S&P Global
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ImmunoPrecise Antibodies Ltd. NasdaqGM:IPA

Earnings Call

Tuesday, December 10, 2024 3:30 PM GMT

Call Participants

EXECUTIVES

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Kristin Taylor
Chief Financial Officer

ANALYSTS

Swayampakula Ramakanth
H.C. Wainwright & Co, LLC, Research Division

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for joining us today for ImmunoPrecise Antibodies Second Quarter Fiscal Year 2025 Earnings Call. We appreciate your time and interest in IPA. Today's call will be led by our CEO, Dr. Jennifer Bath; and CFO, Kristin Taylor. They will provide a review of our financial performance, strategic initiatives, and key operational highlights for the quarter.

Please note that a copy of today's presentation, along with our financial statements will be available on our company website for your reference. We encourage you to review these materials to gain a deeper understanding of our performance and strategic direction. Once again, thank you for joining us today. We look forward to sharing our progress and discussing our future plans with you.

Before we proceed, I would like to remind everyone that today's discussion will contain forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those anticipated due to various factors, including but not limited to, changes in market conditions, regulatory changes, and other unforeseen business risks. Please note that these forward-looking statements are made as of today, and we undertake no obligation to update them as a result of new information or future events unless required by law.

We strongly advise all participants to refer to our filings with the Securities and Exchange Commission, SEC, including our most recent Form 20-F, and other periodic reports for a more detailed discussion of these risks and uncertainties and for a more complete understanding of the risks inherent in our business, operations and the potential impact on our future performance. We appreciate your continued interest in ImmunoPrecise Antibodies.

I will now turn the call over to IPA's President and CEO, Dr. Jennifer Bath.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Thank you, Regina, and good morning, everyone. Thank you for joining us today to review IPA's second quarter results for fiscal year 2025.

Operationally, this quarter has been transformative for IPA as we continue to drive adoption in AI-driven antibody development, push innovations at our global operations and firmly execute on a strategic plan to ensure sustained growth and increasing shareholder value. Our decision to relocate our headquarters from Victoria, British Columbia to Austin, Texas marks a significant step in IPA's growth strategy.

Austin has emerged as a global hub for artificial intelligence, semiconductor innovation and biotechnology, a unique convergence that aligns perfectly with our strategic goals. Austin's vibrant AI community and collaborative culture are driving breakthroughs in precision medicine and data-driven research, which directly supports our LENSai platform and HYFT technology. The city's strong semiconductor industry provides a solid foundation for our AI-driven initiatives, while its rapidly growing biotech sector offers fertile ground for partnerships and innovation.

The University of Texas at Austin further enriches this ecosystem, providing a steady stream of skilled talent and fostering collaborations that fuel innovation. With $1.5 billion in funding across 253 biotech start-ups, Austin is becoming a focal point for the life sciences advancement. By positioning IPA at the intersection of AI, semiconductor technology and biotech in Austin, we're ensuring access to top-tier talent, fostering strategic collaborations and solidifying our leadership in the evolving life sciences sector. This move is a cornerstone of our rebranding and repositioning strategy, aligning our operations with the long-term growth opportunities and strengthening our presence in a critical market for life sciences.

Before we proceed, I'd like to recognize Dr. Barry Springer, who is stepping off of our public company Board of Directors to begin his well-earned retirement. Dr. Springer's distinguished career and strategic

guidance have been invaluable to IPA. We extend our heartfelt thanks for his contributions, and we wish him all the best.

We are excited to announce that we are actively pursuing the divestiture of our 2 European wet labs in Utrecht and in Oss, the Netherlands, a decision driven by our commitment to reduce increasing redundancies and focus on areas of the highest impact in growth. By consolidating operations, we not only reduce service redundancies, we aim to enhance efficiencies, streamline resource allocation and prioritize investments in transformative initiatives such as the AI-driven drug discovery.

The divestiture process is a key part of a larger rebranding and repositioning strategy expected to conclude by the end of this fiscal year. This decision allows us to redirect capital and operational bandwidth towards high-growth areas, including the rapidly expanding LENSai platform as well as the continued expansion of our Canadian laboratory home to our renowned memory B cell platforms.

Not coincidentally, these efforts align with our recent headquarter relocation to Austin, reinforcing our focused strategy to expand our U.S. footprint. And we have identified unique accretive investment opportunities that position IPA to leverage the dynamic AI and life sciences ecosystem in the U.S. while strengthening our operational presence.

As part of our ongoing commitment to financial discipline, we implemented another round of cost-cutting measures this quarter to prioritize high-growth initiatives and maximize efficiencies. While no senior executives have collected a fiscal year '24 bonus, including guaranteed bonuses and thus have received only base pay, in a key development under this initiative, I have voluntarily agreed to modification in my compensation structure as well.

My guaranteed bonus has been eliminated, and my compensation will now be split into 2 components. Half will be included in the base salary. The performance-based bonus tied directly to achieving defined milestones will be reduced from 100% of the base salary to a maximum potential of 70% of the base salary. This adjustment reflects my commitment to aligning our executive compensation with the company's long-term goals. As an additional update, we have decided to conclude our partnership with Quantum IR based on stakeholder feedback. Moving forward, we will focus on building a more effective and responsive Investor Relations strategy to strengthen our communication with our investors.

