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

Corporate Participants

- Catherine I. Grassman - Heska Corporation – Executive VP & CFO
- Kevin S. Wilson - Heska Corporation – CEO, President & Director
- Jon Aagaard - Heska Corporation – Senior VP, Head of IR

Conference Call Participants

- James Philip Sidoti - Sidoti & Company, LLC - Research Analyst
- Benjamin Charles Haynor - Alliance Global Partners, Research Division - Analyst
- Ekaterina V. Knyazkova - JPMorgan Chase & Co, Research Division - Analyst
- David Michael Westenberg - Piper Sandler & Co., Research Division - MD & Senior Research Analyst
- Erin Elizabeth Wilson Wright - Morgan Stanley, Research Division - Equity Analyst

Presentation

- **Operator - -**

  Greetings. Welcome to the Heska Corporation Fourth Quarter and Full Year 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions) Please note, this conference is being recorded. I will now turn the conference over to you, Jon Aagaard. You may begin.

- **Jon Aagaard - Heska Corporation – Senior VP, Head of IR**

  Thank you, and good morning, everyone. Welcome to Heska Corporation's Earnings Call for the Fourth Quarter and Full Year of 2022. As a reminder, today's conference is being recorded. I am Jon Aagaard, Head of Investor Relations at Heska. And 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 and opinions are based on our current beliefs and expectations and involve known and unknown risks and uncertainties, which may cause 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 earnings 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 statements were made. Also during this call, we will be discussing certain financial measures not prepared in accordance with generally accepted accounting principles or GAAP. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures is provided in our earnings release, which may also be found by visiting the Investor Relations section of our website. In reviewing our fourth quarter and full year 2022 results, please note all references to growth refer to growth compared to the equivalent prior year period, unless otherwise noted. Before I turn the call over to Kevin, I want to mention Heska's earnings presentation found on the Investor Resources page of the company's Investor Relations website. Please view the slides as a supplement to today's earnings release. And with that, it is now my pleasure to turn the call over to Kevin Wilson, Heska's CEO and President. Kevin?

- **Kevin S. Wilson - Heska Corporation – CEO, President & Director**

Thanks, Jon, and good morning, everyone. Before I begin, I'd like to encourage participants to review this morning's release. It's detailed and helpful and I'll try to refrain from unnecessarily reading it to you now. As usual, Catherine will cover the financial results from the quarter, so I'll be brief with my own thoughts this morning, some of which will echo our last call. To begin, I'm smiling this morning. Now we have a great release basically across the board, and we like our outlook. We had a solid Q4 execution, and we got an amazing amount of investment, good work and preparation done in 2022 for good momentum entering 2023. Heska again gained market share, greatly improved gross margin and delivered 15% to 18% growth in key subscription metrics. Supporting this subscriptions growth, Heska had another great year, placing analyzers into competitive accounts and into our subscriber base, with a particularly wonderful performance in premium chemistry analyzer placements, which were up 28% in the fourth quarter year-over-year.

We also hit our stride on Element AIM. After working through supply chain and in-person team training delays and bumps in the road in our international and corporate accounts launches in the fourth quarter, we finally got to rolling momentum and finished 2023 with over 370 analyzers in operation, over 40 of which were activated in the month of December alone. Customer feedback is positive. Utilization in both urine and fecal consumables is growing steadily. Systems are working as designed. Margin profiles are great, and Element AIM's economic contribution is growing nicely. We continue to view Element AIM as a significant contributor to our growth for years to come and as a visible and important differentiator for

Heska in a very competitive market. Other key differentiators that are proprietary to Heska are now also making a market difference for Heska. Heska's proprietary highlights now include the Element i+ immunoassay platform, which is now wholly owned by Heska following the completion of our acquisition of LightDeck, the platforms and veteran manufacturer.

