

VitalHub Q1 2023 Conference Call

SPEAKERS

Dan Matlow, Gavin Fairweather, Babak Pedram, Gabriel Leung, Brian Goffenberg, Christian Sgro, Richard Baldry

Babak Pedram

Morning, everyone. And thank you for joining us this morning for our Q1 2023 conference call. Before we begin, I will read our cautionary note regarding forward looking information. Certain information to be discussed during this call contains forward looking statements within the meaning of applicable securities laws, including among others statements concerning the company's 2023 objectives, the company's strategy to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Such forward looking statements reflects management's current beliefs and are based on information currently available to management and is subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated. Also, our commentary today will include adjusted financial measures, which are non GAAP measures. These should be considered as a supplement to and not as a substitute for GAAP financial measures. reconciliations between the two can be found in our MDNA, which is available on [sedar.com](https://www.sedar.com) and our website. With that I will hand over the call to our CFO, Mr. Brian Goffenberg to overall financial highlights for the quarter. Please go ahead, Brian.

Brian Goffenberg

Good morning, everybody and thank you for taking the time to join us this morning. We continue to show momentum by consistently growing our client base both organically and through M&A. This quarter, we've experienced growth in both revenue and gross profits, as we focus on scaling our healthcare product offerings and integrate further into the health care networks resulting in increased sticky recurring revenues. We are confident that our product solutions will continue to gain traction in our targeted healthcare sectors.

Brian Goffenberg

On that note, I'll share our financial highlights of the quarter. Total Revenue for Q1 23 Total \$12.6 million compared to \$9.4 million in Q1 to increase 34% year over year.

Brian Goffenberg

Revenue from terminal licenses makes sense supporting Q1 23 was \$10 million, compared to \$5.7 million in Q1 22, an increase of 74% increase to face the impact of continued organic growth and the company's suite of products capital's revenue derived from acquisitions.

Brian Goffenberg

Revenue from perpetual licenses in Q1 21 was \$310,000 compared to \$2.8 million in Q1 22, a decrease of 89%. This decrease is due to the unusual volume of high margin perpetual license sales in Q1 22, which really skewed our Q1 22 numbers.

Brian Goffenberg

Revenue from professional services and hardware in Q1 23 Total \$2.3 million compared to \$900,000 in Q1 22, an increase of 148%. The revenues from professional services and hardware can vary depending on the timing of hardware deliveries, customer projects. Annual Recurring Revenue or ARR of which we form your first year's annual contract value totaled \$39.6 million as of March 31, 2023, compared to \$24 million as of March 31, 2022, an increase of 65%.

Brian Goffenberg

The growth in ARR benefit from the organic growth acquisitions and a slight increase in foreign exchange revenue. Gross margin and total revenue Q1 23 was 80% Compared to 84% from the same period last year. The decrease in Q1 23 was due to the unusual volume of high margin perpetual license revenue in Q1 22 compared to this year. Operating expenses in Q1 23 Total \$7.6 million compared to \$5.3 million in Q1 22 An increase of 45%. The increase the due to costs from acquisitions completed during year and the time it takes for synergies and cost savings from the integration of acquisitions to be realized.

Brian Goffenberg

Additionally, with the lifting of travel restrictions, marketing and travel expenses have also increased compared to the same period last year. income before income taxes in Q1 23 was \$780,00 compared to \$1.6 million in Q2 22 a decrease of \$783,000 or 50%. Net Income in Q1 23 was \$162,000 Compared to \$1.4 million in Q1 22, a change of 89%. This is versus a loss of \$338,000 in Q4 22.

Brian Goffenberg

EBITDA in Q1 23 was \$2 million compared to \$2.3 million in 2022. A decrease of 16%, versus an EBITDA \$470,000 in Q4 22. Adjusted EBITDA Q1 23 was \$2.9 million or 23% of revenue, compared to \$3.1 million or 32% of revenue Q1 22, a decrease of 4%. Decrease in adjusted EBITDA that was partly attributable to the high volume of high margin perpetual licenses in Q1 22. Adjusted EBITDA day in Q4 22, is \$2.4 million.

Brian Goffenberg

Cash Flow From Operations was \$1.5 million in March 23, versus \$2.5 million for the same period last year. Cash on Hand at March 31, 2023 was \$17.2 million compared to \$17.5 million at the end of 2022. That's after spending \$1.8 million in the quarter. With that, I'd like to hand the call over to Dan for an update on the business.

