



ImmunoPrecise Antibodies Ltd. NasdaqGM:IPA

Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

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Presentation

Operator

Good morning, and welcome to IPA's Earnings Call for the Third Quarter Fiscal Year 2023. I am Regina, and I will be your host for today's call.

Before we begin, I would like to remind everyone that our remarks today may include forward-looking statements, which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in our statements. We encourage you to review our filings with the Securities and Exchange Commission for a more complete discussion of these risks and uncertainties. IPA undertakes no obligation to update these forward-looking statements, except as required by law.

On today's conference call and the accompanying presentation slides, non-GAAP financial measures will be used to help investors and analysts understand IPA's business performance. IPA believes adjusted EBITDA reflects the business in a manner that allows for a meaningful period-to-period comparison and analysis of trends in its business. An explanation and reconciliation of non-GAAP to GAAP measures can be found in the text of our management discussion and analysis filed on EDGAR and SEDAR.

With that, I will now turn the call over to IPA's CEO, Dr. Jennifer Bath, to provide an overview of our results for the quarter.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Thank you, Regina. Ladies and gentlemen, welcome to our third quarter earnings call. We are happy to report a very noteworthy quarter for IPA, characterized by strong revenue growth, the expansion of new revenue streams using our AI-driven LENSai complex technology and the establishment of a potentially disruptive and valuable AI-driven research collaboration.

Regarding this most recent pioneering collaboration, the partnership aims to tackle some of the world's most challenging drug targets, specifically those within cells, which have been long considered inaccessible. By combining IPA's unique discovery technologies with Libera Bio's intracellular targeting formulations, we believe we are offering our investors an important value proposition.

Furthermore, we are energized by our ongoing efforts to finalize an AI-driven research collaboration on an additional complex oncology program. The partnership is under negotiation with a highly respected multibillion dollar global leader in the field of oncology therapeutics and also focuses on a particularly challenging class of oncological proteins.

As previously indicated, this program is still estimated to close around the end of this month. We are confident that these strategic initiatives will continue to drive growth, innovation and shareholder value, and we look forward to sharing more details on our progress during this call.

In relation to our COVID drug product, while we continue to await delivery from our contract development and manufacturing organization, ChemPartner, we have taken decisive action to address the unanticipated delays. We have put any significant further investment into the program on hold as we are hopeful for a promising and mutually beneficial resolution with the service provider.

We are currently engaged in what we hope will be productive discussions to address this matter and we will share more details about this important opportunity both later on this call and going forward when details become available.

Regarding our quarterly financials, IPA's overall project revenue increased by 16.7% compared to the prior year, driven primarily by the growth of the company's proprietary B Cell Select platform and protein manufacturing services. On a site-by-site basis, this increase reflects overall revenue growth at our Utrecht site of 25.3% year-over-year on a euro basis, and at our Victoria site, an increase of 11%.

On a project revenue basis, so excluding the more time variable off-the-shelf product cells and cryopreservation, Victoria and Utrecht have experienced significant revenue growth of 24.6% year-over-year and 48.9% year-over-year, respectively. Brad will share more details about our strong quarter revenue shortly.

This quarter we were also excited to unveil our new website, showcasing our innovative technologies, including those of our recently acquired subsidiary, BioStrand. These modern in-silico solutions have generated new revenue streams with the potential for quicker turnaround time, faster revenue recognition and higher profit margins. These recently publicized additions to our offerings underscore the value and potential of this strategic acquisition for our investors.

We have also made strategic changes to the Talem website content to better align with our overall focus on out-licensing products and reducing expenditures related to partnerships and collaborations. With a slightly refocused approach, we aim to boost profits and curb expenses while delivering high-quality valuable products to our partners.

This new direction for Talem involves a gradual shift away from programs where the subsidiary bears most of the preclinical research costs. Instead, it places greater emphasis on upfront financial arrangements, complemented by downstream revenues. This change is expected to benefit both Talem and our organization as a whole as we move forward in our quest for sustained growth and advancement.

Lastly, in our general overview, we are pleased to announce that IPA has partnered with a premier executive search firm specializing in the life sciences industry to identify and secure top talent for the position of a Non-Executive Board Director. This collaboration will ensure a highly customized search process, enabling us to select the best candidate who will contribute significantly to delivering long-term value for our shareholders and further solidifying IPA's position as a leader in the industry.

Now for the much anticipated update on sales and revenue, I will turn the call over to Barry Duplantis.

