VitalHub Q4 2023 Conference Call

SPEAKERS

Dan Matlow, Brian Goffenberg, Babak Pedram, Gavin Fairweather, Donangelo Volpe, Christian Sgro, Daniel Rosenberg

Babak Pedram

Good morning, everyone. Thank you for joining VitalHub's 2023 fourth quarter and year-end 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, 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 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. available to management and a 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 MD&A, which is available on SEDAR+ 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. As we reflect on this quarter, and the year as a whole, we have much to celebrate, our Q4 and year end results are a testament to the potential outcomes of our efforts, showcasing not only significant growth, but the effective execution of our strategic initiatives. MOrielver, our performance has revealed robust financial health and heightened operational efficiency. This success is underpinned by strategic expansions of our healthcare product portfolio, deeper integration within our healthcare networks, and the extension of our global footprint. Our strategic efforts have clearly paid off with solid improvements across key financial metrics, Revenue, Annual Recurring Revenue, Gross Profits, Net Income, and Cash Generation. We anticipate this momentum will accelerate throughout 2024.

Today, I'm proud to share with you the financial milestone achieved in the fourth quarter, as well as our full year of highlights. Total Revenue for Q4 23 was $13.6 million compared to $11.3 million in Q4 22, an increase of 20% year over year. Total revenue for the 12 months ended December 31, 2023 was $52.5 million compared to $40 million for the same period in 2022, an increase of 31%. Revenue from term licenses may made in support in Q4 23 was $11.3 million compared to $8.7 million in Q4 22, an increase of 29%. Revenue from term licenses made in support for the year 2023 was $42.3 million compared to $29.4 million in 2022, an increase of 44%. The positive increase reflects the impact of a revenue growth in the company suite of products coupled with revenue derived from acquisitions completed during the year, or the acquisition of the year. Term licenses made in support to represent an important strategic source of revenue given its predictability and occurring nature and represents 83% of revenues in Q4 23 compared to 77% in Q4 22. Revenue from perpetual licenses in Q4 23 was $286,000 compared to $497,000 in Q4 22, a decrease of 43% and revenue from perpetual licenses for the year '23 was $909,000 compared to $3.6 million in the same period in 2022, a decrease of 75%. Perpetual software licenses are dependent on the types of products sold, and the decrease is primarily attributable to the timing of deliveries of the companies in terms of products, in addition to the unusual high-volume margin perpetual license sales of over $2.7 million in the first quarter of 2022. Revenue from professional services and hardware in Q4 23 totaled to $2.1 million, compared to $2.6 million in Q4 22. a decrease of 2%.

Professional services and hardware revenue are varied depending on the timing of hardware deliveries and the progression of customer projects. The decrease is primarily attributable to the deployment of the ongoing customer projects and the timing of delivery of hardware. Revenue from professional services and hardware for 2023 was $9.3 million compared to $7 million for the same period in 2022, an increase of 33%. The increase during this period is primarily attributable to the deployment of ongoing customer projects, deliveries of hardware and additional service revenues from the new subsidiary.

Additional annual recurring revenue (ARR), which we formally refer to as Annual Contract Value, totaled $44.6 million at December 31, 2023, compared to $42.6 million in September '23, representing a sequential increase of 4.6%. A significant part of this growth, $1.9 million or 5% or annualized 21.7% was organic, reflecting our focus on sustainable growth. Growth, gross profit and total revenue Q4 23 was 83% compared to 82% for the same period last year. The increase was primarily due to higher term licenses made sense support revenue was occurring revenue representing 83% of revenues in the quarter compared to 77% in Q4 22. Gross margin on total revenue for 2023 was 82% compared to the same number in 2022.

