Heska Corp at JPMorgan Health Care Conference

Tuesday 01/11/22 02:15 PM - HSKA-USQ

Final Transcript

Heska Corp - HSKA.OQ - Conference Presentation

Corporate Participants

- Kevin S. Wilson - Heska Corporation, CEO & President

Conference Call Participants

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

Presentation

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

Good afternoon, everybody. I am Chris Schott at JPMorgan and it is my pleasure to [re-introduce] team Heska today at the 40th Annual JPMorgan Healthcare Conference. Now from the company, we have Kevin Wilson, President and CEO. Kevin, welcome, and look forward to the presentation, and we'll be joining you for the Q&A afterwards.

Kevin S. Wilson - Heska Corporation, CEO & President

Chris, thanks. Everybody, thank you. As Chris said, you are in the Heska presentation. So if that's the one you want to be in, you're in the right place; if not, you're in the wrong place. We appreciate your time.

I'm going to start for those of you who are following along on Slide 3, labeled Heska Primer. So where are we? How do I see the company? Look, I think we have a great track record. I think, since 2013, this team has done a great job of building value for investors and value for veterinarians.

We've assembled the right assets and capabilities. We're in the right market. Pet healthcare is a wonderful market. We think specifically pet healthcare and diagnostics is the best place in the market.

We think we've created a lot of assembly value. We have a full bundle of technology and services. We have the right sales force and the right geographic reach and under long-term subscriptions. So that puts us in a very unique and exclusive group that we'll talk about a little bit more in the presentation and maybe during the Q&A.

We think we've developed a first-class bundle that gives us all the capabilities that our customers are looking for under subscription. We got a great point-of-care lab that's across the board we think the best assembly of assets. We've got wonderful imaging and we've recently added informatics practice information software, AI, machine learning and cloud capabilities to that.

We're planning to win. We spent a lot on R&D, both off balance sheet through business development, and directly. And we've created a lot of exclusive assets that we think can disrupt the market. And we're in a wonderful market. It's a decades long market that's been doing great, really since the early 1990s, positive demographics, pet families, geographies, regulatory, insurance, payers, lots of really positive things happening in the market. But they've been happening for a very long time.

So I'm going to advance to the next slide and just talk a little bit about the market. I won't read the slide to you. But the trends during COVID were wonderful for pet healthcare. But they were wonderful long before COVID. And in my opinion, they'll be wonderful long after COVID. We view the market, especially for diagnostics as having taken a stepping effect during COVID from which we will then get back to normalized longer-term growth rates kind of close to that 10% range for the broader market.

Some will do a little better, some will do a little bit worse. But we've got millions of more pets in the healthcare system. We think they're going to need diagnostics for the next 14 or 15 years, and we think we're well positioned in the right geographies with the right products to do that for them.

Where do we fit in the market? If you advance to Slide 5. Heska, we think, is in the best place in the market. We're a diagnostics provider. We think testing drives treatment, so therapeutics and pharmaceuticals. We think testing drives diet, which in our world is also a therapeutic, for healthy outcomes. And we think diagnostics testing drives that and the data that comes with diagnostics, testing drives that.

And then we think diagnostics drives veterinary healthcare providers, representing roughly 15% to 25% in terms of a range of revenues and profitability in many of the best run veterinary healthcare businesses, and we think diagnostics is key to that. So we really like our area in the space. We think we occupy a good position and a very exclusive club to provide diagnostics that drive all of those areas of the business. So how do we get there? Heska has been on a 15-year campaign for those of you who follow the company since my arrival in 2013, we have launched what we consider to be 3, what we call, acts or sprints, 5 to 6 years in length.

Act One was 2013 through 2017. We think that went wonderfully well for stakeholders. Act Two originally was scheduled for 2018 through 2023. In 2021, we essentially skipped an entire year of our performance and our goals, not just financial but strategic. And we now see Act Two concluding this year in 2022 as we prepare for Act Three, where we look to win a scale and to win a disruption and reinvention.