Barry Duplantis

Thank you, Jennifer. First off, we're happy to report quarter-over-quarter global revenue was up 7.4% over Q3 fiscal year '22, while project revenue increased by an impressive 16.7% over last year. Secondly, I'd like to touch on sales orders, contracts that are signed commitments of future work. While sales orders may not perfectly correlate with revenue, they do provide a useful metric for forecasting ongoing revenue over the next 10 months.

Sales orders showed a Q3 -- a substantial increase of 66% over Q2 fiscal year '23 and 48% over Q1 fiscal year '23. These figures indicate that as client projects progress, IPA's revenue is expected to continue to grow. Overall, the upward trend in sales orders indicates a promising outlook for IPA's continued success.

Thirdly, IPA has added 9 new clients and serviced a total of 145 clients during Q3. The addition of 9 clients this quarter is the highest number of new clients onboarded during a quarter in the past 2 years, while the 145 ongoing clients has averaged over the same time frame.

IPA has seen a 23% increase in the number of antibody discovery programs initiated when comparing the first 3 quarters of fiscal year '23 to all of fiscal year '22. This growth represents a significant accomplishment, especially considering that Q4 is still yet to come.

Our continued growth can once again be contributed to IPA's rabbit B-cell platform and an industry that is cycling back towards the use of wild-type rodents. IPA is established and continues to cement itself as the leader in rabbit monoclonal antibodies. Rabbit derived monoclonals are often used by our clients as therapeutic companion reagents, integral components of the drug discovery process with highly distinct roles and specifications, perfectly suited to our workflows.

However, as a stand-alone strategy, are in concert with IPA's ability to use multiple strains, immunization strategies and discovery platforms. The use of alternative species such as rabbits and chickens has become a very effective means of ensuring a diverse set of therapeutically relevant sequences.

In addition to more phylogenetically distant species, there is a renewed interest from our clients in the use of wild type or non-humanized transgenic animal models for therapeutic discovery. Despite the rise of transgenic models over the past decade, the fact that the wild-type immune systems are still regarded as superior and that wild-type animals do not carry the royalties and milestone payments charged by third-party transgenic providers has led clients back to the use of the wild-type animal model.

With the integration of BioStrand's in-silico analysis, IPA's next-generation humanization services are well positioned to take advantage of the cyclical market trend. In particular, the high throughput immunogenicity screening provided by BioStrand allows IPA to offer more advanced service that meets the evolving needs of our clients. Overall, the combination of IPA's species agnostic platform, the use of wild-type animal models and the integration of BioStrand's technology into IPA's humanization platform represents a powerful strategy for continued growth and success in the industry.

Next up, IPA is excited to introduce its latest marketing undertaking, the IPA Collective, a set of science and social gatherings held in strategic locations. The first event will take place in San Francisco next week. These events, combined with the recruitment of essential sales team members in Q2 will aid in establishing a firm physical presence in these vital markets.

Finally, IPA Europe Utrecht has added 12 new product entries to IPA's online store based on the organoid growth factor, R-spondin 1 or RSPO1. The addition of RSPO1 to culture medium of stem cells can increase the yield and quality of organoids, making it a valuable component in the production of organoids for the research and therapeutic purposes.

Overall, RSPO1 is an important component in the growing organoids market as it can enhance the efficiency and effectiveness of organoid production, leading to more accurate disease models and better drug testing platforms. The use of RSPO1 has contributed significantly to the growth of the organoids market in recent years.

With that, I will now turn the quarterly updates over to Dr. Ilse Roodink, IPA's Chief Scientific Officer.

Ilse Roodink

Chief Scientific Officer

Thank you, Barry, and good morning all. I would first like to update you on our TrkB T-cell engager program. Solid tumors over expressing TrkB such as breast cancer are often not highly immunogenic, meaning that, although immune cells are present in the environment of the tumor, they are not attacking the cancer cells. The combination of our proprietary TrkB targeting arm with our unique CD3 targeting arm in a bispecific molecule is designed to recruit and activate T-cells and it's also otherwise referred to as a T-cell engager.

This bispecific molecule is designed to induce killing of specific cancer cells and is anticipated to lead to a more effective treatment. Our lead candidate in the TrkBxCD3 bispecific asset portfolio has been proven in the lab to activate T-cells in the presence of target expression cells, while laboratory results also indicated it may be a safer therapy than a benchmark therapy currently available to patients.

An abstract submitted to the prestigious AACR annual meeting this April demonstrates the differentiating properties of this potential first and best-in-class lead candidate, and was recently accepted for presentation on the 19th of April, whereby just prior to the event, the abstract will be published in the international peer-reviewed AACR journal, Cancer Research.