With a new state-of-the-art manufacturing plant in Longmont, Colorado coming online this year, we will have the ability to manufacture up to 1 million tests per month on this exciting platform for key immunoassay tests and for our soon-to-launch Heska Nu.Q vet cancer screen and monitor available exclusively at the Point of Care and Element i+ is in minutes with a very small blood sample and for under $50. This menu innovation is revolutionary in the battle against pet cancers. Just in the United States alone, over 6 million dogs are diagnosed with cancer each year with nearly 50% of all dogs over the age of 10 developing the disease. Early screening and detection is key, especially in pets that otherwise appear to be in good health and Heska is leading the charge. In recent peer-reviewed published papers, Nu. Q detected canine lymphosarcoma at a 77% rate and detected canine hemangiosarcoma at an 82% rate, and there's more to come. This is a big, important and urgent need that veterinarians with Element i+ and Nu. Q from Heska can meet for screening and monitoring affordably and quickly at the Point of Care and with high clinical confidence.

Rounding out our growth drivers for 2023 are Heska's new true rapid series of single-use tests, Heska's upcoming release of new cloud-based practice information management software and related software products and our other announced and unannounced projects, which together, we see driving profitability, differentiation, scalability, share gains and competitiveness in 2023 and beyond. As I mentioned on our last call, to the extent that we were doing a forward probability exercise, many of the delays, headwinds and oddities in prior year comparables that Heska experienced in 2022 are now set to flip into neutrals and positives in 2023. Pricing dynamics and our cost inputs are favorable. Year-over-year patient hospital visits and foreign exchange currency trends are expected to moderate or improve. Our new growth drivers are exciting, and we have momentum over the competition in long-term lines like chemistry and hematology. And the timing is good. For nearly 5 years, we have invested heavily. We have planned, worked and publicly communicated that Heska was targeting to transition from our 5-year build phase to our 5-year win at scale and win an innovation phase in 2023. 2022 is behind us, 2023 is here, and we have assembled an amazing and very unique asset to win at scale and win at innovation. So with that, I'll turn the call over to Catherine to detail our quarter and the full year before we move to our Q&A time. Catherine?

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

Thanks, Kevin, and good morning, everyone. I'm pleased to take you through our fourth quarter and full year 2022 results, along with an overview of our outlook for 2023. Heska finished the year strongly with fourth quarter and full year reported revenue of $66.3 million and $257.3 million, respectively. Our reported annual revenue for 2022 grew 5.4% when adjusting for currency headwinds of approximately $10 million and was slightly ahead of our updated outlook. Our North America segment revenue was in line with the prior year in the fourth quarter and grew 1.8% for the full year. For both periods, increased subscriptions, including placements at Element AIM, drove POC lab instrument double-digit growth, net price gains on our consumable portfolio as well as newly launched products contributed to consumable sales growth of approximately 9% in both periods.

Offsetting growth were declines in contract manufacturing revenue and sales of POC imaging products. Excluding FX impact, our international segment revenue grew 2.8% in the quarter and 10.9% for the full year. The acquisition of Vet in January of 2022 was a significant driver of growth as were increased subscriptions as we continue to execute on our reset program transition in Europe. Consumables were slightly improved from prior year on a constant currency basis, even as the macro environment in the European region impacted vet visits and consumer spending. Additionally, throughout 2022, we continue to focus on transitioning existing customers to the subscription program in which we share price discounts in exchange for longer-term contracts, which has a dampening impact to revenue initially. This effort is succeeding and can be seen in improved gross margin. Fourth quarter consolidated gross margin improved approximately 100 basis points to 41.9% and 150 basis points to 43.2% for the full year.

While the fourth quarter gross margin expanded to 46.5% in our North America segment, full year gross margin was in line with prior year at 46.7%. Net price gains were offset by increased instrument placements and other variations among lower-margin products. International gross margin expanded in both the quarter and the year to 33.4% and 37.3%, respectively. Two key drivers in this expansion were: one, the transition of customers to the Reset program, which includes Heska's work on product rationalization and subscription transition, yielding full year expansion of 560 basis points; and two, the acquisition of tense. Total operating margin for the quarter and the year was negative 4% and negative 7.9%, respectively. The decline versus the prior year of 750 basis points was driven mainly by onetime acquisition-related costs and other nonrecurring charges, the most significant of which is related to a $10 million payment in the first quarter of 2022 for an exclusive agreement to develop the Heska Nu. Q vet cancer screen test.

