VitalHub Q4 2022 Conference Call

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

Babak Pedram
Good morning everyone and thanks for joining us this morning for our fourth quarter 2022 Financial Reports. 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 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 and which is available on CDR and our website. With that, I will hand over the call to our CFO, Mr. Brian Goffenberg to go over our 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. 2022 was another strong year as we continue to focus on our corporate strategy and milestones, and growing our client base organically. With growth in revenue, gross profit and bottom line net income, we continue to grow our healthcare product offerings to our clients and continue to gain market share in our target markets.

Brian Goffenberg
On that note, I will share our financial highlights for the quarter of the year. Total Revenue for Q4 2022 Total $11.3 million compared to $6.9 million in Q4 21, an increase of 63% year over year. Total revenue for the full year 2022 was $40 million, compared to $24.7 million in fiscal 2021, an increase of 62% year over year.

Brian Goffenberg
Revenue from term licenses maintenance and support in Q4 2022, was $8.7 million, compared to $5.3 million in Q4 21. An increase of 65%. Revenue from term licenses maintenance and support for the full year 2022 was $29.4 million compared to $90.3 million in 2021, an increase of 33% year over year.

Brian Goffenberg

The increase in term licenses maintenance support revenue reflects the impact of continued organic revenue growth in the company's existing and acquired suite of product, capital's revenue derived from acquisitions completed during the quarter and year.

Brian Goffenberg
Revenue from perpetual licenses in Q4 2022 was $498,000 Compared to $541,000 in Q4 21, a decrease of 8%. Revenue from perpetual license for the full year 2022 was $3.6 million compared to $1.4 million 2021. An increase of 150%.

Brian Goffenberg
Revenue from professional services and hardware in Q4 22 Total $2.1 million compared to $1.1 million increase in Q4 21, an increase of 87%. Revenues from professional services and hardware for the full year in 2022 was $7 million compared to $4 million in fiscal 21, an increase of 76%.

Brian Goffenberg
Annual recurring revenue (ARR), which were formerly referred to as annual contract value total of $31.6 million as at December 31, 2022. Compared to $22.1 million as of December 31, 2021, an increase of 64%. Sequentially ARR increased by $5.2 million, an increase of 17%.

Brian Goffenberg
Sequential growth was from organic growth for acquisitions and the increase in foreign exchange value, plus margin the total revenue in q4 2022 was 82% Compared to 79% for the same period last year, and gross margin and total revenue in full year 2022 was 82% compared to 79% in 2021.

Brian Goffenberg
Operating expenses in Q4 22 total $7.3 million compared to $4.9 million in Q4 21, an increase of 51%, while operating expenses for the full year total $25.1 million compared to $17 million in fiscal 21, an increase of 48%.

Brian Goffenberg
The increases, the future costs from acquisitions completed during the year, and the time It takes to get synergies cost savings to be recognized which can be longer for G&A expense, due to their nature.

Brian Goffenberg
This loss in Q4 2022 was $338,000 compared to a net loss of $606,000 Q4 21, decrease in net loss of 44%. Net income for the full year 2022 was $1.2 million in federal debt loss of $1.9 million in 2021, an increase of 162%. EBITDDA for the fourth quarter was $470,000 compared to EBITDA of $170,000 in Q4 21. EBITDA for the full year 2022 was $5.2 million, compared to $1.1 million in fiscal 21. The increase of 371%. Adjusted EBITDA in Q4 22 was $2.5 million compared to $1.4 million in Q4 2021, an increase of 82%. Adjusted EBITDA for the full year of 2022 was $9.5 million, compared to $4.5 billion in 2021, an increase of 109% year over year. The continued improvement is attributable to several factors including, increased revenues, combined with improved margins and synergies made from early acquisitions, and management's continued effort to reduce costs.

Brian Goffenberg
Cash flow from operations was $6.1 million for the year ended December 31 2022 versus $402,000 for the year ended December 31 2021. Cash on hand of December 31 '22 was $17.4 million compared to $16.4 million at the end of 2021. With that, I'd like to hand the call over to Dan for an update on the business.

Dan Matlow
Thanks, Brian.

