



**Augmedix Inc.**

**2021 Third Quarter Earnings Conference Call**

**November 9, 2021**

## CORPORATE PARTICIPANTS

**Caroline Paul**, *Investor Relations*

**Manny Krakaris**, *Chief Executive Officer*

**Paul Ginocchio**, *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Ryan Daniels**, *William Blair*

**Bill Sutherland**, *The Benchmark Company*

## PRESENTATION

### Operator

Greetings and welcome to the Augmedix 2021 Third Quarter Earnings Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Caroline Paul, Investor Relations. Thank you. You may begin.

### Caroline Paul

Thank you all for participating in today's call.

Joining me are Manny Krakaris, Chief Executive Officer, and Paul Ginocchio, Chief Financial Officer.

Earlier today, Augmedix released financial results for the quarter ended September 30, 2021. A copy of the press release is available on the Company's website.

Before we begin, I would like to remind you that Management will make statements during this call that include forward-looking statements within the meaning of federal securities laws which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements contained in this call that relate to expectations or predictions of future events, results, or performance are forward-looking statements. These forward-looking statements are based upon our current estimates and various assumptions, and involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated or implied by these forward-looking statements.

Accordingly, you should not place undue reliance on these statements. For a list and description of the risks and uncertainties associated with our business, please refer to the Risk Factors and Management's Discussion and Analysis of Financial Conditions and Results of Operations in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission and similar disclosures in subsequent reports filed with the SEC.

This conference call contains time-sensitive information and is accurate only as of the live broadcast today, November 9, 2021. Augmedix disclaims any intention or obligation except as required by law to update or revise any financial projections or forward-looking statements, whether because of new information, future events, or otherwise.

With that, I'll turn the call over to Manny.

**Manny Krakaris**

Thanks, Caroline. Good afternoon, everyone, and thank you for joining us.

We're pleased to report another strong quarter as we executed well across our growth initiatives and built upon our bookings momentum in the first half of 2021. We continue to see strong demand from our existing customers. We remain focused on the significant opportunity ahead to further penetrate the clinical documentation market, where healthcare organizations already under contract with Augmedix represent an aggregate annual revenue opportunity of about \$1 billion.

As a reminder, our service model is centered around Augmedix's Ambient Automation Platform which leverages our proprietary Notebuilder system and medical data specialists to generate accurate and timely delivered medical documentation. By combining structured data models with natural language processing and machine learning models, Augmedix's Notebuilder system is able to deliver comprehensive notes for more than 35 specialties in a variety of healthcare settings.

Metadata generated from the sequence of clinicians, questions and patient answers from nearly 40,000 visits per week helps train our AI driven Notebuilder and drive increasing efficiency. This metadata will also facilitate automated add-on services such as coding, providing Augmedix with a powerful advantage over other approaches that do not possess such data.

Physicians have a choice of our real-time service, which we call Live, or our non-real-time service, which we call Notes. Both of our solutions focus on reducing the burden of medical note documentation, which results in higher clinician productivity and helps generate additional revenue for healthcare enterprises. Our service has also been implemented to increase clinician and patient satisfaction.

Our unique approach to clinical documentation enables not only natural physician-patient conversations, but also creates scheduled capacity for clinicians to spend more time to see more patients, which is exactly what health systems need right now, as they are experiencing higher levels of retirements and economic pressure post COVID-19.

Turning to our recent financial performance, revenue for the third quarter of 2021 was \$5.6 million, representing a 33% year-over-year increase. Quarter-over-quarter revenue growth accelerated to 9% versus 8% last quarter. Given the health of our pipeline and increasing customer adoption, we expect our bookings momentum to continue and for growth in clinicians in service to accelerate into the fourth quarter of 2021. We believe we have a multi-year revenue growth opportunity of 30% to 45% annually through the increased adoption of our Live and Notes offerings among our existing and future customers.

Looking ahead to the remainder of 2021 and beyond, we're excited to share some updates on our revenue and gross margin growth initiatives.

