Champions Oncology
Q1 FY2021 Earnings Conference Call
Date: September 14, 2020

Operator

Ladies and gentlemen, greetings and welcome to the Champions Oncology First Quarter Fiscal Year 2021 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions]

It is now my pleasure to introduce your host, Ronnie Morris. Thank you, you may begin.

Ronnie Morris

Good afternoon. Joining me today is David Miller, our Chief Financial Officer. Thank you for joining us for our quarterly earnings call.

Before I begin, I will remind you that we will make forward-looking statements during today's call and that actual results could differ materially from what is described in those statements. Additional information on factors that could cause results to differ is available in our Form 10-Q and Form 10-K. A reconciliation of non-GAAP financial measures that may be discussed during the call to GAAP financial measures is available in the earnings release.

I’ll start by pointing out that our prepared comments for today will be relatively brief as we just recently provided our fiscal 2020 year-end results and Company update 6 weeks ago. While continued progress and successes have been achieved since the last update, the fundamental vision and strategies for the coming quarters remain unchanged.

Revenue for the first quarter of fiscal 2021 jumped to a record $9.5 million compared to $6.7 in the year ago period. Our bookings and pipeline remain strong, which will continue to drive further revenue expansion. During the quarter we completed our move to new lab space, consolidating all our work under one roof. The additional space and increased capacity will enable us to meet the growing demands of our business.

Despite the continued pandemic and uncertain economic environment, to date our overall business and operations have been minimally affected. The active measures we took in early February to mitigate the risks of COVID remain in effect. As of now, all indications point to continued robust Oncology R&D budgets and demand for our services.

As we have mentioned many times before, our platform was based on our unique PDX bank and data and that has led to our growth in in-vivo services over the last several years. Recently we have capitalized on our unique bank to introduce our ex-vivo services. Our ex-vivo platform continues to grow rapidly and contribute meaningfully to our total revenue. As discussed previously, we are investing to expand our ex-vivo offering and plan to have a comprehensive internal offering by the end of this fiscal year. Strategically, we continue to look for ways to capitalize on our unique platform, data, and experience in working with pharma in their drug development efforts.

Regarding our biomarker assays and specifically regulatory flow cytometry, we booked our first clinical flow cytometry study this quarter. As we mentioned on our year end call, we have signed several regulatory flow validation studies. As a reminder, the validation study is often the initial, test step prior to signing the full regulatory flow statement of work. I will caution that the signing of these studies does not change the revenue guidance and expectations for the current fiscal year. However, we are cautiously optimistic that these recent signings are an indication that this offering, which has taken longer than expected to generate the desired results, has turned the corner and the product's future will be more in line with our initial expectations.

On the R&D front, we continue to invest on expanding our service offerings and enriching the data contained in our models. Specifically, over the coming quarters, we anticipate additional spend to obtain additional characterization on our models. We believe the additional data will be valuable to our Pharma customers and will fuel continued usage of our models in PDx and endpoint analysis studies.

In summary, overall, we kicked off our fiscal year 2021 with a strong 2021 first quarter. We had both strong revenue and bookings while we continued to progress on expanding our offerings. The combination of strong bookings and expanded services lays the foundation for sustained revenue growth over the coming quarters. We look forward to providing further updates over the course of the year.

Now let me turn the call over to David Miller for a more detailed review of our financial results.

David Miller

Thanks, Ronnie. Our full results on Form 10-Q will be filed with the SEC later today.

Our first quarter revenue was a record $9.5 million, compared to $6.7 million in the year ago period, an increase of $2.8 million, or 42%. It is worth pointing out that the high growth percentage was due in part to the relatively low Q1 2020 revenue results. Excluding stock based compensation and depreciation, We recognized a gain of $421,000 compared to a loss of $300,000 in the year ago period. Our non-cash expenses including stock comp and depreciation totaled $396,000 for the quarter. I will now focus on cash related expenses.

Our first quarter gross margin was 44%, remaining flat compared to the same period last year. Cost of sales was $5.3 million compared to $3.75 million, a year over year increase of $1.6 million, or 42%. As we discussed on our year end call, we’ve partnered with other companies to expand our service offerings and drive revenue growth. In these studies, we incur an upfront cost upon signing the business and there is an initial mismatch between costs and revenue. This effect is magnified as we continue to sign new studies with our partners. For the quarter, we recognized a total of $1.2 million of such expenses in cost of sales, accounting for a majority of the increase compared to last year. This increased expense put added pressure on our gross margin. Looking ahead over a few quarters, we expect improving margins as we will recognize more of the revenue associated with these studies. Additionally, as part of our longer term strategic plan, we intend to bring some of this work in-house which will lower our cost and provide greater leverage, alleviating some of the margin pressure.

R&D expense was 1.6M compared to 1.3M in the year ago period, an increase of $300,000 or 23%. The increase is due to the continued development work to expand and enhance our product offerings.

Sales and marketing expense was $1,160,00 compared to $848,000 last year, an increase of $312,000 or 37%. The increase in sales and marketing was mainly due to compensation related expenses resulting from the expansion of our sales team and marketing efforts.

Our G&A expenses remained flat year over year at $1.1 million for the respective quarters.

In total, Our cash-based expenses were $9.1 million for the first quarter of fiscal 2021, compared to $7 million in the same period last year, an increase of approximately $2.1 million, consisting of a $1.5 million increase in cost of sales on a revenue jump of $2.8 million, and approximately $300,000 in sales and marketing and R&D respectively.

Now Turning to cash …

At the end of the first fiscal quarter, we had $6.9 million of cash on the balance sheet compared to $2.2 million in the same period last year. For the period, net cash used in operating activities was 715,000. The negative cash flow from operations was primarily due to fluctuations in our working capital accounts in the normal course of business highlighted by an increase in our accounts receivable of $260,000 and a reduction in our payables and accrued expenses of $800,000. With our anticipated revenue growth and underlying bookings strength, we anticipate an overall increase in our cash balance over the course of the year. We have no debt and no plans to raise capital.

In summary, we hit a new record for quarterly revenue coming in above $9.5 million. Excluding stock comp and depreciation, we had a net profit above $400,000. The underlying strength of our core business and new products look promising and we anticipate additional revenue growth in the coming quarters. We reiterate our annual guidance of 15-20% revenue growth for the year. We look forward to our next update call in mid-December.

We would now like to open the call for your questions.

After Q&A