Operating expenses in Q4 23 total $7.6 million compared to 7.3 million in Q4 22, an increase of 4.2%. Operating expenses in 2023 total $31.4 million compared to $25.1 million in the same period last year, an increase of 25%. The increase is due to highest sales and marketing expenses for conferences and exhibitions and R&D expenses for acquisitions completed in 2023 and previous years. However, it is important to note that we continue to experience significant reduction in operating expenses as a percentage due to increasing operating cost synergies with operating expenses dropping to 56.2% of revenue Q4 23 versus 65% in Q4 22. Net Income before income taxes in Q4 23 was $2 million compared to a net loss of $656,000 in the prior period, an increase of $2.7 million year-over-year. Net income before income taxes for the year 2023 was $5.3 million compared to $1.3 million in the same period last year, an increase of 308% year-over-year. The increase for the quarter and full year was primarily attributable to the significant increase in revenues from organic growth and acquisitions coupled with an ongoing effort to reduce costs and gain operating cost synergies. Net income after tax in Q4 23 was $939,000, compared to a loss of $338,000 Q4 22, an improvement of $1.3 million. Net income after tax was $4.5 million compared to $1.2 million in the same period in 2022, an increase of 275%.

EBITDA in Q4 23 was $3 million compared to $470,000 in Q4 2022, an increase of 536%. For the full year, 2023 EBITDA was $9.9 million compared to $5.2 million for the same period in 2022, an increase of 82%. Adjusted EBITDA in Q4 23 was $4 million or 29% of revenue compared to $2.5 million or 22% of revenue in Q4 22, an increase of 62%. The increase of primary attributable to the higher recurring revenues of $11.3 million in Q4 23 is compared to $8.7 million in Q4 22. Coupled with an ongoing effort to reduce costs and gain operating cost synergies for the full year 2023, adjusted EBITDA was $13.3 million or 25% of revenues compared to $9.5 million or 24% of revenues for the same period in 2022, an increase of 40%. The increase of primary to middle to the higher rate recurring revenues of 42.3 million for the U.S. the year ended December 31, 2023, as compared to $29.4 million in the equivalent prior year, coupled with an ongoing effort to manage costs and gain operating cost synergies. Capital from operations before changes in working capital for 2023 was $11.2 million compared to $7.1 million for the same period last year.

Cash on hand at December 31, 2023. was $33.5 million compared to $17.4 million at the end of 2022. In comparison to Q3 23, the cash on hand increased by $3.7 million and we have no debt. With that, I'd like to have the call over to Dan for an update on the business.

Dan Matlow
Thanks Brian. I'm just going to informally just, you know, highlight a few things and hopefully flesh out some things with questions. But again, thanks to everyone for great support. It's hard to believe we're already in March for 2023 and what we believe is starting to shape up as a great 2024 as well. So thank you everyone from a shareholder base. Let's continue to support us. In Q4, we continue to see what I'd like to believe is the validation of our engine or our business model with our continued success of added organic growth across those product lines that we've learned to expect to continue to have growth into. So we started to see the impact of the SHREWD rollout for the command centers across the UK that was announced previously in Q4, and we expect that to continue into, I'm sorry, in the end of 2023 and then into 2024. We're still seeing great impact of our TREAT product in our Canadian base as it continues to accelerate as the leading product for community electronic records in Canadian give place.
Inaudible

And we're getting contributions from a lot of our other business lines as well in respect to that. So it's definitely a more diverse addition that we're starting to see as we go. We continue to look at innovation in a cost-effective way by using our Sri Lankan-based Innovation Lab as effectively as possible. It really has turned into be a great asset of the company and for our ability to compete in these markets with innovative software in a cost-effective fashion. And that group has grown up to, you know, over 167-170 people at this point in time. I think it started when we first started with 22. So we've really done a great job of doing that. It's also interesting that we completed an acquisition in, you know, previously, but a month ago with the BookWise acquisition in the UK and we are starting to see more substantial acquisition flow into our pipeline in a more realistic base. And we are starting to see a lot of these smaller SaaS base or other base companies that really don't have access to capital markets, starting to look for acquisitions as a strategy for strategic initiatives. So we are starting to see that working its way through the system. Finally, we thought that would happen in 2024, and we think we're positioned and working hard to get our share of those acquisitions as they continue to do. Our cash continues to grow. We continue to have cash, I don't know, close to like a $4 million rate per quarter at this stage in game. And we're excited the way the engine is working on all its cylinders and we're looking forward just to continue to expand as we continue to move forward and I'm open to any questions.