This quarter, we significantly enhanced our industry profile through 2 key events, the AI-Driven Drug Discovery Summit USA, and our inaugural TECHday. At the AI-driven Drug Discovery Summit, Dr. Dirk Van Hyfte, our Head of Innovation and Co-Founder of BioStrand, participated in a fireside chat alongside Adam Root, Vice President and Head of Protein Sciences at Generate Biomedicines. Their discussion titled Beyond Conventional Biologics, the Intersection of Machine Learning and Biological Engineering to invent novel medicines highlighted transformative approaches to drug discovery.

At this event, Dirk emphasized the integration of BioStrand's patented HYFT universal fingerprint technology with wet lab experimentation, creating a seamless workflow for antibody discovery. He explained how BioStrand's technology helps organize and connect different types of biological information, making it easier to use and -- or to understand for drug discovery.

Adam shared his insights into Generate Biomedicines machine learning models for protein engineering, focusing on their ability to design novel protein-based therapeutics tailored to specific biological challenges. The synergy between IPA's HYFT technology and Generate Biomedicines protein engineering exemplified how AI and biologics are converging to overcome long-standing challenges in the field. This conversation drew significant interest from attendees, reinforcing IPA's leadership in advancing precision drug discovery through innovative technologies. In addition to the fireside chat, we hosted a private technology meet and greet at the conference, bringing together key industry players and investors to showcase our latest innovations.

Following these engagements, we hosted our TECHday at the headquarters of IPA's partner, InterSystems, located in Cambridge, Massachusetts. This event marked a significant milestone as we unveiled 5 groundbreaking analytical applications that we believe have the potential to revolutionize antibody therapeutics. We demonstrated AI-driven tools spanning the entire spectrum of drug discovery,

development and optimization, including advanced 3D protein modeling, epitope mapping, epitope binning, immunogenicity testing and molecular dynamic simulations.

Through these applications, the LENSai platform offers increased scalability and unprecedented speed accompanied by cost reductions and energy savings. More importantly, LENSai's outputs are comparable to and in many cases, more precise than traditional technologies while being directly accessible to users. This represents a fundamental and tangible shift in advanced drug development. We see this milestone as the beginning of truly democratizing drug discovery.

At TECHday, we also presented our newest AI-driven discovery application integrated with our proprietary rabbit B Cell Select platform. This tool called HYFT expansion, takes existing lead candidate molecules and identify significantly more novel sequences, increasing shots on goal by dramatically expanding the pool of potential therapies. It allows us to rapidly run sophisticated applications against each of the expanded pool candidates very early on in the screening process, eliminating low potential leads to reduce later-stage failure rates that cannot be detected by traditional technologies.

We are excited to announce that IPA will also be rebranding this upcoming year to better reflect who we are and where we're headed. As we continue to drive innovation in drug discovery, our new brand will unify all of our entities under one strategic umbrella, emphasizing our fully integrated approach, science-powered, technology-driven, unified and amplified.

Our transformation reflects the future of limitless potential. This rebrand also signifies our commitment to transforming the way drug discovery processes are carried out, making them more seamless, efficient and impactful. It's really more than a new brand, it's a reflection of our relentless drive to accelerate discovery and advance therapies towards clinical success faster and more efficiently.

This quarter, we announced significant progress in our TATX-112 program, which focuses on developing antibodies targeting the TrkB protein associated with aggressive cancers. The program has successfully identified multiple antibodies capable of infiltrating and eliminating TrkB expressing cells in in vitro ADC or antibody drug conjugate assays. Our TATX-112 program has reached a significant milestone, demonstrating our ability to target and eliminate these TrkB expressing cells, indicating its potential to treat TrkB overexpressing tumors such as those found in neurological, gastrointestinal, respiratory and ovarian cancers as well as others.

Earlier this year, we entered into a material transfer agreement with Biotheus to combine our AI-driven antibody engineering with their proprietary technology to create novel therapies for hypoxic solid tumors. In a significant development since the MTA, Biotheus has been acquired by BioNTech, a global leader in immunotherapy. This acquisition not only highlights the value of Biotheus' technology, but has also opened new avenues for collaboration with BioNTech.

We are enthusiastic about the potential to work closely with BioNTech in advancing oncology-focused antibody therapeutics and exploring synergies between our AI-driven platforms and their cutting-edge oncology strategy. ImmunoPrecise Antibodies is pleased to announce a significant update on the OncoResponse rabbit anti-LILRB2 antibodies discovered using our proprietary B Cell Select platform. These antibodies have successfully progressed through IND-enabling and Phase I/II clinical trials.

ICA is an undisputed leader in the rapidly advancing field of rabbit-based antibody discovery and development, which is gaining traction due to its high levels of antibody specificity and affinity. Our B Cell Select platform has been instrumental in this achievement, enabling the rapid selection of highly specific and non-cross-reactive antibodies directly from B cells.

Recent clinical data shows that the anti-LILRB2 treatment is well tolerated and exhibits early signs of efficacy in patients with solid cancers. Notably, these antibodies have advanced to further evaluation in patients previously treated with PD-L1 or PD-1 agents, providing a high-profile showcase for the emerging field of rabbit-based therapeutics.

We are also proud to have partnered with the Mayo Clinic on the groundbreaking study published in Autophagy. As another testament to our industry-leading rabbit B Cell Select platform, we developed

antibodies targeting phosphorylated ubiquitin, a marker of mitochondrial damage critical to understanding neurodegenerative diseases like Parkinson's and Alzheimer's.

