

AxoGen First Quarter 2015 Results Conference

May-5-2015

Confirmation #13607955

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Operator: Greetings, ladies and gentlemen, and welcome to the AxoGen First Quarter 2015 Results Conference Call.

At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad.

It is now my pleasure to introduce your host, Mr. Michael Polyviou. Thank you, sir. You may begin.

Mr. Michael Polyviou: Thank you, Gen [sp], and good afternoon, everyone. Thank you for joining us today for the AxoGen Inc. conference call to discuss financial results for the first

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quarter ended March 31, 2015. Today's call is being broadcast live via webcast, which is available on the AxoGen website. Within an hour following the end of this live call, a replay will be available on the company's website at www.axogeninc.com under Investors.

Before we get started, I would like to remind you that, during the course of this conference call, the company will make projections and forward-looking statements regarding future events. We encourage you to review the company's past and future filings with the SEC including without limitation the company's Forms 10-K and 10-Q, which identify the specific factors that may cause actual results or events to differ materially from those described in these forward-looking statements. These factors may include, without limitation, statements regarding to product development, product potential, regulatory environment, sales and marketing strategies, capital resources or operating performance.

And with that, I would like to turn the call over to Karen Zaderej, President and Chief Executive Officer of AxoGen. Karen?

Ms. Karen Zaderej: Thank you, Michael, and good afternoon, everyone, and welcome to AxoGen's first quarter 2015 conference call. Joining me on the call today is Bob Johnston, our Chief Financial Officer, to discuss our operating performance and financial highlights of the quarter.

AxoGen's performance in the 2015 first quarter continues the strong pattern of growth and momentum that we delivered in 2013 and 2014. We have continued to execute a strategy to drive increased awareness and usage of our portfolio of nerve repair products and create a shift in clinical algorithms for nerve repair through education and clinical data, all while strengthening our top line growth and financial position.

The AxoGen strategic approach continues to deliver strong results. We reported record quarterly revenue of 4.95 million, which represents a 58 percent increase over last year's first quarter. In addition to reporting record revenue in the first quarter, our gross margin was 80 percent as we continue to deliver improved performance across our key metrics.

We are proud that we delivered the strong results despite well-documented weather-related issues that we and many other businesses faced in January and February. In fact, once weather-related issues subsided, the sales momentum returned, and we had a record sales month in March, which was promptly surpassed by another record month in April.

The market for peripheral nerve repair is large, and in the clinical areas in which we are currently focusing, it's estimated to be a \$1.6 billion market in the U.S. Let me outline how we intend to grow in this market and take advantage of this large opportunity.

Our greatest strength is AxoGen's comprehensive product portfolio. The portfolio addresses the key issues facing nerve surgeons today, how to provide off-the-shelf treatment options for patients in a safe and cost effective manner and avoid the potential complications and costs associated with an additional surgery to harvest autograft nerve tissue.

Our three brands address the full spectrum of surgical repair needs for the typical nerve repair surgeon. The first of these products is Avance Nerve Graft. It is donated human nerve tissue processed through our proprietary cleansing and de-sterilization method and intended for the surgical repair of peripheral nerve gaps.

Next is AxoGuard Nerve Connector, the only extracellular matrix coaptation aid for tensionless repair of severed peripheral nerves. Finally, AxoGuard Nerve Protector is the only extracellular matrix implant used to protect injured nerves and to reinforce the nerve reconstruction while preventing soft tissue attachments.

Our products eliminate the need for an additional surgery associated with the harvest of nerve autograft tissue and offer new options to treat the more than 900,000 nerve injuries that will be surgically repaired this year in the United States alone.

Autograft nerve harvest is a surgical procedure in which a healthy nerve is removed from somewhere else in the patient's body and used to repair the injured nerve. Autograft nerve harvest may cause a loss of function for the patient and can add risk and expense for the hospital.

In today's healthcare environment, hospital administrators are seeking medical products that improve the quality of care while at the same time providing an economic value by reducing risk and cost. I believe AxoGen's nerve repair products address each of these concerns.

First, the harvest of the autograft is not separately reimbursed, and there's no financial driver for a hospital to perform this procedure. In addition, elimination of the procedure to harvest the patient's own nerve will save 30 to 90 minutes in total procedure time. That in turn reduces the cost of both OR time and anesthesia.

