VitalHub Q4 2023 Conference Call

SPEAKERS

Dan Matlow, Brian Goffenberg, Babak Pedram, Gabriel Leung, Gavin Fairweather, Doug Taylor, Christian Sgro,

Babak Pedram

Good morning everyone and thank you for joining us for our 2024 first quarter 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 security laws, including among others, statements concerning the company's 2024 objectives, the company's strategy to achieve those objectives, as well as statements with respect to management's belief. 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 reflect management's current beliefs and are based on information currently available to management, and is subject to a number of significant risk 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 too, and not as a substitute for GAAP financial measures. Reconciliations between the two can be found in our MDNA, which is available on SedarPlus.com and our website. With that, I will hand over the call to our CFO, Mr. Brian Goffenberg, to go over our financial measures. for the quarter. Please go ahead, Brian.

Brian Goffenberg:

Good morning, everyone. And thank you for joining us today. The first quarter has set a strong pace for 2024 and I'm thrilled to discuss our accomplishments and the exciting trajectory we are on. We kicked off the year with remarkable growth, marked by significant increases in revenue, adjusted EBITDA and net income, reflecting the success of our strategic initiatives and robust operational execution. Our focus on expanding and enhancing our healthcare technology solutions continues to drive increased adoption and deeper engagement with health care providers worldwide. We've also made strategic acquisitions that are already contributing to our top-line growth, while our operational efficiency efforts have helped improve our financial health. As we move forward, these results not only demonstrate our ability to execute our business plan, but also position as well for sustained growth throughout the year. I'll now highlight our key financial performance for the quarter. Total revenue for Q1 2024 reached $15.3 million, marking a 21% increase from $12.6 million in Q1 2023. This growth is driven by both organic initiatives and strategic acquisitions demonstrating our commitment to expanding our market reach.

Revenue from term licenses made the sense of supporting Q1 2024 reached $12.5 million, up from $10 million in Q1 2023, reflecting a 25% increase. This growth is primary to build to our sustained organic revenue increases with our core product offerings, bolstered further by strategic revenues accrued due to our recent acquisition. Term licenses maintenance and support continue to be a critical pillar of our revenue strategy due to their predictable and occurring nature. They comprised of 82% of total revenues in Q1 2024, maintaining a consistent share compared to 79% in Q1 2023. Revenue from perpetual licenses in Q1 2024 is $121,000, down from $310,398 in Q1 2023, marking a decrease of 61%. Perpetual software licenses, which are influenced by the specific product mix sold in any given period, saw this reduction primarily due to the timing of delivery of several key impact products.

Revenue from Professional Services and Hardware in Q1 2024 totaled $2.67 million compared to $2.29 million in Q1 23, an increase of 17%. This revenue stream can fluctuate based on the timing of hardware deliveries and the progression of customer projects. The increase this quarter is primarily attributable to the successful deployment of new and ongoing customer projects, coupled with timely hardware deliveries, which have contributed positively to our growth in this sector. Annual recurring revenue, or ARR, of which we formally refer to as Annual Contract Value, reached $47.8 million as of March 31, 2024, up from $44.6 million at the end of December 2023, marking a sequential increase of 7.2%. The substantial portion of this growth, $1.5 million, or approximately 3.4% of the total ARR in translating to an annualized growth rate of 13.6% was organic and it's growing our commitment to sustain growth through enhancements in our core services offering.

Gross margin on total revenue for Q1 2024 was 81% compared to 80% in the same period last year. This improvement is primarily attributable to an increase in high margin maintenance and support revenues, which represents a large share of our overall revenue mix. Recurring revenue constituted 82% of total revenue this quarter, maintaining consistent level with Q1 2023, highlighting our strong focus on sustained revenue streams. Operating expenses in Q1 24 were $8.8 million, reflecting a 15% increase from $7.7 million in the first quarter of 2023. This increased his main due to elevated sales and marketing activities, which included additional spending on conferences and exhibitions, as well as a sustained investment in research and development to further enhance our product offerings. Notably, despite the increase in absolute figures, the operating expenses as a percentage of revenue proved significantly, decreasing to 57.5% in Q1 24 from 60.7% in Q1 23. This demonstrates the ongoing operation efficiencies and cross synergies being realized across the company.

Net income before income taxes in Q1 24 was $2 million compared to net income of $780,428 in the equivalent prior period, representing an increase of 154% year-over-year. This substantial growth in profitability for the quarter can be largely a to the significant rise in revenues driven by both organic growth and strategic acquisitions, alongside continued efforts to optimize costs and enhance operational costs and energies across our business units. Net income after tax in Q1 2024 was $1.3 million, a significant improvement from the net income of $162,000 in Q1 2023. This marks an increase of 713% year over year, highlighting successful financial strategies and the robust growth stemming from both enhanced operation efficiency and strategic acquisitions.

