office and
676 warehousing to support our growing customer base. We're thrilled to be a part of
677 the Heska family and look forward to sharing in and contributing to Heska's
678 global success story. Having officially launched in April 2019, we've seen
679 significant growth with the introduction of Heska's unique RESET Subscription
680 Program. Our high level of service and support coupled with our competitive
681 pricing, seems to be going extremely well. Despite some of the economic and
682 operational burdens placed by all in 2020, we're seeing continued growth, tripling
683 our business in the last quarter alone. Our small team has done a fantastic job
684 delivering these results all without compromise. This would not be possible
685 without the support of our wonderful colleagues in the US. It's great to be part of
686 a company, and a team, that truly supports the industry and seeks to improve
687 both the clinical and financial outcomes of the clients they serve.”

688

689 “I am Roberto Ruperez Crespo, Veterinary Director and Country Manager of Scil
690 CVM in Spain and former owner of CVM. We are very happy to be a part of the
691 Heska group. Together we are stronger. We have already accomplished the

692 commercial integration of both companies into one sales structure. We are
693 number one in digital radiography. We are number one in ultrasound and we are
694 becoming number one in laboratory. In related sales business, the more
695 machines we install, the more consumables we sell, and more revenue we make
696 for the company."

697

698 "Hello! I'm David [Garcia] from scil France. I am from lab and I am very excited to
699 join Heska group. Over the years, scil has become a key player in diagnostics
700 across Europe. Today with Heska, we work hand-in-hand to strengthen our
701 positions and offer incredible solutions to veterinarians. As a global company,
702 committing our resources, strengths, I now hope we will definitely be the game-
703 changers that our vets expect. Understanding their needs, and offering adaptive
704 products, we are driven by innovation and development. We are looking forward
705 to bring awesome and powerful solutions that will enhance diagnostic for our
706 customers. Together we are creating a future of animal health."

707

708 "Good day to everybody and greetings from Germany. My name is Doctor
709 Stefanie Klenner-Gastreich and I'm a veterinarian and diplomat of the European
710 College of Veterinary Clinical Pathology. At scil animal care company, I'm part of
711 the Product Competency Center and the Scientific Product Manager, Laboratory
712 Devices. I'm excited to be now part of the energetic Heska team, and I'm looking
713 forward to develop and grow our excellent product portfolio, together with the
714 Heska R&D team, especially. I contribute with all my expertise and knowledge to

715 continuously grow and expand our business and especially to provide the best
716 analyzers and service to our highly valued customers.”

717

718 [Giorgio D’urso] “Wow, we are setting up a new world player! We have many
719 challenges ahead and many more opportunities to grasp. I have been working
720 with my Heska colleagues for some weeks and we are all moved by a lot of (1)
721 goodwill, (2) passion and above all, (3) competencies to succeed in this business. I
722 am really thrilled to be part of this company! Come on Heska!”

723

724 And with that, I’d like to turn the presentation over to Catherine Grassman, our CFO, to
725 put some numbers on the frame for you.

726 Catherine?

727

728 **Catherine Grassman:**

729 Thank you and good morning everyone. I have to say, this is an amazing place to work, a
730 place rich with opportunities for everyone associated with our Company. By leaps and
731 bounds the New Heska is coming into focus. Geographic and product expansion
732 initiatives have been the cornerstone of our work since our last investor day in May of
733 2018. We have shared our vision of doubling the geographies and customers we serve,
734 doubling the products and revenue lines we offer, and continuing to grow our core
735 business. In most companies, one of these initiatives would represent a five-year plan.
736 Not at Heska. Our team has been busy laying the groundwork and positioning Heska to

737 achieve these strategic initiatives, which are now beginning to be realized. The
738 achievement of these initiatives within this five-year timeframe, underpinned by a
739 growing industry with positive and healthy trends, even in uncertain times, which we
740 will continue to capitalize on, is generating and will continue to generate significant
741 value to our shareholders.

742

743 Before I present the multi-year outlook, while already included in the forward-looking
744 statement we provided at the beginning of this presentation, I'd like to again note that,
745 in addition to the inherent challenges of forecasting, the COVID-19 pandemic increases
746 those challenges and could significantly impact this outlook. While we continue to see
747 and budget for some challenges in 2021, we have assumed a general recovery in 2022.

748

749 As we turn to the multi-year targets, I want to provide one point of clarification. 2020
750 represents our previously communicated and reaffirmed guidance for this year. We
751 have also provided 2020 pro-forma, which includes the annualized impact of the scil
752 acquisition for comparative purposes.

753

754 Consolidated revenue of 220 to 230 million is expected for 2021, which represents
755 growth of approximately 20% based on our 2020 guidance.

756

757 Revenue growth of more than 12% and 10% is expected in 2022 and 2023, respectively.

758

759 Gross margin expansion is expected over time as a result of transitioning the
760 international customer base to the reset program and product rationalization. You may
761 recall a similar growth expansion in 2013 to 2017 when Heska implemented the reset
762 program domestically.

763

764 Adjusted EBITDA margin improvement is reflective of margin expansion and leveraging
765 of operating costs.

766

767 Our growth in 2022 and 2023 assumes largely organic growth of our existing structure
768 as of today. We remain active and agile in evaluating strategic opportunities that fit with
769 our focus on diagnostics, both core and ancillary products and services.

770

771 Growth in Point of Care Laboratory and Point of Care Imaging are key drivers in top line
772 growth year over year. In 2021, we estimate a range of 135 to 145 million in Point of
773 Care Laboratory, which is driven by global consumable growth as a result of continued
774 market share gain, including the impact of our international acquisition, positive
775 industry trends of increased utilization, our pricing profile, and new tests. A partial
776 recovery from COVID-19 related impacts in 2021 is also anticipated. Our launch of
777 Element AIM, scheduled for the second half of 2021, will benefit our North America
778 segment by increasing revenue with this analyzer. Consumable sales will be
779 incrementally benefited in 2021 due to the timing of the launch.

780

781 Global launch of Element AIM is expected in 2022. Again, instrument revenue will be
782 positively impacted as a result of a full year, global launch. Continued expected
783 favorable trends relating to utilization and pricing, as well as expanded test offerings,
784 including Element AIM, and continued focus on customer acquisition and retention, will
785 drive healthy consumable growth in 2022 and 2023.

