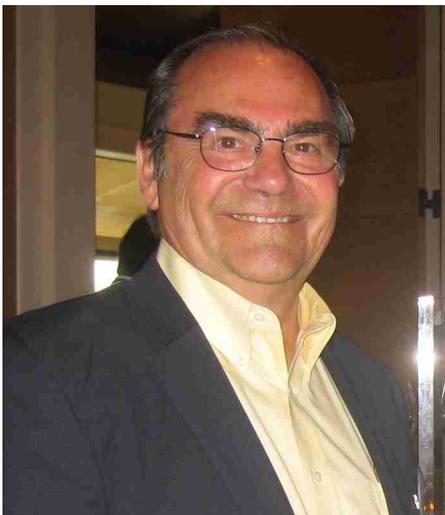


Abaxis, Inc. is Bringing to Market a Revolutionary Technology that Enables Physicians and Veterinarians to Conduct Routine Blood Chemistry Tests On-Site in Minutes, Thereby Reducing the Dependence on Traditional Labs and Increasing the Efficiency and Efficacy of Care, While Reducing Healthcare Costs

**Healthcare
Diagnostic Substances
(ABAX-NASDAQ)**

Abaxis, Inc.

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**Clint Severson
Chairman, President and CEO**

Company Profile:

Abaxis develops, manufactures and markets 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 or rotors. These discs contain all the chemicals required to perform a panel of up to 13 tests on veterinary patients and 14 tests on

human patients. With a simple 3-step process, the system requires minimal training and performs multiple routine tests on a very small whole blood, serum or plasma sample. Comprehensive test results are provided in less than 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 a line of rapid tests to include: heartworm, Giardia and Parvo.

Abaxis Animal Health recently announced Abaxis Veterinary Reference Laboratories (AVRL) which provides reliable and accurate specialty diagnostic testing as well as routine laboratory services. AVRL offers optimal quality, competitive prices, expert consultative services, case management and outstanding customer service-bringing the proven Abaxis values to the reference lab. AVRL offers a full menu of testing to include:

- Anatomic pathology
- Cytology
- Microbiology
- Immunology and serology
- Endocrinology
- Molecular diagnostics



**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Severson, what was the vision when Abaxis was started and where are you today?

Mr. Severson: Abaxis saw a huge opportunity in an unmet market for near-patient, routine blood chemistry testing. These tests are all the general chemistry labs that physicians frequently order to diagnose and treat their patients. However, the turn-around time for receiving the chemistry results was hours to days. This was mostly because these tests are run in big centralized labs. Prior to the introduction of our system, the patients had to drive to the lab across town in order to get tested, or they had to have their blood drawn by a phlebotomist employed by the physician. The phlebotomist would then spin down the blood to separate the plasma, and log the sample for transport to the lab. At the lab, the tests

are usually run on a big, expensive batch analyzers and results are delivered back a day or two later. As a result, the physicians that needed the information to diagnose their patients and prescribe the treatment had to wait for days to get these results. Therefore, we thought...if we could develop an instrument where a clinician could add just three drops of blood to a plastic disc with everything included, insert this disc like a CD player, push a button and 12 minutes later up to 14 chemistry results appeared; it would speed up the whole process for diagnosing and treating patients. By speeding up the process we increase healthcare efficiency, reduce costs, and increase revenues for the physicians. We developed this instrument along with the reagent discs for about thirty chemistry tests and introduced them slowly in the market place. We started working on this in January of 1989 and by 2009, we had the complete menu developed. Furthermore, the FDA has granted CLIA waived status for 26 of the 29 tests on the human menu, which means they are deregulated. Currently, we have about \$143 million business with operating earnings between \$22 and \$23 million. So, this has been a long process, but now we are scaling it up and it is going well.

CEO CFO: Who is using Abaxis products today?

Mr. Severson: We have everything from major university hospitals, all the way to the military that use it in battlefield conditions in Iraq and Afghanistan, as well as from big hospitals to community clinics using our Piccolo® blood chemistry analyzer. In addition to our Medical Division we also have a Veterinary Division with a complete suite of laboratory products. The Veterinary Division has approximately 30% market share worldwide. Veterinarians need the same kind of information a medical doctor needs – real-time, point-of-care results.

CEO CFO: Are they running the blood tests directly in the doctors' offices?

Mr. Severson: Yes, they are in doctors' offices. Mostly, our focus is ur-

gent care doctors. These are physicians that see patients who just walk into their facility. We also focus on oncology, where patients are undergoing chemotherapy and current labs are a requirement to mix the chemo drugs. An additional focus is internal medicine. Internal medicine doctors are organ function doctors and most chemistries provide results for organ and metabolic functions. Those are the three primary specialties where we sell the most Piccolo machines.

CEO CFO: What is the cost in comparison to a traditional method?

