FINAL TRANSCRIPT

VitalHub Corp.

Q2 2022 Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to VitalHub's Q2 2022 Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you need assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, August 12, 2022.

I would now like to turn the conference over to Graham Farrell. Please go ahead.

Graham Farrell — Managing Partner, Harbor Access

Thank you, Operator. Good morning, and welcome, everyone, to VitalHub's quarterly conference call to discuss the Company's financial results for the second quarter of 2022.

This call will cover VitalHub's financial and operating results for the second quarter ended June 30, 2022.

Following our prepared remarks, we will open the conference call to a question-and-answer session.

Our call today will be led by VitalHub's Chief Executive Officer, Dan Matlow, along with the Company's Chief Financial Officer, Brian Goffenberg.

Before we begin our formal remarks, I would like to remind everyone that some of these statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The

Company’s actual results may differ significantly from those projected or suggested by any forward-looking statements due to a variety of factors, which are discussed in detail in our SEDAR filings.

I will now hand the call over to Brian Goffenberg. Please go ahead, Brian.

Brian Goffenberg — Executive Vice President and Chief Financial Officer, VitalHub Corp.

Good morning, everybody, and thank you for taking the time to join us this morning.

We remain focused on scaling growth organically and through disciplined acquisitions that fit our overall growth strategy.

Annual recurring revenue continues to be the main driving factor for our health care products, and we continue to see growth opportunities in our key geographic locations, including Canada and the UK.

On that note, I’ll be sharing some highlights from the quarter.

Total revenue for Q2 2022 totalled $9.5 million compared to $5.8 million in Q2 2021, an increase of 64 percent.

Total revenue year to date 2022 totalled $18.9 million compared to $11.1 million for the same period in 2021, an increase of 70 percent year over year.

Revenue from term licences, maintenance, and support in Q2 2022 were $7.2 million compared to $4.6 million in Q2 ‘21, an increase of 56 percent. Revenue from term licences, maintenance, and support for the year to date totalled $13 million compared to $8.5 million for the same period in 2021, an increase of 53 percent. The increase in term licences, maintenance, and support revenue is primarily attributable to new customer contracts and acquisitions completed in the year.

Revenue from perpetual software licences in Q2 2022 was $149,253 compared to $222,981 in Q2 2021, a decrease of 33 percent. Revenue from perpetual software licences year to date were $2.9 million compared to $578,000 for the same period in 2021, an increase of 404 percent.

Revenue from professional services and hardware in Q2 2022 totalled $2.1 million compared to $940,000 in Q2 2021, an increase of 123 percent. Revenue from professional services and hardware year to date totalled $3 million compared to $2 million last year, an increase of 48 percent year over year.

Annual recurring revenue, or ARR, which we formally refer to as annual contract value, totalled $31.2 million at the end of Q2 2022 compared to $24 million at the end of Q1 2022, an increase of 30 percent in the quarter.

We grew our ARR this quarter by $7.2 million, achieving 30 percent growth for the quarter; $7.6 million of that or 32 percent on a constant currency basis; $823,000 or 3.4 percent organically; and $6.7 million or 28.1 percent through acquisitions; and a decrease due to an annualized foreign exchange loss of $367,000 or 1.53 percent.

Gross margin on total revenue in Q2 2022 was 83 percent compared to 77 percent for the same period last year. Gross margin on total revenue year to date was 84 percent compared to 77 percent in the same period in 2021.

Operating expenses in Q2 2022 totalled $6.4 million compared to $3.8 million in Q2 2021, an increase of 68 percent. Operating expenses year to date were $11.7 million compared to $7.4 million for the same period in 2021, an increase of 58 percent. The increase is directly attributable to acquisitions made throughout 2021 and 2022 while we continue to work to get full scale through the integration.

Net income in Q2 2022 was $74,000 compared to a net loss of $523,000 in Q2 2021, an increase of almost $600,000. Net income year to date is $1.5 million compared to a loss of $765,000 for the same period in 2021.