786

787 Point of Care Imaging revenue of approximately 45 to 55 million in 2021 is expected due
788 to new customer placements and product rationalization in our International segment,
789 scil impact for full year, and an anticipated partial recovery from COVID-19 related
790 effects. At this time, modest growth year over year is expected after 2021.

791

792 Point of Care Laboratory and Imaging constitute approximately 80% of our revenue
793 profile. The remaining 20%, which consists of our immunotherapy products and contract
794 manufactured products are not expected to fluctuate significantly from 2020.

795

796 Further, our North America segment, which is largely our legacy Heska business, is
797 approximately 60% of total revenue. This ratio is expected to be fairly consistent over
798 the periods presented.

799

800 2021 gross margin and adjusted EBITDA margin are expected to be somewhat flat to
801 2020. Increasing consumable sales, which are higher margin, will be offset by:

- 802 - International reset subscription program transition and the continuation of
- 803 product rationalization, and
- 804 - Higher instrument revenue recognition relating to Element AIM in North America

805

806 2022 and 2023 profitability improvement will be driven by:

- 807 - Global offering of new products, increased higher margin consumable sales as
- 808 percent of mix and product rationalization, as well as
- 809 - Leveraged operating costs

810

811 In all periods presented, we expect to maintain our current level of research and
812 development.

813

814 While we have not provided a reconciliation to the nearest US GAAP measure for our
815 forward-looking estimates of adjusted EBITDA margin, due to certain factors being
816 unknown at this time, we do want to discuss our preliminary thoughts on GAAP
817 profitability. The timing and acceptance of Element AIM is a key assumption in our
818 model. Based on this and notwithstanding any other significant one-time costs
819 associated with potential acquisition activity, which is not assumed but is excluded from
820 adjusted EBITDA margin, we believe we will generate income from operations beginning
821 in 2022.

822

823 In consideration of Net Income, recently, the FASB issued a new standard to reduce the
824 complexity of accounting for convertible debt. For certain debt instruments with a cash
825 conversion feature, such as our instrument, the FASB simplified the treatment to
826 eliminate the separation of the debt and equity component thus eliminating the
827 discount that is accreted to interest expense. For Heska, this would mean a reduction to
828 interest expense for the non-cash portion of approximately 6 million on an annual basis.
829 We have not yet completed our analysis of this standard but preliminarily believe it to
830 be applicable to our instrument. Providing its applicability, we believe we will generate
831 net income in 2022. If it is not applicable, we believe we will generate net income in
832 2023. We expect to complete our analysis by our fourth quarter earnings call and will
833 update you then.

834

835 Our liquidity position is strong. In the past two years, we accessed over 200 million in
836 capital to fund over 125 million in acquisitions. We currently have approximately 85
837 million in cash, which is sufficient to fund our current R&D pipeline and remain
838 opportunistically flexible as we actively assess strategic M&A opportunities.
839 Notwithstanding any one-time costs associated with any future strategic opportunities,
840 we expect to begin to generate free cash flow in 2021.

841

842 Per our normal cadence, we plan to discuss our 2021 outlook in further detail as part of
843 our fourth quarter and full-year 2020 earnings call in February.

844

845 **Question & Answer**

846 Jon Aagaard:

847 Thank you, Catherine. That concludes our prepared remarks for the day. We would now
848 like to open the event for questions.

849

850 In order to ask a question, please select the orange button with the white arrow on the
851 right side of your screen to open the control panel. From there, click on the “Questions”
852 header and drop-down and then click on the hand icon to raise your hand virtually. If
853 selected to ask a question, your audio will be unmuted so that you can dialogue directly
854 with Company Management. Once your question has been answered, your audio will be
855 muted again. If instead, you prefer to submit a question via the question panel provided,
856 please type your question in the text box and click “send.”

857

858 Please remember, today’s Investor Day is being recorded. A link to the recording will be
859 sent in a follow-up e-mail once the event has concluded.

860

861 Again, with us from Heska management are: Kevin Wilson, Heska CEO & President, Nancy
862 Wisnewski, Heska Chief Operating Officer, Steve Eyl, Chief Commercial Officer and
863 President, scil animal care company, Catherine Grassman, Heska Chief Financial Officer.

864

865 We will now take our first question...

866

867 We will now take our first question from Mr. David Westenberg from Guggenheim

868 Securities. David?

869 ...

870 David Westenberg: Let's start with Element AIM. Very impressive presentation. It looks

871 awesome. It looks like it can do a lot. Can you talk about in terms of product development

872 and timelines, you know, what are the puts and takes in terms of getting it though. Can

873 you handicap high-low in terms of getting it to clinic and launch? And then can you discuss

874 adding on onesies twosies is if there's any product technological challenges along the way.

875 And what I mean by that is, you know, fecal and urine in its own right would be a large

876 market. Do you need to add on all of them at once? I mean, or, you know, just in terms of

877 cadence in terms of adding on menu and what should we should be expecting there?

878

879 Kevin Wilson: So, for element AIM we will launch with urine and fecal. And I think we'll

880 launch with the form menu of identifiable items within those and I think that's what we're

881 on track for in terms of the microscopy. It will not launch with full slide scanning capability

882 for blood slides in cytology. But, we're convinced that the platform and the technology

883 can support that, so initially it will be a double – urine and fecal and we agree with you,

884 that's, that's huge and we delayed for a year or so to combine and to get a platform that
885 could do the triple. And I think we're, we're confident that we can get there. Did I answer
886 your question? It will launch with urine and fecal. That's what we showed you today, and
887 we're quite confident in that regard.

888

889 David Westenberg: You're fairly comfortable with the timelines and in terms of getting
890 that through?

891

892 Kevin Wilson: Yeah, I mean, I think we are. We've tried to share with you what we actually
893 think will happen, and we think that will actually happen. So there's a lot of work there,
894 but we've got a good team on it and everybody's working hard towards it. And we haven't
895 identified any brick walls that we have to go under around or blow up, but there's a lot of
896 work there. Yeah, we like the timelines.

897

898 David Westenberg: Great. And then moving onto the imaging market. Can you help us
899 quantify that market? It's really hard to get an understanding of how big that market is
900 just given that so many practices will use repurposed human technologies. And if you
901 can't help us ballpark it, can you at least maybe talk about the contribution from new
902 products? Expectations on that, because it definitely does tend to be a little harder of a
903 market for us to size.