In our TATX-20 program, we reached an important milestone. The TATX-20 target is a membrane-bound protein whose activity plays a key role in the survival of solid tumors and resistance to chemotherapy. Inhibition of this activity has been shown to reduce tumor growth and restore susceptibility of cancer cells to chemotherapy in preclinical models.

Based on its proven ability to inhibit activity in an in vitro assay, we selected an antagonistic lead candidate for further characterization. Identification of an inhibitory monoclonal antibody is quite an achievement as there are only 2 such monoclonal antibodies known in the public domain for this target.

Our candidate is the first fully human antagonistic monoclonal antibody, emphasizing the uniqueness of our lead candidate.

I will now turn you back over to Dr. Jennifer Bath, our CEO.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Thank you, Ilse. I will now focus on providing a comprehensive overview of our recent operational updates for everyone on the call.

Firstly, we're excited to announce that BioStrand, whose LENSai intelligent technology is now a central theme in our strategies, has successfully completed its first commercial project using groundbreaking natural language processing technology, or NLP technology, to analyze molecular binding interactions for a clinical stage program at a pharmaceutical company. This accomplishment represents BioStrand's first official revenue generation since joining our team and demonstrates our commitment to driving innovation in the industry.

During this project, BioStrand significantly improved its ability to perform in silico structural prediction of multiple isoforms as well as assess structural homology. These advancements provided valuable insights into the potential mechanism of action and structural characteristics of the client's target protein and its interactions with potential drug candidates.

BioStrand has also expanded its commercial activities with in silico immunogenicity screening, enabling the identification of potentially dangerous immune responses to partners' drug candidates. This successful service offering not only confirmed the value and output of BioStrand's in silico immunogenicity testing, but also provides a highly scalable, rapid turnaround, powerful and high profit service offering that can be integrated into other IPA programs or offered as a standalone service.

This newly commercialized service has the potential to add tremendous value to antibody programs by helping researchers select preferable lead candidates, avoid toxicity pitfalls in early-stage clinical trials, save time and money during preclinical and clinical development and avoid potentially unnecessary or/and fatal adverse events in patients.

Next, our collaboration with BriaCell continues to make significant progress in the first phase of the project, which due to mutually agreed upon additional research steps undertaken to enhance the quality of the program, began 1 week ago. Our joint efforts to develop an innovative best-in-class therapy are being supported by BioStrand's LENSai intelligent technology, which is playing a vital role in managing and analyzing the high-quality data produced through our antibody generation platforms. This collaboration emphasizes our commitment to driving innovation and creating long-term value for investors.

Continuing to focus on the accumulation of meaningful quality data, we turn to our next-generation sequencing, or NGS platform, where we have integrated cutting-edge data mining tools, including our proprietary HIF technology with next-generation sequencing to enhance computational efficiency across our data mining and repository capabilities.

One example of our success is reducing the laborious preprocessing of bulk data from a week to just 4 hours. Furthermore, we have bolstered our wet lab capabilities by implementing a multipronged approach that combines single-cell functional screening, single cell sequencing, stage display next-generation sequencing and multispecies multi-organ next-generation sequencing. These efforts have been closely coordinated with our in silico analysis platform, optimizing the functional output and providing us with integrated meaningful data that highlights our innovative capabilities.

BioStrand's standalone analysis pipeline for NGS antibody repertoire sequences is another example of our commitment to innovation. The pipeline is functional and capable of analyzing human, mouse, chicken, rabbit, camelid including llama, rat and shark antibody next-generation sequences.

The pipeline's potential is immense, allowing integration with other bioinformatics pipelines, full IPA controlled flow of data and data processing steps, ease of customization, scalability and optimization

of computer-intensive steps. This continued focus on leveraging our function-first strategy to drive unparalleled innovative solutions further solidifies our position as a leader in the next-generation antibody discovery workflows.

Lastly, the recent agreement between Talem and Libera Bio showcases our commitment to addressing notoriously difficult intracellular targets and meeting unmet patient needs. This collaboration leverages Libera Bio's multifunctional polymeric nanocapsule, or MPN technology, BioStrand's LENSai full suite of integrated intelligence technology and IPA's wet lab capabilities to develop novel antibodies capable of penetrating the cell membrane and tackling elusive cancer targets.

Last but not least, one more example of a commercializable high-demand offering by BioStrand is their SaaS model or SaaS-based data management platform, which has been awarded a first round request for proposal, or RFP, by an undisclosed large pharma company. The platform allows researchers to store, manage and analyze large amounts of multi-omics data using AI and machine learning. If awarded, this program is expected to help the pharmaceutical company accelerate its drug discovery process and improve its R&D efficiency.