EBITDA for Q2 2021 was $1 million compared to EBITDA of $157,000 in Q2 2021, an improvement of 552 percent. And EBITDA year to date was $3.4 million compared to $456,000 for the same period in 2021.

Adjusted EBITDA for Q2 2022 was $1.8 million compared to $1 million in Q2 2021, an increase of 77 percent. And adjusted EBITDA year to date was $4.9 million compared to $1.9 million for the same period in 2021, an increase of 156 percent.

Cash flow from operations was $4 million for the six months ended June 2022 compared to $647,000 for the same period last year.

Cash on hand as at June 30, 2022, was $36 million compared to $16 million at the end of 2021.

And with that, I'd like to hand the call over to Dan for an update on the business.

Dan Matlow — President and Chief Executive Officer, VitalHub Corp.

Thanks, Brian. Just going to speak a little bit in an informal session.

As you heard, the Company continues to go forward on all of our indicators. And we like where we're at and we just keep progressing, and just further validation of our business model in the quarter, and we keep going.

So it was a record quarter from a revenue perspective. There was only two months of the Hicom acquisition in the quarter. So in the next quarter, you should see the full reflection of that and as we edge towards the $10 million revenue mark.

As you saw in the quarter, there was less one-time revenue than there was in Q1, which was totally anticipated after all that record one-time revenue, primarily with the Intouch software suite in Q1. The services revenue was higher than Q1, as anticipated, because we're out there busy delivering all those deals we did in the Q1 period.

ARR continues to grow nicely. As Brian said, we grew by over $800,000 for the quarter. What really is highlighted, it's the two-year anniversary since we made some of those acquisitions. And over the last two-year period, we've added $6.8 million organically of ARR. There's always some doubt whether our organization could or could not grow organically, and we were really strong and bullish on those acquisitions in our ability to integrate the sales and ability to really increase the sales of those particular things. And we now got eight quarters behind us of showing the continuous organic growth. So it keeps coming.

It should be noted that this still does not include the SOLGEN deal that we announced in the quarter. That's the deal that we've won on a very highly competitive RFP process for all the prisons in the Ontario marketplace. And we expect that to start ramping up on the licence side toward the end of the year through the first half of next year as we keep adding into that particular and keep rolling out that particular base, that work that's already started.

We're really excited about the TREAT product in general, and the SOLGEN deal is just a further example of it. We are seeing a lot of large activity in that product suite, and it is really holding its own in a competitive structure. So we like what's going on with that product, and we're looking to continue to expand that product in the Canadian marketplace and anticipating also starting to move that into the international markets as we validated the power that it has. There's still a lot of room in the community space, and we're expanding.

The hospitals in general are still very busy. Post COVID, we're hearing all over the news in the Canadian marketplace; we're seeing this abroad, hospitals are busy. They're short-staffed. Automation is key in there and the topics that we have in terms of patient flow are pretty highlighted in a lot of their discussions.

Our cash situation, as you can see, as we start collecting the cash from the deals and through the capital raise, is at a very nice position. We still have acquisitions in play and still expect to complete acquisitions. We're being careful on what we do, but we do have acquisitions in play, and we expect to continue and keep going with our business model.

We always thought, when we got to some critical mass, that the model would start really kicking in from many different levels. And as we approach the $40 million annual rate, we're starting to see some of the synergies coming in on all sides of our business. And we expect to continue and keep going at this pace, the pace that we're at.

And I'll answer any questions at this time.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are on a speakerphone, please lift the handset before pressing any keys.

First question comes from Christian Sgro at Eight Capital. Please go ahead.

Chris Sgro — Eight Capital

Hi. Good morning, and thanks for all the colour in the opening remarks. I'll touch, Dan, on one of the comments you made on hospitals being busy, probably globally, and we're certainly seeing that in Canada. So do you think that creates an opportunity to cross-sell some of the UK product suite into Canada?