The Point of Care, cancer screen and monitoring test Kevin spoke about just a moment ago. Additionally, we continue to invest in other growth opportunities that are deemed recurring, such as the ongoing development of a cloud-based pen solution and expansion of our true rapid portfolio. Adjusted EBITDA for the quarter was $6.2 million, and adjusted EBITDA margin was 9.4%. Adjusted EBITDA for the full year was $27.2 million, and adjusted EBITDA margin was 10.6%, a reported decline of 110 basis points. The ongoing investment in future growth I just spoke about compressed the margin in the current year. Our balance sheet is strong with cash of approximately $157 million. On January 3 of this year, we closed the acquisition of LightDeck utilizing approximately $22 million in cash.

Now for our financial outlook for 2023. We expect consolidated revenue within the range of $278 million to $288 million, which reflects reported and constant currency growth of 8% to 12%. Our guide includes growing our subscription base 20%, continuation of favorable underlying fundamentals relating to price gains, moderation and vet visit trends anticipated in the second half, continued successful placement of approximately 400 alumina analyzers, expanding menu to include canine cancer screening and monitoring tests as well as other rapid assay diagnostic test expansion, all resulting in a POC lab range of $165 million to $175 million. We are estimating a range of $60 million to $70 million for POC imaging. We continue to see macro headwinds relating to capital sales of imaging-related products, which will net against growth of our PIN solutions and POC imaging.

We expect some growth in PVD products group, while OVP products are expected to remain relatively consistent with 2022 levels. From a cadence standpoint, we anticipate acceleration of revenue beginning late in the second quarter and ramping throughout the remainder of the year. This is based on the current macro environment, expected moderation of industry trends in the second half, timing with certain product launches, the impact of the timing of placements in 2022 and variation within OVP. We expect North America to comprise approximately 60% of total revenue, which includes an estimated POC lab consumable growth rate of 12% to 15%. The remaining 40% of total revenue in our International segment includes an estimated reported POC lab consumable growth rate of 12% to 14%, with currency impacting the range by approximately 300 basis points.

Our focus in 2023 will be a continuation of reset subscription transition, placement of new offerings in existing customer locations as well as new customer acquisition. We expect to expand our gross margin between 100 to 200 basis points, not including the impact of the LightDeck acquisition. Our 2023 adjusted EBITDA margin expectation without the LightDeck acquisition is to expand 100 to 200 basis points as well. The acquisition of LightDeck will compress Heska's adjusted EBITDA margin to be in line with 2022 at or around 10%. LightDeck is a long-term strategic investment, expanding Heska's research and development capabilities as well as our manufacturing capabilities. New product pipeline planning is underway as we look to further develop proprietary technologies. Plant utilization and cost rationalization efforts are also a top priority for the Husky management team.

Further, while we have not yet completed our purchase accounting for the LightDeck acquisition, we preliminarily expect depreciation and amortization expense of approximately $19 million to $21 million; stock compensation expense of approximately $13 million to $15 million; interest expense of $3 million, and we expect to generate a tax benefit of 5% to 10%. In 2023, Heska plans to utilize cash for a number of initiatives, including operations specifically relating to the LightDeck acquisition, investment in CapEx projects such as our new headquarters and the other improvements as part of recent acquisitions Additionally, we will continue to make other investments in growth, all approximating to about a use of $60 million to $70 million of capital. To close, as Kevin mentioned, we are pleased with our performance in the final period of 2022, and we are confident in our position and outlook as we begin 2023. With that, we would like to open the call for your questions. Operator?

Question And Answers

- **Operator - -**

  A. And at this time, we will be conducting a question-and-answer session.(Operator Instructions) In one moment, please, while you pull forward questions. Our first question comes from the line of David Westenberg with Piper Sandler.