Dan Matlow

Good morning, everybody. Welcome to the conference call. Sticking to words that we could talk about I think seems like yesterday, it was a year ago that we were sitting here after announcing a huge volume of perpetual licenses, me on the Intouch software suite that we had record times. This quarter, the question was, can you sustain it, I said, I think that's going to be a pretty difficult thing to do, but the reality of it is, is we came pretty close to the exact same adjusted EBITDA pretty well the exact same adjusted EBITDA a year ago when we did 2.7 in professional licenses compared to 300k this year.

Dan Matlow

So this year-end model reflects pretty accurately what our model is and we think we're in a great spot, we don't think we've been in a better spot, since we've started. We've got 80% of our revenue is

recurring in nature and that's been that way for a long time and we expect that to continue. \$40 million, we're at the \$40 million mark, which gives us some great flexibility in terms of really trying to understand our business and being predictable in all those different areas.

Dan Matlow

We've had contribution from all areas of the business, there hasn't been anything, all areas contributed to the increase in our organic ARR growth, which was still at about \$1.5 million, which we've consistently predicted that we believe we can do between \$800,000 - \$1.5 million on a quarterly basis and I think we've done that consistently over the last 10 quarters. We've seen contributions from all of our business sectors are the three main areas we're seeing in our from the Hicom business, it's a business we bought last April, it has a product called Oriel, which is a national NHS service for the recruitment of clinical people, primarily physicians into practices, and they use that system and it just keeps expanding with more skill sets and more areas, and just keeps adding recurring revenue on a quarterly basis from that business.

Dan Matlow

The TREAT business in Canada, we've seen a really nice uplift and we expect that to continue with RFPs that we've been seeing issued in the mental health area primarily in the children's area and we continue to win business, in the Canadian marketplace. In the Transforming business to Transforming SHREWD product continues to expand across the NHS and we are seeing traction in the Canadian market now. So there's lots of opportunity, we think on that product expanding in many different jurisdictions.

Dan Matlow

We still think we got more work to do on the cost side, we continue to work on that particular area. Our Colombo, Sri Lankan basis continues to build and mature. I think we're up to about 110 employees in that area across all the different skill sets, but we still got work to do in terms of our base in terms of cutting products over there and so forth, so we continue to work on that. We still live by our guidance on our organic growth stuff. We still expect that to continue and we see lots of opportunities, lots of RFPs and we feel we're still there.

Dan Matlow

On the acquisition side, there's work in progress. We're being careful, but we do believe that we are going to get things across the finish line before the end of the calendar year. We continue to explore and we continue to look at that areas and that group is being very active. We're being very careful in our situation. We got lots of cash, we're about \$17 million in cash for the quarter, we still got our bank facilities that we can call on and we're generating cash from operations. So we are just inching into the true compounding nature which we predicted what would happen in 2023. So we're bullish, and I'll turn it over to anyone who has any questions.

Babak Pedram

Thanks, Dan. Should you have a question, please use the zoom raise hand function on the bottom of your screen and we will make sure to open your line. The first question comes from Gavin Fairweather of Cormark. Please go ahead, Gavin.

Gavin Fairweather

Hey, good morning. Congrats on all the progress. Dan talk about the breadth of the growth this this quarter kind of across products and geographies. Curious if you think that should make your sales

performance maybe a little bit less seasonal and a bit more smoothed out over the year, kind of over time?

Dan Matlow

Yeah, you know, I think I do think that should be the case in terms of what we got going on. We're not seeing it just being one product that's contributed, and it's not relying on government funded envelopes, etc, etc, that's coming through. So I think that's probably a good statement to do it. I've never felt like Q1 definitely has traditionally in our sector have been a better quarter for everybody, but I've never felt that's a firm statement in in looking in our business. We look at our pipeline, and we say things moving across avenues, theoretically we should get more business and often we do, but it doesn't mean that you can see a Q1 quarter in Q3, it just depends on how things happen.

Dan Matlow

You know, we had a, we had a fair amount of new deals on a regular basis, but it's not a huge amount of deal. So there's still not enough there to really predict in terms of like, "hey, you know, this quarter is going to be that much more than that quarter," because it could happen in any quarter.

Gavin Fairweather

Got it and then given all the acquisitions that you've done in in the UK market, you just touched on how kind of the nature of your sales is changing? You know, are you talking to different people? I think last quarter, you talked about potential for a strategic deal for Transforming, are you seeing more cross selling come through, like how with your expanded scale has your sales motions changed in the UK market?

Dan Matlow

The UK market continues to do that. Definitely a little bit lighter on the Intouch products that but we we still see business in that area and we still continue to close deals and we do it the Transforming SHREWD product still sees a fair amount of opportunity to to expand into that marketplace where adding deals, there's a lot of exposure on a national scale for what the type of products that Transforming can do and in the visibility based solution there. We think there's opportunities there and we're seeing a lot of conversations of being able to grow that product in a material way in the UK, but your time will tell if that comes to fruition. You just never know where that step goes.