904

905 Kevin Wilson: Yeah, so let me talk about it in a five and a ten-year standpoint and then I'll
906 shrink it down from there. We intend to continue to increase our point-of-care lab, which
907 will now include, we'll call microscopy and blood, will be a greater percentage of our
908 revenues going forward. So put another way that should grow faster over a longer period
909 of time than imaging.

910

911 Imaging is traditionally subject to upgrade cycles. And depending on where the
912 technology was 5 or 6 years ago, versus the innovation that you have today versus the
913 cost and those types of things will drive upgrade cycles. So when we launch an ultrasound,
914 we're going after upgrade cycle, traditionally. Most of the customers that were selling
915 ultrasound machines to have prior units, and the newer ones just produce better images,
916 faster frame rates, higher sensitivities on color flow features, things like that. And same
917 thing with Digital X-Ray. There are thousands and thousands of older style computed
918 radiography, so kind of multi cassette manual digital systems out there, and frankly, far,
919 far more of those in the European markets that we're in. So hitting price points in digital
920 radiography, it feels a little bit like going from Polaroid camera instant to actual digital
921 camera instant and that tends to get the attention of the customer. So the bundling
922 opportunity is also very important to that piece on imaging, but I think we've given you

923 starting ratios just in terms of where we are with, with lab and the balance that we have
924 with imaging.

925

926 And I don't see cliffs in either direction. But long term, I do see the lab portion consuming
927 a greater portion of that mix. So I don't know if I answered your question.

928

929 David Westenberg: You did, and I'm gonna ask one more, just given that the technical
930 difficulties, I hope I'm not hogging, I have more but just the fact that we had some
931 technical difficulties, I wanted to maybe just ask one more, in case there's a transition
932 issue. In terms of, you made the parallel from Heska in 2000 I believe it was 2013 or 14
933 when you had \$75 million in revenue, and you know you grew that obviously to around
934 130 and then you know you're making the parallel with scil. Is it fair to say, though, that
935 maybe the Heska portfolio, the element products, might have been or are better
936 products, then maybe the scil products, and you know, help us make that parallel,
937 because with the products that you have, because maybe they don't need to be, because
938 you can add new products to this portfolio and scil, but, you know, if you could help us
939 on why that's an applicable parallel, that would be helpful to us.

940

941 Kevin Wilson: Sure. And there's one clean up there. The beginning point is less than 75
942 million in international revenues, and less than 35 million in margins. So.

943 So the starting point, I think, is roughly similar to where we were in 2013, and I think the
944 analog holds up, but to your question, I mentioned, and Steve has mentioned that the
945 international businesses and Heska broadly are actually in a much stronger starting point.
946 So the financial metrics look very similar, but we like our position. So put another way,
947 scil has much more than 3% market share in the markets it addresses. Heska started at
948 3% in the US in 2013. So there's a much larger install base for scil and our other
949 international markets to go after. So, we think that's a strength. The product portfolio
950 that Heska has and that scil has to go to the scil market as we rationalize those, is much
951 stronger than Heska's product portfolio was in 2013 and 2014. So, we think that looks
952 better than we did with the starting metric, and so I think what we're saying is, as we've
953 seen the starting point is subject to the same tactics. Getting the product right and
954 rationalized, getting the margins right, getting the cost right, getting the team right,
955 getting the narrative right, getting the model right. Transitioning the whole thing over to
956 subscriptions, which initially, as Catherine pointed out, will depress margins because of
957 higher amounts of revenue recognition related to the lower margin and equipment
958 portion of a long-term contract. So doing all of those things looks to us very, very similar.
959 But the team is much stronger, the install base is much stronger. The ability to move
960 margins, I think faster, is much stronger. And the ability to control your future. We have
961 more control with the direct Salesforce and direct relationships throughout Europe than
962 we did at Heska, in 2013, in terms of being direct, in terms of which revenue streams we

963 controlled, so that's a that's a stronger position as well. So, almost across the board, I
964 think the starting point is roughly the same, I think the tactics are roughly the same, in
965 terms of the financial starting point, but I think the starting point from a strength
966 standpoint, and the assets, and the people, and the relationships, and the install base are
967 substantially stronger than what we dealt with in 2013 and 2014. That's part of the
968 reason, I spent a little bit of time setting some of that context. The number of knots that
969 we untangled in 2013 and 14 to get Heska relevant and then to make influence from
970 Heska, we don't have to untie the vast majority of those knots in our international
971 businesses. They're in a much better shape than we were in 2013 and 14.

972

973 David Westenberg: I'll hop back in queue, I do have a few more.

974

975 Kevin Wilson: Thanks, David.

976

977 Jon Aagaard: Our next question will come from Andrew Cooper with Raymond
978 James. Andrew, I'm unmuting you now, so if you can unmute yourself, that would be great
979 and ask your question.

980

981 Andrew Cooper: Thanks. Can you guys hear me?

982

983 Jon Aagaard: We can.

984

985 Andrew Cooper: Perfect. So maybe, kind of following one of Dave's earlier questions on
986 AIM, you know, you gave some color around the launch timelines and some descriptions
987 around what that looks like, but could you help us define a little bit more. You know what
988 does limited pre-order mean in terms of number of instruments. Is that going to be all in
989 existing domestic customers? Just kind of how do we think about the pacing of that
990 launch, and you know, your ability to serve those customers? And then kind of tagging on
991 along with that, when we think about the 21, 22, 23 sort of guideposts, how do we think
992 about what AIM could be contributing to growth? Can you give us any sense on urine vs
993 fecal, kind of the two, and any extra color, just to frame what you assume that product to
994 be contributing would be would be great?

995

996 Kevin Wilson:

997 So, Catherine, why don't you talk kind of macro just in terms of percentages of our install
998 base, and how you look at that, and, and then I'll comment a little bit on what each of the
999 launch steps are, like, which, which customers and which buckets.