Mr. Severson: In comparison to a traditional method the cost of gaining a result from our Piccolo machine is probably a little bit less. What happens is the person who wants to implement this point-of-care blood chemistry testing has to pay about \$13,500 for their instrument. Most

Efficient delivery of care is vital to the health of our healthcare system. The system needs the tools that will allow care providers to diagnose, monitor and treat the patient in a single office visit. By empowering clinicians to deliver care earlier with greater efficiency and efficacy, there will be a reduction in the cost of long-term care – which is the root cause of our healthcare crisis. - Clint Severson

single doctor practices lease their instrument for about \$300/mo. This allows them to be cash positive in the very first month. We have instruments that have been running without interruption for about fifteen years in the field, so the investment is minimal compared to the impact. Then for each patient, a single-use reagent disc is about \$10, so in comparison to using an external laboratory, just the transportation costs alone are probably close to that \$10. The real cost/benefit advantage is reducing that cycle time from hours in the hospital or days outside the hospital to 12 minutes. This helps physicians get more done with each patient visit, which increases the capacity of their businesses to generate revenue.

CEO CFO: Do you see the Abaxis technology as someday becoming the industry standard?

Mr. Severson: I think it will! It already has shown great traction in our three key segments. For example, in the Urgent Care sector, we are approaching a 20% marketshare. There are pockets around the country where you can't open an Urgent Care facility without a Piccolo, so the argument could be made that we are the standard of care for Urgent Care facilities. Additionally, as healthcare reform takes hold in the U.S., Urgent Care centers and retail health chains will bear the brunt of primary patient care. Without the Piccolo, they will be unable to efficiently manage the millions of patients who are about to enter the system. The beauty of our technology is that everybody wins... the patient, the provider and the reference laboratory. The patients benefit greatly, because they get treated immediately, versus waiting around for a week or more. There's no nervous time spent waiting for the results phone call, and no travelling around town to schedule lab appointments. For the provider, the benefits are three-fold, greater efficiency, increased revenues and better patient compliance. The office efficiency increases because there are no more call-backs to relay lab results, no lab prep and a reduction in unnecessarily rescheduled patient visits. Compliance increases because of the impact of having lab-accurate results at the time of the consultation between physician and the patient. Revenues increase from more productive visits, increased capability to see more patients more effectively and from test reimbursement. Regarding the reimbursement system, the reimbursements for these kinds of tests varies and the physician has little experience in dealing with the reimbursement system for blood chemistry tests. So in the beginning they are a little bit concerned about whether they are going to get paid for this or not. However, we provide them with the tools to determine their overall ROI for implementing the Piccolo in their practice, and their initial reluctance quickly dissipates when they realize the overall financial benefits of implementing point-of-care diagnostics. And, finally... the reference labo-

ratory benefits because they are no longer burdened with the routine general chemistry tests that clog their systems. They can now focus on the high-specificity testing that is their specialty. In the U.S. alone we have over 3,000 Piccolo customers and last quarter we sold more than 600,000 of the discs that are used to run the chemistry tests. So the growth rate last year for our medical business was around 20%. We are scaling this nicely and we are taking an approach that this is something totally new and disruptive. Abaxis is a small company, and yes there is skepticism out there, so as we build our customer base and use them as references, the healthcare system will end up being the big winner.

CEOCFO: How does Abaxis reach your potential customers?

Mr. Severson: What we do is we focus on internal medicine, urgent care, and oncology, so we do it through trade shows, through seminars, limited advertising and direct response marketing. We also use a distribution channel to help introduce our products. McKesson is a big medical distributor that we work with along with Henry Schein and PSS. These strategic partners are already doing business with a lot of our potential customers, so they can utilize their existing relationships introduce us to the physicians who need our technology.

CEOCFO: Are there geographic areas outside of the US that are targeted for Abaxis expansion? Are other regions more receptive to innovation?

Mr. Severson: It is interesting and yes we are primarily focused in the United States. That is the big opportunity for us. We look at the challenges for the healthcare system in the U.S. with costs escalating, with efficiencies declining, and then with healthcare reform, which is designed to provide care for 40 million people that do not currently have health insurance. The system needs to change because there is no way that the existing primary care infrastructure can handle 40 million new patients with no increase in supply of facilities and physicians. Efficient delivery of care is vital to the health of our healthcare

system. The system needs the tools that will allow care providers to diagnose, monitor and treat the patient in a single office visit. By empowering clinicians to deliver care earlier with greater efficiency and efficacy, there will be a reduction in the cost of long-term care – which is the root cause of our healthcare crisis. Outside of the U.S. we are experiencing similar traction in those countries that are not strapped with socialized medicine. About 18% of our sales are outside the U.S. and a big focus is Europe. In Europe, you are seeing the same kinds of pressures on the healthcare system that you see in the United States, and there are creative initiatives taking place to help reduce the strain of government controlled healthcare. In places like Italy and Germany, they are looking at potentially putting Piccolo machines in small pharmacies that serve groups of doctors. The whole pharmacy distribution system is a lot different in Europe than in the United States. In the U.S., we have mega drugstore chains who are helping by implementing in-store clinics and in Europe they have tons of little small pharmacies who are developing creative solutions. Again, the turnaround time for routine blood chemistries in Europe is just like the United States. It takes days to get the results, but at the pharmacy across the street, they can do the routine blood chemistries for the physician and get the results in 15 minutes. That can help that physician be more productive. In addition, some of the small pharmacies are looking for ways to contribute more to increase in the efficiency of the healthcare system. We are also seeing traction in Japan, China, India, parts of Africa and South America, where efficient delivery of care is becoming a priority.