And how competitive is that landscape here in Canada?

Dan Matlow

It's a different landscape. There are some players in the space. The narrative is there, and we're coming into the space. But we did announce some deals in the quarter. We've announced the Synopsis deal in Canada. We're working on Intouch deals. Right now, we have—transforming deals in the marketplace.

So we do have our showcase accounts, and we do have reps that are doing it, and we are doing a lot of conversations. So we're definitely further ahead in that respect than we were six months ago, and we do expect to get deals on a (unintelligible) basis in the Canadian marketplace for those products.

Relative to the competitive products, we think the ones we got in the UK are far superior in terms of what they offer. And it's just a matter of getting out there and making it happen.

Chris Sgro

Okay. Perfect. The next question might be for Brian on the gross margin profile. And absent any perpetual licence contribution, they're a smaller contribution, that's very high margin. I know the gross margin profile is very strong. So I was wondering if there was anything to unpack there through any one-offs or if this is sort of the rate go forward and what we saw in Q1?

Brian Goffenberg

Yeah. It was that. I think probably, yeah, it's pretty strong, and we do anticipate it to be around these levels. You might find it, as we do a little bit more hardware, it may go down a little bit more. But we think that probably be around the—we've been talking it's 75 percent to 85 percent. If you want to be conservative, you'd go 80 percent. We're at the north of 80 percent this quarter, and then the last quarter, obviously with the potential that the really low margin—really high margin and revenue.

But it's really going to come down to the product mix in any particular quarter. As I say, if we do have a lot more hardware, it will go down. And services this quarter were pretty good. But it depends on who we use for the services, that could go down.

Chris Sgro

Okay. That's helpful. And I'll ask just one more question and then pass the line, but on hardware. Are we seeing any issues sourcing and shipping hardware? And then, as a follow-on, does that lead to related revenue once the product is shipped?

Brian Goffenberg

There have been some challenges with the supply chain, but they seem to be correcting. And we're starting, as you'll see—I think you'll start seeing more of the hardware being shipped in the next couple of quarters.

Chris Sgro

Okay. Perfect. Solid quarter, guys, and thanks for taking my questions.

Brian Goffenberg

Thank you, Chris.

Operator

Thank you. Next question comes from Doug Taylor from Canaccord Genuity. Please go ahead.

Doug Taylor — Canaccord Genuity

Yeah. Thank you. Good morning. I'll echo Christian's comments on a solid quarter. The $9 million TREAT deal that is expected to ramp, I think, as you said, second half of this year through the first half of next year, can you just remind us the composition of that deal and what the ultimate ARR build should be? I mean, I think it works out to about $1.5 million a year in total.

Dan Matlow

Yeah. The ARR should ramp to probably between $1 million and maybe up to $1.5 million a year, depending on how it rolls over period of time. But we do anticipate probably $1 million-ish of ARR to ramp up for that particular product as we roll that out.

And then further, on top of that, will be one-time enhancements to the product that they'll require. So there'll be a fair amount of professional services that will probably extend over a two, three-year period as they go through different phases of the rollout.

Doug Taylor

Okay. And so, given what you said about this rollout and also the activity levels in Canada with respect to new opportunities, can we expect the ARR build to break from that typical kind of stronger first half seasonality?

Dan Matlow

Yeah. It's hard to anticipate that. I still think there's still an element of seasonality on what generally happens in respect of it. We are still seeing a robust amount of deals. So as I said before, seasonality is a symptom, but it's not a 100 percent thing, I think, on our business model as it happens. If we added—summer quarters are typically tough quarters, but it wouldn't surprise me if we did a north-of-$1 million ARR quarter in the summer either just depending on the mix of what's going on at any particular time.

So it's fair, but I wouldn't use seasonality as a 100 percent margin. We still see robustness in our pipeline there.