1000

1001 Catherine Grassman: Sounds great. And just making sure you can hear me OK.

1002

1003 Kevin Wilson: We can.

1004

1005 Catherine Grassman: OK, all right. Andrew, thanks for your question. Yeah, so, when
1006 thinking about Element AIM and our current install base, and in our future projections
1007 around net customer acquisition. When thinking about 2021, specifically, right, given the
1008 launch of it, and the timing of the launch, we're looking at all of North America, so current
1009 install base at about 10% targeted for 2021. On a revenue profile, so without getting into
1010 detail, on individual, on price or cost specifically, I can tell you that it's about less than 5%
1011 of our total revenue projected for 2021. As we move into a global launch in 22 and 23,
1012 we're still targeting about 10% annual install base, but on our global customer profile and,
1013 obviously with that, would come a significant contribution to revenue in those two years
1014 exceeding 10% exceeding 15%, just based on those, those targeted percentages.

1015

1016 Kevin Wilson: Regarding the ramp, so a limited early adopter, so that would be that would
1017 be somebody like the hospital on the video. So, he's, uh, he's a board-certified
1018 internist. He has a PHD. He runs a very nice specialty hospital. He's enthusiastic for the
1019 technology and has some expertise around the technology. And his feedback will be very
1020 good and will help us in terms of launching, marketing, training, those types of things. So
1021 you have a limited number of early adopters that you put in. And then, the next batch,
1022 we already have pre-orders and we think there's a very high demand. So the next batch

1023 will be limited pre-orders and key accounts, so perhaps you prioritize a couple of accounts
1024 and in Pathway, which is one of our wonderful corporate accounts. Similarly, with some
1025 very high levels of expertise in certain hospitals. So you don't ship every pre-order a little
1026 bit strategic about it. And then you get to in the fourth quarter, where you'll have a
1027 general release, ideally, on all of the pre-orders that you have, then the limitation
1028 becomes scheduling logistics, installations, and those types of things. And then full
1029 general release once you work through your pre-orders. I suspect pre-orders will continue
1030 to grow during that period. More customers will certainly be on it, our sales team will
1031 certainly be selling it. Internationally, with the exception of some of the early adopters,
1032 we'll, definitely get some international early adopters on board. But we'll basically be
1033 about a quarter later than each of those buckets, and again, the primary constraint is just
1034 logistics, languages, everything from power cord switches to documentation.
1035 And those types of things we plan for, and manufacturing of the actual analyzer will be
1036 here in the United States, and we think that's a pretty strong benefit from, for a strong
1037 launch as well.

1038

1039 Andrew Cooper: Great, and then maybe just one more on that product. I think if we think
1040 back to, you know, the initial launch of automated urine sediment analysis, the
1041 uptake, and I think the education process, even if the installs were happening, but to get
1042 that actual utilization in the clinic, I think, was maybe a little bit more difficult than some

1043 folks had imagined. So, you know, when we think about automating fecal, flotation and I
1044 know it's a pain point for the vet, and there's a huge number of them done, but you know,
1045 how do you think about, sort of, the training on getting them comfortable that one, the
1046 automated tool is going to work how they expect, and two, just to get in the swing of
1047 things of using it in that fashion. Is there anything in particular you can do to make sure
1048 that that adoption, once you get an install, is as swift as it can be?

1049

1050 Kevin Wilson: Yeah, there's nobody who's participated in any part of this who has to be
1051 encouraged to handle less poop in a more automated fashion. So I think adoption, they
1052 will be thrilled for it. Insecurity is what kills imaging diagnostics and insecurity can be, hey,
1053 there's a false, negative. So I made a mistake somewhere along the line that means I'm
1054 not 100% sure that my result is truly negative. Maybe I missed something. Maybe I
1055 scraped something off. Maybe I didn't prepare the sample. Maybe I didn't collect the
1056 sample...It's all of those things...So we've been very careful to try to reduce and make
1057 super simple, and I called that out a little bit before the demonstration. It takes a lot of
1058 work to make this simple and to remove opportunities to fail. So I think that's what kills
1059 adoption is insecurity. And I've seen that for years, it's the same thing with ultrasound
1060 machines. For instance, if there's not confidence in the ability to get a firm answer, it just
1061 gets used less and less. I don't think we'll have that issue with this product, because it is
1062 so automated. The images are so clear. It's pretty clear when you have a target image on

1063 the screen, it's big. It's super easy to use. You'll find the vast majority of the things that
1064 we've looked at in the market, they don't even operate on a touchscreen. You know,
1065 millennials and younger, who are who are veterinary technicians, who are the primary
1066 interface with this machine, they expect a touch screen and do something. And so we've
1067 really just paid an awful lot of attention to those things. So I don't think adoption is
1068 currently are our barrier, and look, you know, our wonderfully large and wonderfully well
1069 executing competitor has 10,000 or more urine-only sediment analyzers that we believe
1070 don't operate as well as ours. And, and I think they've gotten really substantial uptake. We
1071 don't have modeled anywhere near 10,000 in the financials we've shared with you.

1072

1073 Andrew Cooper: OK, that's helpful and then maybe just one last one here. I know you
1074 touched on it, but I'm going to stick on kind of the pipeline here. When we think about
1075 the i plus and really starting to roll out the instrument itself, maybe help us think about
1076 what you need to see to give you the encouragement to make some of the bigger
1077 investments, you know to your point for the four plex, and what the timing might be, and
1078 how we should be thinking about that opportunity, because I do think when we think
1079 about the Heska portfolio, you know, understand you've added, you know, as much
1080 breadth or more than anybody else has. But that does feel like the one piece that that
1081 isn't quite there yet in terms of, you know, the rapid offering. So, any extra color there,

1082 and how to think, sort of about the pacing of investment, and potentially return, and new
1083 products from that perspective would be great.