So just to put a finer point on it, the consolidated outlook. For 2020, we came in at $197 million in sales. Our original guide for 2021 given at the end of February was $225 million to $235 million. We upgraded that guide to $250 million to $260 million. And the original 2022 number was $250 million to $260 million.

So we feel confident that we will come in a full year ahead of schedule. In terms of our other strategic points, though, it is not just the revenue achievement, but we committed at the beginning of Act Two in 2018 to doubling the customers and the geography that we served. You'll recall that we were really a United States-based company, and we've since fundamentally changed that, doubling the product and the revenue streams we've served.

So when you put those 2 things together, substantially expanding the target opportunity, the TAM that we serve. And then, of course, while we're doing all those things to continue to build into the current business that we have. And so I think we've done all of those things in Act Two and achieved those goals.

So where are we globally? Our Heska brand services North America, Australia and New Zealand. Our Scil brand services core Europe and our other international markets. And so we're now in the markets that we value the most. We believe that we're the #2 point-of-care lab and imaging company in the world with a roughly 14% to 35% market share in the key lines in the core markets that we serve.

And so we started, obviously, not #2. And so we've continued to progress, and we continue to see that progression. Where are we headed now that we've assembled the assets and we're in the right geography.

If you move to Slide 10, if you're following along, we now want to take all of the lanes of the highway that we've assembled in all of the markets that we now cover and we need to move into those product lines in all of those geographies. So really up until the last couple of years, we think that Heska has only really been competing for about 30% of the diagnostic spend that's happening in the addresses in which we do business.

And we believe now that we have the capability to compete for 100% of that spend. So -- We see 3 main areas that we can now compete in, the point of care laboratory business with a full family, again, for blood and plasma but also for urine and fecal. And then also our recently added Rapids business, we think as an end state, that should represent about 55% of our business.

The digital imaging, which we've been quite good at for some time now, in addition to the informatics and the PIMS business that we've recently added as an end state goal, represent about 20% of our business. And then our central reference laboratory businesses should represent about 25% of our business.

And putting all of those in one subscriber bundle that services all of the needs of the veterinarian and the -- addresses in North America, core Europe and Australia and New Zealand, is where we're headed now that we have assembled these assets. So how do we do that? We've done that through internal R&D. We've done that through business development. We've done that through organic growth. And we support that now as we enter this next phase with a really nice strong balance sheet. We have a positive liquidity position. We have a wonderful debt position. We have assembled the right assets in terms of capabilities and skills as well as in terms of products and services, and now we move into scaling them.

We're supported by a little bit over $200 million in growth capital. And we do intend to put that money to work effectively. We think shareholders will be pleased with what we do with that money.

And we have very good targets and very good ideas as we enter this expansion phase to put that money to work. So we will remain active with that. A little bit of our recent activity as we have built out the full portfolio bundle. You'll see that in February of 2021, we entered the telecytology business with the acquisition of Lacuna Diagnostics in the United States.

We see international opportunities. We entered the reference lab business in Italy in July of 2021 with the acquisition of BiEsseA, Europe's oldest central reference lab. And that's gone wonderfully well, both in growing our point-of-care business in Italy, but also in growing the central reference lab business in Italy. The overlap and selling to the customers that we're only doing one or the other, we've seen really a very, very good integration just in the 6 months that we've been at it growing, the reference lab business has grown nicely and the point of care business has grown nicely. And having validated our ability to do that, it is our intention now to move that business model into other geographic markets in 2022 and beyond.

In September of 2021, we added the single-use Rapids capability with the acquisition of Biotech Laboratories here in the United States to add single-use rapids, we believe, is important. It represents 10% to 15% of the revenue of some of our larger competitors.

And we believe it can represent similar amounts for Heska, and it can be nicely incremental and also valued by our subscriber base. And then, of course, we just closed on January 1, our VetZ acquisition, which is our entry into the practice information management software business, which also comes with, again, expertise in cloud, additional AI expertise and machine learning expertise, and then the ability to tie everything together to run the business side of the practice, but also to take the data and to do data informatics services for other companies.

One quick update, I will just take a moment to move on to a big piece of our goal to expand our TAM as innovation. And the biggest innovation that we've done over the last couple of years is to do an internal R&D project to develop the Element AIM, which is our AI-driven microscopy solution for both urine imaging and fecal imaging at the point of care.