- **David Michael Westenberg - Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

  Q. So incredible guidance. I got me off guard, I probably all my questions on that because it was quite good. Just -- I wanted to kind of just detail on confidence in seeing that, particularly around the international. I know there's a lot of economic weakness in Europe, I think there has been the double-digit constant currency growth I thought was a really, really good number. And then just particularly given that you're discounting on switching to subscription and what I'm seeing in the press release is implied to think a lot of switching to the subscription. So I guess a state more than question. All I am asking is that confidence in that international subscription growth, given the factors that I just kind of mentioned.

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

  A. David, I'll start broadly. We've been working to convert customers to subscriptions. And as you point out, we share roughly a 10%, 15% price discount in a lot of cases in exchange for 6-year contracts. A couple of positive things happen. We get price increases based on CPI, and CPI throughout most of the European regions has been running hotter than even in the United States. So you can look at those at kind of like 8%, 10% price increases. And so we're lapping some of those and they're getting price for the first time. So that's helpful. The second thing is we moved through the larger volume users already. And so as we look to tackle that second half, each of those new subscriptions will use less consumables than -- and not across the board, but in the aggregate, we'll use less consumables than the first half of the consumers that we've already switched to subscription. So to have a less of a dampening effect.

  And then the third thing I would point out is we think we'll have better execution in things like our True Rapids launch going into the selling season kind of April, May. We didn't really execute on that last year, and so that becomes a tailwind. And our product rationalization. So we've lost or walked away from certain products over the last couple of years as we rationalize some of those products. And some of those headwinds are now fully baked in and that they don't happen again. So yes, Europe is more difficult on a macro basis. It's a little harder to see through. But we do have some of those helps that I just called out. I don't know, Catherine, I don't know if I got them all.

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

  A. Yes. I think you had all of them.

- **David Michael Westenberg - Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

  Q. I guess switching -- I mean switching to the U.S. and I guess switching to total post market here. And I don't know if you gave contribution from new products in that guidance. But is there any kind of way for us to frame what some of the new products might be doing, whether it's an rapid? And I'm noticing you're breaking out premium versus non-premium. What exactly do you mean by that? Is that the legacy skill versus the element versus an element chemistry analyzer and I'll stop there since you have other analysts.

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

A. No. So I think when we say premium, it's a little bit in line with kind of how the industry looks at it. You have kind of main anchor products on a point-of-care lab and then you have kind of what I'll call satellite products that go around that. So virtually, all of our subscriptions will look to kind of main testing segments. So that would be chemistry hematology, we would call urine and fecal. So kind of the bigger monthly commitments. And then you'll have things like blood gas, coagulation, kind of smaller utilization analyzers. And so we just don't want to necessarily conflate chemistry hematology, kind of a core piece of lab with a small unit, a satellite piece of lab like a coagulation analyzer that has a much lower utilization. So I think that's what we mean by that.

- **David Michael Westenberg - Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

  Q. Sorry. And on the new product contribution?

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

  A. Yes, I don't think we're calling that out as specifically. And a lot of it is we have a lot of them. So we called those out. So yes, there are a lot of new products, and we've been investing pretty heavily in bringing them to market and now they're coming to market. So those are definitely tailwinds as well. But I don't know that we want to discretely break those out at this point.

- **Operator - -**

  A. Our next question comes from the line of Chris Schott with JPMorgan.

- **Ekaterina V. Knyazkova - JPMorgan Chase & Co, Research Division - Analyst**

  Q. This is Ekaterina on for Chris. 2 for me. So the first kind of building on your previous comments around price in Europe. I just wanted to ask the same question kind of in North America. So out of that 12% to 15% point of care in North America consumables growth number, how much price benefit is embedded in that? And how should we think about pricing dynamic as we move through the year as you kind of lap some of the price increases from last year versus what you're seeing now with CTI? So that's the first question. The second question is just around vet visits. So what are you assuming on the vet visit front in your guidance in terms of just like vet visit growth and perhaps more generally, what are you seeing in the market when it comes to capacity and some of the labor shortages we saw last year?