1084

1085 Kevin Wilson: Yes. So, I looked at it a couple of ways, Andrew. You have to install a large
1086 volume of analyzers to get a return on investment with testing menu. And I think we have
1087 a nice installed base of the current element i, and I think we have a nice clip of installs,
1088 for element i plus and an upgrade path to have a lot of these in the market. So we can
1089 invest with confidence, knowing that when we add a piece, a test menu, to a device that
1090 has thousands of installations, you have a built-in user force that really gives you volume.
1091 And so, we're already investing with confidence in that, and I called out that, that it takes
1092 between one and three years on menu, and each menu item takes between one and three
1093 million. To give you some context about what we're talking about. Regarding the 4DX
1094 competition, which is the leading and only multiplexing snap test is what they call it. It's
1095 a single-use test and, and it's a very good market. We think it's 100 to 150 million or more,
1096 to have, you know, heartworm, lyme, ehrlichia, anaplasma testing. And we decided, a
1097 couple of years ago to not try to do a me-too single-use test but that we believe our
1098 customers would rather have an analyzer that does more. And I called that out as
1099 well. There's a concept that we call internally, analyzer fatigue. You just can't put 42
1100 analyzers on somebody's counter. They don't have enough space for it. You can't put
1101 readers, you can't for forever. And so we think having a quantifiable test, we think having

1102 it fully integrated with your data solution, your practice management ordering tests going
1103 back and forth. And we think an analyzer that has more usage opportunities gets used
1104 more often, and the more often it gets used, it's a virtuous cycle. So we're investing for
1105 that already in terms of, you know when is a four plex infectious disease test coming, I'm
1106 not prepared to give that to you yet. But we're already working on it. And we've been
1107 working on heartworm, in particular, for that device, for some time now. So they are
1108 regulated tasks where I think we have good expertise in getting things through, regulatory
1109 bodies. But, we're already investing in those things.

1110

1111 Andrew Cooper: Maybe one just last final detail and I'll let others ask. But on that, should
1112 we expect a four plex test to be the first, or should we expect, you know, heartworm
1113 standalone, ehrlichia standalone, in a case like that, just to kind of have the right mindset
1114 of what the pace of messaging and rollout might look like?

1115

1116 Kevin Wilson: I can give you, our inclination would be to hit the higher standard. That
1117 would be our inclination. So we would far rather see the innovation that we're doing the
1118 at the high end of the standard, then then to kind of onesies twosies it, so I think that will
1119 be our inclination.

1120

1121 Andrew Cooper: Great! Well, I'll let others ask. I appreciate the time.

1122

1123 Jon Aagaard: Great. Our next call is right next question is gonna come from Mr. Ben
1124 Hayner, here from Alliance Global. Ben, I'm unmuting you, so if you are able to unmute
1125 yourself, you can go ahead and ask that question.

1126

1127 Ben Haynor: Can you hear me OK?

1128

1129 Kevin Wilson: Yes.

1130

1131 Ben Haynor: Excellent. Well, thanks for thanks for taking the questions, guys, and you
1132 know, it looks like this Element AIM is something really nice. You mentioned a couple of
1133 times, analyzer fatigue, and on the slide that you presented, introducing it that was kinda
1134 the first thing, mentioned in the design philosophy. You know, obviously, I forget the
1135 number you threw out there, but you know, 46 analyzers, you can't have them laying
1136 around the office, but can you talk maybe a little bit more about that, and what you hear
1137 from practices on that front? I mean, it sounds like it's a bigger deal, that you guys have
1138 brought up, that you don't necessarily hear from, from some of your competitors.

1139

1140 Kevin Wilson: Yeah, so I'll give you a little bit of context. There are a lot of great ideas out
1141 there. There are good licensing opportunities that are single-use, that are for a specific

1142 thing. And so you'll see a lot of PowerPoint decks with some cool technology that looks
1143 very exciting, that can do one thing. And it's very difficult to say, OK, I want an analyzer to
1144 do one thing. Because there's an unlimited number of one things. And so, I think what
1145 customers are looking for is, they're looking for an immuno assay solution and molecular,
1146 they would be looking for a PCR solution that can do multiple things and has a roadmap
1147 to do multiple things. And so we think that the limitation with microscopy solutions is
1148 that, frankly, the work hasn't been done to deliver what customers rationally would want,
1149 which is a device that can answer their intelligent microscopy needs. A broader category.
1150 So, it's not a urine analyzer. It's not a fecal analyzer, and it's not a blood slide scanner,
1151 that's just been adapted for some purpose. It's an analyzer that answers the
1152 veterinarian's, microscopy, AI-supported needs. And so that's the context, and that's why
1153 we've always tried to push, from a business standpoint, I pointed out in the past, it's
1154 substantially important. And I'll just, you know, by way of illustration. If you try to do a
1155 subscription, and you have to place 3 10,000 dollar analyzers over a six-year subscription,
1156 you've got \$30,000 of capital costs that have to be accounted for over a 6, 7, 8 year
1157 period. And that becomes really large hurdle before you get to accounting for the
1158 profitability of the test. And it becomes a hurdle to minimum utilization, which becomes
1159 a barrier to customers wanting to implement it, because you have to go to that customer
1160 and ask them for two or \$3000 a month and minimum utilizations simply because you
1161 duplicated optics, you've duplicated light sources, you've duplicated computers, you've

1162 duplicated, and you've chewed up their counter space, all of which are bad, but you'll also
1163 have ruined your business model because your fixed costs become so high that they have
1164 to be borne by the customer in terms of volume and price. So we thought for some time,
1165 which is why we we're OK to take a step back and lose a little bit of time to combine a
1166 urine analyzer with a fecal analyzer and put the two together. And we believe the full
1167 future then would be a urine analyzer, fecal analyzer and a slide analyzer that can that
1168 can analyze cytology for blood, for smears for things like fine-needle aspirates that you
1169 would do oftentimes with ultrasound guidance. We think the one analyzer answers the
1170 intelligent microscopy question, and it also allows us to place it on the counter, with one
1171 amount of fixed cost as opposed to two or three, which makes it more palatable and more
1172 likely to be taken up by the veterinarian.

1173

1174 Ben Haynor: OK, great, that's helpful color, for sure. And then, I think, I heard you mention
1175 that there's something like five times more imaging per sample. Not sure if I understood
1176 that right, but, first off, what's that in comparison to, and then how much difference or
1177 how differentiated is the optics chain, what's the color that you have there? I mean, as it
1178 is it more megapixels, is it stabilization from vibration of some sense, or lenses, or what
1179 goes into that, or is it is software?