Our general release has been accomplished. I think on our last call, I indicated that we would do in the neighborhood of 90 installations in the fourth quarter, comfortable that we have achieved that. We have good strong preorders as we begin 2022. Our economics are set where we promised that they would be at $1,000 per month, between $20 and $25 per test on a run fee.

And our results are good. So Element AIM is going great. I would expect to be able to give you a much more full update on our upcoming earnings call, which will also include more details on how we finish the year. We are comfortable with our guide for 20% plus growth in consumables that we gave at the end of that call. We're comfortable with revenue and the other metrics that we gave on that call as well as the update that I just gave you on Element AIM.

So when you put all that together visually, if you move to Slide 14, you can see what our portfolio of products looks like with chemistry, immunoassay, urine and fecal, 5 Part Hematology, handheld blood gas, [new coagulation], telecytology, Rapids, a full suite of informatics and practice information solutions, both for veterinarians and for pet families.

It's really an impressive suite of products, and we think it puts us in a very exclusive group, maybe 1 of 2 companies in the world that really can offer this technology and services stack to our end user customers.

And then one final update, our subscription model, which we've had in place since 2013 is doing very well, and we announced some early achievement to our 2021 number on the last call. So we think our subscriptions performance finished the year very strongly, great retention, great long-term compound annual growth rates, our contract subscription value targets that we set for 2021 were achieved by midyear, and we'll update you more fully on that with the upcoming earnings call as well. So a real quick review of just where I think we're at. The final slide is just our thesis snapshot before we jump into our time with Chris.

But again, just to reiterate, I think this team has a great track record. I think we are expanding our TAM a lot. I think you're seeing revenue expand into that. We're expanding our margin. Our business model was set up wonderfully to expand margin, especially in out years after we acquired the initial subscription.

We'll finish the year with more subscribers than we started the year. So expanding our share, our contract subscription value, which should be the number of months and the minimum utilization and the number of customers all rolled together has grown wonderfully. So our remaining performance obligations are in great shape. And perhaps most importantly, we've created a situation where we're closest to the veterinarian. So we have decades of being right at the center between the practice information solution and the diagnostics and being right at the center of the sales and profitability and the ability to treat pets in the right countries.

We're in a great market, great health trends, great resiliency, great diagnostic trends. We've assembled the right assets. There's, what we think, substantial scarcity value. Very, very few companies in the world have the right assets to do what we can now do for our customers and solve problems. And our position is very strategic, and our economics are highly scalable. So we really like our position. We hope you take the chance to dig a little bit deeper with us and maybe ride with us through Act Three, which we think is going to be front as we close it out in 2022. So with that, I'll stop with the prepared remarks and maybe engage with Chris a little bit on the conversation.

Question & Answers

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Great. Very helpful comments. But maybe just first, starting with Element AIM. It sounds like the launch is off to a good start. Just additional feedback you're having so far, just anything you can share in terms of vet clinic experience with the product and just anything incremental relative to what you shared in 3Q?

Kevin S. Wilson - Heska Corporation

A. Yes, sure. I think it would be rare for any CEO to say it's not great. So we'll get that one out of the way. It's been great. Look, it has been interesting. For Heska, it's the product release, but it's also building the capabilities and the muscles to do these things. And I think that's actually gone extremely well. We have some customers that, again, we show a lot of upside. We have some customers who are using it exclusively for urine and they really haven't keyed into the utility for fecal.

And then we have other customers who are -- they haven't done a single urine, but they're using it and they view it as a fecal machine. And so there's a lot of opportunity there to actually increase utilization by reinforcing the utility that it does both of these things. So that's been an interesting finding.

And then with just a lot of internal learnings. So we're in the 100-ish in terms of installs. So it's still early innings, but it's gone well. The installs have gone well. It's not exactly the easiest time in the world from supply chain and travel and those types of things. And I think if the team can do that well on a major product launch in November and December in the midst of public health issues and some of those types of things. And can really hit their number and have really good positive results. I think that really bodes well for 2022 where you don't have maybe the end of year crunch, the holiday crunch and maybe the Omicron crunch, all kind of hitting all at the same time.