Minimally, this third-party validation marks the beginning of a new potential revenue stream of great interest and high conceivable revenues for BioStrand.

I will now turn the phone over to Mr. Brad McConn for a closer look at this quarter's financials.

Brad McConn

Chief Financial Officer

Thank you, Jennifer, and good morning, everyone. I'll provide an overview of our financial results for the third quarter, before touching on our balance sheet as of the end of the period. As a reminder, all numbers that I reference are in Canadian dollars unless otherwise noted.

IPA recorded total revenue of \$5.2 million during the third quarter, a 7.4% increase from \$4.8 million during the third quarter of fiscal 2022. As Jennifer and Barry mentioned, the increase was driven by strong growth in our B-cell Select platform at our Victoria site and protein production services in Utrecht.

Our project revenue growth was 16.7% year-over-year, continuing our strong performance in our primary revenue drivers. On a year-to-date basis, total revenue has increased 10.9% year-over-year, and project revenue has increased 12.7% year-over-year when adjusting for the effects of currency translations.

Gross profit for the quarter totaled \$3 million, an increase of 14.6% compared to the same period last year, while gross profit margin increased to 57% from 54% last year.

Moving on to our operating expenses. Research and development costs decreased to \$1 million from \$2.1 million during the same period last year. Of the \$1 million in expense, \$0.4 million relates to the PolyTope antibody combination therapy. As Jennifer discussed, we anticipate costs related to this program to reduce significantly moving forward. Other notable expenses include \$0.3 million in compensation expense and \$0.1 million in depreciation that were allocated to research and development.

Sales and marketing expense totaled \$0.8 million during the quarter, which is in line with our expense during the same quarter last year. Sales and marketing include \$0.6 million in compensation expense along with \$0.2 million in advertising and marketing costs.

General and administrative expense was \$4.6 million during the period compared to \$3.5 million in fiscal 2022. Salaries and benefits increased \$0.7 million and management fees \$0.4 million, primarily due to the addition of staff at BioStrand along with some routine pay increases. Professional fees increased \$0.3 million, while insurance and share-based payment expense each decreased by \$0.1 million year-over-year.

And finally, as we've seen in previous quarters this fiscal year, amortization of intangible assets increased \$0.5 million, which is due to the intangibles recorded for the acquisition of BioStrand.

IPA recorded other expense of \$15,000 during the third quarter of fiscal 2023 compared to income of \$0.7 million during the same period last year. Of note, we recorded an unrealized foreign exchange loss of \$0.1 million during the quarter, which compared to a gain of \$0.5 million during the third quarter of fiscal 2022.

All totaled, IPA recorded a net loss of \$4.7 million during the third quarter of fiscal 2023 compared to a net loss of \$3.8 million during the same period last year.

Adjusted EBITDA for the quarter was negative \$2.5 million, which is a \$0.1 million gain from a loss of \$2.6 million during the same period last year. As previously mentioned, a reconciliation of adjusted EBITDA to net loss can be found in the management discussion and analysis, excuse me, filed today.

Moving on to the balance sheet. IPA held cash of \$11.4 million as of January 31, 2023, compared to \$30 million as of April 30, 2022. Cash expenditures totaled \$3.7 million during the 3 months ended January 31, 2023, a reduction from \$10.6 million in expenditure during Q1 and \$5 million during Q2 of fiscal 2023.

For the year, the cash used in investing activities includes \$1 million in the purchase of equipment and \$0.6 million for the first deferred payment for the acquisition of BioStrand. Cash from financing activities includes an outflow of \$1 million from lease payments, offset by inflows of \$0.7 million from the issuance of shares due to option exercises.

And with that, I'll turn the call back over to Regina for question and answer.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Will McHale with Ingalls & Snyder.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Thanks for giving some information about the other BioStrand deal that you guys are working on. I was wondering if you could also comment on kind of what the pipeline looks like beyond that for future AI drug discovery deals. And also, how you expect the economics of those deals to look over time?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Sure. This is Jennifer. So with regard to your first question, an update on the pipeline for the AI drug discovery deals, so sure, happy to answer that, of course. So we expect to finalize the forthcoming AI drug discovery agreement, which involves one of our most prominent pharmaceutical partners, which I mentioned previously, with a complete and definitive contract. So this is the one I was referencing that they anticipate having completed by the end of this month.

Additionally, another major pharma company is currently in due diligence and has asked for a site visit by myself and also our VP of Client Relations, Barry Duplantis, so that they may conduct a more thorough assessment. Furthermore, there are ongoing negotiations with 2 additional biotech pipeline companies. And it is important to note that the negotiation time lines are primarily determined by the clients' requirements and approval procedures, but they seem to be moving along at a respectable pace.