1180

1181 Kevin Wilson: So, it's a great question. I'll take it in the order that you asked it. So, there
1182 are two things with sample size. The first is just how much in this case, fluid are you
1183 looking at? And either you have the point five mils or you have point two mils, like, it's
1184 just it's just a raw number of how much of the haystack are you going to interrogate to
1185 find what you're looking for? Now, that doesn't matter if you have a large prevalence of
1186 target items, because a small sample is going to show prevalence and a large sample is
1187 just going to show the same percentage of prevalence. But it does matter if you have
1188 sample that has less in it. And that's what I meant by, if you've only got a couple of needles
1189 in the haystack, you're going to have to look at more hay. And, and that's why just the
1190 raw sample size matters. And so, compared to the competition and the devices out there,
1191 broadly, we think we look at more samples. We know we look at more sample size. It's
1192 just more urine, it's just more fecal material prepared to look at. So I think that's good.
1193 The second part of your of your question? I'm sorry I just forgot.

1194

1195 Ben Haynor: I guess it was a little bit more technical. I mean, what goes into that, because
1196 is it something that a competitor could just come in and say, OK, we look at more sample,
1197 we've got more mega pixels or what have you? We got better vibration adjustment, we've
1198 got better lenses, we've got better AI..What would be from a tactical standpoint, you
1199 know, where's the differentiation, and how does that stack up?

1200

1201 Kevin Wilson: So, I think we have Nancy Wisnewski with us, who heads up our R&D, and
1202 she's much smarter about this than I am. So I don't know if her audio works but, Nancy, if
1203 you're on, do you want to talk about optics and light sources and vibration and those
1204 types of things?

1205

1206 Nancy Wisnewski: Sure, can you guys hear me?

1207

1208 Kevin Wilson: Yeah.

1209

1210 Nancy Wisnewski: Yeah, So, it's actually, it's all the things you've mentioned, but in
1211 addition, and probably most importantly, it's actually how we prepare and treat the initial
1212 sample itself. So, it's a mix of a variety of different aspects, technical aspects of the
1213 product, the insurance itself. But we have identified a way to take a larger amount of
1214 sample, than what the competition does and process it, in such a way, in such a
1215 timeframe, to be able to interrogate it more thoroughly. And hopefully therefore gives us
1216 a better opportunity to get better sensitivity. That's multi-factorial, but sample
1217 preparation is a big piece of it.

1218

1219 Ben Haynor: OK, that makes sense. That's very helpful. Then, lastly, for me, and I'll jump
1220 back and queue, just on the IP strategy on the device and anything you can share there?

1221

1222 Kevin Wilson: Nancy, I'll defer to you first.

1223

1224 Nancy Wisnewski: Yeah, yeah. We do have some, some IP associated with the device and
1225 a couple of different aspects that have provisional filings already done, And we'll be doing
1226 more.

1227

1228 Ben Haynor: Anything to add, Kevin?

1229

1230 Kevin Wilson: Yeah, those are, we don't want to call out specifically what they are until
1231 they're granted. So either you have trade secrets which you don't talk about, which is why
1232 their secret, or do you have filed IP, which is published, which is why you get the
1233 protection. So, I think we're pursuing both strategies.

1234

1235 Ben Haynor: OK, fair enough. Thanks a lot for taking the questions, guys.

1236

1237 Kevin Wilson: Thanks, Ben.

1238

1239 Jon Aagaard: Thank you Ben. Our next question is going to come from Mr. Steven Mah
1240 from Piper Sandler. So, Steven, I'm going to unmute you now, if you can unmute yourself
1241 and ask your questions.

1242

1243 Steven Mah: OK, great, well, since we're on the AIM topic, I did have a few questions. Do
1244 you require HeskaView to do the cloud computing and artificial intelligence analysis? And
1245 then, a follow up question is, and I saw on the video, it looked like a clinical pathologist
1246 was reading the images, so, do you need a pathologist to read the results via telemedicine,
1247 or can the vet or operator analyze the results?

1248

1249 Kevin Wilson: Great questions. So the first is, no, you do not need to do a telemedicine
1250 console with a specialist. That is literally a click away. And there are there are times where
1251 people then want a specialty console based on what they're seeing, so it's not just am I
1252 sure what I'm seeing, but also, what does one I'm seeing mean? There are reasons why
1253 you would interact. There are other times where you just may want a specialist to look at
1254 your case, and you can do that very, very easily as opposed to having to send it to the
1255 reference lab where a pathologist or cytology expert would look at it. So, so no, the user
1256 can do that.

1257

1258 The second is HeskaView Plus is not required for processing the AI algorithms to identify
1259 the objects of interest. HeskaView Plus is where the study will go as a permanent medical
1260 record. It can be associated then with imaging, so X-rays and Ultrasounds and other lab
1261 reports from blood diagnostics and other things. And it can be stored there. And then it
1262 can be shared and can be shared on a desktop, it can be shared on a mobile device. So if
1263 you own two practices and you're on call at one, but you're not physically at
1264 another. Those types of things. HeskaView plus enables that. But the algorithm itself is
1265 not, you do not have to be attached to HeskaView Plus to get your diagnosis assistance.

1266

1267 Steven Mah: OK, great. And is HeskaView, how are you guys monetizing that? Is it just
1268 going to be part of the AIM package, or is that kind of completely separate product?

1269

1270 Kevin Wilson: So we really don't intend to monetize the HeskaView Plus portion. That is a
1271 backbone infrastructure that that we think customers should have. And we think it's an
1272 important differentiator. But we just think it's a service customers should have, so we
1273 have that largely embedded for customers who are in subscriptions or under service
1274 contracts with us. For instance, in imaging, it's included with your warranty and your
1275 service contract, and customers will renew their service contract, which will also include
1276 their access to HeskaView Plus.

1277

1278 Steven Mah: OK, great, OK, so sort of an add-on functionality that you're giving to
1279 customers. OK, that makes sense. All right, so maybe going back to Dave's earlier question
1280 on scil. So, you know, converting scil over to the subscription model, you know, you guys
1281 have mentioned that it's going to be initial gross margin depression because of that. But,
1282 you know when should we expect the scil conversion to complete and expect to see the
1283 gross margin has improve? And then, a follow up question, is there going to be a push to
1284 upgrade to Heska products? You know, for instance, where there could be buybacks or
1285 some other incentive structure or will just a scil instruments just be transitioned over to
1286 Heska products, naturally, over time?