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

  A. Welcome. Catherine, do you want to take price, and I'll take visits.

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

  A. Sure. Hi,Â Ekaterina. Yes, we expect price to contribute about 7% to 8% in North America and fairly evenly distributed throughout the year based on how we increase our prices relative to our contractual agreement.

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

  A. And so on price, I'll just add one more thing. There's a positive there for us as well. So if we get 7% to 8%, we think our competitors have taken more in the last year, which improves that value bridge, that value gap just in terms of pricing, we think we show more value. So we think that's a net positive for us just in terms of competitiveness. In terms of the vet visits, the comps are much easier, things are normalizing. I can't wait until we get to a world where we're not talking about the effects of the pandemic and some of those types of things. So some of that is normalizing. We do see getting to neutral year-over-year, and we do see getting to positive in the back half. And I don't think we're inconsistent with some of the other market participants in that regard. There are still labor constraints, but we're also seeing de novo clinics more than I've seen in many, many years. So brand-new clinics starting up, and we're seeing acceleration in technician hiring, technician training, technician schools opening, one opened in San Diego and just graduated their first class in the last quarter. So we're solving it. And then I think efficiency is something that's good for the industry as well. So we're all starting to push, especially through the practice software and faster testing, we're pushing efficiency. So I think the market works in 2022 was more difficult in that regard than we think 2023 will be.

- **Operator - -**

  A. Our next question comes from the line of Erin Wright with Morgan Stanley.

- **Erin Elizabeth Wilson Wright - Morgan Stanley, Research Division - Equity Analyst**

  Q. Great. So is 40 AIM placement a quarter the right way to think about placement trends from here for AIM, and I'm just trying to reconcile with the run rate that was implied with the 500 placements that you were originally targeting, I guess, should placements accelerate from here in the coming quarters? Or how should we think about that quarterly cadence? And also the mix of international versus North America in terms of the installed base on AIM.

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

  A. You're welcome. So less international installed, certainly the North America. We didn't really get good activity in our international launch really until the fourth quarter of this year, which was, as we called out, was certainly part of not getting to that $500 million. I think the total number, we said over 40, I think it was 44. So I'm trying to be precise. So if I miss by 1 or 2 in either direction, give you some grace there. But -- so on an evidence base, we look at that and we say the entire sales cycle, meaning we can engage with customers that are in our pipeline, we can pitch the product, we can get them to commit to the product, and then we can install the product. That entire sales cycle was in full effect in the fourth quarter, both internationally and domestically. And so we know without presales, without backlogs, without those types of things in the number. We know in the fourth quarter in December, we can get to 44. So if you annualize that, I think that's more than the 400 that we're guiding towards for the year.

  So we feel good about it. We think it's evidence-based. We see little bright shoots. I think I saw a nice report of 14 committed in Australia, which is a very small market relative to some of our other markets. So those are things that we just didn't have the ability to get earlier in 2022 that are now fully released in all of those markets. And so we've got the benefit of those as well. So I think I answered your question, Erin.

- **Erin Elizabeth Wilson Wright - Morgan Stanley, Research Division - Equity Analyst**

  Q. Okay. Great. Yes. And what is guidance assumed now in terms of new test contribution at this point. Can you remind us of the economics around that test for Heska and pricing thereon?

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

  A. You're welcome. So I'll let Catherine do quantity guide things like that. Pricing, we think will be under $50 to the veterinarian. We think that compares favorably to reference lab options that are higher. And then the economics on that are good. They're in line with our better consumables numbers, which are -- which tend to be kind of high margin, gross margin numbers. So Catherine, I don't know if we're calling out discretely, what Nu. Q contribution is.

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

  A. Yes. Yes, we haven't called it out specifically. It is a contributor to consumable growth but not overly meaningful in this guide for 2023. I think we're going to -- based on Element AIM launch, we're going to take a little more time and probably update quarterly, Aaron, on the progress of Nu. Q as when it launches and throughout the quarters thereafter.

