

With the Founding of their Abaxis Veterinary Reference Laboratory that Focuses on Specialty Tests for Veterinarians and Having Closed on their First Big CRO Customer, Abaxis, Inc. is Well Positioned to Continue with Great Growth

**Healthcare
Diagnostic Medical Devices
(ABAX-NASDAQ)**

Abaxis, Inc.

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**Clinton H. Severson
Chairman, President and CEO**

BIO:

Clinton H. Severson has served as the Company's President, Chief Executive Officer and one of our directors since June 1996. He was appointed Chairman of the Board in May 1998. Since November 2008, Mr. Severson served on the Board of Directors of Trinity Biotech (Nasdaq: TRIB), a biotechnology company. From February 1989 to May 1996, Mr. Severson served as President and Chief Executive Officer of MAST Immunoseystems, Inc., a privately-held medical diagnostic company. Mr. Severson is also a member of the board of directors of a privately-held

company. Mr. Severson was selected as a director because of his in-depth knowledge of the Company's operations, financial condition and strategy in his position as the Company's President and Chief Executive Officer, as well as his extensive senior management experience in medical diagnostics and experience serving on the boards of various public and private companies.

Company Profile:

Abaxis develops, manufactures, markets and sells portable blood analysis systems for use in any veterinary or human patient-care setting to provide clinicians with rapid blood constituent measurements. The system consists of a compact, 5.1 kilogram (11.2 pounds), portable analyzer and a series of single-use plastic discs, called reagent discs that contain all the chemicals required to perform a panel of up to 13 tests on veterinary patients and 14 tests on human patients. The system can be operated with minimal training and performs multiple routine tests on whole blood, serum or plasma samples. The system provides test results in approximately 12 minutes with the precision and accuracy equivalent to a clinical laboratory analyzer. The veterinary business also provides to the animal health and research market a line of hematology instruments for point-of-care complete blood counts (CBC), a specialty instrument to screen for and detect clotting disorders and to measure equine fibrinogen levels, a handheld instrument for the rapid assessment of certain critical care tests and rapid point-of-care tests for Heartworm infections, Parvo virus, Giardia and Lyme disease. Abaxis, through its AVRL divi-

sion, provides routine laboratory testing as well as specialty testing for veterinarians nationwide.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Severson, it has been about a year since we have spoken, so just bring us up to date, what are the major changes in Abaxis over the last year?

Mr. Severson: One of the biggest changes is the founding of the Abaxis Veterinary Reference Laboratory. This is a laboratory that focuses on specialty tests for veterinarians. At Abaxis, we do point-of-care blood chemistry and hematology, which are considered routine tests. We do those at the point-of-care and then the tests that are not ordered in high volumes, but are very unique tests that we now offer at the Abaxis Veterinary Reference Laboratories (AVRL). We started that about nine months ago so we are in our fourth quarter, which actually started July 1st. It is a pretty new endeavor but clearly it has the potential to double our domestic veterinary business over the next couple of years so I would say that is probably the biggest one.

CEOCFO: What is the availability of labs for the testing that you are doing?

Mr. Severson: The veterinary market is a consumer discretionary business. When the economy is really strong people tend to acquire pets and take them to the vet routinely for yearly checkups and those kinds of things. When the economy is down and people become unemployed, or their

hours are cut, they tend to reduce those visits to the veterinarian so it has been a challenging market since 2008. Our products help the veterinarians become more efficient, so by doing your routine tests at the point-of-care, you can actually move the patients through much quicker because the cycle times are less and you can see more patients per day when using the Abaxis equipment. We have been very successful in growing our point-of-care business because of that efficiency quotient. In the specialty test market, there are two very large competitors that really share the market and that market is \$800 million for a reference lab business. We felt that adding a third entrant like Abaxis would allow us to share some of that market. Clearly, when there are only two players out there, there is a fifteen to twenty percent of the customer base that is not particularly happy with either one of the two incumbents. That gives us an opportunity to provide a better service at a better price to that customer base. The pairing of the two has worked very well for us.

CEO CFO: What are some of

the common things that vets can test for point-of-care and what are some of the tests that people do not realize exist?

Mr. Severson: Most of the point-of-care testing revolves around chemistry tests. Chemistry are the routine tests that veterinarians order on most of their patients most of the time, so they are considered organ function tests like kidney, liver, pancreas, cardiac, those kinds of things. Chemistry tests give the veterinarian a picture of the health of the animal at that particular point in time. The next group of routine tests that veterinarians order on most of their patients most of the time are hematology tests. Hematology is the counting of blood cells both red and white. You are measuring platelets, which is a function of clotting. This also gives the veterinarian confirmation of whether an animal is or whether an animal might have an infection, or some other serious disease that will affect the cells in the blood. The third group is for things like heartworm. If a dog has a heartworm infestation, it can kill the dog,

so we have a heartworm test as well as a lyme disease test which is another kind of parasitic test. There are the Parvo virus and Giardia that animals can pick up through contaminated water and those kinds of things that can slowly kill the animal over time so we have tests for those as well. Right there is the majority of the point-of-care routine tests that veterinarians order.

CEO CFO: As far as the test that they would send to you, you mentioned you could do it less expensively than other labs, how are you able to do so?

