Q1 2021 Heska Corp Earnings Call

Thursday,05/06/21 11:00 AM - HSKA-USQ

Final Transcript

Heska Corp - HSKA.OQ - Earning Conference Call/Presentation

Corporate Participants

- Catherine I. Grassman - Heska Corporation - Executive VP & CFO

- Jon Aagaard - Heska Corporation - Director of IR

- Kevin S. Wilson - Heska Corporation -

Conference Call Participants

- James Philip Sidoti - Sidoti & Company, LLC - Research Analyst
- Benjamin Charles Haynor - Alliance Global Partners, Research Division - Analyst
- Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst
- Elliot Henry Wilbur - CIMB Research - Research Analyst
- David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Research Analyst

Presentation

- **Operator - -**

  Good day, and welcome to the Heska Corporation First Quarter 2021 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Mr. Jon Aagaard, Director of Investor Relations. Please go ahead, sir.

- **Jon Aagaard - Heska Corporation - Director of IR**

  Thank you, and good morning, everyone. Welcome to Heska Corporation's earnings call for the first quarter of 2021. I'm Jon Aagaard, Head of Investor Relations at Heska. With us this morning, we have Kevin Wilson, Heska's Chief Executive Officer and President; and Catherine Grassman, Heska's Chief Financial Officer. Mr. Wilson and Ms. Grassman will provide details surrounding the results reported, and then we will open the call to questions.

  Prior to discussing Heska's results, and before I turn the call over to Kevin, I would like to remind you that during the course of this call, we may make certain forward-looking statements regarding future events or future financial performance of the company. We need to caution you that any such forward-looking statements are based on our current beliefs and expectations and involve known and unknown risks based on our current beliefs and expectations that involve uncertainties, which may cause the actual results and performance to be materially different from that expressed or implied by those forward-looking statements. Factors that could cause or contribute to such differences are detailed in writing in this morning's release, Heska Corporation's annual and quarterly filings with the SEC and elsewhere. Any forward-looking statements speak only as of the time they are made, and Heska does not intend and specifically disclaims any obligation or intention to update any forward-looking statements to reflect events that occur after the time such statement was made.

And finally, to facilitate broad participation in the question-and-answer session this morning, we ask that each participant exercise discretion and limit their questions, with follow-up as necessary, and as time permits.

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

- **Kevin S. Wilson - Heska Corporation -**

Jon, thanks, and good morning, everybody. I know it's a crowded animal health release calendar today, and I really do appreciate that you're taking the time with Heska this morning.

For those of you who have to leave early, the summary is simple. Heska had a great first quarter and a great start to the year. Our underlying markets are doing wonderfully well, and we believe it is sustainable. Our product launches are on schedule, and we are convinced that Heska is a great place to be in 2021 and beyond. I encourage listeners to fully review the results and the data published in this morning's release. I think you will find them helpful in filling in the gaps.

With the remainder of our time this morning, Catherine, Jon and I will try to provide you with some additional color and helpful answers during our prepared remarks and Q&A, where we can go a little bit deeper in the areas that interest you the most. But before we get there, I would like to share a few observations with you. On the overall market situation, it's great. On top of decades-long positive underlying trends in veterinary health care, there has been a step-up function of millions of additional pet families globally over the past year.

Veterinarians are reporting double-digit growth in pet visits overall and even faster acceleration in the long-term trend of increasing diagnostics during those visits. We at Heska and most in our industry believe that these gains are sustainable and that they're long term.

Specific to Heska in the first quarter, our North American Lab Consumables sales grew 23.9% from an expanding utilization and price, which is further supported by our improving share position these past few years and strong end-user demand. North America Imaging grew a very impressive 91.3%, benefiting from the work that we did last year to reorganize and expand our sales force into a unified address-focused structure. We believe this location-based focus, rather than our prior modality-based division, prepares us well for our in-process major new product launches.

In our International segment, scil, CVM and Heska teams delivered a really solid quarter and start to the year in nearly all geographies. They captured great momentum in Lab Consumables and great adoption of our subscriptions model in select European markets. Our combined organization's products rationalization into an international best-of-breed product stack is well underway to delivering better customer experience, sales attractiveness, customer price, company margin and competitive differentiation. We intend to press on even faster with these initiatives throughout the remainder of the year.