As far as the economics of the future deals, very good question because we do anticipate those evolving. The primary goal of the early adopter programs was to attract companies to LENSai, while we were still enhancing and adjusting to the complexities of de novo and in silico antibody generation. As you may remember, in exchange for discounted fees and waiving the technology access fee, IPA requested early adopters to provide, among other things, the rights to use anonymized data for promotional purposes and the permission to announce the collaboration through press releases.

Initially, we had planned to offer the early adopter option only to 4 companies. And since we expect to finalize 4 agreements currently under discussion, and there's also one additional one that's already been announced, we are starting to shift away from early adopter conversations and considering incorporating technology access fees as initial payments along with downstream milestones and royalties such as are already existing.

The pricing for each program will differ based on factors, including things like program complexity, the number of targets and then also other specifics related to the company that IPA is working with at that time.

So that's how we see the gradual evolution, but we see that happening a little bit more in the shorter term here well as we continue to move through and close these initial deals that are on the table.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Got it. That's helpful. I know the market probably has some interest in your guys' cash position. I was wondering if you could provide some more detail maybe on just the profitability of kind of the core CRO business? And maybe also comment on the sort of flexible nature of your cost structure.

Brad McConn

Chief Financial Officer

Yes, sure. This is Brad. I'll take that one. We do analyze this metric kind of our CRO cash flows each quarter. And we have to do so by removing certain global costs that get allocated to their P&L and certain balance sheet transactions between the entities. But when we focus on those CRO subsidiaries, and I'm obviously talking specifically about Victoria, Osan, Utrecht in this case. Those entities consistently achieve EBITDA margins of around 30% of revenue. And they generate cash flow somewhere in the range of 25% of revenue pretty consistently.

And so we've discussed this in the past, kind of this portion of the business that does have -- they provide some flexibility as we determine capital allocation to other projects, and it is that stable cash flow that allows us that capital flexibility as we do make those decisions.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Got it. That's helpful. And it seems in seeing the cash OpEx come down quite a bit quarter-on-quarter seems to prove that point as well.

Finally, I wanted to ask about the SaaS-based data management platform. Just kind of how are you guys thinking about what the opportunity looks like there? And what are sort of expectations near and long term for kind of the revenue potential?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Yes. That's a great question, Will. So first of all, with regard to the potential, I would say this is actually one of the things that we're most excited about after getting the validation that we did in the first round of the RFP approval. This is something that we realized quite quickly, had a number of beneficial opportunities for us.

One is that we're very aware of a high market demand for this type of capability that can allow researchers to store and manage and analyze this mass amount of multiomic data. In particular, a lot of the large pharma that are working in the personalized medicine space and have been collecting data in some cases for several decades, but have disparate and unharmonized data that they haven't been able to analyze. So we see this as a high priority, in particular, after seeing that BioStrand did so well after being pitted against several dozen companies that were flowing in from across the world to compete for this RFP.

And with regard to that, there's a couple of interesting things that have really dawned on us in this process. In addition to BioStrand being very good at this and being able to offer some unique capabilities with the way that they would actually organize and then provide the ability for these companies to analyze their data, they're also able to go out and sell these opportunities themselves. So the other activities like off-target analyses and immunogenicity are things that our current sales team needs to go out and sell because it's very much on the biological drug discovery side. And it's targeting actually a lot of the same clients that we target with our regular wet lab work even though the activities themselves are not cannibalistic in nature.

So one of the things we find really interesting about this is it's actually a different subset of individuals that are the key decision makers and in some case, completely different companies. And it means essentially that BioStrand being able to pitch this so effectively and having such a service that is distinguishable and deemed, in this case, by a very prominent third party to be superior means that they are able to supply their own marketing and sales personnel, even in a different regional distribution to a new market audience, which we find to be highly favorable and exciting.

With regard to the revenue potential, this is still something that we are exploring. We know that the opportunity for revenue in the existing deal is extremely high. We were asked to actually pitch that in the RFP. The other aspect of this that's really exciting is that initially in the very beginning of setting up the data organization, it's a lot of basically FTEs, but not much other cost. And once it's up and running, the profit margins are extremely high.

So with regard to actual revenue potential, what we are doing right now involving both BioStrand marketing and sales is taking a very close look at exactly what this kind of piece of the market looks like and what we believe the piece of that pie is that we can take on right now with BioStrand and how to manage those FTEs and the capacity if we're able to win a good percentage of those.

At this point in time, we know this group is actually the third group that we would be able to perform this capability for them.