We are excited to share progress in our collaboration with a leading semiconductor company to enhance the computational efficiency of our drug discovery pipelines. This partnership has been instrumental in driving advancements across multiple fronts. During this partnership, we are currently integrating optimized versions of AlphaFold2, AFmassive and AFmassive into our LENSai portal. These enhanced pipelines significantly improve the speed and cost effectiveness of these applications.

The optimized versions provide a ten-fold speed up and nearly a three-fold cost savings compared to existing solutions, positioning our platform for greater scalability and efficiency. Another standout achievement of this collaboration is the reduction of epitope mapping time lines from days, which was already extremely fast to mere hours. By leveraging the 2 companies' advanced computational methods, we've been able to maintain high accuracy while significantly lowering resource consumption. This milestone not only accelerates discovery but also reinforces our platform's ability to deliver results with precision and reliability.

Looking ahead, this collaboration is also exploring cost-efficient alternatives to traditional cloud platforms. These efforts will support sustainable growth as we continue to scale our AI capabilities and wet lab integration, ensuring BioStrand's innovative solutions remain accessible and impactful. In parallel, we've initiated conversations with another prominent semiconductor leader who has expressed strong interest in collaborating with us. These discussions aim to explore joint advancements in AI-driven drug discovery and computational efficiency, further strengthening our capabilities in precision medicine.

BioStrand's dual revenue model combines application-based pricing through portal and API access as well as data management subscription services. The current focus is on application-based services. BioStrand provides high-value analytical applications like immunogenicity analysis and epitope binding and mapping offered via portal or API access. Since our last earnings call, BioStrand has onboarded 4 new early access adopters, offering competitively priced services to attract a broad client base while maintaining gross margins of 80% to 85%.

Lastly, data management capabilities are being built out and will be added in the future. LENSai's data management service offers scalable solutions for seamless data integration and efficient data handling, targeting medium to high-volume clients. This subscription model is expected to generate steady, predictable recurring revenue.

Our partnership with AWS progresses as planned. We are currently conducting the foundational technical review, which we will submit this December. A first marketplace offering is anticipated by March, followed by a progressive launch of analytical pipelines for consumption by AWS users.

I'll now turn things over to Kristin Taylor for our financial updates this quarter.

Kristin Taylor
Chief Financial Officer

Thank you, Jennifer. I'll provide a brief overview of our financial results for the second quarter of our fiscal 2025 before touching on our financial position as of the end of the period, which was October 31, 2024.

As a reminder, all numbers I reference are in Canadian dollars, unless otherwise noted. For the second quarter of our fiscal 2025, we generated revenues of $6.1 million versus $6.1 million in the previous year. While flat year-over-year, this represents a 16% increase over revenues in the first quarter of fiscal 2025 with strong growth achieved quarter-over-quarter at each of our wet lab sites.

BioStrand, our AI-driven platform, achieved $397,000 of revenue in the second quarter, marking its highest quarterly revenue achievement to date, along with life-to-date revenue of $917,000. As we continue to roll out the fee-for-service analytical capabilities of LENSai to our clients, not only are we supporting drug discovery and development with more efficient and effective tools, but also achieving much higher gross margins than what is recognized from traditional wet lab methods.

Now on to our operating expenses. Our research and development expenses for the second quarter of fiscal 2025 were $1.2 million versus $0.8 million for the second quarter of fiscal '24. Year-to-date R&D expenses were $2.8 million versus $1.8 million in the previous year. While this represents a substantial percentage increase, the dollar value highlights our capital-efficient investment strategy as we expand our proprietary platform, LENSai.

Our sales and marketing expenses for the second quarter of fiscal 2025 were $1.2 million versus $0.9 million in the previous year. Year-to-date sales and marketing expenses were flat year-over-year at $2 million versus the previous year. We continue to benefit from cross-selling efforts across both our wet labs and LENSai platform as we support the expansion of our comprehensive AI-enhanced antibody drug discovery and development services.

General and administrative expenses for the second quarter were $3.3 million, also flat against the previous year. Year-to-date, G&A was $7.4 million versus $7.3 million as we actively managed our expenses to offset inflationary pressures.

As Jennifer discussed, we continue to initiate cost-saving efforts so we can focus our spend on growing our business and proprietary technologies. Over the past 18 months, we made difficult decisions, including laying off or not filling open positions for almost 50% of the corporate overhead positions and delaying select expansion investments as we monitor market trends.

We are also looking at additional non-dilutive state and local incentive programs to offset the costs and support the ramp-up of our enhanced LENSai tech offerings. We have successfully utilized this type of funding over the years and continue to use non-dilutive funding to support our R&D in Canada and Europe.

Overall, we reported a net loss of $2.6 million for the second quarter of fiscal 2025 or $0.9 (sic) [$0.09] per share versus our second quarter of fiscal 2024 that resulted in a loss of $2.4 million or $0.10 per share. As for our cash position and liquidity, we ended the second quarter of fiscal 2025 with cash of $3.6 million versus our year-end cash balance of $3.5 million.

Our October 31, 2024, ending cash balance reflects our cash used by operations, including R&D spend for the first 6 months of the year of $4.1 million. This use of funds was offset by $4.8 million from net financing activity, which reflects capital raises net of lease payments. On the Yorkville debentures, the second tranche of $1.3 million, which closed on August 16, 2024, was extinguished through conversion as of December 9, 2024.