Operationally, our strong margin generated from selling more of the most important products in consumable lines was efficiently captured by strong company-wide operational discipline and efficiency. I was again pleased to see that when Heska sells more of the right mix, we do see operating leverage.

In our R&D and commercial launch efforts, our many announced projects continue to progress within targets that have been previously announced. For Element AIM, that means our highly anticipated urine and fecal point-of-care platform will be installing in the second quarter on schedule and that we continue to see solid demand and pre-subscriptions for that product. Early wins with Heskaview Specialty Services in top tier hospitals in North America for digital cytology have also confirmed our enthusiasm for entry into professional services in the first quarter with the acquisition of Lacuna Diagnostics. The teams are already put together and subscriptions are already being signed, now installed and now servicing.

On our other announced analyzers, test menu expansion and new services are also now launching in rapid fire succession now and throughout 2021, and we continue to see strong demand for what we are launching. There are so many products and projects launching that I encourage investors new to Heska to review our latest investor presentations and our Investor Day presentation from November of last year for more information on several of them.

Moving on to our resources. It's fair to say that our capital structure has never been this well prepared to play offense in our wonderful and now global sandbox. In the first quarter, we successfully raised substantial growth capital, and we are preparing to properly put it to work. It is also fair to say that our team, our human resource, is also in the best condition of any period in our history. We are excited, equipped and well positioned to have a great 2021 and beyond as we continue to win in the second half of our 5-year strategic plan. And you know I can't get through a call without updating you on what that is.

First, we will double the geographies and the customers that we serve, which we've done. Second, we will double the products and the addressable revenue lines that we offer, which we have also done. And third, we will continue to grow our core business, which we've done throughout 2020, done now in the first quarter of 2021 and anticipate continuing to do it throughout the balance of the year. The multiplier effect of these 3 major accomplishments leads me to anticipate a great performance for the rest of 2021 and into 2022.

We've begun the first of 4 labs in 2021 very strongly. Investors will remember that we have maintained annual guidance throughout the pandemic in 2020 and 2021, and we have generally met or exceeded most expectations. With the strong start to the year, we are well on pace to reach higher levels of our ranges in 2021 and perhaps a bit further. The first quarter 2021 has been fun. April has been fun. May is off to a fun start. And I think the rest of 2021 will be fun.

With that, I'll turn the call over to Catherine to detail the quarter and to provide you with additional information, and then we'll take some Q&A. Catherine?

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  Thanks, Kevin, and good morning, everyone. Coming off a strong finish to 2020, Heska delivered a great start to 2021. The companion animal health market continues to experience expanding global demand, and Heska is delivering.

  We reported total revenue of $60.5 million, double the comparative period. Strategic acquisitions and continued positive trends in the markets we serve contributed to a very solid start to this year. Our North America segment revenue grew 34.8% for the first quarter of 2021. Contributing to this was growth of 23.9% in consumables sales, which was driven by all key factors, including new customer acquisition, utilization and improved pricing. We also experienced growth in point-of-care imaging. Additionally, we saw increased demand in PVD, which was driven primarily by increased sales of Tri-Heart, a contract manufactured product.

  Our International segment reported $23.2 million in revenue in the first quarter of 2021. This segment largely represents our strategic acquisition of scil.

  Consolidated gross margin declined approximately 180 basis points to 42.1% for the first quarter. As anticipated, impacting consolidated gross margin on a comparative basis is the consolidation of scil, which is a lower margin profile business. This continues to be a financially meaningful synergy opportunity for Heska, and we are making progress toward bridging this margin gap.

  The North America segment delivered gross margin of 47.0% in the first quarter of 2021 compared to 45.2% for the first quarter of 2020, due mainly to higher sales of consumables as well as increased sales and product mix in our other contract manufactured products within OVP. The International segment gross margin was 34.3% for the first quarter of 2021.

  Total operating expenses in the first quarter of 2021 were $24.5 million, an increase of 35% over the first quarter of 2020. The increase is driven primarily by the consolidation of scil's operations and higher stock-based compensation expense, partially offset by the timing of research and development costs and lower one-time acquisition-related costs incurred last year as part of the scil transaction.

Adjusted EBITDA for the first quarter of 2021 was $8.4 million or an adjusted EBITDA margin of 13.9%, driven mainly by continued revenue growth.