1287

1288 Kevin Wilson: So, Catherine, do you want to take the margin kinda ramp question?
1289 And then, I'll take the second part of it. And then, Steve, if you have anything to add. Go
1290 ahead, Catherine. OK, so, while we're waiting for Catherine, I guess. The second part of
1291 the question. The upgrade path to that install base is always an opportunity. So every
1292 time you go to a customer, you're looking for an actionable stimulation to upgrade and
1293 sign them up for a long period of time. And so, where we have products that are better
1294 than what the customer install base currently has, that's a big opportunity to go in and
1295 explain to the customer how much better we can do for them. And that we want to
1296 upgrade their suite. And you demonstrate why you're better, and you take them
1297 forward. Now, it's really good to do that before the competition gets to them to make the

1298 same case. So, we will actively look to upgrade as many customers as possible. And it's
1299 very similar to what we did in 2014 and 2015, specifically, in return for the long term
1300 subscription transition. I think, unless Catherine jumps in and, and she's off mute, I think
1301 you can expect to see that the margin pull through, on the transition to subscriptions, it
1302 takes a couple of years, but it starts to reduce and, in effect, as you get a larger percentage
1303 that are already have already gone through, that the newer conversions are, offset by the
1304 fact that you're realizing margins from the earlier conversions. So, again, when we get
1305 Catherine back, we can, she can explain that a little bit more. And I feel like there was
1306 another part to the question. Maybe it was related to getting the scil team, starting on
1307 subscriptions, and that's already started. So, we're already doing that, and have started
1308 that process.

1309

1310 Steven Mah: I guess. I guess my question was, is there going to be some. Yeah, I
1311 appreciate that you guys are doing it as soon as possible before competitors. But are you
1312 guys doing any sort of buyback of scil products or scil instruments, or having some other
1313 incentive structure to get them to upgrade?

1314

1315 Kevin Wilson: Not really, and I'll explain. So customers who aren't on a subscription,
1316 they've already they've already purchased their analyzers. Depending on how long
1317 they've had those analyzers, they already purchased them. And so there's nothing to buy

1318 back for a lot of customers, it's just simply an upgrade cycle. Is the new program
1319 compelling enough for them to forego the balance of the useful life of their existing
1320 equipment? And in most cases, we think our suite is compelling enough that customers
1321 will say, well, I've got a three year old analyzer, but this is so much better. And I'm going
1322 to use diagnostics more and more than I'm willing to do that. So it's a little bit similar to,
1323 like, say, a cell phone. Or a laptop. If the next upgrade cycle is compelling enough,
1324 customers are going to be able to get their brain around upgrading sooner. So you might
1325 say, I have a discipline to only get a new phone every three years, but if the amazing next
1326 thing comes out, and you have the ability to jump to it, and you already own your phone,
1327 there's nothing to buy out, you're just accelerating your move to the next to the next
1328 generation. So there are very few cases where we have to go to customers, and they've
1329 got a debt that has to be paid off to move to our solution. So I don't anticipate us writing
1330 big checks to get customers to move over, especially customers that are already install
1331 base customers of scil.

1332

1333 Steven Mah: OK, that makes sense. All right. Thank you.

1334

1335 Kevin Wilson: Thank you.

1336

1337 Jon Aagaard: Great. So, those who do have continued questions, and have jumped back
1338 in the queue, I see a few. If you still have a question, please keep your hand raised. If you
1339 don't, please unraise your hand. OK, great. We have one follow up question back in the
1340 queue from Mr. David, Westenberg from Guggenheim. David, you are unmuted from my
1341 end. Please go ahead.

1342

1343 David Westenberg: OK. Thank you. Steve, actually got a lot of my longer follow-ups are
1344 really short follow ups. First, really quickly, and sorry, that I feel embarrassed that I don't
1345 know this, the AIM, or that I forgot this, the Element AIM, that's pay per run, is that
1346 correct?

1347

1348 Kevin Wilson: It is. It's exactly like our blood diagnostics. So when you run, you saw the
1349 consumable and the video. So that's a test. Just like we sell a chemistry test.
1350 And you stock those and you use those and that's how you, that's how you pay for your
1351 test.

1352

1353 David Westenberg: OK. So there is a consumable?

1354

1355 Kevin Wilson: There is.

1356

1357 David Westenberg: OK, OK, perfect. And then one for Cath, a short one for Catherine
1358 needed the FASB \$6 million savings on the convert, is that a cash savings or just on
1359 cosmetic on the earnings basis?

1360

1361 Catherine Grassman: Cosmetic, yeah. Not a cash savings, just the removal of creating the
1362 debt to its par value after it has been bifurcated, so that non-cash amortization as is being
1363 eliminated.

1364

1365 David Westenberg: Perfect. And then maybe one last one. Excellent hire, or excellent add
1366 to the board with Bob. Are you able to lean into him in terms of ability to win corporates
1367 and I don't just mean VCA. I actually just mean, generally speaking, he's somebody who
1368 has the perspective of somebody who's worked at a corporate, somebody who's actually,
1369 you know, ran contracts, bake-offs with diagnostic companies. And you know, how much
1370 can he be a resource to you, and I realize you guys have been friends for decades, so
1371 maybe he's already told you everything already.

1372

1373 Kevin Wilson: I love Bob, and he is basically the godfather of our industry. So he knows he
1374 knows unbelievable amounts of it, and, you know, in my opinion, he essentially created
1375 corporates and the capital markets access that's provided the liquidity to our whole
1376 industry. So, I think Bob knows everything from Banfield to corporates, to his time at Mars

1377 over the last couple of years, he clearly understands all of the pieces, and I think he's going
1378 to be hugely helpful. And, yeah, having him officially on our board, I think, is, is, is thrilling.
1379 So, yeah, we will lean into him. I think he golfs a little bit more than they used to, so I'll
1380 have to lean into him when he's not golfing. But, I do think his insights will be
1381 invaluable. We definitely have made Heska stronger. Much, much stronger with someone
1382 like Bob Antin. And Steve Davis. You know, we touched on that as well. You know, we try
1383 to build a Board of Directors. Obviously governance is important. Bob, a CEO and
1384 chairman at VCA, basically created the reference lab business, with the assembly of
1385 Antech on a nationwide basis. And, so, obviously, understands those dynamics extremely
1386 well, also. And, I think that will be very important. There'll be a European version of Bob
1387 Antin out there somewhere, and an Australian version. And I think, some of those insights
1388 will be very helpful. With Steve Davis, he knows how to build things, and he knows how
1389 to install them. And then, he knows how to service them on a multinational basis at very,
1390 very high volumes. And so we think that's a skill set to add to your Board of Directors. And
1391 then, obviously, they both exercise great character. So, yeah, we put that in the
1392 presentation. Not just because they're my boss, as the Board of Directors, but because
1393 it's real. They, they've actually brought a lot of things to the table in terms of lived
1394 experience that I think will help Heska over the next several years.
1395

1396 Jon Aagaard: Alrighty. You know what, we have one final question, it looks like. David,
1397 thanks for your follow up question there. The final question of the day, looking at our
1398 queue, comes from Mr. Jim Sidoti with Sidoti and Company. Jim, I'm unmuting you right
1399 now, so if you can unmute yourself and ask your question, that would be great.