Babak Pedram

Thanks Dan. Should you have a question please use the zoom raise hand function in the bottom of your screen and I'll make sure to open the line for you. First question comes from Christian Sgro of Eight Capital. Christian, please go ahead.

Christian Sgro
Hi, good morning, and thanks for taking my questions. I'll start with a broad one on just the geographic markets and what you're seeing, Dan. Now, which market, maybe between Canada, the US, Australia, or another one, do you think could surprise most positively this year?

Dan Matlow
Which one will add most positively? positively? You know, we still got more assets in the UK than anywhere else, so we still expect significant contribution from the UK, but we are definitely seeing initiatives in the Canadian marketplace on the community electronic record space in terms of consolidation and really monetizing that digitization of that space. And we're busier than ever in that particular business unit with a huge backlog of services work and opportunities that continue to come into the organization, so we're excited about that. We're we are we have ratcheted up our Australian and our Mideast business with our products that we've invested into sales groups and partnerships and we you know, we're hopeful that we'll see contributions from those particular groups in 2024 more than they've done in the past as well.

Christian Sgro
Okay. And as you think about expansion, you mentioned services. Are you leaning on partners? Would you say more and more to do some of either the lead generation or implementation or are you comfortable with---

Dan Matlow
No, we do all of our own implementations in the future. we'll continue to very initiate solutions and it's difficult to get partners to initiate that. We have, as needed, we can flex up with some subcontractors into our services group and we've done that recently with some of the SHREWD implementations who just got an abundance of work. So we have ramped up a few PMs and other skills to help us deliver those in a timely fashion, in fact, being at some resources to help us deliver that work. But we're continuing to see a big backlog of services work, which usually comes on the other side of seeing good organic growth, it's sold, it's got to get implemented.

Christian Sgro
I'll ask one more question before passing the line. I know the Oriel recruitment portal is something that you've been excited about, but just if you could elaborate for myself and all listening, but then next there, the traction you're having in the UK market with that product.

Dan Matlow
It's a long-time contract. It's branded Oriel, it's a recruitment-based, credentialization-based solution, which really allows healthcare professionals, doctors being the primary source when they're completed their university education to find work placements across the NHS in the UK and they use that particular website as a matching solution to go build that and the group there has done a good job of expanding the different skill sets that have access to that particular solution. Which everytime you get a different domain or different type of doctors, we did Optometry for example. That adds to the growth of the user

base and the transaction base of that particular platform and then increases the license fees accordingly, so we continue to see that.

Christian Sgro
OK, let's close here, Dan. Thanks for taking my questions.

Babak Pedram
Thanks, Christian. Next question is from Gavin Fairweather of Cormark. Please go ahead, Gavin.

Gavin Fairweather
Hey, good morning. Maybe we can zero in on SHREWD post the announcement of the System Coordination Center funding. I know you mentioned it in the prepared remarks. Can you just kind of discuss the pipeline, you know, how long? you expect, you know, this funding to provide a tailwind to your results and maybe just touch on kind of your win rates and success rates and in converting new logos given that funding backdrop.

Dan Matlow
Yeah, it's a national program where they're giving money to what they call ICBs in the UK, which is the regional groups to set up these regional command centers to be able to display integrated data so they can look at a regional-based view of their facilities on a performance-based access, which is right up this the sweet spot of the of the SHREWD-based solution. SHREWD already has a significant footprint and this is something for us to allow us to grow across further areas and that was definitely a fair bit of the impact of Q4 and we expect that to continue for the next couple of quarters. We do have competition in that world. And the ICPs also have the ability to build their own systems. So it is not a slam dunk by no means, Gavin in terms of what we're doing, but we're comfortable that we continue to get some of that business that as we go through to Q1 and Q2 and you know we'll see how that progresses beyond that to see where that continues to grow but we're busy with it at the moment.

Gavin Fairweather
Awesome good to hear and then maybe just building on Christian's kind of question around you know regions you know the recent Middle Eastern partnership with Abu Dhabi Health Data Services seems pretty interesting. Maybe you can just discuss kind of which products you think have a fit into that market and how you're thinking about the potential contribution to organic growth there.