We continue to work with Yorkville on the conversion of the remaining tranche to minimize potential share price disruptions. We also believe that exploring a potential sale of our 2 European wet labs will further support cost cutting through streamlining overlapping capabilities while generating upfront cash. As our operations evolve, we see value in consolidating operations while we continue to focus on growing our technology and assets.

Building and commercializing LENSai has been an investment, but as we receive feedback from early adopters and see the gross margin gains on early revenue, it strengthens our commitment to this strategy.
Thank you, and we will now turn back to Regina.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Swayampakula Ramakanth with HCW.

Swayampakula Ramakanth
H.C. Wainwright & Co, LLC, Research Division

This is RK from H.C. Wainwright. Jennifer, there's a lot of information which you put out this morning. I apologize, I'm jet-lagged with an overnight flight. So just to get -- I'd like to understand what's the strategy behind a couple of things that you're doing. One is moving the headquarters to Austin and also some of the cost containments that you are proposing, I understand the immediate financial benefit, but overall, on the strategy front, how is -- what's your thoughts and also the Board's thoughts on that?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

RK, thanks for your question. So first of all, starting with the moving of the headquarters. This is actually something we've been discussing for several years. Just given that the location of the current headquarters is not an area where we have a vibrant biotechnology community. It is also just not an area very well associated with biotechnology and technologies in general. And it's also relatively remote. So we have a working wet lab there, but we really don't have our executive presence there or an integration into the community the way that we would want in a headquarter location.

In addition to that, the selection of those locations also opens up the potential for other non-dilutive funding sources. We've tapped into those as people have seen in the State of North Dakota being awarded over USD 2 million over the last couple of years. And that is always a requirement for soliciting that type of funding is your presence on the ground and the operational program leaders for that non-dilutive funding also being present there.

And so Texas is an area that is very well known for that. We have already connected with and began integrating with a variety of different sources of non-dilutive funding and partnership and collaboration activities in both the biological research realm as well as the semiconductor realm. So as we became more integrated, more familiar and these partnerships and collaborations began to bear fruit, this started to become a more obvious choice for us other than additional location that we were considering, which was Boston, which we also do have some future plans for in the not-too-distant future, but which just from the non-dilutive funding and partnership was a different -- kind of a different relationship. So that's really the rationale there. In a sense, it's not new, but in many different ways, it's evolved over the last 4, 5 months to really become clear that, that is a great destination for our headquarters.

With regard to cost containment, obviously, with regard to bonuses, we feel that, that's just very appropriate given the broader market, given the market cap and that type of alignment with our shareholders and demonstrating regard to the divestitures, however, that's a little bit less about cost containment. However, it's super clear, obviously, when you look at our growth trajectory and our plan that -- with the capital that is received during that divestiture is hugely important to our future growth, the reduction of dilutive financing.

And then you saw that this quarter we had a very significant increase in the demands on BioStrand as also reflected through their rapidly growing revenue. And so this was already -- not only are we reducing the ongoing spend associated with those locations because they are 2 brand new buildings and neither of those locations had an option to stay in their previous buildings, just for information, 2 brand new green builds, expensive overhead, but also more importantly, we have almost 100% duplication at those sites when we compare to BioStrand and to IPA Canada.

So for the last 4 years, we've actually purposefully been duplicating all the protein manufacturing services in Utrecht. So we have significant manufacturing capabilities at Canada. Their revenue has been ramping in that manufacturing process. We do find that, that is one of the areas where people do tend to stay

a little bit more local. However, it's also part of their expansion planning. So we will be able to expand further into that area. We are, as I mentioned in here, looking at an accretive investment that is not a lot of capital for us, but also will increase our manufacturing capabilities in the United States as well.

And then with regard to all the antibody development, which is the primary source of income in Oss, we really acquired them in large part because of the developability, the humanization, a lot of the downstream development properties they brought to the discovery development process. BioStrand through the applications that they have developed are now overlapping significantly with the capabilities that we see within Oss. And while they haven't 100% covered every one of those technologies, the ones they have are very competitive and compelling. They have less overhead, they have higher profit margins and they're faster.

And then in addition to that, if we look out the next 6 to 12 months, we just see a continuing increase in the application development within BioStrand and what they are targeting versus what's offered in Oss. So that increasing redundancy is also a great reason for us to look at really where we're at, where we're going and simplifying that corporate structure and focusing our energy specifically on what is really our future really for revenue and growth and where we see this company going.

Swayampakula Ramakanth
H.C. Wainwright & Co, LLC, Research Division

Perfect. So just talking about what you have done financially in the second quarter of '25, going forward, as you're talking through the changes in the corporate structure and whatnot, how should we think about contribution to the entities? And also, how should we think about growth from here? And I'm just trying to kind of get everything into my head properly.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Sure, absolutely. That's an understandable question, RK. So when we look at contributions from the entities, Canada is obviously a staple in that equation for us. Canada has been providing the single leading service that we have been offering over the course of the last year to 1.5 years, which is that Memory B Cell Select platform. And as you've also noticed and is gaining more public attention, quite specifically also the rabbit version of that platform, although they have double-digit species and R species agnostic.