Dan Matlow
Welcome, everybody. 2022 was a great year for us. I think we all remember that we came into the year with a lot of expectations, markets were still buoyant. I think we did one of the last capital raises of the year about a year ago and we had a really great Q1 which led us to the year, but I think the biggest thing about 2022 is really leading us into 2023. I think I saw one analysts report use the word predictable, and I think that's where we've gotten ourselves as an organization. We've got a lot of meat on the bone, you know, so we have scale, which allows our business model to show really what it can do and we always thought that as we got to the $50 million revenue array, which we're knocking on the door on that, you know, we can start doing some really interesting things.

Dan Matlow
So for the total year, we ended the year with $22 million of recurring, and we exited with $37 million of recurring if you include the Coyote acquisition. Going in, we got $9 million a quarter on recurring, which really gives us a really good base to run the business and to do what we need to do to get the results that we're looking for.

Dan Matlow
As Brian mentioned, we left the year with Q4 of last year, we had adjusted EBITDA of 1.3 annualized, it's about $4 or $5 million a year. In 2022, Q4, we're close to 2.5. So we're entering the year at a $10 million adjusted EBITDA array. So we've doubled that, which really gives us a good margin, and starts allowing us to get some serious cash flow coming off of what we're doing. So we're excited of what we had to do.

Dan Matlow
In Q4, again, predictable, we're continuously adding anywhere between $800,000 to $1.5 million of ARR per quarter, we got close to $1 million of new ARR. We're starting to see our ARR starting to spread across all of our business units a little bit more UK still is a nice chunk of it, but we're starting to see some impact from our Hicom group and we're definitely starting to see a really nice impact from our TREAT group and the Canadian sector and we expect that as we go into 2022.

Dan Matlow
As I said, adjusted EBITDA grew to $2.5 million, we're starting to see a little bit of a tail off in our professional revenue. That's by design, we only have the one unit in touch that does that and we're really trying to we've tried to get that business model change to more of a recurring model. So, you

know, there could be a little bit of blips in terms of a one-time revenue as we go into 2023, but we expect the ARR to camouflage that as that continues to grow, so we figured good shape.

Dan Matlow
Going into next year. We're starting with $37 million of recurring we expect to continue to add our $800 to $1.5 per quarter. We expect our adjusted EBITDA continuously claw it's way forward as we produce more ARR, It's where our high margin businesses and as we get more cost synergies, which we still got a lot of work to do there in terms of some of our newer acquisitions in terms of our Colombo based strategy.

Dan Matlow
Acquisitions, we're being careful, but they're still in work and we still see opportunities, and we still expect to do it. We are starting to invest a little bit more in our sales and marketing on an international level, we're trying to bring our UK products into Canada a little bit more robustly, we made an announcement for some deals in Canada with the Transforming Systems work, the Intouch business, we've ramped up a team to sell that in Australia and we've ramped up a little bit more of a serious team on the back of the Hicom acquisition, to start moving stuff into the UAE and in the Middle East countries.

Dan Matlow
We've always been operating this company on the rule of 40. With traditionally we've been a 20/20 company, 20% growth, I think you're gonna start seeing it moving more to 25% on the bottom line 15% on the growth as the denominator grows to do that. We're sitting on a nice cash balance of $17 million, we have $15 million of available other resources for both operating and for doing acquisitions.

Dan Matlow
So we are putting a little bit of effort into a little bit more sales and marketing into those other groups. So we're excited about 2023, we got a good base to grow off and I think the word predictable and Steady as she goes, you never know we can have some great quarters, we're gonna have some blips, but we got a really good solid foundation as we move forward and I'm open to answer any questions that anybody has.

Babak Pedram
Thanks, Dan.

Babak Pedram
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. First question comes from Gavin Fairweather of Cormark.

Babak Pedram
Please go ahead, Gavin.

Gavin Fairweather

Oh, hey, good morning. Thanks for taking my questions. And congrats on the strong results. Dan, you talk to the $15 million increase in ARR. And 2022, which is obviously a mix of organic growth and inorganic, I guess when you're thinking high level, you know about 2023. When you look at the organic sales environment and the opportunity set on M&A, kind of in front of you, do you think that you could maybe repeat that that level of success? Is that within kind of the range of outcomes? Or how are you thinking high level about the year?