Diluted EPS in the first quarter was $0.19 per share. Adjusting for certain items, which are detailed in our GAAP to non-GAAP reconciliation included with our release, non-GAAP EPS was $0.59 per share, an increase of $0.73 per share from the first quarter of 2020. Diluted EPS and non-GAAP EPS were favorably impacted by increased revenue, higher gross profit and better leveraged operating costs. Further improving diluted EPS was lower interest expense relating to non-cash interest as a result of a change in accounting treatment related to the company's convertible notes. This change was effective on January 1 of this year.

Our liquidity position is solid. With cash of approximately $239 million, we are well positioned to continue to execute on our strategic plan.

Our strong start to the year clearly gives us confidence in reaching the high end of our guidance range as previously provided during our fourth quarter earnings call. All factors point to a positive year for the industry and Heska. And while we could be a bit higher than the ranges we have provided, we are not officially updating our guidance until our second quarter call.

With that, we would like to open the call for your questions. Operator?

Question And Answers

- **Operator - -**

  A. (Operator Instructions) We'll take our first question from Chris Schott from J.P. Morgan.

- **Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst**

  Q. Congrats on the results. Just first question for me was, can you just give us an update on the scil business and its transition over to a subscription model? I guess, how is that process proceeding? And just as you're going through this, are you seeing any major differences as you look at the different countries you're in in terms of how quickly customers are willing to adopt or any kind of learnings from one market you can apply to the others? And I just had one follow-up from there.

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes, Chris, it's Kevin. Thanks for the question. Spain is our first major initiative, and it's going great. We haven't had any pushback at all. We do have a very large competitor that also goes to market under subscriptions, and I think they're succeeding in those markets as well. We are just now starting to push that out throughout the rest of the scil business -- so think Germany, France, Italy -- and again, getting really good positive early results. So we don't really see an issue. There aren't massive differences. There are some contractual differences country by country that aren't substantial, that are just papered in the contracts that they're selling. But we're sticking to the same model. So they tend to be over 5 years in duration, and they have minimums and they have price protection and all the same aspects that we have in North America.

- **Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst**

  Q. All right. Great. And then on just the very -- obviously very healthy industry dynamics we're seeing, I guess from your perspective, how much of this is more of a one-time step-up in growth as we think about kind of higher pet adoptions and everything that happened through COVID, and that we start to see industry-wide growth kind of slow down to more historic levels as we get through this later this year? Versus how much of this is I guess a more sustainable acceleration in growth for the industry as we think about increased diagnosis usage, people close to their pets, et cetera? I'm just trying to get a sense of, as we think about the longer-term trends, so you think about it's more like one-time step-up and normalizing or an inflection point in terms of the slope of the growth curve going forward?

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. So I think it's kind of a numerator/denominator thing. And so when you get a step-up and the denominator changes and then you continue to grow. So, simple math. Let's say the step-up is a 10% step-up, and then you continue on 10% growth on top of something that's 10% now better, you pick up an extra point and now you're 11% better. I think that's basically how it's going to work for the entire industry. The fact is there are just millions of more pets. I think that's consistent in every industry release that I've seen in all of our peers. And we had good growth rates prior to that step-up event. And so I don't think there's really a normalizing where we're going to give back that extra 1 point, 2 points, whatever math you decide to use for your numerator and denominator. I do think it's sticky. I will caution people. The one thing I haven't heard a lot on calls is -- I've been doing this a long time. The barrier to veterinary medicine is not always need and it's not always is it appropriate medicine. The barrier a lot of times is compliance and getting the pet to the veterinarian. So the one thing on a macro basis that I'm interested to see is when there's less flexibility, child care returns to normal, people go to the office more often, schedules become a little bit more rigid, will you see fewer veterinary hospital visits because of that barrier? Not because of need, not because of finance, not because of taxes. It's just harder to get your cat to the veterinarian when you're dropping the kids off at school and then you're going to work as opposed to a more flexible schedule. I still think that's an unknown. I don't think it will return to pre-pandemic. So put another way, I think it's actually a tailwind in the long-term trends. But I do think it's a moderating tailwind. I don't think it will be as strong of a tailwind this time next year as it is today. I hope that makes sense. I don't know if that --