So this is pretty new, Will. It's only been about a week since they were brought through that process and awarded in the final RFP group. And so we're kind of full steam ahead in analyzing this with a lot of excitement.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Great. We'll look forward to hearing updates on that.

Operator

Your next question will come from the line of Swayampakula Ramakanth with H.C. Wainwright.

Swayampakula Ramakanth

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

So a couple of quick questions. The first one, just looking at a 40,000-foot level. With funding needs for some of these biotech companies not either being met or some even decreasing your R&D spend, are you seeing any impact in your pipeline?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

In terms of, for instance, like clients and partners coming to IPA?

Swayampakula Ramakanth

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

Yes. Yes.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

So we have not. Last year, we saw some changes that we alluded to on previous calls where we were seeing that some of the smaller companies were being absorbed into larger companies. And then the majority of the time, those larger companies were still being guided back to IPA. They weren't already with us. So we kind of replaced some of our historical clients with new clients in those transitions.

Now more recently, in the last 2 quarters, we really haven't seen any changes at all with regard to clients being impacted by an inability to raise money. And as Barry demonstrated in his portion of the conversation, we actually have had a very significant increase in the number of new clients and the overall number of clients that we are serving dramatically so when we compare it just these first 3 quarters compared to last year as well.

Swayampakula Ramakanth

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

Perfect. That's great. As we were speaking about BioStrand, I certainly understand it has a large potential. But some of these projects and our industry relationships seems to be taking a little bit longer than at least what I was expecting. Is this more because some of these legal minutia that you need to kind of meander through for these transactions? Or is there a request from some of these potential partners for additional development or additional data such that they can move forward?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Yes. That is a great question. And it's been a little bit of each. So even the launch of the initial program with BriaCell took longer than we expected because of that latter scenario where they came back in and they said, we actually have some different things that might be interesting for us to research. And through the discussions, we all realized that there were some very interesting avenues to research. It might enhance the probability of success in the program.

We have also had, for instance, another smaller company that was at the table and negotiating on the AI aspect of the program, who then all of a sudden thought they might actually want to go with the Talem route and take a look at some of the assets already existing in Talem. And just kind of internally in their own decision about which direction to go took more time than we had anticipated while they kind of went back and forth trying to determine exactly what it is that they would like to specifically move forward on, more so on something that's a done deal where they know what they're getting or something that is more exploratory around a particular target that they know they have an interest in.

And in the particular case of that one, we're still working with them, and they're continuing to look at 2 different options. But it might be both, it might be one.

And then as far as the overall kind of overarching theme, you hit the nail on the head, legal always takes longer than everyone anticipates. Our legal team is on the standby and has been able to move really quickly as has our Director of Business Development, Tim Miller. And so we've been pretty impressed with our turnaround time.

But oftentimes, yes, things get held up with legal counsel at other places, while they're redlining and getting their comments and there are times that we wait well over a month to get a draft back that has their legal counsel's suggestions.

Swayampakula Ramakanth

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

Okay. Understood. Understood. So as you talked about Talem, certainly, Talem has a deep pipeline. How are you planning to develop some of these drug candidates? And also how far would you and the Board be willing to develop these before out-licensing to drug developers? Are you kind of partitioning a certain portion of the pipeline that you feel you can handle it versus some that can be given away an out-licensing? I'm just trying to understand how we should be thinking about that subsidiary.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Yes. So Talem's philosophy on this is very similar to what it has been all along, which is it's really not our aim to move these particular programs through to IND-enabling in vivo studies for clinical work. That really we feel our true value inflection is to be able to show a mechanism of action or functional activity that provides evidence to suggest that the molecule does what we believed it would do and therefore, might have the beneficial impact in treating the disease that we are targeting and enable the partner to take the product on from there.

And really from that, what we feel is really beneficial for our investors is that, one, we're not taking on the larger expenses that begin to be incurred in the IND-enabling studies and beyond. But we are still taking part in the downstream financials. And over the course of time, in the long term, eventually, in a substantial number of programs, hopefully, that really enable us to diversify that portfolio and the number of programs that we have a stake in. So as our partners and collaborators continue to move on, we're providing more and more opportunity for investors.

So in short, RK, really through in vitro functional studies is really one place where we're finding we're landing and getting a particular amount of interest in these programs at that point in time. And if needed, possibly in vivo functional studies, which is originally where we thought we would need to go. But we're finding that more and more companies are needing assets earlier now after having been a little bit more stagnant during COVID.

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

Okay. So the last question for me. I'm glad to see that you're going to have an abstract at the AACR next month. What are we going to see there in terms of data, and also more how are you planning to utilize this data for commercializing, not only your CRO ability but also your drug developing capabilities?