First, we continue to build relationships with our major accounts in order to offer our Notes and Live offerings to a broader base of physicians within these enterprises. Recall that when we land within one of these enterprises, we implement our solution among an initial cohort of physicians we believe would be prime beneficiaries of our service based on their individual productivity metrics. We gradually expand our footprint once we demonstrate that targeted ROI. The unlocking of our Notes offering at a few of our large enterprises has increased our opportunities to further penetrate these organizations.

Second, we are thrilled today to announce a partnership agreement with the National Cooperative of Health Networks Association, NCHN, a national professional membership organization to help rural health networks gain access to Augmedix's Ambient Automation Platform, which we refer to as a AAP. As rural health networks struggle with recruitment and clinician burnout, we're focused on helping NCHN's clinicians free up time, ease the administrative burden of the EHR, and practice at the top of their medical license. Look forward to helping NCHN's rural health network achieve their goals through this partnership.

Third, in September, we were pleased to announce our partnership with Google Cloud to integrate and optimize their automatic speech recognition technology into our Notebuilder technology platform. Our proprietary technology provides a natural language processing to the text to produce a final clinical note. We believe this integration can improve the accuracy of our NLP models, improve our unit economics, and accelerate our ability scale to new clinicians. Our partnership with Google Cloud is also beginning to benefit our go-to-market efforts and generate Google-sponsored enterprise sales leads. We remain focused on identifying other potential partnerships that are complementary to our core documentation solutions to help us further accelerate our growth.

Fourth, we continue to invest in technology to enable increasing levels of automation in greater operational efficiencies in the note creation process and other related services as we broaden our solution portfolio. As a result, we expect higher gross margins in the future.

Finally, our flexible operational infrastructure and technology platform has enabled us to seamlessly enter a new end-markets, such as wound care, dental, veterinary, outpatient, and post-acute care settings, which we consider to be under-served markets.

Our solutions are utilized today by over 35 specialties across 28 EHR systems. We remain focused on identifying additional opportunities that will further expand our already large total addressable market.

Although these are exciting developments that should continue to drive growth and margin expansion in our business for many years to come, I want to make sure that people remember an ambition of ours since the Company was founded back in 2013.

That is the creation of a natural language-processing/artificial-intelligence platform that can generate complex medical notes in a fully automated process from an ambient, natural physician-patient conversation. This is an enormously complicated piece of technology that requires millions of data sets to create.

Because we've built our solution to be end-to-end, meaning we have access to the conversation between the patient and the doctor, as well as the final EHR entry, it means that we are in a unique position in the market to be able to develop this platform. The platform is being launched in phases over time, allowing us to automate key steps in the medical note creation process along the way until, in the end, almost all the note is likely to be generated by a machine.

We expect the majority of the medical note content we create to be automated within the next two to three years. Over time, therefore, we should be able to become much more productive, expand our gross margins, as well as offer increasingly complex and other value-added services to our healthcare system clients.

In summary, we delivered another strong quarter and we're very enthusiastic about our achievements to date. We executed well on our strategic priorities and we remain committed to investing in our platform to further penetrate the clinical documentation market.

With that, I will now turn the call over to Paul Ginocchio, our Chief Financial Officer, then will return with closing comments.

Paul.

**Paul Ginocchio**

Thank you, Manny.

As stated, revenue for the three months ended September 30, 2021, was \$5.6 million, a 33% increase from the \$4.2 million in the same period a year ago. Growth was driven by existing client expansion, new clients, and strong growth in our Notes offering.

Dollar-based net revenue retention was 122% for our health enterprise customers, compared to 129% in the second quarter of 2021 and 113% in the third quarter of 2020. As many of you know, net revenue retention measures what a dollar of revenue that our existing clients a year ago grew into in the most recent quarter. It includes up-sells, expansion and churn, but excludes revenue from any new logos added during the last 12 months.

Clinicians in service as of September 30, 2021, were 834, up 51% as compared to 551 in the previous year. Our average clinicians in service in the third quarter were up 42% year-over-year. We define a clinician in service as an individual doctor, nurse practitioner, or other healthcare professional using either our Live or Notes service. We believe growth in the number of clinicians in service is an indicator of the performance of our business, as it demonstrates our ability to penetrate the market and grow our business.