Using a national average for OR cost, this time savings equals between 4,000 and 12,000 in cost savings for the hospital. In fact, not only does the reduction in time save cost, it presents the hospital with the opportunity to perform more surgical procedures. A typical large hospital could gain the equivalent of six to nine days of additional available OR time in a year.

In addition, eliminating the need to harvest the patient's own tissue by use of an off-the-shelf AxoGen nerve repair products may allow the use of local or regional anesthesia instead of general anesthesia, which further reduces cost.

AxoGen's off-the-shelf nerve repair products may also prevent complications associated with nerve autograft harvest procedures. Surgical site infection is one of the most common complications of any surgical procedure, and the cost to a facility to treat a surgical site infection averages \$20,000 and can exceed \$100,000. Hospitals are increasingly aware of this cost as they are being held more financially accountable for readmissions, avoidable complications, and serious reportable events that occur during a patient's time in a hospital environment.

The only way a hospital can completely eliminate the chance of a hospital acquired infection at the additional surgical site is to use an off-the-shelf AxoGen product and avoid the harvest procedure entirely. AxoGen's off-the-shelf nerve repair products offer a compelling value message to surgeons, healthcare facilities and patients alike. And we believe our value proposition is driving steady surgeon migration to our product portfolio.

Let's now turn to our execution strategy. Since adopting a focused marketing and sales approach in early 2013, we've delivered a consistent pattern of stellar results. Let me highlight how the team is successfully our plan, what I like to refer to as our four pillars of growth.

First, we are building a higher level of market awareness. To introduce more surgeons to the benefits of new treatment options, we engage with them at hospitals, clinical conferences, promotional events and surgeon education courses. As I mentioned on the fourth quarter conference call in January, we attended the joint annual meetings of the American Association for Hand Surgery, American Society for Peripheral Nerve and the American Society for Reconstructive Microsurgery where we sponsored a surgeon panel, titled, "The Value of Nerve Repair Technologies in Your Practice".

We had over 100 surgeons attendant the event. More importantly, the tone of the conversation in these meetings has shifted over the last year. The questions asked by the surgeons in the past were on the basic science of our products, and the questions asked today are related to the practical aspects of using our products, things such as what sizes to order and when to use one product versus another.

Our second pillar of growth is focused on surgeon education and the development of surgeon advocates. In late 2013, we initiated a surgeon education platform focused on best practices in

nerve repair to help drive awareness of surgical techniques that lead to positive outcomes. To date, we've seen an increase in revenue of greater than 60 percent from surgeons who have attended our two day courses. We have plans for nine of these events in 2015, and we have already conducted three so far this year. That's compared to four in all of 2014.

The third pillar of our growth strategy is to grow the body of clinical data to support the use of our products. We continue to make excellent progress building data to assist surgeons in the decision making process. At the end of March, the RANGER Study, an ongoing multi-center study focused on the repair of gaps in peripheral nerves, included over 650 nerve repairs with Avance Nerve Graft. Results from this study have already been published in three peer reviewed journals, has been cited in other publications more than 130 times, and have been presented more than 35 times at clinical conferences in the U.S. and in Europe.

Further, data from this study has already been accepted for presentation six more times at clinical conferences scheduled through 2015. RANGER has become the largest clinical study in the treatment of severed peripheral nerves, and its increasing size and diversification allows for analysis of the many different factors that impact outcomes.

Our final growth pillar is sales execution. We simultaneously worked to increase usage in existing accounts and expand our sales footprint by adding new accounts. We see adoption as

a process that occurs over time. In most cases, a surgeon begins with one product, incorporating that product into his or her treatment algorithm, before moving on to another AxoGen brand and expanding their treatment algorithm. We keep our reps focused on driving adoption of the individual brands and of the entire portfolio.

In Q1, an account that ordered all three of our brands generated at least five times more revenue than an account ordering just one brand. So, we continue to drive usage of the full portfolio to realize these revenue benefits.

We have continued to expand our sales force, and at the end of the first quarter, we had 32 direct reps compared to 24 in the year ago first quarter. We've planned to continue to grow our sales force with a target of up to a total of 39 sales professionals in the near term to increase our presence in key growth markets.

In addition to having a broader sales force, our current team is far more knowledgeable on the best practices of nerve repair. At the end of March, more than half of our direct reps in the U.S. had been with us for more than 12 months and are showing good growth in their respective territories. And in addition to our direct sales team, we had an additional 24 territories managed by independent distributors.

With that, Bob, will provide you with some additional details on our financial results. Bob?

Mr. Bob Johnston: Thanks, Karen.