Jennifer Lynne Bath*CEO, President & Non-Independent Director*

So at AACR, we'll be presenting that T cell engager bispecific that Ilse mentioned during her portion of the sharing today. And I'll go ahead and let Ilse give you the specifics on what will be presented both in the publication and in the presentation at the conference.

Ilse Roodink*Chief Scientific Officer*

Hello, thank you for the question. This is Ilse. What we are going to present at the AACR is the current status of the program, and that's the functionality in vitro showing that our T cell engager is able to activate T cells in the presence of the TrkB expressing cells. So kind of proof-of-concept in vitro for this bispecific molecule. Is that answering your question?

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

Yes, yes. No, the other portion was how you plan to commercialize it. I guess, Jennifer may have a comment on it.

Jennifer Lynne Bath*CEO, President & Non-Independent Director*

Sure. So that program, which is TATX-200, the bispecific program, is actually really our hotness program right now. So that is the one where we have the most people interested. And right now, the way it's looking like we will commercialize it likely, I can't say for sure until something signed on the dotted line. So a lot of companies are fickle and change their mind here and there.

But right now, what it's looking like is we will extend the material transfer agreement and likely exclusivity for a group to investigate whether or not the in vivo functional activity corresponds with what we're seeing in vitro. And if so, the resulting license would look very similar to the licenses we've been discussing in BioStrand, but would include not only already originally financial incentive to have that exclusivity and the material transfer, but then after the in vivo work, an upfront payments, you actually take control of the product as an in-license and then relatively early-stage milestones beginning with preclinical and IND-enabling filing through the traditional milestones in the clinic and commercial royalties.

So that's the current plan with the TrkBxCD3 bispecific program.

Operator

Your next question will come from the line of Michael Freeman with Raymond James.

Michael W. Freeman*Raymond James & Associates, Inc., Research Division*

Congratulations on driving progress in so many different corners of the business this quarter. It's truly impressive. First question is on Talem's agreements with Libera Bio. I wonder if you could provide a bit more color on the deal. How milestones are distributed through that agreement? How many targets are contemplated and anything else that could share?

Jennifer Lynne Bath*CEO, President & Non-Independent Director*

Yes. That's a great question because Libera Bio is a little bit of a one-off. It didn't fall into our early adopter program, and it was really an opportunity that came about at a conference. That would really just appears to be a very good marriage of capabilities to tackle something challenging.

So right now, the actual agreement itself is a little bit different than other agreements that we currently have put forward. The program itself still has the same type of structure with regard to upfront payment milestones and commercial royalties. But with the revenue model that currently exists, all of the downstream financials are split evenly at 50-50. With the initial work that gets conducted, IPA is only responsible for the initial discovery work and the selection of the lead candidates.

And the actual financial details around that have not been solidified, but what has been discussed to date is that Libera Bio would pay the base cost so that there would be no actual cost to IPA for running its portion for the discovery and lead candidate selection. After the candidate selection, it turns over to Libera, who then goes through the process of doing the formulation and then the process of reaching out to some already identified third parties who they believe are interested in the first 2 initial targets that we're going after to combine those with an existing monotherapy in the oncology space with the aim that those groups would do any in vitro or in vivo analysis on the quality of the product.

If they do not use a third-party, Libera is actually obligated in the current MOU to be the one that carries forward that in vitro on in vivo work. So our financial commitments in this are relatively constrained, relatively limited and are really more geared toward of being able to apply our AI and some of our wet lab capabilities that we believe and Libero Bio lives have very unique propositions for being able to accomplish this type of a target, which is not typically or historically been very successful in a traditional laboratory setting.

Michael W. Freeman

Raymond James & Associates, Inc., Research Division

Okay. That's helpful.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

And this is not clear, all those downstream. My apologies. In case it's not clear, all those downstream payments milestones and royalties of which we are collecting and we have the 50-50 split on would come from a third party that would be out licensing the product.

Michael W. Freeman

Raymond James & Associates, Inc., Research Division

Got you. You guys are taking part of the very early stages of this and then once a third party takes the baton, that's when, I guess, the more substantial milestones could precipitate.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Exactly.

Michael W. Freeman

Raymond James & Associates, Inc., Research Division

Yes. Okay. And then I also see that Libera Bio has made a very similar type of agreement with another company called EVQLV, I think it's called, in New York. Is there any separation in the type of work that IPA or Talem is doing versus this EVQLV company? Are these different sort of targets? Or is this sort of a group effort?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

So they are different programs and different targets to the best of our knowledge. That being said, there are tremendous differences between the capabilities of EVQLV and IPA. And we're sort of -- kind

of repeating some of the components or aspects as to why Libera specifically came to us after already having arrangements or things that I won't get into. But I think overall, the stance is that we are uniquely positioned in a way that other companies they have talked to and/or started collaboration for it which are not prepared and not situated in a competitive manner.