Dan Matlow
Yeah, it's a you know, it's a particular large organization that does, it owns a bunch of facilities themselves. So hopefully we get entry into their own facilities as well as it provides digital services across the Middle East. All of our products are in play here, but I do think the ones that would probably be the most affected by it will be the Intouch base solution, the Diamond Diabetes solution, which is coming out of the Hicom base suite of products, and probably the Transforming base solution and MCAP, which is, we already have a footprint in the Mid-East, would probably be my guess of the products that they'll initially look at the most. We'll explore that TREAT product through that avenue as well, I'm not sure where that's going to go with it, but those are probably the products that, that they'll look at initially.

Gavin Fairweather
Okay, good to hear. Then maybe we can just flush out some of the comments on M&A, you know, it's interesting to hear that the deal environment seems to be improving. I guess what's your perspective on what's changed to catalyze the environment getting better, and how do you characterize your deal flow that you're seeing today compared to, I don't know, six or nine months ago?

Dan Matlow
Yeah, I think we're starting to see those organizations that have raised some money or are looking for an opportunity to raise some money. I don't know if that window is not as easy to get to as it was before and they're looking for what the next step is, so growth might not be that great or they can't raise money or they've raised a bunch and just don't know where to go with from here. So we're starting to see those type of deals cross our desks a little bit more than before. I think people have come to accept that this new world there we are living in in 2024 is very different than what we were living in between, you know, 2019 and in '22 And but this world is real and we're just kind of deal with it. So We're seeing good flow accordingly.

Gavin Fairweather
Good to hear then maybe lastly for me for Brian just on the working capital I mean the inflows that we saw in 2023 were pretty impressive in this seem to be kind of outpacing the natural rate that we would expect, given your growth and deferred revenue as you're paid up front. Curious, are you improving kind of your collection processes? Is this kind of another synergy that you can capture on acquisitions? Maybe we can put that working capital inflow into context for us.

Brian Goffenberg
Yeah, we spend quite a lot of time looking at our collections and most small organizations we acquire don't have a really sophisticated collection engine. We've spent a ton of time and our people have really done a really good job the last little while correcting that and getting it done. You'll find most of the customers are quite happy to pay for the services that we make big organizations so receivables Receivables is not an issue. It's just a matter of getting the process correct and once you've got that in line, the funds should flow and we've cleared up a lot of stuff that we had in the past from small organizations. And now it seems to be running pretty effectively. So, I think my heads off to our Collections team.

Gavin Fairweather
Thanks so much. Congrats on the progress.

Brian Goffenberg
Thank you.

Babak Pedram
Thanks, Gavin. Next question is from Donangelo Volpe from Beacon Securities. Please go ahead.

Donangelo Volpe
Hey guys, congratulations on the quarter. Just to tie on to Gavin's question on the M&A. Have you guys been seeing it become more competitive? And as you bump up against other bidders, are you seeing them be more aggressive with what multiples they're assigning?

Dan Matlow
Yeah, some of these bidders are competitive or supposedly competitive, but we're not 100% sure. At the end of the day, our valuations, we value what we believe the company is worth to us, not what the company is worth to somebody else. So we look at the businesses, we look at the opportunities, we look at the synergies, we look at what we can do with it, and we bid what we think is appropriate for it. A lot of times we get the acquisition, sometimes we don't, but it is what it is, but I don't think the pricing has changed that dramatically. It's definitely not where it was in terms of the high valuations and I don't think there's as much stupidity going on out there. I think the valuations are what they are and they're fair and I think they're- **inaudible** -where we'd like to pay for.