Doug Taylor

The last question for me. I notice you drew down on your entire [audio gap] despite having raised enough equity to complete the M&A that you needed in the quarter. Can we infer anything from that about your near-term prospects (phon)?

Dan Matlow

There's a lot of M&A activity going on, on a lot of different fronts that sometimes don't get over the finish line even though you thought it would. That keeps moving through our process here. Right? So we continue to move, and there's activities.

There was a pretty radical shift in the landscape in terms of valuations in stock price and stuff that you start thinking about some of the acquisitions and some of the things that you do and get a little bit more careful on valuations and things. Right? So those are some of the things that are going on in the background here as we continue to move forward with it.

Doug Taylor

Okay. Thank you. I'll pass the line.

Operator

Thank you. Next question comes from Gavin Fairweather at Cormark. Please go ahead.

Gavin Fairweather — Cormark

Hey. Good morning. Congrats on the quarter. I thought I'd just start out on kind of the UK sales environment. Obviously, you guys have been firing on all cylinders in terms of your patient flow solutions in that marketplace. Now we're in summer, kind of been hearing about elevated vacations this year. Maybe, can you just speak about kind of the Q3 in that sales environment and how the pipeline's looking as we start to approach kind of the busier Q4, Q1 sales periods?

Dan Matlow

There's still deals going on, Gavin. We're sitting in the summer. It's sometimes tough to just get the purchase and procurement mills moving in the summer as best as you would like them to move. So it's hard to say on August what it looks like. There tends to be a big push in the September time frame as people come back to work to get things that probably we would be 100 percent confirmed would close, but just wondering if you have enough time to close it in September. But there are enough deals out there that we should be able to still do what we think we're going to go do for the particular quarter there.

Gavin Fairweather

And any comments on kind of the pipeline maybe beyond Q3 and how it's—is it growing as you head into the busier sales period?

Dan Matlow

Yeah. I think there's still deals going on. There's activity. There's demos. There's proposals. There's still lots of things going on. And we anticipate things will start going. And that's the UK marketplace. In the Canadian marketplace, we're getting really excited about what's around the TREAT side of our business, that SOLGEN deal and other stuff. And we're starting to validate the power of that product set and competing against some pretty large players.

So we like what's going on there. And so that, combined with our UK stuff, we think we're in the nice spot here with those product sets.

Gavin Fairweather

Can you just remind us on kind of the implementation process for that Ontario prison win with TREAT? I mean, is it like an elongated process where you're going from site to site? Or how should we think about the ramp towards that $1 million of ARR?

Dan Matlow

It's still in play in terms of where that will go, but we anticipate it's going to be more of a—what I'll say—a gradual big bang, which is they're going to do everything at once with our product set and then build upon it. But they won't roll everything out at the exact same time, but it won't be that big of a gap in between, if that makes any sense.

Gavin Fairweather

Yeah. Okay. That does. And then just given the momentum that you're seeing with TREAT, I know that there is typically more services attached to it, and services rev were quite strong this quarter. Curious for kind of your backlog of services, and do you need to add some capacity there given the increasing momentum that you're seeing on TREAT, if you like?

Dan Matlow

Yeah. We do have a backlog, and we will, if things do happen as anticipated, need to add more resources. But those resources will come both from the Canadian aspect and from the Colombo aspect. There's a fair amount of work that our Colombo group does on the deployments, and they are billable in their own right for what they do. So they'll probably come from both sides, but it's what we—if potentially what happens what we think will happen, we would need to add more cost in it, for sure.

Gavin Fairweather

Got it. And then just lastly for me. You mentioned Colombo. There's obviously been a lot of headlines around some of the geopolitical issues going on in Sri Lanka. Maybe you can just comment about how that group is managing and how you're kind of managing that group given some of the volatility there?

Dan Matlow

Yeah. There was volatility about a month back. It seems to have calmed down. We did not suffer. Everyone is equipped to work from home there. And the biggest issue was the fuel crisis, which seems to be coming back together. Everything seems to be moving up, full transportation, and we seem to have everyone back in the office.