CEOCFO: What about the veterinary market?

Mr. Severson: The veterinary market is actually the first market we entered. That was because in the early days we did not have all the menu that was required to sell to medical doctors. Therefore, we started in the vet market, which is a market that is not as distorted as the medical market. You do not have the government involved in it, and most of the veterinarians are

small business people that are trying to provide the best service for the most reasonable price. Additionally, due to the lower operating costs of the VetScan system they can save money. They have to compete with the guy down the road, so they are always looking for ways of being more efficient. They are looking for ways of providing more services to their customers, and ways of improving the quality of their care, so they can keep their customer. One disadvantage that veterinarians have is that their patients cannot talk to them. Another disadvantage a vet has is animals generally do not show symptoms in the early stages of illness because in the wild if you show stages of illness you become the lunch. It is much more difficult to diagnose an animal than a person, so they need these lab results earlier rather than later. We have in the U.S. about 12,000 veterinary customers and our total vet business now is over \$100 million a year.

CEOCFO: Are you adding any new tests to the Abaxis product line?

Mr. Severson: What we are doing in the vet market is we are adding products that are complimentary to our chemistry machine, because vets are always looking for ways of diagnosing diseases other than basic chemistries. Once we have our chemistry machine in the office, our customers always ask for more things and the two rapid tests that we just introduced is Parvo and Giardia in addition the the Heartworm Rapid Test. These are parasitic disease that animals pick up eating contaminated food or drinking contaminated water. They allow in just a minute or so the opportunity to determine whether the animal has Parvo or Giardia. We will be continuing to add to our menu of tests other than chemistry to compliment our product offerings in the vet market. The vet market is an area where we are scaling up, adding sales people and adding products, and the medical market is the market we are developing. For the medical business we continue to build out the menu of tests that physicians need. We recently added C-Reactive Protein, which is an indicator of inflammation in the body, and this year we look to add both a Lactate test for severe infection, and Hemoglo-

bin/Hematocrit to help determine levels of anemia. The key point to make here is that our technology is very versatile. Doctors need a single platform that can do it all. While our technology may not be able to do it all, we have proven it to be very versatile and there are a wide variety of possibilities for our menu in the future.

CEOCFO: What is the financial picture like for Abaxis today?

Mr. Severson: The financial picture of Abaxis is pretty good. We have had a compounded annual growth rate of about 30% since I joined the company in 1996. Abaxis was about a \$2.9 million company losing about \$6.7 million a year in 1996. However, at our last fiscal year that ended in March, we finished the year at \$143.7 million in sales with operating earnings at \$22.5 million. Our growth rate both on the top line and on the bottom line has been very good. We have cash and cash equivalents of over \$100 million, and almost all of that was internally generated money. We have the resources we need to expand our market coverage on the medical side as we develop this market, and then on the vet side to add more products and add more sales people as we scale it up.

CEOCFO: Do you do much investor outreach at Abaxis?

Mr. Severson: We do a lot of investor outreach. I probably attend some-

where between twenty and thirty investor conferences a year. That is where most of our outreach activity is focused. I worked with some of the firms that cover Abaxis, the analysts that cover Abaxis and of course they have me out on the road in unlimited amounts of my time. I spend probably 30% of my time meeting with new investors as well as existing ones.

CEOCFO: What surprised you most as Abaxis has developed?

Mr. Severson: What surprised me the most was our ability to actually put all this together. We had a very complicated product at Abaxis. When I joined here in 1996 our gross margins were minus 50% and we only had half the menu developed. In addition, we had a huge cash burn, equating to about \$2 million a quarter. So we needed a lot of challenges. The cost of our consumables at that time was about \$22.90, and our average selling price was \$9.40. So the more we sold the more we lost. Our ability over time to increase that menu, develop all those tests, do it all at the same time and reduce the cost per unit to deliver acceptable margins, I think is quite an accomplishment. A great many naysayers never expected us to solve all these complex problems with a complex technology like the Abaxis product has.

CEOCFO: What should potential investors expect from Abaxis in the

next year or two, and why pay attention today?

Mr. Severson: The market that we compete in is \$4.9 billion. That is the market size of routine blood chemistries. Abaxis has the only point of care blood chemistry machine that covers the breadth of this market. The advantage that we give our customers, both the physicians that use the product and of course the patients is reduced cycle time from days or hours to 12 minutes, which anytime you can make it faster and more cost effective you benefit the system and the customer. So we have a huge market, we are highly differentiated, with big benefits to the consumer and the system. Therefore, we are positioned now as we roll this out and we start implementing and we get traction to build a business that could be a billion dollar business.

CEOCFO: Final thoughts, what should people remember most about Abaxis?

Mr. Severson: The important thing about the challenge of making health-care available to everybody is making routine diagnosis available cost effectively at every corner in stores like Walmart, Target, CVS, and Walgreen's, where they are looking at how they can provide basic health-care. Abaxis allows that to happen, and we are pretty excited.



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