Donangelo Volpe
Okay. Thank you. And then just to turn things over. You spoke a strong adjusted EBITDA margins being driven by reducing costs and gaining operating cost synergies Given the exceptional margin is this being driven by the usual process of moving R&D overseas? Or there have been other areas within the business or kind of 2023 acquisitions that you've been able to optimize

Dan Matlow
We do both of you know we were 80-something percent SaaS revenue and that's high margin, right? So, intuitively, license deals, spring high margins, low cost of sales. We got one product that has some hardware in there and that, if that gets sold a lot, that cost of goods could be there. You know, hosting costs are starting to get a little crazy which is a little bit of a challenge in terms of margins but where we watch that pretty carefully, as well in terms of what we do. But yeah, we intuitively SaaS-based products bring you good margin. And, you know, we all know that the biggest cost and expense associated with our teams, our technology folks, we'd like to use our innovation lab as much as we can, but we also want innovation in our products as well. We think we can get both with our Innovations Lab. We think it's a good team. We think we've got a good process, and we encourage our groups to use those, to use our lab as effectively possible and we're always looking to do that. But we're also, it doesn't happen over and need to be carefully done so that we don't lose the IP and the value that we have in our products. products and it really the combination works well. We get good technology solutions as well as you know cost-effectiveness in there.

Donangelo Volpe
Okay thank you for taking my questions guys and once again congratulations on the quarter.

Babak Pedram
Thanks Donangelo. Next question is from Doug Taylor of Canaccord. Doug your line is open.

Doug Taylor
Yes, thank you. Good morning and congratulations on what was a standout quarter by most metrics. A very strong sequential ARR build. You've talked in earlier questions and addressing earlier questions about the strength in the pipeline for SHREWD in UK, TREAT in Canada. So I guess my question is whether the old, you know, million to a million and a half in ARR build per quarter is still a relevant target range, or do you now think that you'll consistently surpass that based on what you're seeing with respect to the near term pipeline?

Dan Matlow
I wish Doug I could go above that 1.5 number, but I'm not going to. Yeah, I still think the measure of although we we've repeatedly beaten it and things look promising to continue to do that. I think the $800 to $1.5 million is a valid measure for what we do It's just the it's just the diversity of where our revenue comes from and the lack of predictability sometimes that still gives me a little bit of fear to go beyond that at the same time, it gives me a little bit of comfort that there's different ways to make that number, but it's not like we get a holistic view of it coming from all different areas. We've put some pretty sophisticated sales forecasting in place and data to get a lot more predictable on it. But with that being said, there could be a quarter where we do like we did this quarter and-- that's all great and you know, we shall be happy for what we have accomplished for it. But at the same time, you know, if we have a $600,000 quarter, I don't want everyone here to go, oh, wow, we know what's going on here because it could happen. So, you know, we keep moving along, even if we don't sell anything, one ounce of software in a particular quarter, we're still generating cash and we look at this as a long-term scenario and we just keep working on our business model as it keeps corresponding. So we accept the good quarters and we'll accept the weak quarter if it happens at the same way. But we really want the investor base and our staff to really just to focus on what the overall business model is of what we have here and what we can accomplish.

Doug Taylor
Well, forgive me for trying. We haven't seen services revenue. I think it was down a little year over year and I know it can be lumpy. You did say a little earlier that you had a, you know, a large backlog of services work. Should we expect that to rebound then? Is that a seasonal, you know, element there?

Dan Matlow
Yeah, we got a lot of milestone services work, right? So it gets a little tricky in terms of how that comes in on our delivery factor, but there's a lot of work that's in the backlog, especially in the Canadian TREAT worlds and of course with these SHREWD implementations that they'll be there. So we expect that, we expect 2024, our services number should be, you know, higher than it was in 2023, that's for sure, by a fair bit as we go through here. But at the same time, it's just how it smooths through. It does get seasonal through the summer months and the Christmas times where you just go see a little bit of a lull in those type of areas, but we are taking service for sure.

Brian Goffenberg
And Doug it was up year-over-year just quarter-over-quarter And in that case, it's just how it smooths through. it was up year over year, just quarter over quarter, it's just pretty much on par.

Doug Taylor
Right. You know, last question for me, following on Donangelo's, EBITDA questions, EBITDA margins, you know, I think naturally a bit higher because of the mix related to the services that we just talked about, but you know, is there anything to suggest that that mix to high 20% range isn't now achievable on a sustained basis? Is there some reason we shouldn't kind of journal that across our model going forward, given, you know, the updated mix of business here?