I'll focus my comments on the financial highlights during our first quarter. Our revenue increased 58 percent to 4.95 million compared to last year's first quarter of 3.14 million. This growth was primarily due to increased product usage by existing accounts and the addition of new customers. Additionally, we recorded a 142,000 in grant revenue, which provides additional funding for some of our product development and pipeline work.

Gross profit for the quarter increased 62.7 percent to 3.97 million compared to 2.44 million for the prior year's first quarter. Gross margin was 80.1 percent compared to 77.7 percent in the year ago first quarter and similar to the 2014 fourth quarter. The year-over-year expansion reflects manufacturing efficiencies, a favorable product mix, and a product price increase we implemented on March 1st.

Now, let me turn to expenses. As we discussed on prior calls, we continue to invest in sales and marketing to raise our awareness and to expand our sales footprint. Sales and marketing expenses increased approximately 44.4 percent to 3.9 million compared to last year's first

quarter of 2.7 million, due to the expansion of direct sales force, increased support for both the direct sales force and the independent distributors, and surgeon education.

We ended the quarter with 32 direct sales reps, up from 24 at the end of 2014 first quarter. We also held two surgeon education forums in this year's first quarter compared to just one in last year's comparable period. However, with the 58 percent quarterly revenue increase, sales and marketing expenses as a percentage of revenue declined to 79.4 percent for 2015 compared to approximately 86.7 percent for the first quarter 2014.

For the first quarter 2015, general and administrative expenses were flat compared to the first quarter of 2014. As a percentage of revenue, general and administrative expenses continued to decrease due to the revenue growth, and consistent with our prior comments, we do not expect significant increases in general and administrative expenses, which should continue to decline as a percentage of revenues as sales increase.

R&D spending decreased 17.5 percent to roughly 671,000 compared to the year ago first quarter. R&D expenditures vary from quarter-to-quarter. We expect to start the BLA study this year as well as other ongoing clinical activities, which will moderately increase R&D expenditures this year. As a percentage of sales, R&D expenses continued to decline as we've continued to show top line growth.

The first quarter interest expense was approximately 995,000 compared to approximately 1.2 million in the first quarter of 2014. The decrease was due to the difference in the interest expense related to the revenue interest agreement with Three Peaks compared to the interest expense related to the former PDL royalty contract. For those that are new to the AxoGen story, under the new Three Peaks financing, we expect to save 3.2 million in total debt payments in 2015, 5.6 million in 2016 and 5.4 million in 2017 and for each year beyond compared to the prior PDL financing. By lowering the annual debt payments, refinancing has substantially freed up cash flow to support our growth strategies.

We ended the first quarter with 19.3 million in cash, which included the 13.6 million of net proceeds related to the common stock offering in February. Our monthly cash burn for the first quarter was approximately 1.1 million, which is consistent with our plan to invest in expanding the direct sales force and professional education events to grow the top line.

To echo what Karen said earlier, the impact of the refinancing and the capital raise have considerably strengthened our balance sheet, providing us with sufficient resources to grow the business. The issuance of 5.4 million shares in connection with the equity offering increased our outstanding common stock to approximately 24.9 million shares as of May 4th.

We recently announced two developments related to our manufacturing and distribution facilities. As part of our long-range planning, we are transitioning out of the Virginia Beach facility where we process our Avance Nerve Graft by early next year to a new processing space to accommodate our continued growth. We have also expanded our space at the Burleson, Texas distribution center to further meet our growth needs.

With that, I will hand the call back over to Karen for closing remarks. Karen?

Ms. Karen Zaderej: Thanks, Bob.

I want to take a few minutes to talk about some other recent news. First, the FDA has given us clearance to proceed with the Recon study to support our investigational new drug application for Avance Nerve Graft. This multicenter study will compare Avance Nerve Graft to hollow tubes for bridging gaps in peripheral nerve tissues and will support our biologic license application.

Pursuant to an enforcement discretion granted by the FDA, AxoGen continues to market Avance Nerve Graft while it is transitioned to a biologic product. We will be moving forward promptly with the study, and we expect to enroll the first subject in the second half of 2015.

We are also exploring opportunities for our products to repair nerves in other applications such as nerves severed during prostate cancer surgery. The cavernous nerves that control erectile function and incontinence lie on either side of the prostate capsule and are sometimes removed when cancer has spread beyond the prostate.