So I'm pretty bullish on 2022 for Element AIM. I think it's going to do well.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Excellent. When I think more broadly about the opportunity with Element AIM in the fecal market, do you see this as having an opportunity to displace some of the work that's currently be done at reference labs? Or is the main opportunity here some of the office testing that's already being done in terms of where you see these kind of tests being confirmed onto your platform?

Kevin S. Wilson - Heska Corporation

A. Yes. The more important one to focus on is to automate the manual tests that are being done today. So if we didn't change a single piece of behavior, there are millions of these things being done, fecal flotations being done at the point of care. They're just in an arduous manual process, it's not as precise and it's not as accurate.

So I think that's the first step is -- and we have the most success with clinics that are already doing manual fecal flotation because you're not changing behavior, you're just saying something that takes a long time that has variability in sample prep and just visual human interaction with the sample.

We can automate that. We can do a better job of it. We can get better images. We can get better, more consistent sample prep, we can do it quicker. And you don't have to do it yourself, you load it and you run it and you come back and you have really good images and good answers.

So I think it's really more focused on doing a better job at the point of care. If we do a good enough job at the point of care, hopefully, some of that behavior shifts to a bias of more point of care. But most clinics will send some out and they'll keep some in. And some of it's clinical, some of it's behavioral habit. And so it's -- but we don't need to disrupt what's happening at the central reference lab. So we're not going to hurt Antech's business or IDEXX's business with Element AIM in terms of fecal, I don't think. I think there's more than enough happening manually at the point of care already.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. And I'm assuming the first step of Element AIM is kind of rolling out to your existing customer base. When we move beyond that, is there an opportunity to target IDEXX or Zoetis or kind of point of care customers, I guess I'm trying to get a sense of beyond the upselling on existing customer base? Is this an opportunity to gaining share kind of -- and customers who -- add the new customers in mix, I guess?

Kevin S. Wilson - Heska Corporation

A. For sure. But we're always focused on the zero-sum game of displacement. If somebody keeps their IDEXX catalyst and ProCyte and they put an Element AIM, that's still a win. We've provided utility for a customer who is now doing more testing, and they're doing some of it with us, but we haven't displaced IDEXX. We haven't hurt their underlying business. They don't have a point-of-care fecal.

So we would be competing with SediVue, but we believe very strongly that our performance in the urine testing is just better. We think we've designed a better product that performs better. And we think SediVue customers are especially those that are bigger; users will agree with us. But that's not our primary focus.

Look, if we do 500 wonderfully next year or maybe we do a little bit better than that and things go a little faster, I think that's great. We've got thousands of subscribers outside of the U.S. and 2,000-3,000 inside of the U.S., just relative to just the installed base, we can service our own customer needs without really picking competitive fights. We will. It's -- we're competitive people, and so are they. But the business model success isn't based on displacing. It's not necessarily a zero-sum type of situation.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Okay. Perfect. And then just kind of maybe more broadly thinking about the -- a couple of different comments. I was interested in your comments on the slides about reference lab maybe being 25% of your offering over time. How do you think about your reference lab in North America. Like what's the strategy there? How do you think about building that out? And was that a global target? Or do you think that, that type of number makes sense for North America over time as well?

Kevin S. Wilson - Heska Corporation

A. It's a great question. It's a good clarification, so thanks for asking it. That's a global number. So if we were active in the North America market and succeeding in the North America market, that number would be bigger. But look, the simple fact of the matter is, is it's been a duopoly in the North American market between Antech, which is owned by Mars now was part of VCA and IDEXX. And they service the market well. They do a good job.

Customers only have really 2 legitimate nationwide choices. And I think breaking into that market is going to be very difficult. Now we have a much larger competitor who's got a huge balance sheet and a courageous management team and maybe a 10-year time horizon and the ability to absorb some of that. And I wish him well, and I hope it goes well because I think it would add some creativity to the market. I think it would add a little bit of noise to the market and shape up the duopoly a little bit, and I think that would be good.