- **Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst**

  Q. Yes, it makes sense. Appreciate the comments.

- **Operator - -**

  A. And next we'll go to David Westenberg with Guggenheim Securities.

- **David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Research Analyst**

  Q. I appreciate that last, very honest take in the industry. So first, I just want to maybe talk about corporate accounts and your progress with corporate accounts. You had a few big wins in the years past. So can you talk about how those are progressing, particularly because we've seen record numbers of new hospitals being acquired by the largest corporate accounts. So just any thoughts in terms of increased utilization, if that's going to be a continued area of growth for you and just dynamics there. Also, and just to make this question longer and more complicated, you're also global now, and there's a lot of consolidators that are also trying to go global. Does that put you in a better position?

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. So I'll take the North America question first and then we'll go to the global. I think we're well positioned corporately in North America. We believe we have a slightly higher percentage of the top corporate accounts than we do of the general market. And so put another way, if they continue to acquire, we think we acquire at slightly higher rates than what our market rate is generally. So I think that's good. I do expect several of them to go public this year, which I think will be good for the industry, by the way. I think it'll be really good data that will help everybody. So we really like our corporate position. There's not a lot of trading, frankly, at this point with the corporates. I think they're being well served by their current incumbent, us included, but also our competitors. Where we do see some opportunity in corporates is new products. So we're making inroads with products that other folks don't have. And so I think that's a very positive and maybe a Trojan horse into some of those accounts longer term. And then the last comment I would say on corporates is -- and this is a very general statement -- there are some wonderful independent hospitals. It's not a commentary on those. But the corporates, the best corporates tend to grow a little bit faster and tend to grow a little bit faster in diagnostics and top equipment, digital x-ray and MRIs and things like that because they have funding, but also because the corporates targeted the larger specialty hospitals, multi-doctor hospitals for acquisitions. So as a percentage of their portfolio, they tend to be the more premium hospitals. So we're seeing really good management in our corporate customers. Internationally, it's less consolidated, it's less organized. The sock drawer is still -- there's orphan socks sitting in the corner and different colored socks and all those kind of things. So it's a little bit more of the wild west. And we do think we're in a better position, especially with multi-decade reputations like scil has in places like Germany, we think we're in a pretty good position reputationally to get some of those bigger accounts. I think I got them all, David. But if not, will you follow up?

- **David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Research Analyst**

  Q. Exactly. So let's talk about Element Aim. You talked about Q2 is when it might hit. I think in the press release, it obviously seems like you're pretty comfortable with those time lines. Could you maybe break it down to a month? And then I realize VMX has scaled down, but is that maybe something where you could have a kind of a launch date around that? Just any commentary on Aim, it would be great.

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. So for launch date, I honestly don't know what the marketing plan is for VMX. So on that one I'm going to have to claim ignorance. It's just been a moving target for the last couple quarters. In terms of the date, yes, I don't want to put a month and a week on it, but we're not going to squeak in just under the wire, is my strong opinion. I think we're solidly in the second quarter. And we also have really good pre-subscription demand for that product. So in terms of marketing, we're not chewing on our fingernails, hoping that people will show up on the big day. I think we've got pretty good demand already signed up. And so it's really more about installing them and then making them thrilled with what it is that they just got installed.

- **David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Research Analyst**

  Q. Yes. That was actually very helpful. And then maybe I'll just end on cytology. You made an acquisition there. Can you compare and contrast the in-clinic cytology with the reference lab supported? Do you think you can compete with something with a big reference lab kind of infrastructure there? And obviously, I know the answer is yes and in your view, but I want you to -- if you can articulate how you compete with the big boy there.