Dan Matlow

The S12 product set has been pretty quiet over the last couple of quarters, but we've been very busy in the development world to creating two add-on modules. So we already have 80% of mental health practitioners that would do the S12 compliance based world on that platform, and they've been asking for new modules and new opportunities. So we finally finished those modules, so we think there's gonna be opportunity in the latter half of the year to be able to add more revenue into that product set as well, so we're continuously working on that and we expect that product to contribute a little bit more in the second half of the year. The ADI product set is being integrated into the Intouch set, it's also being integrated into the Hicom diabetes module because they're looking for a portal based solution there. So there's opportunities out there for cross selling the products within the UK market as well. So you know, we're seeing different pockets of things that we're working on and different ideas that we can keep creating and adding add on products into our suite that we're trying to be opportunistic on.

Gavin Fairweather

How should we think about perpetual licenses going forward? Obviously, last year, you had kind of like the gold rush of perpetual licenses, they're more modest this year. Are you being much more selective in when you sell them? Should we expect those to kind of gradually decline over time as you're shifting? What do you think about that?

Dan Matlow

Well, that decline of perpetual license is two reasons. One is just didn't close as many Intouch deals as we did in the previous quarter, but more, it's that we introduced a recurring revenue model for that product set, which we want it to go into, so we've never really want to be a perpetual license based company. We're still going to do some. There's a hardware component to that product, which we always want to do as a one-time license. So it's a little bit challenging to do one element as one time and the other element as recurring. So that's why we get those perpetual deals on the Intouch side that come out of there, but we do expect that not to be high as ever go in that particular area, you never know what's going to happen, but we don't expect that.

Gavin Fairweather

Got it and then just lastly, before I pass the line, you touched on M&A integration and still having some work to do. Do you have a sense of kind of how much cost do you you'd like to reduce or how much work for the work you can ship to Sri Lanka and how are we thinking about the timing of that taking place?

Dan Matlow

I think it's an ongoing process and we're constantly a quarter over quarter making that way. We've done a fair amount of acquisitions over the last little while, it's a lot first for Sri Lanka to digest and some of the companies have been very tech not technologically heavy, so we got a queue of work to do there and we expect quarter over quarter, just keep to be the complement those existing groups to get more innovation or, you know, if necessary, trying to reduce the cost on that perspective. I don't feel comfortable putting guidance and numbers on it. But you know, we're constantly going to chip away at it.

Gavin Fairweather

Thanks so much.

Babak Pedram

Thanks, Gavin.

Babak Pedram

The next question is from Christian Sgro, of Eight Capital. Christian, your line is open.

Christian Sgro

Thanks Babak, good morning everyone. I'll follow on the cost side of the business, Gavin's last line of questioning, only just to unpack some seasonal fluctuations in GNA and R&D that we saw in Q1. I know you didn't want to get forward guidance, Dan, but maybe help us understand maybe some of the increases decreases in Q1, maybe some of it's due to an effects or other reasons and then again, without giving guidance where you think the effects profile can shine through the year?

Dan Matlow

Yeah, you know, when you're doing acquisitions, and so forth, trying to get a proper allocation sometimes becomes a challenge. We've introduced in the latter half of last year an analytics, team and platforms and so forth, right? So coming into this year, we did a lot of work on reallocation of costs into the particular buckets to get that and so part of it is that and to the prospective part of it is the introduction of the acquisitions, where you get more different skill sets that lead to that particular areas of have those GNAs.

Dan Matlow

But you know, GNA is what it is, right? You know, it's a cost based stuff, it usually gets flat and we don't expect that to grow. We've we've invested a fair amount in the latter part of last year and throughout this year in terms of beefing up our processes and our procedures and we've introduced more of a corporate operations group, which is helping with some things and we've purchased, a bunch more software to help us in our integration side. So that's all that's also part of it. R&D, we're constantly looking at that, right? So we'd like to move as much offshore as we can together, which really just goes back to Gavin's old question, right? We're going to constantly nip away at that.

Christian Sgro

Okay, perfect. Back to revenue on the professional services segment of the business. Probably a way we would think of the growth there is just stable growth as the company's busier and scales, but do you have visibility into services maybe increasing more than we would expect with deployments in Canada? Anything else going on in the UK or Australia? Where do you see professional services trending?

Dan Matlow

Professional services a direct correlation to the mixture of the product sets that we have and the increase in that is primarily attributable to the Hicom and the TREAT business, which have the ability to do custom development and get paid for it as part of their implementation cycles. So both those products have started to contribute, which you didn't really have a year ago in our mix, right.