But I'm kind of happy to tuck in behind that and let them -- let them-(inaudible) for a little while. I don't have that much courage or that much money. But outside of the U.S., it's a very disorganized market. There are very few assets at scale. And it's been our contention that it's very difficult without a bundle. You need a very strong point of care solution to bundle with a very strong lab solution. I personally believe it's harder to build a very strong full suite of point-of-care products than it is to build the lab, central reference lab solution.

But it doesn't really matter which ones harder. You really need both. And there's really only one company in the world that's offering both and that's IDEXX. And I think they and their shareholders and their performance has been rewarded by that. So I'm signaling a little bit that it's not a strategy to not offer everything to our customers. It's a lack of capability. And I've been in this now since 2013, but I've been in the business in the pet health care business since 1990, and it's not a strategy to not offer all of these things. Just they don't have the capability. So what we've said is, look, we're going to build the full capability. It's what we've done. We have a Rapids capability, a practice information capability, an imaging capability, a reference lab capability, albeit in Italy, but it needs to be in Spain and Germany and France and Australia; we can move that capability into other geographies, and a full suite of point-of-care capability.

And when you put it all together, you get a fantastic business. And right now, there's one big fantastic business, and I think there's one small fantastic business. But there's only 2 of us as best I can tell. And so I think we've really done something that's quite special. We've done it a year ahead of time, and we'll spend the next 5 years scaling it, but we have all of the pieces to answer all of the questions that customers want without having to tell them no go to a third-party or let's create some synthetic partnership that really isn't going to be as effective as the other one company that has the full technology stack. I'm rambling a little bit, but also I'm trying to...

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. (inaudible)that you were going to take on this North American market on the reference side. But yes, that makes a lot of sense. In terms of the ex U.S. part, makes a ton of sense in terms of what you've built out there. So a couple of just -- and maybe shifting gears a little bit on to Europe. I know there was the discussion around the 3Q results around customer conversions and some of the impact that was happening on top line results. So can you just remind folks again [the driving sort of] revenues from that, why that's occurring and how you see that dynamic playing out? So when will that kind of headwind they guess be behind the company?

Kevin S. Wilson - Heska Corporation

A. Yes. So I do think as we conclude the first half of 2022, we're largely through the main part of that conversion. And so we're taking a business that for 2 decades, operated on a traditional cell, the analyzer sell the consumable, and we're converting that to a 6-year and longer subscription model that has different accounting.

And so one of the things that it does is it dampens revenues, gross margin because when you recognize the equipment portion under the accounting, the equipment portion under a 6-year agreement might go in at 5%, 6%, 7% gross margin, not great for your consolidated gross margin while you're doing it. But once you've made that conversion, you're glad you did.

The second thing is we've got what we think are better products with much better gross margins. And as we convert that installed base to better products with much better gross margins, we're happy to share some of the much better gross margins with the customer.

So put another way, if you -- and I'll just use rough math, but if you had 30% gross margin in a rotor yesterday, and you had a 70% gross margin in a rotor today, and you gave 15% of that gross margin back to the customer. All that's happened is the customer still runs 20 a month. They just spend 15% less money doing it and they get better performance.

So they're very happy. They're agreed to sign up for 6 years. What's happened on our side is we get 15% less revenue per rotor but we get 55% gross margins as opposed to 30%. So we're very happy. Everybody is very happy. While you're doing that, you get pressure on sales because you're getting 15% less revenue for each rotor that you've sold because you pass that savings on to the customer. And over time, you're going to see increase the utilization and increase in sales and increase in price and all those things during the subscription.

So for folks who -- like I live it every day, so we're paying bonuses and doing high 5s for the dampening effect that some folks were worried about. So I think that explanation kind of explains what's going on...

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Yes. Yes, so it sounds like we should be maybe focus more on not just top line there in this period. The top line see more margins play out. And I guess, maybe you just give us a bigger picture of view here, taking some of those near-term accounting issues aside, I guess how is the European conversion going relative to your expectations? So like how much of this installed base have you converted at this point over to [virtual] subscription?