In this situation, high rates of impotence and incontinence are reported, and there's a need to evaluate options to repair the nerve at the time of the surgery. As I've mentioned previously, a study of the use of Avance Nerve Graft for this type of repair was initiated several years ago. We are now through enrolment and 24 month follow-up on the subjects, and we anticipate that we will be able to share results from this study later this quarter.

In summary, we are off to a strong start to the year with a record first quarter, and our momentum has continued into the second quarter with a record month in April. I'm confident that our focus on the execution of our growth strategies and our strengthened financial position will drive the continued adoption of our products. We are reaffirming that our full year 2015 revenue guidance will exceed 24 million and that we'll maintain annual gross margin in the mid to high 70 percent range.

As always, I'd like to thank our investors for their continued support and all of the members of the AxoGen team for their commitment to helping patients with nerve injuries and for delivering another strong quarter of business results.

Gen, we're now ready to take some questions.

Operator: Ladies and gentlemen, if you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Tao Levy with Wedbush. Please proceed with your question.

Mr. Tao Levy: Yeah, hi, good afternoon.

Ms. Karen Zaderej: Hey, Tao. How are you?

Mr. Bob Johnston: Hey, Tao.

Mr. Tao Levy: I'm good, thanks. Um, so maybe just a couple quick questions - um, you know, the--in terms of, uh, the percent of revenues coming from, uh, Avance versus, uh, the AxoGuard, um, products, uh, similar to in prior quarters?

Mr. Bob Johnston: Yes, it's, uh, it's 55 percent Avance, uh, and 45 percent AxoGuard on a revenue basis.

Mr. Tao Levy: Perfect, okay. And then I'd love to, you know--maybe if you can provide a little bit more, uh, details around, uh, Karen, your comment that you made, um, regarding April, uh, being, you know, a record month after March. You know, maybe just, uh, I guess it--you know, the price increases, uh, you know, seems to have, you know, stuck, um, you know, given the strength in, uh, in April. And maybe if you could talk about, you know, who are the surgeons that are ordering now? Any change, uh, in terms of, you know, the ones, uh, you know, that may have attended sessions, uh, education sessions from, I don't know, six months ago, nine months ago? Uh, anything like, um, uh, that would be, uh, really helpful.

Ms. Karen Zaderej: So, uh, so lots of questions there, Tao, all combined. So, a little more color on April - um, so April is a combination, um, but predominantly driven by just growth. Uh, so we did take price increase in March 1st. Uh, that of course took place all through March. We'll

see a full quarter impact in second quarter. Uh, but we really are focused on the growth and momentum in, uh, in units and, uh, and continue to see that play out with adoption of the products.

Um, some of that certainly comes from our professional education events. We do track that very closely. Um, it's not only from professional education events. I think the big impact we see from professional education events is that they seem to accelerate the adoption curve of the surgeons who attend it, and that's what really, uh, results in that 60 percent increase is that they start to use, uh, multiple brands and an increased penetration faster than the surgeons who do not attend the events. And so, we see those as being, uh, very impactful in, uh, in growing the market.

Mr. Tao Levy: And I guess is there any, um, you know, insights you can provide on sort of like reorder rates or same-store type sales? I'm just, you know, again, trying to get a sense of, um, you know, where these procedures are coming from, is it, you know, going deeper, uh, within a surgeon's patient pool or, you know, uh, colleagues within the same hospital, um, or is it new people coming into, uh, you know, using the technology?

Ms. Karen Zaderej: So, it is a combination of both. It's, uh--actually, uh, we see it, uh, predominantly in data from accounts. Hospitals or the accounts are the ones that order the

products. Uh, so it is somewhat blinded to us as to whether it's one surgeon or two surgeons using it. Uh, we don't always know that because, again, we don't attend every single case, uh, in our sales process.

Uh, but having said that, we would still see that the majority of our, uh, dollar growth comes from existing accounts, um, with the--uh, but we're still regularly adding additional accounts, and we see that they grow slower initially. Um, that's part of our adoption process that we're trying to accelerate with the professional education, but they grow slower initially, but create a footprint for growth, you know, in the future.

Mr. Tao Levy: Okay, great. Thank you.

Operator: Thank you. Our next question comes from the line of John Gillings with JMP Securities. Please proceed with your question.

Mr. John Gillings: Hey, can you hear me, guys?

Ms. Karen Zaderej: Yes.

Mr. Bob Johnston: Yes, John.

Ms. Karen Zaderej: Good evening, John.