All of our employees are equipped with solar power-based items in those marketplaces, and we haven't skipped a beat. Tech is something that's really taken care of in that country, and they appreciate what that is, and they get full endorsement from the government or from the people. So we haven't had any issue there at all.

Gavin Fairweather

Great to hear. Congrats on another strong quarter.

Dan Matlow

Thanks.

Operator

Thank you. Next question comes from Daniel Rosenberg at Paradigm Capital. Please go ahead.

Daniel Rosenberg — Paradigm Capital

Good morning and thanks for taking my question. I wanted to ask around the integrations that you mentioned are going on with Hicom. So what are the key aspects for that division to get fully integrated? Is it a training up of the sales team?

Are there some cost synergies that you're seeing? How do you expect that to roll out?

And when do you expect to be complete in terms of integrations?

Dan Matlow

Hicom is a pretty profitable base organization right out of the get-go. So we continue to work with it and do the things that are necessary to do. But we have started to cross-pollinate their team with our UK team in all different aspects on the sales side.

And we have started to introduce that group to our offshore—to our Colombo-based innovation lab to supplement and to work with their particular development groups. So we continue to go down those routes. It's a little bit of a bigger entity. It's not going to happen overnight, but we continue to do that.

Daniel Rosenberg

Okay. Thanks for that. And then I had a question around taxes or cash taxes. How do you guys—like, what do you guys expect to be in terms of kind of a tax bracket for the year? And I understand there's some timing things that can make these payments kind of lumpy and whatnot. But just how should we be thinking about the tax rate for the Company?

Dan Matlow

Brian?

Brian Goffenberg

Yeah. We've still got some launches to work through in most areas. But I think you will start seeing it I think probably at some time next year or the year after, we should be—we'd be in an area where we probably will be taxable. We've got some small areas where we are paying a little bit of tax, but it's minimal to date.

Daniel Rosenberg

Okay. And lastly, on deferred revenue, how should we think about that turning into booked revenue in the coming near term? Is there going to be a catch-up quarter? Or is that kind of just a transition as you guys keep going?

Dan Matlow

I think, in generally, it's going to be pretty smooth that comes through that. You can see the difference between the long-term deferred revenue and the short-term deferred revenue in the financials as you look at them. But I think it should be pretty smooth as we go through this.

Again, there was a bunch of the one-time revenue or a little bit of the one-time revenue in Q1 that has delivery aspects and things associated with it. But we're working our way through that.

Daniel Rosenberg

Great. Thanks for taking my questions, and congrats again on a strong quarter.

Brian Goffenberg

Thanks, Daniel.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press *, 1.

Next question from Gabriel Leung at Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Hi. Good morning, guys. And thanks for taking my questions. Dan, I just want to go back to, I guess, to your comments around sort of patient volumes and staff shortages (phon) at hospitals. Obviously, that's an opportunity for you guys. But I'm curious whether you've seen that also extend out or draw out sort of sales cycles with the decision makers there.

And beyond that, I'm also curious to hear your thoughts around whether or not you see any sort of, I guess, structural issues that might impact decision-making or your midterm growth for the Company. It may not be UK or Canada.

Dan Matlow

I think you always got an issue of hospital—all hospitals have always been crowded. This is just a norm. It gets a little bit more crowded. So it's a little bit more of a narrative right now in terms of where things are. But it's a constant battle for our sales reps to try to get attention from people because of crisis modes within the health care. I've been dealing in Canadian health care for, I don't know, 25 years and it hasn't changed from that narrative.

But we do play the narrative to try to get attention to get things escalated, and we think it helps more than it hinders. By getting things in the press and getting ideas, it allows us to work with our partners and other people to get messages elevated and maybe get things over the finish line. Because of the narrative that goes through it, it does seem to be a helpful trend in all geographies to be able to do that. But typically, always a constant issue. But on the balance, I would say it helps more than it hinders.