Dan Matlow

We're also really working hard with our our subsidiaries to get paid for professional services where in the past they didn't get paid as much as they probably should have in the delivery of their products sets, they sort of just rolled it in as a lot of small companies do is rolled in the installation and rolled in the work as part of the license fee and we're we're not firm believers of that particular model, so we're just culturally changing our acquisitions to say, "Hey, we gotta get paid for this stuff." So that's a direct correlation of where our services revenue is increasing as well and we've been working hard on just getting that cultural change within the organization to get paid for that and trying to keep our get our services business as an accurate P&L for its business.

Christian Sgro

Got it? Thanks very much that this those two for me this one, and I'll pass the line. Thank you.

Babak Pedram

Thanks, Christian. The next question comes from Gabriel Leung of Beacon Securities. Go ahead Gabe.

Gabriel Leung

Morning, thanks for taking my questions. Dan, can you talk a little bit about the breadth of assets you've got in your M&A pipeline right now? As you as you look towards closing some of these, what's the

bottleneck that's preventing them near term is it more financial or it's trying to figure out if it's the right fit for you guys, right now?

Dan Matlow

It's financial, we got the ability to execute, and we will. It's just trying to get the sellers to get an appetite to do something, right? This economy's put people in a cocoon, even though the valuations might go down, it's, you know, the same, I talk in analogies way too much in what I do, but I think it's the same analogy of why are people selling their houses now when they were selling them two years ago, right? It's because they don't believe they can get the price for their house and the market is going down. So they take that off the market and then say we'll just live here for another three, four years until the market increases and I think that's a part of what we're seeing in M&A. I think reading stats of private equity is down on M&A and an extensive amount and just volume overall is just down and I think that's attributable pull to it.

Dan Matlow

With that being said, we're also being more careful in what we do in terms of where it goes and we know we're being measured on the bottom line, not on the top line, and we got to feel really comfortable that we can get that bottom line. A lot of the business that we have might be breakeven businesses that we got to, we got to bear some pain for a little while until we get them into our mixture of what we do. So we need to really carefully look at that and we want to be careful with everything that we do from the acquisition side, but we do have things going on and we expect still to do stuff on a on a basis. We want to do stuff and it's not like we've put the brakes on it all, we're definitely looking.

Gabriel Leung

For sure and in terms of the stuff that's in the pipe, are they more tuck-ins in the interim or stuff that could I guess more meaningfully move the needle on your ARR?

Dan Matlow

Yeah, I do think there are opportunities for businesses that do have investors that are in them that their valuations have decreased and the investors are saying, "Hey, I want some liquidity options." and they're exploring liquidity options, or thinking of exploring good liquidity options. So there are scenarios like there that we're communicating with. And we would like to get involved with some of those and those would be more on the larger scale type of stuff. Because that's got the investors and the ability to do that. With that being said, there were also doing the tuck-ins which wouldn't necessarily have those characteristics at all, but those are the attributes that we're doing and we continue to look at it.

Gabriel Leung

Gotcha and just one last thing for me any additional talking points around geographic expansion outside of your existing core areas?

Dan Matlow

Yeah, Australia is still an area that we we've beefed up cost there on the sales on the marketing side. We're starting to see activity with the TREAT business in the Australian marketplace, which is really exciting for us, because we haven't been able to move that we haven't tried to move that over to Canada but Australia, we think is really primed for that business and early indications, at least the customers that we've spoken to go "Wow, this is something we don't have in this market," which has been really exciting for us. The Middle East with Hicom has given us much more leverage with our UK

products into the Middle East and the sales group that has been responsible for Hicom in the Middle East has been really helpful for us. So we got some things going on.

Dan Matlow

On the acquisition side, we broaden our scope into the more the European marketplace and you got more activity cooking there. We would like to get into the European marketplace a little bit more. We think there's a lot of our products in those markets don't have yet, but we don't want to enter those markets, really without a beat's end of an acquisition. So it would be nice to get something there but again, we'll be patient to make sure we do it in the right way.

Gabriel Leung

Actually as a follow up that you're calling on the interest of TREAT in Australia. Do you think that would translate into a little bit more additional lumpiness on the licensed services side or do you think you can get an arrangement whereby TREAT might be offered more on a subscription basis as opposed to a bigger license?

Dan Matlow

TREAT is on a subscription basis, although there's a services element, right? It's all recurring for that business. In the lumpiness comes on the services side of that, that particular area, it's the same business model there that it would be in the Canadian marketplace. The only difference is we've got a 20-person team with the CDS acquisition that actually understands the domain and understands the space and is getting trained on the TREAT product set to go out there and try to go sell it, right? They'll be the ones that need to do the implementations of it. So we have seen RFPs in that marketplace we're responding to those RFPs and they're pretty favorable.