So we do anticipate that to continue to grow, but with their expanded footprint, also other areas like the rapidly growing revenue that they have within the protein manufacturing areas as well as well as the other capabilities that they continue to offer. So single-step hybridoma discovery programs, they offer not only protein expression, but cloning services, NGS services and a multitude of other offerings at that site that have been very successful.

So we see a large contribution there. We do, as I mentioned previously, also see an investment opportunity, which is primarily low capital infusion for us to -- for our contribution. However, opening up direct access to the Boston Cambridge area, where we already have a significantly growing revenue base and the ability to tap into a part of the market that has significantly opened up since we have seen tighter regulations on utilizing Chinese facilities for certain activities.

So that is an additional area that we have pinpointed specifically for the high throughput downstream activities that happen in BioStrand, where we can more rapidly validate for both clients and for ourselves work coming off of the in silico platform post in silico lead candidate selection and optimization. And with that, not also push into the capacity in the day-to-day work that's happening within Canada.

So we're looking at a much more focused offering that, as I mentioned, is relatively low cost within the U.S., but where we have already been testing the demands and have seen great interest from people in adopting that. And then, of course, there's BioStrand. So as you saw, BioStrand was approaching about half of their total revenue that they have earned over the past 2 years in just this past quarter. That is very reflective of the demands we've been seeing, in particular, on the fee-for-service side of the work that they do.

Many of the fee-for-service individuals and companies are also starting to tap into us for discussions either in partnership activities or the use of the LENSai API. So you saw we had 4 new early access adopters there. Of course, our strategy there is to get those early access adopters in the door and then convert them equating to, of course, post conversion, long-term stable monthly or annual recurring revenues from them.

So we're very focused as well on that trajectory we're seeing within BioStrand very actively receiving feedback from those users and doing that, as Kristin indicated, on a significantly depressed budget. So we're incredibly impressed with what they've been able to do with where they're at and without the assistance of additional engineers, which is greatly needed.

But also acknowledging and realizing that, that real growth, that real expansion despite how rapid it was this past quarter has huge potential when we actually have the boots on the ground and the people needed to contribute to the engineering user interface and the needs that BioStrand has for LENSai. So we see kind of a tripart contribution with regard to the revenue going forward. And obviously, we will lose revenues from those 2 other locations, but we also will be ensuring that, that capital is being deployed in areas of high revenue growth and then again, much, much higher profit margins when it comes to the BioStrand work.

Swayampakula Ramakanth
H.C. Wainwright & Co, LLC, Research Division

Okay. And then -- so the last question from me is you're talking about some of your assets, especially like the LILRB2 asset and also the Trk asset. What should we expect in terms of next set of data and how these programs will kind of flow through development?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Yes. That's a great question because all of the assets that are currently existing within Talem are really kind of in the development stage and optimization stage. So one thing we haven't really talked that much about, but you will have glimpsed a little bit in a few of the more recent press releases, including, for instance, the Biotheus press release is the way that BioStrand has really started to take a lead role in optimizing and engineering those assets that have been discovered within Talem. That has been very significant for us with regard to what we view as the value add coming out of BioStrand.

So when will we see the next set of data? That's actually a really interesting question because obviously, with the asset that's been out-licensed to Biotheus now under the control of BioNTech, we're in regular communication with them, and we get updates with them, and are working together with them on -- in progressing that particular asset. And so we do expect information from them forthcoming with regard to -- we have information already, but information in terms of decision-making within about 6 months from the date that they signed the original MTA.

With regard to the other assets, we're not only working on these assets where we have additional development work and optimization work, which you can expect an update on in the next 2 weeks. But in addition to that, we have other assets that have been wholly developed from the beginning [through] discovery development and optimization at BioStrand. And for us, it is completely revolutionized the way that we do our drug discovery. We're still thrilled with our potential best-in-class and potential first-in-class assets in Talem, but the time that it takes and the cost in doing this in BioStrand to be able to demonstrate that this can be done entirely in silico and of course, validate it with wet lab and preclinical work is a huge step forward for us, but also a significant validation to the world.

And I think probably the most, I think, informative or insightful thing that shareholders, stakeholders in the industry will see when those novel drugs that we haven't yet released are shared is the insight that we're able to get with LENSai. Looking at some of the current diseases and some of the current drugs that exist and attempting to provide insights that people have never seen, didn't understand or didn't know because we simply didn't have the tools to undercover the relationship between the diseases and the drugs.

So just to summarize that real briefly, you will see an update relatively soon on the assets within Talem that already existed with an emphasis on also the contributions that BioStrand has made. And you can expect to see some assets coming forward that were wholly discovered and developed solely within BioStrand, not only to showcase their capabilities and how they, again, revolutionize the way that drug discovery and development are done, but also because we believe that these assets will have a potential -- significant potential.

Operator

Our next question comes from the line of Will McHale with Ingalls & Snyder.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Jennifer, first question for me is, how do we, from the outside, square all the discoveries and advancements that you talked about in both the script and in the press release with revenue being flat year-over-year? Like are we just -- is it a timing thing that we just haven't really ramped commercialization on these things? Or what's kind of the right way to think about that?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Yes. That's a great question, Will. I mean, we stand by this fact that our technologies are exceptional in the industry. And our retention rate for clients continues to be very strong, and our reputation is really exceptional in discovery and development phases. Despite occasionally hearing that biotech and pharmaceutical industry companies have recovered from a bit of a downside, that's not what we hear and what we see from clients and partners and more importantly, competitors. So especially in the service industry, which tends to be a lagger because you're looking at other groups needing to recover, stop really the significant budget constraints, which we saw very strong impact for pharmaceutical and biotech companies over the last summer. But then in addition to that, be more comfortable releasing the reins on their spend.