Mr. John Gillings: Okay. Good evening. So, um, I just wanted to follow-up a little bit on Tao's question about the sales mix. Uh, last quarter, you gave us, uh, kind of a breakout between the percentage of revenue from existing customers, uh, versus new accounts, and I was wondering if you'd be willing to do that for us again?

Mr. Bob Johnston: So, um, the breakout again is--uh, for the first quarter is roughly in the high 70, 80 percent range from existing, and the difference then is, uh, from new accounts.

Mr. John Gillings: Okay, so fairly consistent with, uh--.

Mr. Bob Johnston: --Fairly consistent with what we've been seeing. But, back to Karen's comment, we're seeing growth in both areas, both existing accounts as well as new accounts.

Mr. John Gillings: Okay. And then just, um, to put a little bit more color around that, when you see these new accounts come in, um, you know, you said they typically start out using a single product, um, and then they build-up from there - about how long is it before you start seeing that sort of benefit as incremental penetration in account? Is that something that happens

over like a six to 12 month timeframe or more like 12 to 18? Just sort of any color you can give us there would be helpful.

Ms. Karen Zaderej: I think it varies quite a bit, John. So, I don't really have, uh, a metric that I think I can give you that's a reliable at this point. Um, it depends on so many different factors, including the type of account it is. Um, you know, obviously, large academic centers tend to be slower, um, in both their value analysis committee and their review process. Um, so while you may use some products during that time, um, they aren't even technically fully approved to be used broadly. And so, that process alone can sometimes take 12 months. And then, it's, after that, relying on the surgeon process to adopt and, uh, change his treatment algorithm. So, it is highly variable, so I don't really have a guidance I can give you.

Mr. John Gillings: Okay, that's still some helpful color. I appreciate that.

And then, uh, I was just hoping to get a quick update on the oral maxillofacial side. I know it's still early days there, but if you could, uh, just give us an indication of how things are going and maybe help us understand, um, how the sales process works there? Is the surgeon that will be using the product the same one who, you know, may have got or damaged a nerve as part of another procedure, or do you need to develop like a referral network there?

Ms. Karen Zaderej: Yeah, good question. So, we entered into the oral maxillofacial space, um, in mid-year of last year, um, and it is a very concentrated market. So, the people we're targeting are the surgeons who are a referral practice, who repair these injured nerves. Uh, typically, they're at academic teaching hospitals. Uh, there are about 200 of these, uh, specialists who are micro surgically trained in the oral maxillofacial field--oral maxillofacial market, uh, today.

Uh, we aren't developing the referral network. Uh, these injuries have happened, and they've repaired them in the past using autograft the same way that hand surgeons would have repaired a traumatic injury. So, while, uh, they have a new tool to make that happen, uh, they already have referral networks in place to get these patients who have injuries either from, uh, dental implants, uh, being put in or from wisdom tooth extraction.

Uh, we're finding, uh, some strong, um, support and enthusiasm from this group. We actually had a new publication come out, uh, from Dr. John Zuniga in the early part of the year supporting use of, uh, of Avance Nerve Graft in the--in these types of injuries, uh, showing results up to 7 centimeters or 70 millimeters, and, uh, and that's been received well by this community, and we continue to roll out to those, uh, those specialist surgeons.

Mr. John Gillings: Okay. Thanks for that. Um, and then just a couple quick financial ones - so, uh, you know, you guided again to sort of mid to high 70s on the, uh, the gross margin guidance, um, but this is the third quarter in a row that you've been 80 percent or higher. Um, you know, anything sort of one time in the quarter? Did maybe the grant revenue factor into that high margin in the quarter, or, uh, is it just a matter of the last three quarters have happened to had really good mix?

Mr. Bob Johnston: They've had really good mix. It's--there's nothing that has been one time or, uh, extraordinary. It's been our normal operations. Uh, but as we've said, you know, a particular quarter can depend on the product mix. So, we've had, as we said earlier in our--in the comments, we've had favorable product mixes in the last couple of quarters. We do expect to continue to have, you know, a good high gross margin. Uh, but it does--it can, uh, depend on the product mix.

Mr. John Gillings: And then, uh, just last one, uh, on the cash - so, you guys came out of 2014 with 8.2 million. Um, you raised the 13.6 and ended the quarter with 19. million. So, that would imply a cash burn of about 2.5 for the quarter, if I'm doing my math right here. And I think you said on the call that it was more in the neighbourhood of 1.1 per month. Is there anything I'm missing in there, or maybe my back of the envelope calculation is not right? Does that sound right, or am I missing anything there?