Kevin S. Wilson - Heska Corporation

A. So rough numbers, because again Europe is not one thing. So Spain is faster, started it before Germany. France, I think, is probably a little bit slower on the start, but faster on the uptake. So it's -- But if I scramble it all together, the way I would look at it is to say we're about 30% of the way through 70% of the users, meaning the people who do 70% of the volume are about 30% of the customers. And we've largely moved through the larger users that do the most volume.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Okay. So the bigger, more important folks are converted over?

Kevin S. Wilson - Heska Corporation

A. Correct. And there's still more of those like it's not a hard cutoff of a binary. But -- so of that 30% that are doing 70%, we're probably somewhere in the neighborhood of 60% through the 30%. And I think -- because we're not at 0 on the lower volume users. So all of which is to say, I think we'll be largely through that by the end of the second quarter.

So you'll start to see a little bit of an uptick and less dampening of that in terms of comparables and in terms of just the effects of the conversion on a quarter-by-quarter sequential basis as we enter the second half of this year.

But I would just remind people, it's a good thing. It's part of the reason that people delayed the switch of software to a SaaS model back in the day because nobody wanted to take the pain of the optics. I never really care all that much about the optics until after the fact when people are confused and I'm trying to explain, no, this is a good thing.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Yes, it's a -- when the explanation makes sense, I think when you're seeing the numbers, I think sometimes it's -- in a growth business, it's -- the top line dynamic is obviously important too, so -- yes.

Kevin S. Wilson - Heska Corporation

A. That's right. That's right.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Just a couple of things. I think about Europe just in some of the businesses you're kind of building on top of this kind of scale business. First reference lab, and I think we just talked about the importance of that, ex-U.S. You've bought a lab. I guess how do we think about the build-out from here? Is this a series of smaller lab deal? Is there something bigger you can do? Would you build your own lab out to kind of -- can you expand the footprint? Give me a little bit of a sense of how this -- how you take this initial lab and turn it into a more -- a bigger business for you?

Kevin S. Wilson - Heska Corporation

A. Yes. And I tend to be a smaller company, you tend to be a little bit more open on your strategy and your tactics. But on this one, I'll be a little more close, but we will do some small labs like we did in Italy. It makes sense. Where we cannot do small labs, and we've decided we need to be in the business, we will either partner or if we can't partner, we'll organically just build it. But we are fully committed to the strategy that we will have a lab presence in each of these areas because, look, we have the harder thing.

We have the expert sales team. We have the full bundle of point of care. We have subscriptions and we have Rapids. We have the hard thing. If we have to build a lab, we'll do it. I'd rather not be in the real estate rental business and the outfitting business and all those things. I would rather do it through small tuck-ins where you have a customer base and you have a team and people are excited, but we will do organic builds if we have to.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. And then maybe a bigger picture question in our opinion. It seems like you've done a lot fairly quickly. When do you think you'll be in a position where you've integrated these assets, you've converted the customers over and you are going to just take your European offering and just be looking to push utilization and just have kind of a clean offering that isn't so much of these assets you pull together? Is that something that's happening -- is it like couple of years out? Is that something that happens later in '22. I'm trying to get sense of like how quickly you can pull this stuff together...

(inaudible)

Kevin S. Wilson - Heska Corporation

A. I really see -- Yes, that's really -- as Act Two, remember, it was originally supposed to end December 2023. I now kind of see that phase officially ending December 2022. And obviously, you're planning on this transition and it's not some kind of binary cutoff date. But I really see winning at scale is really what Act Three has always been about. Again, you don't scale things until you have the right thing to scale. I think we have all the right things to scale. I think we have more work to do in terms of integration, contracts, bundling, sales training, but we have everything to succeed and then we have to get in a couple of key geographies, Rapids are a global business.

The practice information solution can be a global business, no regulatory hurdle or a slowdown to getting there. The point-of-care business is now a global business. So really, the only one that's not a global business is the reference lab, which by its nature has to be a local business because you have to do physical pickups. Doesn't have to be entirely local because you can do physical pickups and then centralize through logistics, but you have to have enough of a local presence.