So when I look at being more flat year-over-year on that quarter, I see a couple of things. I see, one, pretty swift recovery from a quarter that did dip, which is a little bit more aligned with what we're seeing with our competitors, although not as extreme to what they've experienced over the last 18 to 24 months and a swift recovery into this quarter, which I think would represent and be a part of the impact of why we would have been flat year-over-year, right, because it's a bit of a rebound or recovery, much of which we attribute to the significant belt tightening that we saw over the summer, which isn't hypothetical or picked up from papers. I mean these are things obviously that our clients talk to us about. They tell us about these budget constraints and reorganizations, et cetera. So I do believe that, that's the primary impact that we've seen with regard to that.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. And I guess the new -- like the new products that or services that we're launching, they're ripping, but they're just not yet at scale to have enough of an impact to really move the needle in a significant way?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

In terms of the BioStrand services?

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Yes, exactly, in terms of BioStrand's in silico services.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Yes. A lot of the BioStrand users on the early access, these are -- these early access users are ones that are actually brought in and have a specific period of time to be able to utilize the technologies, give feedback, work out any bugs because every one of these groups coming in is still customized with regard to not the algorithms, but what they're utilizing and how they're utilizing it. And so part of that early access agreement does actually require them to give direct feedback to the team at BioStrand so that the engineers can make improvements.

And that's not a super fast process, obviously, the users need to use those, but the engineers being on extremely limited staff also need to make those modifications. So those early access users are not paying their monthly subscription fees. That is what happens at the end of the trial period. Most of those trial periods are about a month, some are a little bit longer. And that's where we start looking at the conversion. And so that's not something we expect to see immediate revenue contributions from, but it is something that we're seeing growing.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. And I guess, as those convert over the course of this fiscal year, you'd expect BioStrand to exit the year at a much higher revenue run rate than it is today.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Exactly. That is absolutely our aim. Based on just the pipeline information we have, we look at prospects. These are people we're talking to people that have an interest. We look at leads. These are people who have gone beyond that interest stage and received quotes and are having very meaningful conversations that sound like they have the intent, the capital and the ability to execute on that, and then also clients who have already executed a quote. And we use all of that information to do pipeline projections and better understand where we anticipate being in 1 quarter, 2 quarter, 3 quarter, very similar, how do we do to our other locations.

And so, we saw the build coming to what we saw this quarter, and we're happy with that just given that it's a substantial -- marks a substantial increase and the profit margins are even more significant than we had anticipated. That being said, those pipeline KPIs that we monitor are still indicating that we should expect BioStrand to do well to continue to grow, absolutely. And the API usage of LENSai as well as the portal usage of AP -- of LENSai are both significant components of that.

The fee-for-service work is still a significant component. Our largest client is still using almost unilaterally LENSai at this point for very complex drug discovery programs. So that's also been a significant contribution, and we have just signed new additional contracts with that group. So we have good reason to believe that, that will also continue. And just anecdotally, I think we've talked about this group before saying they've tried a multitude of different AI companies that had not been successful, had not been able to actually execute on what they said they could do and that BioStrand was the first company that could.

And not only that, but they've been able to validate the results they get from BioStrand in their wet lab, which also was a first for them. They've now also come back given all the capabilities that BioStrand has and recognize that BioStrand and really no one else from the true definition of de novo discovery has ever accomplished building a therapeutic molecule entirely de novo and have asked to contract BioStrand specifically for that, because of their faith in that technology. So we also use that sort of not just, of course, that anecdotal feedback -- but in addition to that, monitoring the signing of those new contracts and the faith they're putting in us to continue to expand alongside them.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. That's all super helpful. A question on our capital structure and balance sheet. I think it's not a coincidence that our share price has lagged pretty badly since the convertible financing that we took on

over the summer. I'm just curious to get what your guys' thoughts are on whether we pay that off with proceeds from the divestiture of the European assets or just kind of how you're thinking about optimizing our capital structure.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Yes. That's a great question, Will, because we are painfully aware that the optics of that particular transaction have been difficult for some shareholders. And we've heard that directly from retail shareholders and institutional shareholders alike. And so we've been pleased with some of the ways that things have unfolded with regard to that debenture, but concerned about the optics and the impact for both existing investors and new investors that would like to come into the story.

And so regarding that, we have, as Kristin mentioned, approximately $2 million left on that, not a super large sum. And we absolutely have had detailed conversations around when and how to remove that particular investment group from the equation in order to just reduce whether it's the downward pressure or the burden on the share price or also just the optics, is an important priority for us. So yes, that would be an expected part of the capital from that event at the end of the fiscal year-end.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. Okay. That makes a lot of sense. I was wondering if you could provide an update on the discovery program with Astellas? Just sort of where we stand or whatever the [financial] looks like. I understand you may be limited what you're allowed to say, but this -- anything would be helpful.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Yes. Well, we actually turned over the contract to a lawyer to see what, if anything, we could share, which is pretty limited. And we also reached out to Astellas and asked for a -- let's see what's the right word? We asked for an exception to the contract to be able to share very minimal details, at least so people could connect certain things to Astellas or whatever, and we were declined. And that really, according to them, of course, is their way of trying to project their strategic plan with regard to what they're working on and where it's at. And also because they do tend to bring these types of programs to multiple different partners, I'm sure that there's an element there, too, of just not wanting that information public.