Dan Matlow
Yeah, that the acquisition card is always a wild card guy like you? I think we can but you know, we already had one acquisition. There's stuff in play, and but you know, it's, we're pretty careful, you know, we got cash and but we want to make sure that we use it properly. And we're generating cash now a little bit, so we're not going to make any mistakes on any acquisitions. I do see the visibility just based on our backlog and what our pipeline grows and stuff to sell at, you know, $4 to $6 million of ARR. Next year. Right. So that part is there. Can we add another $5, $6 million of ARR? through acquisitions? Sure, I think we can. But you know, I'm not here to comment on it. But it's it's there. We we don't run our budgets based off of having to do acquisitions, we run our budgets are what we have, and acquisitions are definitely a part. We want to do them. But at the same time, we want to make sure we're gonna do right ones.

Gavin Fairweather
Yeah, that makes sense. And you reference the Q1 of 22, which was just a blockbuster quarter from a sales perspective. And I Oh, I know that, you know, maybe that was, will be kind of tough to repeat. But how are you thinking about Q1 of this year, given UK fiscal year end, the pipeline that you brought into the year and how sales are progressing?

Dan Matlow
We it's definitely not going to be what it was last year, you know, it's all one time revenue from Intouch and that money's not available like it was, at that point. There's definitely a little bit of tightening of budgets in the UK for some of those products, but we got deals that are coming over the line and we have done deals that have come over the line really spread across all of our areas. We expect to still have a pretty strong quarter and still progress in the proper fashion. I don't think it's going to be like last year's, gangbusters but it's still going to be pretty strong.

Gavin Fairweather
You touched on budgets and funding, which was kind of my next question and it wasn't really so much about Q1 of this year, but given that the new fiscal year is starting in a week in the UK. Anything that you're hearing from your customers on funding or IT priorities for the year ahead?

Dan Matlow
Yeah, I think it's always a balancing. I think our our solutions especially our Transforming product is really gaining visibility in the UK market and we expect that product to continue through 2023. It comes from a different type of budgeting than our other products because it's more NHS government body that's buying it versus the trust themselves, but the trust budget seems to be less than it seems to be tightening up, but there seems to be money floating around at the NHS level that flows down to the

trust. I personally think it's definitely a little bit tighter than it was, but our UK team thinks there's still money floating around to do stuff and they always seem to come through in many different ways. So time will tell it's hard to really measure, but, the conservative side of me says it is a little bit less, but I wouldn't be surprised if we could knock some big deals out of the block, because we got some interesting stories that are percolating in many different spots.

Gavin Fairweather
Got it and then maybe just on M&A, obviously, are very active in 2022 and obviously it takes some time to kind of integrate all these things. So maybe you could just give us an update on how integration of some of the recent acquisitions is progressing and I'm not sure if you have a sense of the total amount of kind of cost synergies which are are yet to be realized.

Dan Matlow
I still think some of the acquisitions or that we made were pretty complex development environments that are a little bit more challenging to integrate, but we're moving along. To do that our Colombo team has ramped up to like 115 people. We tend to ramp that up. We didn't work in dual mode for a while while we move things across or move things into different areas, so we're in the process of doing that. There's definitely more to happen. It will happen all the way through 2023 into 2024.

Dan Matlow
It's always work in progress. It's hard to identify, we've definitely made some cost, synergies type of stuff and we've we've moved some of those cost synergies into a little bit more sales and marketing expenses as we've ramped up some teams in Australia, and Canada to bring some of the UK products a little bit more robustness and into the Mideast to bring those products there. So we are doing a little bit of investment in in some of that to bring those over. So we are getting some cost synergies, but we're earmarking, we won't do that at the expense of the rule of 40. So we're still trying to make that happen, but we do, we do believe so most UK products needed a little bit more attention abroad. So we have done some work to move some increasing costs in those areas to get some sales and marketing going, but not at the expense of still producing what we need to there.

Gavin Fairweather
Thanks so much. Very helpful. Congrats on all your progress.

Babak Pedram
Thanks, Gavin.

Babak Pedram
The next question is from Christian Sgro of Eight Capital.

Babak Pedram
Please go ahead, Christian.

Christian Sgro

Good morning, and thanks for taking my questions this morning. The first one I'll ask it's what do you think about 2023 and the backlog you commented on? Where do you have the highest visibility this year on organic growth? I'm wondering what you'd want to share on anything you're seeing geographically or across your products.

Dan Matlow
Yeah I think the two promising products going into 2023, from our perspective is the TREAT product in Canada and the Transforming product in the UK. Both of those are starting to get visibility at a higher government level versus just the individual areas.