1400

1401 Jim Sidoti: Kevin, you know, when you got to Heska back in 2013, you kinda turned
1402 everything upside down with the subscription model, and you know margins were
1403 effected, but by three or four years later, you were up to a mid-single digit operating
1404 margin. And then you started phase two. And, so, maybe this is a little bit unfair, because
1405 I'm really asking more about you know phase three. Do you see, when you get to three or
1406 four years from now, you're north of 300 million in revenue, do you see Heska as being
1407 back to a double-digit operating margin business?

1408

1409 Kevin Wilson: Jim, I think it's a very fair question. I think the high watermark was 14.7, if
1410 I'm not mistaken. And, I think we are showing that we will finish roughly the same place
1411 in 2023, with Catherine's presentation. I've said, for a long time, there's nothing
1412 fundamentally wrong or ... in our business that would keep us from drifting up closer to
1413 our bigger competitors, and they're north of 20 in some cases, so I do think that is, is quite
1414 achievable at scale. And I think that is part of Act Three. I think the early chutes of that
1415 are in evidence in the second half of Act Two. So from today through 2023, I think it will

1416 be evident that we're moving in that direction. So yeah, I don't think 2023 will be the high
1417 watermark for operating margins.

1418

1419 Catherine Grassman: Hey, this is Catherine. Do you mind if I just jump in here just for a
1420 second...because we presented EBITDA, adjusted EBITDA margin and obviously I haven't
1421 spoken to the operating margin specifically. So Jim, I think what I would say is with our
1422 continued level of research and development, you know, I'm not gonna say conservative
1423 approach on Element AIM, but you know, we're cautiously optimistic on customer
1424 acceptance both domestically and internationally. There's certainly opportunity for
1425 operating margin expansion, you know, beyond 23, as we begin to leverage those
1426 operating costs more, but we'll still likely be, based on where we're at today, closer to
1427 those single, to close to double digit operating margin metrics.

1428

1429 Jim Sidoti: Understood, and is it fair to think that the gains are, or the improvements will
1430 be more on the gross margin side than on the SG&A or R&D?

1431

1432 Catherine Grassman: You know, I think the way we are structured currently, and barring
1433 obviously, I'm queen of assumption, of putting boundaries around these answers, but,
1434 based on how we're structured, any expansion on the top line and the margin line based

1435 on mix or, or overachievement, on new products, will have a very direct impact to the
1436 bottom line, just based on how we're structure today.

1437

1438 Jim Sidoti: I understand that. But will the improve it, be more gross margin improvement,
1439 or will it be SG&A?

1440

1441 Catherine Grassman: It will definitely be more focused on margin improvement. Not a
1442 cost cutting initiative, if that's what you're asking.

1443

1444 Jim Sidoti: No. I'm just wondering what, you know, if there's leverage in the SG&A line or
1445 if most of leverage will come from the gross margin?

1446

1447 Catherine Grassman: Most of the leverage will come from the gross margin.

1448

1449 Jim Sidoti: That's what I thought, OK, thank you.

1450

1451 Jon Aagaard: Great, thank you, everyone. That concludes our question and answer session
1452 for the day.

1453

1454

1455 **Kevin Wilson:**

1456 Thanks everyone, for your time today on Heska. We know you're busy, and we're
1457 honored to have your participation.

1458

1459 I'd like to close with a few observations.

1460

1461 In the last couple of years, we have innovated faster perhaps, and we have tightened up
1462 our public narrative. I hope today has gone a long way to helping you with that. But
1463 make no mistake, the new Heska is here already, and it is quickly coming into focus in
1464 the second half of our Act Two.

1465

1466 At halftime, we have made so much progress. We have remade our place in the
1467 innovation and value creation chain. And our activity in this area has been just great.

1468

1469 In 2021, we're confident we will achieve our goal of doubling our addressable lines of
1470 revenue opportunities. We've also expanded and upgraded our team from the Board of
1471 Directors on down the line. We have more than doubled our geographical reach and we
1472 have acquired and we have grown organically to have leading positions in the exact
1473 diagnostics focus that we want to lead in and in the most important geographies to our
1474 industry.

1475

1476 We have solid organic and business development, investments, growth prospects.

1477 We've prepared our balance sheet wonderfully to support both.

1478

1479 Our end markets are strong. They're in a multi-decade growth phase and our model is

1480 fantastic, and our subscriber customers are with us for the long term, as they

1481 themselves grow at very healthy rates, generally, and faster rates in the diagnostic

1482 segments in which they partner with Heska.

1483

1484 The value we add and the position we occupy is scarce and very difficult to replicate. We

1485 will continue to pursue efficiencies and margin from our new global volumes. We will

1486 merge and rationalize our global products to deliver the best results for customers and

1487 the company. We will drive long-term subscriptions, and we will launch must-have

1488 innovations that place Heska closer to veterinarians than others in our industry. And we

1489 will occupy this coveted position in the central space of diagnostics in the must-have

1490 countries, and with the most valued professional veterinarian hospitals in those

1491 countries. And if we do these things well, Heska and customers of Heska, can rely upon

1492 each other for decades to grow together.

1493

1494 In the second half of our act two plan, as we begin to bring it all together into a unified

1495 narrative by the end of 2021, the new Heska will be apparent to all. We're excited, Our

1496 customers are excited. I'm excited. The only ones not excited are the competition, and

1497 that's exciting. Thanks again for your interest in our campaign to win, and to be the

1498 best. We look forward to updating you again soon.

1499

1500 Have a great day.