That contract prevents us from talking about where the program is, any updates on the program, if it's historical, if it's current, if it's future, whether it's still ongoing, whether it's ramping, we're really -- it literally is incredibly detailed with regard to what we are and are not able to say, because some of it does seem a little bit more tightly controlled than other ones. That's the rationale for going to them with regard to the exception, and it just wasn't something that they felt was appropriate. So we wish we could give more details on that. And sometimes on some partnerships, we are able to.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Okay. Got it. And then on the potential collaboration with the semiconductor companies, could you just expand on like what that would look like from a commercial standpoint? Like would this be us partnering and kind of co-developing a solution for pharma partners? Or how would that -- how do you envision that looking?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Yes. That's a great question as well. So with the current ongoing collaboration that we have, a lot of that is gearing toward cloud-based infrastructure for offerings. So a co-offering between the 2 groups with a bit of a common theme that we're seeing, whether it was through intersystem semiconductor companies, and then we've also heard this through larger AI or chip manufacturers as well, being that oftentimes, these groups have a good enroll into the market, and they already have users for different technologies or they

already have technologies that are compatible with ours, but they do not have any sort of proprietary drug discovery program that enables them to get specifically into the drug discovery market. And they also oftentimes don't have the relationship with the pharmaceutical companies.

And many have realized in the past year as they started to try and move toward that relationship with pharmaceutical companies, the level of due diligence and expense that's required to do a vendor onboarding, which is oftentimes 12 to 18 months and back and forth trips between the 2 groups and pretty significant due diligence and everything from the people that would be working on the project to the technologies through the finances. So we offer for them not only LENSai, which is very unique and oftentimes is a way for them to be able to showcase something that they already do, but then also make inroads into the pharmaceutical community, but also in some cases as well, very synergistic technology to what they're currently offering.

So it does seem like a lot of technology and semiconductor companies are just a little bit behind the pack when it comes to what has garnered a lot of attention in the market in the last 12 months, which is the application of AI and ML, specifically with drug discovery. So in this particular case, they've been working with us to bring their capabilities with our capabilities to make faster, more scalable and stronger products that we can bring forward to mark -- to co-market together. And again, focusing very much with that first semiconductor collaboration on cloud integration and offerings for the new market.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. And then just my final question is on the possible divestitures of the European assets. I guess just looking at where CROs have traded hands in the private market and making some rough estimations about the revenue base of those, like it seems like this would have the potential to really transform our balance sheet. And as you noted, while we lose some revenue, it seems like we would be left with a smaller base, but probably growing faster. I guess, one, do I have that all correct? And two, what -- you mentioned possible additional investments. Curious if you could just elaborate on that at all?

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Great questions. Let me make some notes here, so I don't miss any. Okay. So yes, first of all, with regard to the divestments. So it's kind of interesting when we look at the growth potential of the company as a CRO, we've talked multiple times about how it's fragmented, right? How you have discovery, you have development, characterization, manufacturing. These all tend to be very fragmented industries where most companies do 1 or 2 things and just trying to do those really well.

And I think we've done a great job over the last 7 years of building a fully integrated end-to-end solution. But we are going to tap out really on revenue potential strictly from a CRO perspective unless we make major investments to move into the next parts of the CRO chain, right, which starts moving into -- we do stable cell line development, which is just kind of a fancy way of saying a cell line that will like forever stably produce your molecule of interest. But we don't do GLP manufacturing. We don't contribute to manufacturing for preclinical trials. We don't do preclinical trials. We don't do safety or efficacy or any of the associated types of work there yet. That's kind of the next step. We obviously don't do clinical manufacturing or commercial manufacturing or any of the sort of batch release type of QA/QC that you would expect to go along with that type of work.

So there will be constraints overall in the potential revenue as we move through this. And we've done, I think, a very good job of moving into all of these different kind of emerging markets that have popped up, bispecific, multispecifics, VHH antibodies, ADC with regard to production in Talem has really been a strong focus for us. So when we look at where our true growth potential is and where we aren't going to reach those type of caps on our ability to really push revenue boundaries. And just as an example, I'm talking about these antibody CROs, there aren't any out there that have these extraordinary revenues just doing antibody CRO work, right? So the one that people like to really point to is Charles River.

And of course, they're actively involved in the preclinical space, animal space, clinical space, a very different source of revenue streams when it comes to the major, major -- the sources of their revenue, antibody discovery and development is a relatively small part of the revenue. Anecdotally, and I don't have evidence to support this, but we have been told that our revenue is higher in those areas where we overlap. And so absolutely, when we look at the growth potential for BioStrand, when we look at the revenue potential of BioStrand going forward, where we look at where the industry is going, when we look at how the market factors and just the science and technology for data-driven science are changing in antibody discovery and development, BioStrand, LENSai starts to make a heck of a lot of sense.

We've already seen it with the current capabilities they're offering the epitope mapping, for instance, you still have people paying millions of dollars in order to go do x-ray crystallography for that, and it takes well over a year, sometimes several years. And here, we're able to do it in a matter of hours. And we're able to use a level of precision because of the ability to scan the human proteome in under 1 minute for each of the antibodies that we assess that level of precision that others can't get, right? So these insights that aren't available otherwise.