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. So it's the same trend. We have wonderful board certified pathologists, and then the same level, and in some cases the same people, who read your slides physically when you put them in a courier car and you drive them out to the airport they're flying to some central reference lab somewhere. We just think that getting the answer in minutes while you're in surgery matters in enough cases to make it a very good business. So when you stick a needle in something and you're in surgery and you need to know immediately is it cancer or isn't it? Do I take it out or don't I? That's something the central reference lab can't do. And we also think that getting those answers in 2 hours instead of maybe several days is good for pet care. So it's the same argument that you have for all of point of care. And let's just say half of lab for blood and plasma gets done at the point-of-care and half gets done at the reference lab. If today, 99% of pathology reads get done in the reference lab, do you think that the same percentage of other point-of-care services will migrate to point-of-care, and to what extent do you think that's going to happen? I think it's more than 1%. I don't know if it's 50%. But customers who are signing up for the service are thrilled with it, and we think that a scanner is much more efficient. It also resonates candidly like all of point-of-care with this generation of folks who actually care about the environment. So that's a thing. And they understand that driving cars all over the place and picking up slides out of boxes and driving them to airports and putting them on planes is very inefficient when you can literally put it in a scanner and 5 minutes later be getting an answer. So we really like it. And it's another service. It's our entry into professional services. And we think that's a very good large business that we can compete in. So yes, I like it. Will we obsolete pathologists at the central reference lab? No. That's not even our goal. But will we get more than 1%? Yes, we will.

- **David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Research Analyst**

  Q. Thank you so much and congrats again on a fine job this quarter.

- **Operator - -**

  A. (Operator Instructions) We'll go next to Elliot Wilbur with Raymond James.

- **Elliot Henry Wilbur - CIMB Research - Research Analyst**

  Q. Okay. First question for Kevin, I guess. Given sort of the strong relative growth dynamics in the consumables business, any one of the factors that you cited -- price, visits, utilization -- stand out in terms of its performance relative to other drivers?

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. Definitely baseline utilization. Just more pets going to veterinarians would be the first. The second is utilization. We're seeing those veterinarians do more diagnostics per pet visit. So utilization is definitely the standout. We call out price mostly to indicate that we didn't run a special. We didn't do a blue light special on aisle 6 and discount things. Price I think across the industry is holding up quite well. And actually at the provider level I think is probably improving faster than maybe the suppliers. Our competitors included aren't raising prices maybe as fast as veterinarians are able to. So I would say utilization is really driving it, which for me is thrilling. It's the most long-lasting of the levers that you can pull.

- **Elliot Henry Wilbur - CIMB Research - Research Analyst**

  Q. Okay. And then just a follow-up question on the International segment. If you provided the organic growth numbers, I missed those in your commentary. So curious what currency impact was? And then just thinking about the sequential gross margin impression, obviously this quarter, quite impressive relative to the last several where we've seen this improving trend. But how should we think -- revenue levels aside, I guess, how should we think about gross margin progression in the International segment over the balance of the year?

- **Kevin S. Wilson - Heska Corporation -**

  A. Yes. So Catherine, why don't you do forex, and then I'll take what part of gross margin you don't want to take. Go ahead.

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  A. Okay. Yes, sounds good. Yes. So our International segment is largely consists of the scil acquisition. For the prior year comparative and any FX impact as it relates to it is pretty minimal on a comparative basis. So not much uplift there to speak of. From a gross margin standpoint, as we move throughout the year and we continue to transition subscription placements in Europe, I would expect -- this quarter had a little less of that impact on the margin. I'd expect it to have more of that impact, but not to any level below what we had last year. So we're still kind of looking at that lower 30% range. And as our multiyear outlook would indicate that we will transition through that over the next 2 years, bridging that gap to a higher rate for the consolidated.

- **Kevin S. Wilson - Heska Corporation -**

  A. I'll just add one thing on that for context, because you have to go way back to February of a couple of years ago. But there's a 10, 12 percentage point gap of the starting point, primarily with the scil business and our North America business. And we have made progress in bridging that gap, and we do think it's a multiyear progress, but that's a big number. So moving it a couple of hundred basis points, it continues to matter, and we think there's a lot of meat on that bone, and fortunately, it's positive. So we have made progress. And I think as Catherine's alluding to, as we have more success in placing more subscriptions with our product stack, then I think we'll continue to make that progress over a couple of year period. But there's a big gap there, so I think it's a tailwind.

- **Operator - -**

  A. Next we'll go to Steven Mah with Piper Sandler.

- **Operator - -**

  A. Congrats on the quarter.

- **Kevin S. Wilson - Heska Corporation -**

  A. Thank you. Good to see. Good to hear from you, not see you.

- **Operator - -**

A. So a quick question, just to dig in a little bit more on your comments, Kevin, on where you're saying that one of the barriers is getting your pet to the vet. On the strength in North America, was there any issues with sort of the in surge in COVID-19 cases in January of this year? And I guess to put the question and rephrase it, could you have done better in Q1 without the COVID headwinds?