Mr. Bob Johnston: Yeah. No, it was--uh, our operational cash, it was 1.1 million per month--.

Mr. John Gillings: --Okay--.

Mr. Bob Johnston: --For the first quarter. And that was, as I mentioned earlier, um, is consistent with what our plan was and strategic. Um, you know, as you've heard, we're up to 32 direct reps at the end of March, up from, uh, 23 at the end of September. So, we're making that investment. And as you've also heard, uh, again, per our strategic plan, we're increasing our prof ed [sp] events.

Mr. John Gillings: All right. Well, that's all we have for today. Thank you.

Ms. Karen Zaderej: Thanks, John.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad.

Our next question comes from the line of Bruce Jackson with Lake Street Capital Markets.

Please proceed with your question.

Mr. Bruce Jackson: Good afternoon, and, uh, thanks for taking my questions.

Ms. Karen Zaderej: Thanks, Bruce.

Mr. Bruce Jackson: So, um, getting back to the, uh, oral maxillofacial, um, surgeons, um, there is gonna be a, uh, clinical study proposed at some point, um, showing advantages of Avance in, uh, the OMF applications. Has that been published yet?

Ms. Karen Zaderej: So, there's an investigator initiated study. This is the one I referenced just a moment ago. Um, so it's not sponsored by us, but it is surgeons who have been key opinion leaders and actually help educate other surgeons about, uh, use of Avance in oral maxillofacial surgery. One of those is named Dr. John Zuniga, and his, uh, case series has published.

Mr. Bruce Jackson: Okay.

Ms. Karen Zaderej: Uh, so, uh, we can get you the reference to that. But, yes, there is a case series. And it showed that actually 87 percent meaningful recovery rate, which is, uh, remarkably similar to what we see in RANGER. Uh, they have different measurement outcomes obviously, because in the mouth, they're trying to look at different outcomes. But, uh, but

they're still showing a very similar, uh, outcome as what we've seen in the broader study in, uh, in trauma.

Mr. Bruce Jackson: Okay. And then the, um--with the, uh, RECON study, are, um, are the cases for that study going to be, uh, reimbursed, and will there be, um, any additional expense for that trial?

Ms. Karen Zaderej: So, there--the RECON study is gonna be a study where, uh, it is standard of care to repair the nerves, and so the procedures, yes, are paid for under the same reimbursement system that they would be paid for as any patients who came in for those--that nerve repair. Uh, in fact, um, different than most studies, uh, product will actually be sold into the trial. Uh, this was a--uh, because of the unique situation we have with Avance Nerve Graft being already available in the marketplace and in that same hospital for that same indication, um, it is--it was a concern that indigent patients would get, uh, biased and enrolled in the study. And so, just to keep things consistent and normal, whatever the reimbursement is for that patient, however they would have been treated, they'll be randomized as they come into the study without an economic influence about the product being paid for or not.

So, yes, the study does have a cost, um, but it is predominantly data management and, uh, and study coordination. And so, the study over the entire, uh, multiyear period will run between 2 and \$2.5 million total cost.

Mr. Bruce Jackson: Okay. Then, um, moving over to the, uh, the sales reps, you ended the quarter at 32. The, um, the objective for the year is 35 to 39. Um, how are you feeling right now about the, uh--are gonna be at the lower end or the higher end of the hiring objective for the year? And, um, how would you expect that the, uh, um--what's the, um--um, how does that hiring play out over the next couple of quarters? So, is it gonna be like flat for a little while, or will it just kind of keep moving up steadily?

Ms. Karen Zaderej: Uh, we will keep moving up. We'll be--we're pretty excited about the opportunity in front of us, and so, uh, we have a range there because I want to make sure that we give ourselves the opportunity to hire, uh, absolutely the best talent. So, I'd rather not just fill a job. I'd rather fill a job with an absolutely talented individual. Uh, but we're leaning towards, uh, making sure that we fill out all of those positions.

Mr. Bruce Jackson: Okay. That's it for me. Thank you.

Ms. Karen Zaderej: All right. Thank you, Bruce.

Operator: At this time, there are no further questions. I would like to turn it back to Karen Zaderej for closing comments.

Ms. Karen Zaderej: Well, thank you all for joining our call today. We're proud of this record quarter. We are off to another strong start with a record month of April, and we look forward to sharing the results with you in August. Have a good evening.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.