Michael W. Freeman

Raymond James & Associates, Inc., Research Division

Got you. Okay. And now next question is on the new clients added during the third quarter. A very high number during this quarter. Could you describe how the sort of type of client, if there has been an evolution in the sort of phenotype of clients that, I guess, this is the core CRO is attracting over the last little while?

Barry Duplantis

Yes, I can jump on...

Jennifer Lynne Bath

CEO, President & Non-Independent Director

I was going to turn it over to Barry. Go ahead, Barry.

Barry Duplantis

Yes. I mean as far as evolution of clients and the types of programs that IPA has run, when I first joined IPA around 5 years ago, revenue generation was primarily through protein manufacturing at the Utrecht site and hybrid DOMA anti-recovery services at the Canadian site. And both of those -- well, particularly the Canadian site was supporting the diagnostic and Canadian academic markets. So that was a lot of the types of clientele that were coming in at the time.

So the first significant change that was made with the company was aligning the service pricing with the offerings of -- sorry, the service offerings with the pricing of the therapeutic market in general. So IPA was performing at a level that catered to the therapeutic market but was not charging the prices that associated with that high level of a program.

Secondly, was the adoption of IPA's B-cell Select platform. So either for the therapeutic market or for therapeutic companion reagent generation. This was a pretty big window that IPA stepped into. And then thirdly, it was the addition of office more advanced engineering capabilities.

So the services have altered to more core to the therapeutic industry. We're able to provide more comprehensive end-to-end service offerings for those clients. And then this has allowed our large partners and then also we kind of mentioned about how we haven't seen attrition in clients as we've moved forward. And a lot of that is the type of client that's out there. As pipeline companies consolidate, but we've also seen kind of the emergence of these small hedge fund based companies that really require completely consolidated service offerings under one roof.

So us allowing large pharma to consolidate vendors and us being able to be the sole vendor for these up-and-coming startups has really helped kind of drive the type of client and offerings that we're offering.

Michael W. Freeman

Raymond James & Associates, Inc., Research Division

Okay. All right. That is very helpful. Those are all my questions. Congratulations on a really good quarter.

Operator

We thank you for your thoughtful questions today. I will move us now to closing remarks.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

All right. Thank you, Regina. In closing today, we emphasize IPA's commitment to the generation of innovation and long-term investor value. IPA remains committed to developing better and safer therapeutic drugs against challenging targets. IPA's LENSai specifically aimed to develop drugs faster and help partners target difficult-to-treat conditions, offering a unique value proposition for investors by demonstrating innovation, addressing unmet medical needs and reducing time to market. We believe that this combination of factors will lead to higher returns and more diversified investment portfolio.

Let me quickly elaborate. IPA's commitment to innovation. By focusing on challenging targets, the company demonstrates its commitment to innovation and pushing the boundaries of traditional drug development. This willingness to tackle complex issues can lead to breakthrough discoveries, which may result in significant market opportunities for our partners and, therefore, for IPA.

A competitive advantage. Speeding up the drug development process through AI can help IPA partners stay ahead of the competitors and establish themselves as a leader in the industry. This competitive advantage can lead to increased market share, stronger brand recognition and improved profitability.

Addressing unmet medical needs. By targeting difficult-to-treat conditions, the company is addressing a significant unmet medical need. This not only benefits patients, but also create a potentially lucrative market for the companies and investors involved.

Reduce time to market. A faster drug development process reduces the time it takes to bring a new drug to market. This shortened time line allows the company to generate revenue sooner and may yield benefits such as market exclusivity and patent protection.

Lastly, higher pricing potential. Drugs that address challenging targets or unmet needs often command higher prices due to their unique value proposition and limited competition. This can lead to higher profit margins and increased return for the companies involved as well as their investors.

IPA is committed to enhancing the LENSai platform and utilizing cutting-edge wet lab technologies to drive the development of more personalized, safer and targeted drugs. Our goal is to empower our partners to create best-in-class therapies, tackle unexplored diseases and deliver groundbreaking solutions to patients faster.

By harnessing the power of true innovation and strategically deploying disruptive technologies, we aim to create significant value for our investors and position ourselves as a leader in the biotechnology industry.

Thank you for joining us this morning, and we wish each of you a pleasant rest of your day.

Operator

That does conclude today's meeting. You may now disconnect.

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