- **Kevin S. Wilson - Heska Corporation -**

A. You know, Steve, I don't think so. I keep trying to normalize it, like what was going on last March, so it was more difficult to install things like digital x-ray. And there are so many puts and takes. It's really hard to get precise on that. And then even what you're talking about in January, it's an odd country. We think it's a monolithic thing, but apparently there's no COVID in certain parts of the country and there's total shutdowns in other parts of the country. So it's just so hard to tease out the effects of those things. But I don't think even anecdotally we got reports that things slowed down. Pet health care seems to be a necessary thing, and people seem to do it regardless of whether or not there's a mask mandate and you're not allowed to congregate indoors.

- **Operator - -**

A. Okay. No, that makes sense. All right. And then a follow-up question on gross margin. I know Element Aim is launching this quarter. Can you give us a sense for how the Aim launch could pressure gross margins, given it's going to be mostly instrument revenues early on?

- **Kevin S. Wilson - Heska Corporation -**

A. I'll let Catherine take that. I think broadly we'll swamp that, but go ahead, Catherine.

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

A. That will have a compressing impact, but at the level of consumables sales, we'll still have pretty positive -- especially in the U.S, we'll still demonstrate good margin expansion. But it does have a bit of an impact on the margin when we're placing it.

- **Operator - -**

A. Okay. Great. That's helpful. And then my last question is more of a big picture. So Kevin, you talked about your 5-year plan. It seems like you're way ahead of schedule on that and also on the profitability goals. And you talked about switching to offense. Could you talk about areas of the plan that you may want to have a stronger focus on going forward or reallocate more resources towards?

- **Kevin S. Wilson - Heska Corporation -**

A. Yes. I think the first thing is just go faster. And my team has probably heard me say that 100 times the last 6 months, like we're not going fast enough. So the things that we've already targeted I think are the correct things. So go faster in menu launch. If you want to drive utilization, offer more tests on analyzers that are already sitting on counters. It's really simple. And so that means you got to launch more menu, whether it's a regulated menu, which takes a little bit of time, or it's just assay development. So I think going faster and building out our menu is definitely an area. Going faster on things like professional services. So we have cytology now with Lacuna. Expanding that, hiring more international resources to serve multiple time zones. So we're going faster in professional services. And then I think we can expand professional services as well. So it's just going faster, and then obviously our international initiatives as well. So I think it's the things that we've already targeted and already highlighted. It's just making those things go faster. That's how I would look at it.

- **Operator - -**

  A. And next we'll go to Ben Haynor with Alliance Global Partners.

- **Benjamin Charles Haynor - Alliance Global Partners, Research Division - Analyst**

  Q. Can you hear me, guys?

- **Kevin S. Wilson - Heska Corporation -**

  A. Hi, Ben.

- **Benjamin Charles Haynor - Alliance Global Partners, Research Division - Analyst**

  Q. Congrats on the Q1 and thanks for taking the question. Obviously a lot of ground's already been covered. But just with inflation being a little bit more of a topic these days, and you guys having the 4% price escalators built into your contracts, is the -- if inflation kind of gets ahead of those levels, do you have the ability to increase that 4%? And then how locked in are you on kind of the cost side of your COGS for providing the products and services?

- **Kevin S. Wilson - Heska Corporation -**

  A. Boy, that's a great question. We must have some really good advisers at some point many, many, many years ago. But our price protection for the customer is very good, and it tends to result in a 4% annual price increase. It's visible and they can see. But we also have the clause in there that it's the greater of -- and so if CPI actually were to wake up and we're back to Jimmy Carter land at 12%, we would have the contractual ability to go and match the CPI. So I think we've got pretty good insurance protection there. In regards to most of our supply contracts, the vast majority of those are fixed and they're not subject to those types of price increases. Where you can get a little bit of difficulty is transportation. And also obviously import/export tax, those kinds of things will bleed through your entire supply chain that aren't just fixed on negotiated price. So if it costs twice as much to move something on a boat or an airplane in cold storage, that will hit your cost of goods, but we think that's pretty manageable.