EBITDA in Q1 24 was $3.1 million compared to $2 million in Q1 23, an increase of 56%. The substantial growth in EBITDA underscores our successful strategic initiatives and operational efficiencies that continue to positively impact our bottom line. Just that EBITDA in Q1 24 was $4 million, or 27% of revenues, compared to $2.9 million or 23% of revenues in Q1 23, representing an increase of 38%. This improvement was largely driven by an increase in occurring revenues, which rose to $12.5 million in Q1 24 from $10 million. million in Q1 23. This revenue growth combined with our persistent efforts to streamline operations and realize cost synergies has significantly bolstered our adjusted EBITDA margins. Cash flow from operations before changes in working capital for Q1 24 was $2.9 million compared to $1.5 million for the same period last year, representing an improvement of approximately 98%.

This significantly increased highlights and enhanced operational efficiency arose robust revenue performance. Cash on hand at March 31, '24 was $33.3 million compared to $33.5 million at the end of '23. A slight decrease of the quarter can be attributed to strategic financial moves, including an improvement of approximately $5.3 million in acquisitions. Despite these expenditures, the company maintained a robust cash position due to strong operational cash flows and ongoing revenue growth. When you add our recent financing, the company now has an excess of $70 million in cash. With that, I'd like to hand the call over to Dan for an update on the business.

Dan Matlow
Thanks, Brian. Good morning, everybody. Just a brief update from me. I think we just spoke about six weeks ago with the end of the year. So not some dramatic change. Again, a good quarter for us in Q1. Again, proof of our business model being cemented in and, you know, we continue to make acquisitions. We did get one over the finish line with BookWise in the quarter. And our again, the growth continued to go at a pace of $1.5 million. which is the high end of our guidance. You know, again, it's, again, proof of our ability to make an acquisition, I think it was highlighted. Our cash position remained the same, although we still made the acquisition of book-wise for $5 million in the quarter. So we're using our own cash in that particular situation to make acquisitions of something that we'd like to highlight. Again, we're using our own cash in that particular situation to make acquisitions of something that we'd like to highlight. Again adding the 1.5 was on the high end of our guidance, in terms of ARR. A little on the BookWise acquisition, we're excited about that one. It's a company that our UK group has known for a while and has worked with and competed with in terms of room and resource booking in respect to outpatient facilities. So we have a little light module of light BookWise already in the entire suite of products, and it just gave us a more robust base, so we hope to get some good cross sell based sales of that, you know, as we continue to work towards that. Again, our organic growth was across all of our product lines, but was primarily led by the TREAT and Transforming based solution. We're seeing and continue to see some uplifts in that particular product set and really good activity in respect to that. We did have some questions that came to me by email which I do want to address some people started looking at the high balance of our accounts receivable relative to the other quarter. Q1 has a lot of seasonality and respect to our accounts receivable. We have a lot of our government year ends at the end of March. So we do have a lot of our renewals that come in at the end of March. So that has a lot to do with our ARR perspective to do it. In respect to M&A, our expectation is to be very robust in that in the next little while. Our pipeline is really strong. We have a lot of activity going on in the M&A perspective with some of that being on the high end of the ARR side. So we're excited about that.

We're excited about getting to the next phase of growth with M&A when positioning our organization to be able to absorb some of these larger acquisitions. So we are starting to make investments into our, more into our corporate infrastructures, our integration methodologies, so that we're ready for these in a concrete fashion. You saw the formation of Pat Mezza to COO. He's a seasoned veteran in terms of working in this particular space. We have other senior folks that are stepping up and other senior folks that we're looking to bring in to help us with these integrations. So a lot of that is starting to happen on a global basis. So we continue to make investments and sales as well in our areas that we're not that you know we're not into that much in terms of the Mideast in Australia primarily. We're starting to see a little results of that and we're starting to see the pipeline grows in both those areas and we expect that to happen at the end of the year. So on a go-forward basis, as we make some of these acquisitions, our financials could get a little bit blurred with these acquisitions in terms of as we work to right-size them and bring them into our fold. So we expect that to start happening over the over the next little while as we get into the latter part of this year. And I'll take any questions that anybody has.

Babak Pedram
Thanks, Dan. Thanks, Brian. Should you have a question, please use the Zoom raise hand function at the bottom of your screen. First question comes from Gavin Fairweather of Cormark. Gavin, your line is open.