Dan Matlow
The TREAT product itself, you know, I think we saw a provincial announcement yesterday of the huge amount of spending going into the mental health children's area in the Ontario marketplace, and we got the leading software product, but we're seeing a lot of attention in terms of that going on. We still have our Solicitor General deal, which we announced last quarter, which is in the process of being delivered, and it's producing a significant amount of professional services that we expect to go right through 2023 & 2024 as we implement that, and there's still, there's still a fair amount of licenses to go through in that particular perspective. You know, these organizations all talk to each other and they all get connected, so you start getting a little bit of a pinball effect with these things starting to happen and we're right in the center of that base initiative with the TREAT product.

Dan Matlow
The Nova Scotia project is is the outward facing project called "My Account" which I've been talking about for years, it's finally becoming reality. It's all that stuff is starting to go through it. We're seeing some attention on the Transforming stuff from a national perspective. You know, visibility into what it can do and we already got a big scale of that, but we're starting to see recognition of that at a pretty high level and the Hicom business, those guys bid on very large projects and the very strong development group.

Dan Matlow
They already have a pretty significant footprint in the UAE market. And we're starting to see more RFPs and tenders for activity in that marketplace, which they already got us some pretty nice wins, which they're pretty bullish on doing that. Hicom has this large project called Oriole, which already was doing over $2 million a recurring a year and that project just keeps expanding on a quarter, you know, on an ongoing basis and adding revenue to it. So, you know, we got a backlog of services work, we got existing customers don't work, we got new initiatives.

Dan Matlow
The CDS business in Australia has consistently over the years added added business, we got many different ways to add revenue into the business now as we as I said, as we get scale and more meat on the bone. I think you're gonna see a little bit more of a spread out type of revenue stream coming from us and some areas will have down-quarters, and some areas will have up-quarters, but we got different ways to skin the cat here.

Christian Sgro
That sounds helpful color, Dan, thank you. Well, I'll ask just one more question before passing the line and you touched on Canada quite a bit there, but I'm just wondering, review on the piece of deployments. You said the SOLGEN contract was going to be 23/24 I guess between that Nova Scotia and everything else going on in Canada, can we expect to get a Pro Services lift and then ARR to trickle through from licenses?

Dan Matlow
I think we've already seen on Pro Services lift, right, I think it'd be continuous for a while here and as we add licenses to those guys have finished module, we should see lift in ARR and both of those projects, I think more towards the end of the year, as we keep going through those projects, but we do expect those to go through 2023 and 2024. With those projects and we're winning RFPs on other projects as well, not to the size of those guys, but they're still significant projects.

Christian Sgro
Thanks for taking my questions. I'll pass the line.

Babak Pedram
Thanks, Christian.

Babak Pedram
The next question is from Doug Taylor of Canaccord. Please go ahead, Doug.

Doug Taylor
Thank you. And good morning. The forecasts for 15% Organic top line growth kind of $800 to $1.5 million in ARR added per quarter. Certainly the highest and the most confidence, I've heard you talk about the expectations for the future and so I guess my question is what's changed here that's, if anything, that's giving you that confidence in your ability to add that kind of revenue each quarter? Is it something about the combination and the acquisitions you've done or is there something that's changed within your end markets that's provided that kind of visibility?

Dan Matlow
You know, these are geographical markets, right? So when you get when you get the ball rolling with a particular product, it tends to bleed into other organizations, right?

Dan Matlow
So we're starting to see that on some of our product lines and we got a backlog just of our existing projects that we know that once we get stuff implemented, the ARR is going to grow on those particular projects, right SOLGEN, the Nova Scotia project, a lot of a Hicom work, which, it's not there yet, but we know that once we implement it, it's going to get there and sometimes these implementations take longer than we think, but eventually they get there. So that's what gives a little bit more visibility into what we can do. Plus you still are getting newer business, right?

Dan Matlow

So yeah, you know, some of the product sets, I'm not as bullish as I was before, but some of them I am, but you know, things can change there, but a lot of it, if you look at our deferred revenue, there's still a fair amount sitting there. You know, that we just keep tapping into there's I think, Canada alone, we got a very big backlog of professional services worked out where we're huffing and puffing on our way through here, and the teams are working hard to get through but the TREAT product is, is challenging to implement, but once it's there, it's good, but we know that there's projects going on and we know that there's other customers that are watching these projects and will need to go through those same initiatives. So we think we're going to get a little bit of inertia off and that and a lot of our areas.