And we can go through each of the applications and demonstrate how they are oftentimes -- well, always faster, less expensive, for us, higher profit margins. But many times, as I indicated in the presentation, really much more informative, much more precise and oftentimes providing insights that other capabilities can't. So 100%, we do see that as a higher growth potential as well as a really strong base to be continuing to build on as we see what has happened in the industry with AI and ML.

And now I know there's a lot of talk out there about whether AI can really impact discovery or whether it's really just going to be in the development space. And how much that will actually happen? That's even been an active conversation just this week with all the changes that have happened in the broader market. And we're here to say like we are witnessing it, we see it, and we can show you the evidence to show that from many perspectives of what we can already do, it doesn't make sense to really be continuing to invest in wet lab capabilities when these are better and they're faster and they're stronger and they'll only continue to improve every time someone uses them.

So yes, that for us, makes tremendous sense, not just from what we're seeing, but what we see from the industry. So we do expect that faster growth potential. And of course, we're not going to recover from a revenue perspective right away, of course, not, but we're well aware of what we should be building on, where the market continues to go. I think we've always done a good job of having our ear to the ground and understanding of like what is needed in the market, what pharma companies need and where that's going.

And then you mentioned this possible additional investment. So yes, this is -- I kind of alluded a little bit to it just being something that really supports us downstream of BioStrand. The demand coming out of in silico work are pretty different than what we see in a traditional discovery and development pipeline. And that work needs to be extremely rapid, extremely high throughput. And then it requires a slightly different type of characterization because, of course, we're interested in just data, data and data. We want to feed all that data back into LENSai. And so we've been working with and communicating with a group for a significant amount of time in the Boston area. And it is a group that has incredibly unique technologies. Many of those technologies developed right there on location. And what we're also seeing is just a continued increased demand for innovative technologies and things that are not readily available on the market that connects people to AI and then also wet lab technologies in the area of things like phenomics.

And so what we are looking at is an investment in a particular location there where that would provide the opportunity to not only rapidly and cheaply do all the downstream production and screening out of BioStrand in a way that is not a kind of standard offering, but very customized for BioStrand. But in addition to that, also opening itself up as kind of a hub of innovation in the community where these other asks that we frequently get about innovating with these groups, of course, being paid to innovate for these groups. And oftentimes, these requests go to Canada and kind of slow that group down because it's more R&D based -- can occur there. And really, we can continue to be paid for innovation for technologies that we will continue to own as well as really speed up the trajectory of the work coming off of the in silico.

And on that note, I'd be remiss not to also mention that Canada was also pinpointed about 6 months ago as the first adopter of that Hit Expansion technology we mentioned as well as packages being integrated into our discovery and development offerings within Canada that offer the epitope bidding, developability, immunogenicity, et cetera. Slightly different packages depending on whether they're human-like or human eyes-based programs versus animal-based programs, but working very closely with them and internal champions to really also integrate closely BioStrand and the work that's happening at Canada and the potential work that will happen in Boston.

And so for this, this is also really highlighting, we believe the importance of having a really unified offering, streamlined offering that has much more significant growth potential, much higher profit margins with groups where also you have a stronger integration and feedback loop with standardized data preparation and processing streamlining into the pipeline. And for us, it is also a part of that rebranding initiative where I think right now, we have a bit more of a complex corporate structure with, in some cases, more kind of stand-alone offerings. But again, reaching not only limited resources because of the expenditures of operating in so many locations with different facilities and operating costs, you max out on synergistic cost savings that you can receive, but then going forward, being able to streamline that also with this very specific offering tied around the LENSai, not losing the capabilities in Canada, but with much higher revenue and profit margin potential.

William Campbell McHale
Ingalls & Snyder LLC, Research Division

Got it. That's super helpful. So it seems like putting it all together, it's -- we'll have a slightly lower revenue base, but we'll be growing faster, have much higher margins, much improved cash balance sheet and be extremely well aligned with some of the kind of megatrends happening in the space.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Exactly. And we are making the assumption that we will have several years of operating capital as well, and then also all the reduced overhead associated with those 2 locations and one fewer officer as well. Our Chief Scientific Officer will also be a part of that transaction.

Operator

Thank you for your insightful questions. I will now hand over the call to Dr. Jennifer Bath, our CEO, to conclude the call.

Jennifer Lynne Bath
CEO, President & Non-Independent Director

Thank you. I'll need one second to relog back into my computer. Okay. All right. So thank you so much, Regina. So just closing us out here. One second here.

Okay. So thank you again for joining us today. We hope that it's clear through today's announcements, our relocation to Austin, the divestiture of the European wet labs and also the upcoming rebranding initiative, they all align with our vision to create a more agile, a more focused and an innovative company. We're not just adapting to the future of drug discovery. We are actively shaping it. With our enhanced computational efficiency, expanding partnerships and the imminent launch of our marketplace offering on AWS, we're poised to accelerate the democratization of drug discovery.

Our journey is one of significant potential where science-powered technology-driven solutions will continue to break new ground. As we forge ahead, we remain committed to delivering value to our stakeholders, advancing therapeutics toward clinical success and ultimately making a profound impact on global health.

Thank you so much for joining us today.

Operator
And this will conclude today's call. Thank you all for joining. You may now disconnect.