Gavin Fairweather
Hey, good morning and congrats on the strong results. Given that you're a consolidator, we often focus on what products you're buying, you know, in the prepared remarks, you know, Brian referenced some of the organic R&D work that's kind of going on behind the scenes just to expand your TAMs and expand products and drive organic growth. Maybe you can speak to, you know, a couple of current initiatives that you're excited about and you're working away on in terms of organic R&D.

Dan Matlow
Yeah, I think a couple examples of that and there's more of it. We've set up like a business intelligence based group that centered out of that acquisition we made last year called Alamac in the UK and is being, you know, beefed up by a group within our Colombo-based office, which does business intelligence where we can start adding BI decisions to support modules to all of our products and that seems to be happening as an add-on module. It makes our products a lot more stickier. It gives a lot more value. Primarily, we've been doing a lot of that work on the Transforming product set. So not only is it read-only data coming in, but they can start doing business intelligence reporting and predictive analysis on the back end of it. A lot of our EHR products, they would like to do that. for no better words, a portal or patient input into the EHR. So we've added a portal-based solution on our Treat-based solution and other solutions on the EHR side so that outside patients or clients can get access into systems and start communicating with that. So they can add on modules that will continue to be available. The S12 product, we've added more additional modules that we can upsell on a form's perspective. The BookWise acquisition is another module that can be upsold on Intouch. We're working with the Australian group on moving some of the TREAT and Coyote-based functionality down to the Australian market, which gives some new features and functionality. So we're always looking at new initiatives like that. And those are some of the examples, Gavin.

Gavin Fairweather
Yeah, I appreciate that and then just secondly on M &A, I think your reference, and maybe I'm reading between the lines, that maybe there's some larger acquisitions coming. And you certainly have the capacity for larger acquisitions given the cash that you have. So should we be, you know, expecting generally deal size just to start to trend higher over time? Do you have a preference for those? Would you still consider tuck-ins? How would you frame that?

Dan Matlow
I wouldn't use the word trending to get bigger, but we do have bigger scenarios that are in play internationally, which, you know, are all, I guess, an excess of like 8 to 10 million of ARR. that are in play. So, you know, some of them are of some significant size. So, again, you know, those are, you never know how these things turn out, but I can say it's more than, you know, it's more than we've ever had in that perspective in terms of staring that in the face.

Gavin Fairweather
What kind of competition are you seeing in that segment these days?

Dan Matlow
There's always competition, I think, for a large percentage of them, where in good position there, you never know how these things work. We stick by our business model and we stick on what we do and time will tell.

Gavin Fairweather
That's fair. And then a couple of financial questions. services revenue is quite strong this quarter Is that mostly TREAT related and maybe you can just touch on kind of the services backlog throughout the rest of the year And in terms of whether you know that the current Run rate that we saw on Q1 could be maintained, which is you know quite a bit stronger than we saw last year

Dan Matlow
TREAT is that is a nice chunk of that although we are seeing some coming from the Transforming base with those deals coming through as well but treat is the biggest block of that there's a tremendous backlog of services work in that area that continues to grow and somebody gets a little overwhelming for our groups but it's a good problem to have as part of the implementation process people are looking for new things and a little more complexity in terms of some of those implementations. You know, we're still heavy into the SolGen work, and we expect that to continue, and Nova Scotia continues to add additional modules and services work that continue to come into play as well as other initiatives. So we have the ability to execute that with our Colombo base, and we do expect that to continue, you know, at least, you know, through, we have visibility at least through 2024 into, you know, pretty robust services work at least through the next couple quarters, per se. But yeah, we'll see how that entails to, you know, in the long run here in terms of what happens.

Gavin Fairweather
Great. And then just lastly, for me, term license and support I've noticed that at times it tends to run a little bit higher than your ARR would imply and in this quarter It was a bit more notably ahead of what your ARR would imply So can you speak to what's driving that that outperformances are kind of some one-time support or things like that which are flowing through that line.

Dan Matlow
Sometimes there's catch-up there's catch-up transactions where the We know they're gonna to come in but they're not committed yet to coming in just delays and then you get a catch up in the quarter on that so you just it gets a little bit on the other side of it because we're catching it up.

Gavin Fairweather
Okay makes sense just wanted to check in on that thanks so much

Dan Matlow
It's just a conservative revenue recognition perspective that we have there.

Gavin Fairweather
Okay thanks so much I'll pass the line.