Doug Taylor
Okay, and within the Canadian market, you've mentioned you know, some of the increased emphasis and spending on mental health, but I mean stepping back, we've seen obviously the federal government cut deals with the provinces on some some transfer payments to help fund health care expansion. I know a lot of that's primary care and in areas that maybe you're not necessarily directly involved with, but can you can you speak to what you're seeing in terms of the behavior of your customers in the Canadian market and your ability to participate in some of that increased funding.

Dan Matlow
In the mental health area and the children's mental health are the two distinct areas. There's a ton of reorganizations going on in amalgamations of these community agencies into larger entities and as part of that they're ramping up new digital systems to help bring those things to light and that's where a fair amount of that funding is going as they're revitalizing those organizations.

Dan Matlow
Some of those are just these old archaic systems that might have been homegrown or other entities of which we bought in a bunch of them already, in that particular marketplace. So we've had a strategy to become the leader in that community agency, mental health space, Ontario, but also Canada wide, and it's starting to, it's starting to work, but we're seeing, we're seeing money going into restructuring these organizations fundamentally, into more robustness and they're putting new CEOs, new management teams, they're just revitalizing them. So that's where the funding we think, is coming into a fair amount of this stuff and part of new initiatives is just putting a new digital system in which they put tenders out for and we've been winning some of them.

Doug Taylor
Okay, so it sounds like still more to come mostly in the mental health area.

Dan Matlow
Yeah in that area, and we're also bringing some of the UK systems into Canada, I think we we, we just announced that deal in Winnipeg, which is a city system where the Transforming product is going in and that we finally got that one project where we got high governmental visibility into the product. They love it. It's not formally live yet, but it will be very soon and we think that will be that showcase account for that product. We're hoping we can do in Canada, what we did in the UK with that product, but it's early days, still.

Doug Taylor
All right. And one more question for me. I'm the prospect of 25% from adjusted EBITDA margins that you mentioned the other kind of the other side that gets you to that rule of 40, alongside the 15%, organic growth, from the kind of 22% level that you've been, you know, clipping out over the last couple quarters, are you messaging that you expect to migrate up towards 25% by the end of this current calendar year? Is that would that be a reasonable timeframe given the integration roadmap you've got with the assets in your portfolio right now?

Dan Matlow
Listen, if you theoretically think we're adding $1 million per quarter of new ARR and that's high margin based business and sort of limit your expense level or just don't increase it that much. Theoretically, that should start coming to the bottom line, right? So it's a question, do we hit the numbers? Do we get the synergistic value? Can we get it done in time? Can we execute on that stuff? But yeah, we've invested a little bit of that money back into sales and marketing, a little bit of a bet that we can grow some of those other verticals, that might not happen as much in 2023, but we did think we needed to make a little bit investment for 2024 to get into some other markets with those products besides the UK. So we are doing a little bit of that, but yeah, I think we can I think we should. If it's not going to be at the end of this year of the early the next year, but I think we can get there. Every quarter, we're going to add more recurring. I don't know how much but we'll add and it should come to that should come to the bottom line.

Doug Taylor
Okay, thanks for answering my questions.

Babak Pedram
Thanks, Doug.

Babak Pedram
The next question is from Gabriel Leung from Beacon Securities.

Babak Pedram
Please go ahead, Gabriel.

Gabriel Leung
Thanks for taking my questions and congrats on all the progress. I got a couple of questions. First, Dan, you talked about being pretty excited about the TREAT and the Transforming System pipeline, heading to the current year. Are you able to talk about what does that pipeline currently look like? I know there's They're sort of bigger ticket items, maybe longer V times. So, you know, can you sort of quantify for us, how many sort of deals you're working on, within those two products sets, sort of ticket sizes and know where you are along the sales cycles for some of these deals?

Dan Matlow
The TREAT product adds anywhere between like, a $50,000, to $200,000 to $250,000 of ARR on each transaction, depending on the size of it. You typically get that amount of professional services, you

know, double it for implementation. So if it's $100,000 of ARR, they probably get $100,000 services as well, that goes along with that particular route.