And so that's the piece that we have to continue to build in 2022. But I think as we enter the beginning of Act Three in 2023, that really is the answer to your question, where you start to say, hey, we're now winning at scale. We're largely through the conversion to subscriptions. Gross margins are moving in the right direction. Scale is going to help that as well. So I think this is really -- it is the final year of that too. Instead of 6 years, it's taking 5.

But 2022 still is a build year. But I'm always a little -- I'm a tad defensive. A build year for us -- like, a build year in the year 2021 means we hemorrhaged $10 billion, but we're going to be great someday. We have effectively no debt, depending on how you look at the small convert. And we have great growth capital, and we have great growth while we're doing the build.

And so that's what I'm most proud of this team is we can grow our existing business while assembling this asset and creating the scarcity value is really -- maybe it takes a little bit longer than people want, but it's the healthier way to do it if you ask me.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Yes . So a lot in last little bit here. Can I just ask a bigger picture question on just the overall market? I know you touched on this in the presentation. But the questions we get is just we had this very tailwind going through the pandemic with pet ownership increasing, kind of intensity of kind of spend on pet increasing. What's your outlook as you go into '22, '23? Is -- are we going back to kind of more normalized growth rates for the market or we're maybe still hybrid virtual in person, people have become closer to the pets? Is there kind of more of an extended window where the market's growing above historic average for a longer period of time?

Kevin S. Wilson - Heska Corporation

A. Yes. So I don't -- there are economists and sociologists that get to make this stuff up professionally. So I won't pretend to jump in on that. So I have an opinion. But I'll say specific to kind of pet healthcare, we have been consistent now for 2 years that what we said is COVID will be a step function, and then we will revert back to traditional growth rates because this is a 30-, 40-year cycle for pet healthcare, right? So if you go from 1990 and you take it forward, it's a 30- to 40-year cycle. And so you're seeing just nice 8% to 10% growth on that. But when you see these 14%, 15%, 16%, those are not really sustainable. So the denominator stepped up. We probably skipped a year, right? So you've got 1 year of double growth and then you're going to go back and you're going to normalize. I think people keep getting worried that it's like a Peloton moment where it was a spike and now there's this -- It's not that.

It's -- in my opinion, I think it's -- you just regress back to what your nice favorable stuff was, it's just on a higher denominator. The other thing I would caution investors is I see a lot of conflating between consumer cyclicals and pet healthcare. So when you buy a new pet, you go buy a new leash and you go buy a new dog bowl and you get some chew toys and you get -- like that's a consumer type of situation. That's not pet healthcare.

And veterinarians are pet healthcare. And so really, the bigger constraints, people keep focused -- in my opinion, they keep focused on pet population. And I'm not sure where 10 million dogs came from, somebody counted 11 million, somebody counted 10 million, I'm not sure I ever totally believe those numbers, the constraint in my opinion, is there aren't enough veterinarians to do the work.

So you can't -- there are some veterinarians who won't take new clients now. And so I do think you're going to see price. I think you're going to see price go up. I think you have to get more efficient. And I think it's an opportunity for companies to make them more efficient through software, through communication callbacks, if you can automate callbacks. Like anything we can do to make the veterinarian more efficient But look, if there's 28 vet schools, I think, in North America, we don't have enough. And so that's really a more important number to me is technicians, labor constraints, veterinarians than it is whether or not there's another 10 million dogs or 6 million dogs or 4 million dogs.

But the one thing I do know is there's millions of more dogs, and they're not going away. They're going to need healthcare for 14 or 15 years. Now whether they need a new chew toy and a new bowl and a new leash every month or every year is a different question.

So there's just conflating of consumer cyclical and pet healthcare. And I don't think they're really the same thing, but it gets lumped into pet.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Sure. Absolutely. It makes a lot of sense. I think we're just about out of time. Kevin, congrats on all the progress, and we look forward to the exciting year ahead in '22. But thanks again for joining us today.

Kevin S. Wilson - Heska Corporation

A. Chris, thank you. Bye.

Christopher Thomas Schott - JPMorgan Chase & Co.

Q. Bye.