Babak Pedram
Thanks Gavin. Next question is from Gabriel Leung of Beacon Securities. Gabriel your line is open.
Gabriel Leung
Morning, and thanks for taking my questions and congrats on all the progress Got two questions for you, Dan. So first off You know, has there been any sort of change in the M&A environments whether from a valuation standpoint or a number of bidders you're dealing with or even timelines around executing on your M&A pipeline that would have prompted you, or the board's decision, to augment what was already a pretty strong balance sheet to begin with. I'm just curious on your thoughts on that.

Dan Matlow
Yeah, we think there, you know, M&A in general, especially on the bigger side, we've been seeing, you know, a lot of people have been saying, "Oh, wow." it used to be, right? So we're seeing some of these companies that are sitting there. There's a little bit of growth and big AR numbers, and we think they can do better. But I think it's just been-- they've finally just come to a conclusion it's time to exercise their their ability to sell and they put things up for sale. So we are seeing more of that going on and we are seeing less competition from what I'll call unknowledgeable buyers, right? So I think anybody that, I don't think anyone's going to take a flyer on a healthcare-based company unless they really know it. I think the people that are looking at these type of acquisitions are people that understand the space as opposed to not smart money as I would determine it. So less competition in that realm. We think on these deals and I think that's putting us in a better position to get them.

Gabriel Leung
Gotcha. That's helpful. And then secondly, I mean, you guys obviously provided it. thorough operational updates, so maybe I'll ask a bigger picture question. If you sort of look at three to five years now, what does VitalHub look like? Is there enough opportunity within the existing product portfolio that you think you can sustain sort of that it's got a 50% plus organic growth profile in ARR, or is there an underdeveloped opportunity that you see out there that you don't address right now but would like to aspire to?

Dan Matlow
Listen, as we start making more acquisitions big, you know, in the board meeting yesterday, and I said the canvas, we need to keep building the canvas so that we can build beautiful art. And that art to me is both organic growth and the bottom line. I know I've been saying it all the way through, like our ability to sustain, you know, all those high teens, organic growth. isn't really what's going to happen here, right? I do think it's, we will make acquisitions that we don't expect to grow and that we can get really good bottom line access to. And that's part of our strategy when we look at some of the deals, we look at it from both sides of the angle. We'll pay less for those acquisitions, but we'll get a pretty good return on it, but it is gonna, it will impact the top line growth 'cause not all of our products are meant to get top line growth, but we do expect to continue core products and core sets to get top line growth and those will be offset by some of our product sets, which we expect not to grow as much. But we're always looking for cross hallway opportunities. and trying to train our groups, but it's going to be an amalgamation of those. Our belief is we want to be a compounder, we want to generate the bottom line first and then the top line second, but it doesn't mean that we ignore totally the top line at all. We want the top line, but we're not going to be that organization that's willing. to take one of our assets and wait three years for it to get huge organic growth because of a TAM, trying to create a unicorn within here, right? That's really,

really not what we're trying to do here. Some of those scenarios for sure are going to getting good growth and we'll continue to look for those growth opportunities, but the bottom line is really what we're trying to focus on. what we're trying to focus on.

Gabriel Leung
Gotcha. No, thanks for the update and congrats on the progress.

Babak Pedram
Thanks Gabriel. Next question comes from Christian Sgro of eight capital Christian your line is open.

Christian Sgro
Hi. Good morning. I wouldn't follow on question on the M&A path You kind of align the criteria for M&A which seems consistent with the longer term mission and historical recurring and profitability mixes that you're looking for. I guess as you look at the current pipeline, would you tilt towards something that's more accretive financially or technically? Like would you say it being accretive to you but the margin profile is a priority for you or you want to see first and foremost no fit within the portfolio? How would you tell us that way?

Dan Matlow
They're both important to us, Christian. Although one's a non-starter and one is a starter. If it doesn't have the financial metrics, then it's synergistic. It doesn't matter. It's got to get the financial metrics first and then synergistic second and if it's not synergistic you know, and meets those financial metrics, like we might do something like that as we break into a new area or new vertical or a new country or something that makes sense, but we would think really hard before we did that, right? So ideally we want both, right? We want something that meets into our narrative or something that meets into our narrative and meets our financial metrics. I can say that everything that we got in play at this stage is in both of those, you know, in both of those areas. So we're, you know, that's how we look at it.

Christian Sgro
Great. And then for my second question, on Transforming in the UK, is there anything to be said about reaching a level of... saturation under their current under current buying or your current penetration or you know what do you think very positively on the time there the visibility into growing that expanding across the NHS this year?

Dan Matlow
You're talking about just the NHS in itself?