Dan Matlow
We're starting to add, 2-3 deals a quarter, it looks like here on that particular product set and some big some small and when that product gets implemented, that's the one product we're not afraid to do some development work, which the customers pay for as part of those implementations. So that comes along with it as well, but that's probably where it is.

Dan Matlow
Transforming seems to be in the same level 2-3 deals a quarter type of thing. There tend to be chunkier deals, probably, I don't know, $250,000 of ARR, average deal type of thing, right, that they do. There's deals going that we're starting to see some more visibility, as I said, on a national scale for that product. I'm always reluctant to say what that pipeline is, because I've seen stuff where it doesn't happen and I've seen others where it just surprises me, right? So government tends to move in spurts and sometimes we think it's happening and it doesn't and other times, we think something's happening and something bigger happens, because the money's there all of a sudden to go do it and they want to go do it. So we just keep going. I still like to just use my guidance, I think we're consistently going to add between $800,000 and $1.5 million per quarter. Sure, there could be variations to that here and there, but I think, predictability, we should be okay with that.

Gabriel Leung
Gotcha. And just in terms of, I guess, the margin expansion, near term anyways, if I look at some of the cost synergies as CDS, CDI, and because Coyote in Q1, would you anticipate you would have margins improving in Q1, just given the combined with the revenue base your at right now? Would you expect an improvement right in Q1?

Dan Matlow
Yeah, it all depends on how much one time revenue we're going to produce, right? We keep telling our group, we want recurring revenue want recurring revenue, then come the end of the quarter, I'm begging for one-time Perpetual Revenue and in services, right? Because the only thing we can do to change the top line to get the margins, right? So it all depends on on how that all comes to work in terms of what we do. But you know, we do want it to go up from where it is, and we're trying to get it there.

Gabriel Leung
Gotcha is just one last thing on m&a. I think I've asked before but I think previously, the potential acquirerees are still hanging on to relatively high valuations in terms of what they want, but have you seen, valuations in the last couple of months, perhaps come a little bit lower and get to a bit more reasonable level for you guys?

Dan Matlow
You know, it's the same. Every deal is different, every person has different ideas of what it is and a lot of our acquisitions are owner operated businesses that aren't really VC funded, you know, this is their

life, or their savings or their future and their lifestyles or all that other stuffs up. It all depends on where they are in their, where that company is sitting, what its values are, where it's going, which really stipulates the valuations.

Dan Matlow
I think most of our acquisitions have not been bidding processes, it's just getting to know operators and talking them through this type of stuff on a regular basis, and eventually they're saying this makes more sense to do it. So that's my comment on that. Like, we're gonna pay what we think it's worth and if it is, it is and if it isn't, it isn't. You know, we'll pay a higher valuation if the business is good and it's growing and if the business isn't growing and it's sort of flat, we're not going to pay that, right?

Dan Matlow
I think we've got enough history with our acquisitions of how we do that and what our models are and I think that will be consistent in terms of awareness. It's like the housing market, sure the prices have gone down, but there's not as much for sale and people still want to get those values for those houses. So I don't think pricing has changed that much and it hasn't changed for us in terms of how we look at things so we don't really look at it that way, we just look at it for what it's worth to us.

Gabriel Leung
Gotcha. I appreciate that and congrats again on the progress.

Babak Pedram
Thanks, Gabriel.

Babak Pedram
The next question is from Richard Baldry of Roth Capital.

Brian Goffenberg
Please go ahead Richard.

Dan Matlow
Welcome aboard, Richard.

Richard Baldry
Thanks. Given some of the investments you're making in sales, could you recap a little bit your what you view your sales capacity versus sharp productivity, maybe average tenure given how important sales productivity is with tenure, any open seats, hiring plans, just broadly, recap sales? Thanks.

Dan Matlow
Yeah we definitely got a bigger sales and marketing expense in our UK market segment, we do a significant more of sales and marketing in those particular marketplaces. It has been where our growth has come from and we got a bigger team, we got an inside group and we got outside sales reps, and we invest a significant amount in account management to maintain stop churn and also for add-on sale. So we, we have that going in there.

Dan Matlow
We just have recently ramped up resources in our UAE market, that have experience in terms of doing that and we've just with our CDS acquisition, we've ramped up Intouch deployment team support team as well as sales teams in the Australian marketplace for the Intouch and we've added some sales people with some experience in the Canadian marketplace to sell the Intouch and the Transforming product and the Synopsis product sets in the Canadian marketplace. So that that was budgeted, going into 2023 and we're ramping those resources up.