Mr. Severson: It is fairly simple, because our competitors have a focus on the routine tests and their reference labs as well as the specialty, and in order to be competitive on routine tests you have to have turnaround time for the routines within somewhere between eight and twenty four hours. To do that, they have to have fifty, day labs around the country and that requires a great deal of overhead and investment to keep all those day

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labs going. Here at Abaxis, because we have such simple point-of-care equipment, the veterinarian does not need to send his routine tests out to a day lab, s/he can run them in his office. We do not have the cost of all those day labs. We only need one lab which services the entire country you only need one lab, your overhead costs are much less than the competitors. We take a portion of that savings and pass it along to the customer, so that is how we can give them a better price.

CEO CFO: Other than history, why would a veterinarian not want to do the tests on premise?

Mr. Severson: The biggest challenge Abaxis has had over the last fifteen years is that we have not had the distribution that other companies have had. For example, a distributor is like a store and there are three big stores that the veterinarians do their shopping. However, in those three stores, there are no Abaxis products, because our big competitor has an exclusive at all the big stores and we

have never been able to get in. That means we have had to do our own distribution and when you have to do your own distribution, it is much slower because the veterinarians are accustomed to going shopping in their stores. Since about a year ago, the FTC has been investigating this exclusive distribution practice of our competitor and they believe that it is restraining the veterinary trade, so the company that has those exclusive deals has agreed to negotiate with the FTC to open up the stores. We believe that in the next few months we are going to get one or more of these stores carrying Abaxis products, and when that happens, more veterinarians will be exposed to our point-of-care products and services.

CEO CFO: Are you able to ramp up quickly if they all wake up one day and want the product?

Mr. Severson: In anticipation of this change taking place in the last few months, we have been ramping up. Last quarter, we hired twenty new people with seventeen of them in the field and three additional people in-house just to scale up for this big change. Now we have about ninety three people in the field and that is up from sixty-something in the field about a year ago. We are getting ready for this big ramp up.

CEO CFO: These are some very exciting times for you!

Mr. Severson: Absolutely!

CEO CFO: What is happening on the medical front?

Mr. Severson: We have a very interesting change of events here on the medical side. We closed our first CRO customer (Clinical Research Organization). When pharmaceutical companies develop a new drug that needs to be tested in the field, one of the key things that they monitor are the blood chemistries particularly liver function and kidney function, but it could be pancreatic and cardiac function as well. They would like to know very quickly whether the drug is safe or not and usually if the drug fails, it is because there is some kind of organ damage or some kind of side-effect to liver, kidney, cardiac or something in

that order. Many of these trials now are being conducted all around the world because as developing countries are opening up to spending more money on healthcare there becomes more of a market in the developing world, so they do the studies there as well. This particular clinical research organization was working with a big pharmaceutical company that had trials in three hundred different sites all around the world including Eastern Europe, Asia, South America, Canada and the US as well. They needed a way of determining the liver function and kidney function of the patients that were going to be testing this drug. They needed methods that were the same in all sites and they needed a fast turnaround time. With our Piccolo Machine, we could meet all of those requirements. With just a few drops of blood, in 12.5 minutes you get up to fourteen blood chemistries, and then you can download that into any kind of electronic medical record and shoot that information anywhere you want in the world. We have been working with the CROs for years and we closed our first big account last quarter, the contract is worth about \$4 million. We shipped about \$1.6 million worth of product last quarter and we think this is a huge opportunity for us.

CEOCFO: What are the barriers to entry?

Mr. Severson: The rule of thumb on a new blood chemistry platform is five to seven years development, \$200 to \$500 million to do it and 80% of them fail when they get to market. The barriers to entry are very high. Abaxis

was founded in January of 1989 and we received the last two CLIA waivers, which are regulatory hurdles. We received our last two waivers in January 2009, so it took us twenty years to do it. We have the potential here of growing a very big business pretty much by ourselves for quite a while.

CEOCFO: Abaxis had very good quarterly results, how do you plan to keep up the pace?

Mr. Severson: We had an excellent quarter last quarter with sales of \$42 million up 17% versus the first quarter last year so very strong. Our veterinarian sales are about \$32.5 million also up 17% versus first quarter last year. The medical business came in last quarter at \$8.4 million, which was actually a record for the medical sales and that, was up 18%. We do have the potential of keeping this up for two reasons, one is with this new distribution opportunity to get in one of the big stores, that will help our medical business, no doubt about that. Then with the CRO opportunity, just fulfilling the rest of that contract gives us a nice backlog on the medical side. There is more potential for this clinical research stuff in addition to all the other activities on the medical side such as selling to urgent care, oncology, and internal medicine practices. We also had nice growth on the earnings side. Our operating earnings came in at about \$4.8 million for the quarter, which was up 50% versus the first quarter last year. We did have a currency hit of about \$400 thousand because the Euro went down, so pre-tax was actually down a little bit com-

pared to operating income, but it totaled about \$4.6 million. Net income was \$0.13 a share which was up 30% versus the \$0.10 last year. We had an excellent quarter and our goal now is to keep this going.

CEOCFO: Has the investment community been paying attention to Abaxis?

Mr. Severson: They have, I think our stock is up 30% over the last trade in December, so I think the market is recognizing the advantages that we have and the large market opportunity we are addressing.

CEOCFO: Why should investors pay attention and what might people not understand about Abaxis that they should know?

Mr. Severson: The primary case is that we are operating in a very large market about \$4.9 billion, and right now we are about \$170 million run-rate company that has only just scratched the surface with the market opportunity. We have a great deal of upside potential with AVRL (Abaxis Veterinary Reference Lab). This new CRO opportunity and of course getting this new distribution on the veterinary side potentially could change our life around here. We have a great deal of positive momentum going and many new opportunities especially with the veterinary reference lab and the Clinical Research Organization in front of us. We are in a very good position here to continue with this great growth.



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