Christian Sgro
Yes, we're transforming or more broadly if it's sold elsewhere.

Dan Matlow
Listen, you're it's a pretty thoughtful TAM, and we still think we got work to do there and more things to go on and, you know, and penetration levels are still there. But, you know, it is a limited TAM like anywhere else. And, you know, we need to move those products outside of those markets than we are. And we need to make acquisitions that are continuing to grow to do that. So both of those are all in the works. But yeah, our expectation is to continue to make sales of those things, at least in the next little while for sure. And other things will take its place. And new modules will take its place. And the bigger

we get with acquisitions, we still think we're gonna be able to sustain some pretty good organic growth numbers across the entire organization. It's a combination of a bunch of things. It's not just one product set, but right now that, you know, those product sets starting a pretty good run.

Christian Sgro

That's all helpful. Thanks for taking my questions and I'll pass the line.

Babak Pedram

Thanks Christian. Next, next question comes from Doug Taylor of Cannaccord. Doug, your line is open.

Doug Taylor

Yeah, thank you. Good morning. Another couple questions about the the M&A strategy and roadmap here. I mean, obviously, your cost of capital here is reduced. Have you changed your aperture in terms of, you know, the amount that you'd be willing to pay for some of these growth year and more sizable acquisition targets?

Dan Matlow

I think it's just a question of how we model it at the time. If we have to pay more and the models don't work that we can make good money on it, we'll pay more, all right? But if it doesn't, it doesn't. So it's all how we model each scenario and how we look at it strategically and you know how it all fits. and everyone has it. Every acquisition has their pros and cons and trains and understanding the markets to be able to assess it. So sure we would pay more we always would for something that makes sense to go do but it has to make sense.

Doug Taylor

So maybe said another way you haven't changed your you know the goalpost valuations as a result of having a lower cost of capital now.

Dan Matlow

Yeah, I don't think the lower cost of capital is really driving our methodology at all. It's always going to remain the same.

Doug Taylor

Okay. You spoke, I think, on the last call, or at least recently, about some M &A opportunities that, you know, happened over the last short, you know, a couple quarters. that you'd passed on, or your outbid that might be coming back around. I mean, do you want to update us on, you know, whether some of those opportunities still exists? Is that, you know, what you're referencing with some of these eight to 10 million ARR acquisition targets?

Dan Matlow
Yeah, I don't know if they were ever outbid or not. Some of them are. Most of them are. Most of them are, are companies we've been talking to, you know, the companies that I've known for 20 years in that bucket, right? So they're, they're, they're groups that we continuously talk to and, and we continuously have conversations and, you know, CEOs to CEO speak and say, you know, this plus this makes a lot of sense and I think it's good for your guys. And I think it's good for us. And this is what we can do with it together. And let's see what we can do to make these things happen. So I know it's really what what the scenarios are.

Doug Taylor
Okay, last one for me. At the end of your prepared remarks, Dan, you made the comment that you know, we might expect or could see the financials get I think to use your terminology, blurred or blurry, the, you know, the financials of VitalHub as a whole. Maybe I just want to maybe press you on exactly what you mean by that statement. Are you referring just to the relative size of what you're acquiring versus the existing business or?

Dan Matlow
Yeah, we're going to, you start making some of these bigger acquisitions that, you know, are, they're not going to have a growth profile or our earnings profile out of the get go, right? And it's going to take us time to move these things around and the ship, they're bigger, right? So we got to be prepared for that. That's why we cashed up. That's what we think we need to do as a company is get more size and scale and get things going. But there will be potentially if we get these things over the finish. line, some transitionary timeframes to make that all happen and it will take some quarters. So we come back and maybe see the same profile here. So, you know, it's something just, if it happens, that hasn't happened, but you know, that can happen and just try to manage the expectations of everybody that, you know, this is a long run that we're looking at.

Doug Taylor
Yeah, I understood. for the extra clarification.

Babak Pedram
Yeah. Thanks Doug. There are no further questions. Dan, back to you for your closing remarks.

Dan Matlow
Yeah, just like to thank everyone for you know for coming again this Q1. We won't see everyone till I guess August here but we're available for any questions. We're really excited where we are as a company. We're sitting with, you know, we're generating cash, your organic growth machine keeps going. And we know we're ready to get to the next level of, you know, moving to getting this company over the $100 million mark. So that's what we're focused on right now. We're inching forward every quarter and we'll just keep running the business model per se.

And thanks everyone for their support. And if you need any questions answered, give us a call.

Babak Pedram
Thanks Dan, thanks Brian, thanks everyone. This concludes our call today. You may go ahead and disconnect.