Dan Matlow
They're good sales reps. They've been in the markets for a while and they got tenure, but most of our sales reps have been selling these products for five to 10 years and have a lot of experience in this particular space. So we rely on that expertise and tenure to go sell.

Richard Baldry
Given people are viewing the market as so high risk right now and you talk about the defensibility of your ARR base and maybe specifically, any changes you've seen in your net retention or overall retention rates?

Dan Matlow
Our churn levels are still around the 3%-4% level. Churn happens for in our particular business and for a bunch of different reasons. Sometimes money is given to these organizations too quickly, and they don't actually it's one time envelopes, and they actually don't get the stuff implemented correctly or properly. Then the regime changes in those particular organizations and they go, "Well, we haven't really got this in place anyways, we don't have any money in our operating budgets anymore, because it was a grant to begin with and we're just not going to continue with it,", or because they never really got it started. The other reason churn happens is just mergers, you know, this place merges with that place, and they just redo all their digital systems and we get locked out of something. Those are the two primary reasons we get churn. So that's why our teams focus on getting this stuff implemented, getting them using it. Then once they're up and running and using and it becomes mission critical, you don't really get that much churn unless there's a total restructure of the place of their Epic, but we don't have much of that going on in our base and it's only for our hospital-based systems. It does propose a threat sometimes if it comes in because it just they just erased everything. That's what their strategy is. So Epic can be a little bit of a risk in some of our organizations, but for the most part, you know, I think we've got lots of years of experience the churn has been minimal here, this government funded based systems and if you get it in there, you're pretty good.

Richard Baldry
And last for me, given the the backdrop was a fairly depressed valuations. Do you think how you approach M&A sort of changes short term at all, maybe thinking about how much stock you use or earnouts. Now, because you can show the companies you have the ability to offshore some of their costs increase their core profitability, do you think they'll be more likely to start a longer term focus deals where the value comes out over time as they prove what they can do?

Dan Matlow
I think that makes a lot of sense if we're trying to do like a bigger acquisition a little bit more transformative. Definitely. Being able to use that and in those rare circumstances that our ARR we got like a VC funded organization, or some of those raised a lot of capital, they actually can't get to profitability, because they just don't have that ability to do it or anything really high. So they're organic sales have stopped or trickled down and they got to a really big development costs, but they're still sitting on a significant amount of cash, but it's going down because it's operationally and those are scenarios we'd like to see and there are a few of those out there that we're we're poking around at. Because I think we can bring something to the table that our offshore development group and our currency and our ability to restructure that into a winning business. So we look for those we want those. Trying to make that happen is a different story, but we definitely are thinking about those type of deals for sure.

Richard Baldry
Alright, maybe final final question. Now that your adjusted EBITDA, does up to a pretty meaningful level maybe talk about your willingness to use that to deploy leverage, as opposed to you know, cash flow or equity for M&A.

Richard Baldry
All right, congrats on a great quarter.

Dan Matlow
Yeah, well, we sort of got some leverage already in our ability, we think it's there to go do it. We're generally pretty conservative people. What we would go in to that line of credit, for something that makes sense, I think we're saving that for something that's a little bit more transformative. We're still sitting on $17 million in cash and we're generating cash. We think that cash balance can help us do these small little acquisitions. Interest rates are high, right? So you got to be careful on the leverage, but we would use it in the right circumstance, for sure.

Babak Pedram
Thanks, Richard. I do not see any further questions. I would like to thank everyone for joining us this morning and with that, I will hand over the call back to you, Dan, for your closing remarks.

Dan Matlow
Yeah, thanks, everybody. Nothing really worn out. I think the questions were really good. I think we had some pretty good color on where we are. I like to think we're in a pretty good predictable state. You know, everything seems to be going well, we'll have some good quarters, we'll have some maybe not so good quarters. Bear with us, but I think the moral of the story is we got a big base of recurring revenue, and we're still adding and we expect to continue to add. We look at this from a long basis. That's just the way we are and the Shens, which are big investors are the same way so you know, steady as she goes, sometimes it might be a little bit boring, but that's what we're about. We're just trying to make things happen.

Babak Pedram

Thanks Dan. Thanks, everyone. Thanks, everybody. This concludes today's call. Have a great day.