- **Benjamin Charles Haynor - Alliance Global Partners, Research Division - Analyst**

  Q. Okay. That's helpful. And then I guess I really don't have a lot more. I was just -- how much fun has April and early May actually been? I mean, has this been like winning a scratch-off lottery ticket, or has this been like winning the Powerball? What's -- how would you characterize how much fun this has been?

- **Kevin S. Wilson - Heska Corporation -**

  A. Now you're trying to look under the wrapping on the present end of the Christmas tree. But no, April feels like a nice continuation. And I think we've had a really good string of quarters the last 5 or 6. I think the fourth quarter was quite good. First quarter was quite good. And I'm just signaling that we haven't seen like big step-ups and spikes and huge advantages on year-over-year comps and things like that. Haven't seen those things yet. So April was good, and May feels like it's coming in on track. And as Catherine said, we'll probably update you maybe a little more precisely at the half year. But in terms of the guide and things like that, when $5 million means 2%, we don't -- quibbling over 5 in terms of guidance, so that precision matters when you're our size. And so we'll just update folks when we get to the half year is our intention.

- **Operator - -**

  A. (Operator Instructions) Next we'll hear from Jim Sidoti with Sidoti & Company.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. Glad to hear you're doing well, Kevin. Yes, I totally understand how you wouldn't want to update guidance just with one quarter in. But can you just give us a sense, in Q1, was there anything that was unusually strong that maybe it distorted things a little bit? Or do you think it was a pretty normal quarter, Q1?

- **Kevin S. Wilson - Heska Corporation -**

  A. Jim, I would characterize it as real. There weren't big pull forwards. We didn't grab something from Q2 or Q4 and have some bluebird come in. We would have called it out. So it really is just health across all those metrics, and then when you combine those things and you had some operating leverage to capture it. So it's just a really good quarter. And the fourth quarter was good, too. So it's not like an out of the blue thing.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. Right. And historically, Q2 is always a little bit of a step-up from Q1. So there's really nothing in Q1 that would make you think that that's not going to happen again.

- **Kevin S. Wilson - Heska Corporation -**

A. Yes. I don't see any big variability on the calendar this year compared to what it's been the last several years. But again, I just -- I'm a cautious guy. It's like the Croods. Remember the never not be afraid? It's a dangerous world out there. But things look pretty good.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. Yes. No, I understand. And I'm not really trying to get you to forecast the future. I'm just trying to make sure that there was nothing in the first quarter that was -- that would distort this year relative to other years, and it doesn't sound like there was.

- **Kevin S. Wilson - Heska Corporation -**

  A. No.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. Okay. And then the final thing for me. Now that you've completed the offering, what's a good number for share count in Q2 and for the rest of the year?

- **Kevin S. Wilson - Heska Corporation -**

  A. Catherine, you're on.

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  A. Yes, that would be me. Yes, so our outstanding shares I think are around 10.4 million. So diluted around the -- I think we're reporting 9.8 million for the quarter.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. So diluted should be higher?

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  A. Yes, throughout the year. Yes, it should be higher.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. So was that 10.8 million then?

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  A. No. Our outstanding's 10.4 million for the year -- for now is what I'm saying. It's not weighted, right? So, yes.

- **James Philip Sidoti - Sidoti & Company, LLC - Research Analyst**

  Q. So your outstanding right now is 10.4 million. Got it.

- **Catherine I. Grassman - Heska Corporation - Executive VP & CFO**

  A. Yes.

- **Operator - -**

  A. And now I'd like to turn the call back over to Mr. Kevin Wilson for closing remarks, sir.

- **Kevin S. Wilson - Heska Corporation -**

  A. Thank you, and thanks to everybody who joined the call. We really, really do appreciate it. It's nice to talk to you. So just to recap. We had a great first quarter, great start to the year. We do think we'll continue to execute throughout 2021. We'll work really hard to finish the first half strongly and update you further and then finish out the second half of 2021 with some of these new products in the market. So it really should be, as I said at the very beginning of the year, I'm anticipating a pretty fun year. So I look forward to updating you the next quarter. And until then, be safe, be cautious and count your blessings. Oh, the last part. Yes, you've got to take your pet to the veterinarian. So we appreciate it when you do that, too. All right, everybody. Have a good day, and we'll talk to you soon. Bye bye.

- **Operator - -**

  A. And that concludes today's conference call. We thank you for joining. You may now disconnect.