- **Erin Elizabeth Wilson Wright - Morgan Stanley, Research Division - Equity Analyst**

  Q. Okay. And if I could just sneak one in more of a housekeeping question. But I think you mentioned $10 million in licensing spend that you're excluding from adjusted profit. Was that -- what is that related to? Is that R&D investment? Or was -- is this something more operational in nature?

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

  A. Yes. So the $10 million that we're excluding from adjusted EBITDA was a payment that had to be immediately expensed from an accounting standpoint in the first quarter of 2022, but it is in relation to the Nu. Q cancer screening and monitoring test and licensing on that product. But just from an accounting standpoint, couldn't be capitalized and amortized.

- **Operator - -**

  A. Our next question comes from the line of Ben Haynor with Alliance Global Partners.

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

  Q. First off for me, just Kevin, is there any color you can provide like kind of the Nu. Q reception of the initial launch? I know it's early days. And then on the announced products, can you refresh our memory what those are beyond kind of Nu. Q and the true Rapids and then the timing of what should investors expect on announced projects, when might those be disclosed or launched?

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

  A. You bet. So Nu. Q, we just got done with the Western Veterinary Conference, one of the top 2 conferences in Las Vegas and several talks on Nu. Q attended extraordinarily well, and it was one of our focuses at our booth. And so we had hundreds and hundreds of veterinarians coming by. So we think the reception is fantastic. The peer-reviewed published data is good, additional peer-reviewed data is coming and being published. And so it's -- we think it's an extremely important product, like not just financially, we just think screening for cancer is one of the most important things you could technologically be able to do. And if you think about the size of the screening market, which is what tends to drive a lot of veterinary care for things like heartworm, screening for things like kidney function and those types of things. We think cancer is so prevalent and so important that it's a very big opportunity.Â

In terms of unannounced products, we got so busy and we have so many things happening that we just -- we don't want to gen up every single product. So we still haven't stopped on just basic menu expansion on just our current product line. So you can think things like new features for hematology. You can think things like new menu for immunoassay that are a little bit more just down the middle of the fairway that they're definitely additive, but they're there not big spike movers. And so I'm going to avoid that one because I don't want to step in the -- we try to be a little bit disciplined. We're talking about so many positives with our PIMS launch and the cloud with the Nu. Q with the acceleration and AIM in the fourth quarter, just Rapid, Rapids coming out. So we have a lot of needle movers that we just don't want to over message. So...

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

  Q. Okay. That makes sense. Fair enough. And then it's probably one for Catherine. When you look at the utilization levels of accounts and what their contracted level of utilization implies, let's say, that in North America or whatever that number is, it's x percent greater utilization than the contractual value. Is that figure whatever it is roughly similar in international? Or is there any kind of discrepancy there in terms of the utilization level versus the contracted level? If that makes sense?

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

  A. Yes, I understand your question. And I think we don't have -- we're just now 1.5 years really into the reset program in Europe, but I would say trending wise, it doesn't seem to vary significantly at all from North America. So we tend to -- yes, that contract minimums that are achievable and even can be exceeded by our customers. So I think we're in a pretty good spot in both side modes.

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

  Q. So the strategy is effective to say, between the 2, you don't want to set too high or too close to the actual utilization, you want there to be a little bit of room there.

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

  A. You really do. There are minimums you don't want them to be scary, and you don't want to force clinical utilization. So you're really trying to align yourselves with the customer. And the point is to align them so that we're friendly and we're partners, and we're helping and we're growing alongside them for 6 years and ideally 10 or more, right, with renewals. And so getting out ahead of them and putting pressure on them through contract minimums is generally not the best strategy.

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

  Q. Okay. That makes sense. And maybe sneak one more in. In the past couple of years, you've added 150-ish net new accounts in North America. It looks like that's kind of what the guide is for this year. What -- down the line do you think can accelerate that number? I know obviously, that's taken whatever 0.5 point or so of share each year. But what could potentially accelerate that? And do you see that accelerating down the road?