Gabriel Leung

Gotcha, thanks for that. Congrats on the progress.

Babak Pedram

Yeah. Thanks. Good. The next question comes from Richard Baldy of Roth. Please go ahead, Richard.

Richard Baldry

Thanks. Can you talk about how much of the organic growth is cross sell versus new clients, and then maybe speak to the breadth of the sales, whether that's globally or across your product sets, sort of trying to figure out if it's across the portfolio, or if there's some hotspots and weaker areas? Thanks.

Dan Matlow

Yeah, the sale are done. All of our products have been sold, there's nothing that's really sticking out every every most of our business units that we expect to contribute, we have some business units that we don't expect to contribute to our sales, and they're just upsell opportunities for other products as we got duplicate products in a particular area, so we don't expect them to, to increase. But those areas that we expect to are primarily the, you know, the Hicom Oriel product set, the TREAT product, which is the Hinext acquisition of the early product, the set that we have.

Dan Matlow

In the Transforming solutions, products set, Transform and Hicom are part of the UK base. Transforming is, most of those sales are new entities that just keep expanding within at Hicom is upsell within the

existing set is just adding more users and more skill sets. It's just the one website implementation that just keeps growing. TREAT is all new product sets as well, but you know, if you look at if you look at the Transforming set, a lot of those customers are probably Intouch customers. So they are add-on and, what impact did Intouch have with that.

Dan Matlow

Probably in some of the cases, yes. and, you know, we got product all over the NHS, I think we're installed everywhere, right? So, you know, every deal that we do, probably has some impact from another person to do that. So it's hard to really qualify "is that a new customer or an add on?" But you know, most of our most of our contacts is because our sales groups and our teams have those relationships and if one group is trying to get in somewhere, we see that we have another product set, we call that particular group and say, "Hey, can you get me in here?" and that's what happens, right? So we get access to decision makers, we get access to buyers through our product sets, and a lot of our deals are sold that way, most of them.

Richard Baldry

Then maybe a build on that. You've done a lot of acquisitions. So how do you feel about the overall combined you know, sales headcount, you've got the productivity levels, you're at the capacity to sort of keep up this organic growth rate. I don't know if you want to think about it in terms of how long a tenure they have with your companies specifically. So you know how good they're at, at selling the suite of products just from an overall thought there. Thanks.

Dan Matlow

Yeah, we got a sales force that's been doing this for a long time. We have increased our sales force and the Australian marketplace, those are newer sales reps, but we did hire people with experience that sold into those marketplaces before. The group that's been in the Mideast has been doing it for a long time. The Transforming team has been in the market for a long time. The Intouch suite, we got sales reps that have been here for 15 years. So we got some pretty mature sales reps. Do we have enough of them? I think in some areas, we got too many of them and others, we don't have enough, I'll probably need to rebalance that to a degree on our TAM, and which products we can sell more than other products, but that's one of the advantages of growing through M&A and adding new product sets. You just don't get the products, but you get the people and we're pretty good at me, keeping the people on our team, at least the ones we want to and preserving the brand and the integrity and what they've built up over the years and try to use that as a platform to grow it and not destroy it. So we got lots of expertise, to answer your question.

Richard Baldry

Great, thanks and congrats on a great quarter.

Babak Pedram

Thanks Richard. There are no further questions, so I'll hand it back over to Dan for your closing remarks.

Dan Matlow

I guess the message is, we got ourselves, I guess if you take our EBITDA at close to \$3 million and producing \$12 million of adjusted EBITDA on an above 50 level of revenue which 80% of its recurring and we expect to continue to grow after that and expand off of it and move ourselves forward. It would be nice to add some more M&A to that equation and we will if we just keep on the business model. I think

quarter over quarter it's just becoming clearer and clearer and we just keep growing that number, so I think we got ourselves on an enterprise level, if we use our cash and got no debt, maybe an 8 times adjusted EBITDA based world.

Dan Matlow

It's just a question on what the investors want to see because I'll just keep going and at some point it'll be seven, six, or five times EBITDA. I don't know what valuation will be unless the stock goes up, but we just keep looking at it and we keep going, we hope the investors can understand. We try to be transparent with our business model and we'll continue to do that. We're excited for what we did in Q1 and as you can see, the foundation is there. We expect to continue just inching this forward.

Babak Pedram

Thanks Dan, thanks everyone. Appreciate everyone joining the call this morning. You may disconnect now. Bye bye. Have a great day.