Gabriel Leung

Got you. That's helpful. Second, I want to touch on competition for a minute, not so much in your core UK, Canada regions, but more—in some of the areas, you've talked about expanding into

Australia and Middle East, parts of Europe. I'm curious whether you're seeing another sort of VitalHub-type private or public company that's doing as well as you are in your core regions, and whether that might prompt you to accelerate expansion within those regions.

Dan Matlow

They always talk about the public sector's triangle which is Australia, UK, and Canada, and we tend to be correlated. So we do have a base of implementations in Australia, but we are putting a little bit more emphasis into servicing that base and getting new deals. And we expect to get deals over the finish line in the Australian marketplace in the next little while.

So we do have a little bit of emphasis in that particular space in terms of beefing up sales and marketing because we do think our products can compete. We know and we do have an install base to build off of there in our patient flow overall. We've got a nice big MCAP implementation that's doing really well. We have some Jayex implementations, as well as some Intouch implementations. And we're working hard to get transforming ideas over that. So we have started to build up our cost base in that marketplace, and we have put some emphasis into that area.

We also, through the Hicom acquisition, got some sites in New Zealand that we can service. And we also got an office in the UAE now, which is going to allow us to get going on some of our other products in the Mid-East marketplace. So we have implementations of Hicom in UAE, but we also have some implementations in the Qatari regions as well. And we've done work with the MCAP products throughout Saudi Arabia in the past. So we do have work that's always being done in the Mid-East. So those are probably our four areas of some emphasis that we're working on right now.

Gabriel Leung

Got you. Just one last question, just on M&A. You noted earlier that you'd sort of tempered down your own expectations in terms of what the valuations you're going to pay. I'm curious whether you've seen sellers also sort of ratchet down their expectations, number one; and number two, whether you've seen other bidders take down their valuations as well. Or I guess another way to ask, have you lost out on any potential M&A deals that you're looking at because of price?

Dan Matlow

Yeah. There were some deals that didn't happen because of price, but we didn't lose out to competition. I think it's more of, I guess, probably related to the housing market a little bit where people put houses up for sale and the markets drop and they just take them off the market type of thing because the pricing changes. I think you're seeing more of that than you are on the competitive stuff. But we are still leery of the fact that private equity still sitting with a fair amount of money, and they're volatile to do that.

We always try to look at our acquisitions from the perspective of what it's worth to us versus what we pay for it and what can we do with it on the other side and try to look at it from that perspective to go do it. But I think, in an overall general perspective, we're definitely more sensitive to the profit margin or the EBITDA margin of the acquisitions and how, if they are profitable, that's a point, or how fast we can get them profitable based on the current landscape of what we do.

So we are being careful. I think the competitors are being careful. Overall, I think prices had—no, we haven't lost anyone based on price. But we, ourselves, are being careful in terms of what we pull the trigger on based off of valuation, as we always have.

Gabriel Leung

Got you. That's great. Thanks for the feedback, and congrats on the progress.

Dan Matlow

Yeah. Thanks.

Operator

Thank you. There are no further questions. You may proceed.

Dan Matlow

Okay. I just want again to thank everyone for attending. I think every quarter we just get more clarity on our Company and what we're trying to get accomplished. And I just like to thank everyone on the support. I know the markets are tough out there right now, so we're hanging it in there.

And I think we're in a really good position. We're producing cash. 80 percent of our revenue is recurring in nature. We're continuously adding more revenue. And we're in a good position here. So we're here for the long run, and we'll just keep progressing. And we think it's a great investment for people.

So if anyone wants to take a further look at it, that's on this call that wants to learn more but didn't ask questions, feel free to reach out. We're happy to answer questions to anyone. But thanks, everybody.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.

Dan Matlow

Thank you.

Operator

Thank you.

Brian Goffenberg

Thank you.