Dan Matlow
I think it should be pretty consistent. Like, we're at that level. You know, we continue to make little investments in our groups on infrastructure and corporate initiatives and so forth in the particular groups

that were there, but we're striving to still look at that rule of 40 based initiative with the top line and the bottom line. The top line will be harder to get as the denominator grows and we think the bottom line will continue to edge its way forward as we make more acquisitions and get more meat on the bone as we continue to do that so we'd like to think it's gonna you know creep up still a little bit more.

Doug Taylor
All right well congrats again on a great quarter I'll pass the line.

Babak Pedram
Thanks Doug. Next question is from Daniel Rosenberg of Paradigm. Daniel your line is open. Please go ahead.

Daniel Rosenberg
Good morning, Dan and Brian. My first question comes around the sales strategy. I was wondering if there's any changes in your thoughts around go to market just now that you're in several markets and gaining scale in each market. Just how do you think about the use of partnerships and you've been successful with the Abu Dhabi partnership that looks quite interesting, but partnerships versus direct sales versus inbound. Can you just speak to the dynamic you're seeing and how you're thinking about the company at this stage?

Dan Matlow
Yeah, my experience would suggest that partnerships become a bit of a challenge unless you got customers in a particular region and you got something to work with, which we do in the Mid-East. There are some long-term relationships that we've acquired over the years with companies doing stuff. So we're doing that stuff. We got a little bit of a base in Australia. We do talk to the consulting groups and the people that influence in those particular areas. But we're not going to go, we do believe a direct sales model is still the best way to do that with local people that know how to get into those markets. And the best way to do that is with an acquisition where you acquire an engine already to go into those verticals. So, we continue to look for acquisitions and other verticals and continue to work to enhance all of our distribution channels and the areas that we're into. So, healthcare within a particular geography is always a cooperative type of world with, you know, with the projects and other vendors that are looking to get those projects and you're talking to that ecosystem all the time in many different ways of partnering project management, competing in our case acquisitions, right? So, you know, we're always talking into those particular. groups. So, there's that ecosystem, you speak to it all the time, and that's sort of how you go to market.

Daniel Rosenberg
Okay, appreciate that color. And then in terms of hiring, I mean, it's been a successful use of the R &D group, and in scaling that internally. So, you know, for the next stages of growth for VitalHub, what are the areas that you think you would want to have additional talent on board? Or is the ship correct as it is? And you could attack the markets that you're looking at with the team as is.

Dan Matlow
Yeah, we can continue, you know, the more meat on the bone, the more surplus we get for investment. For sure. sure, there's areas we would like to continue to expand in terms of infrastructure and, you

know, we've already made significant investments. Security and compliance are becoming a huge issue in all our space, but definitely in government and healthcare in terms of that type of stuff. So we continue to make investments and we continue to need to make more investments. in those areas. We think it's really turning into a competitive factor for us winning deals now by having a strong security and compliance-based world. So we continue to look at that world and try to make investments to probably continue to make more investments. As we continue to grow, accounting functions and streamlining processes and things like that continue to get more demanding and, you know, those types of investments need to continue to grow. So we think we got a pretty strong model to build up as a completely finished to scale this thing to where we'd like to now. We still think we got, you know, some more investments to go. But we've been gradually adding and we expect to continue to gradually out over. over as we continue to grow.

Daniel Rosenberg
Understood. That's it for me. Thanks for taking my questions.

Babak Pedram
Thanks, Daniel. There are no further questions. Then I'll hand the call back to you for your closing remarks.

Dan Matlow
Again, just thanks everyone for 2023 and 2024, and just want everyone to just understand what our business model is, what we're trying to accomplish and what we're, we're always looking at the long run here and we're just trying to continue to build this business model out as effectively then and continue to scale it, but we're excited that the model as we envision it is taking shape. and it's also equally exciting to see that the investment community is, is understanding it. So, just thanks to everybody. And if anyone has any questions and wants to reach out to Brian and I, or through Bab or for anyone, we're always available to answer your questions. And again, thanks for your support. Thanks, everyone. Just concludes our call today. You may hang up.