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

  A. Yes. So there are some constraints. Remember, the vast majority of the market is under contract with somebody. And so some of it is just mathematical constraint. You could come out with the world's best product ever. And a large percentage of the population of available clinics are going to be in a contract that has several years left with either Heska or with a competitor. So there's just a natural patients cadence that you do have to get around. So similar if somebody wants to switch a cellphone contractor, they just can't just stop and switch. So that tends to be a moderator on some of that number. So that's part of why you see a slow grind forward. Corporate accounts and larger consolidators certainly are an opportunity because they go on contract and off contract in higher bulk even those are not binary though, you don't get 100% day 1 in the vast majority of them. So that's just a natural limiter that people should be aware of. New product though, we think LMI Plus, especially with the new point-of-care cancer test. We think that is so compelling that it can sit alongside just about anybody's core lab without impinging on their existing contract. And I think that's a growth driver for us, certainly, but it's also a nose under the tent, so to speak, for when that contract does come up to earn the rest of the business. So that's a little bit more of our strategy.

- **Operator - -**

  A. Our next question comes from the line of Jim Sidoti with Sidoti & Company.

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

  Q. A quick one for Catherine and then a few for Kevin onÂ LightDeck. Catherine, what was the impact of currency in the quarter.

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

  A. Sorry, Jim. Can you hear me?

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

  Q. Yes, I can.

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

  A. Okay. Sorry about that. Okay. So impact of currency for the quarter on top line. Is that what you're...

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

  Q. You're right, right.

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

  A. It was about -- probably about a -- we're probably about flat on consolidated for the quarter when -- or about a little over 1% growth, yes.

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

  Q. So you would have been 1% growth on a constant per...

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

  A. Yes, if not for currency, yes.

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

  Q. Okay. All right. And then on LightDeck, Kevin. They had a lot of projects underway that weren't bet-related, human-related water testing. What's the status of those projects? Are those things you'll continue?

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

  A. On a case-by-case basis, Jim, but we're a veterinary company. And one of the reasons that we wanted to directly own that business was to focus and accelerate the product development of things like Nu. Q. And then we have other menu that we want to accelerate that are, we think, are extremely compelling. So our focus is a veterinary menu. And I would be doubtful that we get distracted from that. Now a way forward would be to find a partner interested in water or partner interested certainly in human. And that road has been traded by Abaxis back in the day, we partnered with Abbott. You'll see it go the other direction, Abbott partners with Zoetis and Blood gas. And so I think that would be probably a better way forward is to have a partner who's interested in medical menu. But until then, our primary focus really is to get these veterinary products out because they're big and they're compelling.

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

  Q. Understood. Okay. And then, Catherine, you said, I think, a $22 million cash payment for LightDeck, but the purchase price was 39. So is there a contingency payments that are due later in the year or next year?

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

  A. So a portion of the cash -- a portion of the purchase price is actually existing reacquisition of debt, so like debt forgiveness for previous investments we have made over the years, yes.

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

  Q. Okay. And then on your capital use for the year, that $6 million to $7 million. Does that include LightDeck or is that in addition to the $22 million forÂ LightDeck?

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

  A. No, that includes LightDeck.

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

  Q. And is there the balance of that capital spending? Or is that a combination of capital spending and R&D type things?

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

  A. It's going to be a combination.

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

  Q. Okay. And then the last one for me. You said $3 million of interest expense, which seems like double what it was in 2022. Is that due to rising rates? Or what's the reason for that?

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

  A. It's a little bit of hedging just on rates, but -- so it's really about $2 million to $3 million on interest expense.

- **Operator - -**

  A. And we have reached the end of the question-and-answer session. I'll now turn the call over to Kevin Wilson for closing remarks.

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

  A. Thanks, operator. Thanks, everybody, who joined the call. And thank you to the analysts for good, thoughtful questions and for building models and following our company. We've invested very heavily, a lot of work, a lot of capital to ascend but what we think is just a great asset. And we think 2023 is a year of execution for us. So we look forward to our next update. And until then, thanks for your confidence and for your participation with Heska, as we do our work. So everybody, have a good day.

- **Operator - -**

  A. And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.