Gross margin for the third quarter of 2021 was 45.0% as compared to 44.2% in the corresponding prior period and compares to 45.0% in the second quarter of 2021, the latter of which excludes the one-time benefit from the write-off of a provision related to our previous office lease.

Total operating expenses for the third quarter of 2021 were \$7.2 million versus \$5.2 million in the third quarter of 2020. Operating expenses in the third quarter of 2020 were \$400,000 lower due to temporary salary reductions and furloughs attributable to COVID. The biggest driver of our operating expense growth in the third quarter with sales and marketing, which grew as a result of higher commissions due to stronger bookings, expansion of our commercial team, and increased marketing investment.

R&D investment also expanded due to higher headcount in engineering to further accelerate our AI and ML efforts.

Finally, G&A expense was flat year-over-year, attributable in large part to transaction-related expenses a year ago. We expect that revenue growth should start to outpace operating expense growth as we get into 2022.

Adjusted EBITDA, which we calculate by adding back depreciation, amortization, taxes, interest, transaction expenses, one-time items, and stock-based compensation to net loss, was a loss of \$3.9 million in the third quarter of 2021, compared to a loss of \$2.6 million in the third quarter of 2020. We ended the third quarter of 2021 with \$11.1 million of cash and restricted cash.

In October, we were pleased to complete a capital raise and concurrent uplisting to Nasdaq, which generated gross proceeds of \$40 million.

Now turning to our outlook for the fourth quarter.

Given the health of our backlog and increase in customer adoption, we expect growth in clinicians in service to accelerate into the fourth quarter of 2021. We expect year-over-year revenue growth to be similar to our third-quarter revenue growth rate of 33%. We expect gross margins to decline quarter-over-quarter by approximately a 150 basis points due to our Bangladesh MDSs returning to the office. We provide transportation and meals to our data specialists when they travel into the office, so our cost of service will grow a little bit as the trend to working from home ebbs.

Additionally, we would like to note that, in the fourth quarter of 2021, we will start a defined savings plan for our Bangladesh employees, as required by local law for any company that has been operating there for five years. We will contribute a percent of each employee salary to a fund, but for those employees who stay with Augmedix for five years or more, they will receive a payout from the fund upon retirement or departure. For those employees who depart before five years, those allocated funds will be used to offset future contributions.

About 5% of our current employees have been with Augmedix for five years, and approximately 2% of all Bangladesh Augmedix employees since inception have been with us five years. One-time catch-up payment in the fourth quarter to implement this program will be about \$0.5 million, and it will have an ongoing 30 basis point impact on our overall gross margin. Year-to-date, we have received about \$400,000 of grants from the Bangladesh Government, which has basically funded this required savings program.

Recall, at scale, we've indicated that we expect Live gross margins to range from 50% to 55% and Notes gross margins to range from 55% to 60%.

At this point, I'd like to turn the call back to Manny for closing comments.

**Manny Krakaris**

Thank you, Paul.

In summary, I am encouraged by our strong third quarter results, which reflect the continued momentum in our overall business. Our differentiated platform continues to resonate well in the market, and we remain enthusiastic about the vision ahead for Augmedix.

We are very grateful to all our new investors and our existing investors who supported us in our most recent capital raise. We appreciate your trust and belief in our strategy to transform the clinical documentation process.

Our team remains focused on executing on our strategic growth initiatives and will continue to make the necessary investments to capitalize on the large market opportunity in front of us. Our public listing on Nasdaq marks the culmination of years of hard work and is a major step on our journey forward. Our

success is truly a testament to the dedication of each of our employees. We are proud of all that we've achieved and we look forward to the opportunities that lie ahead.

With that, we will now open it up to questions, Operator.

**Operator**

Thank you. At this time, we'll be conducting a question-and-answer session.

Our first question comes from Ryan Daniels with William Blair. Please proceed with your question.

**Ryan Daniels**

Hi, guys, congrats on the strong performance and the new partnership.

Let me start with just a quick, somewhat housekeeping related one for Paul. Can you go into the sales guidance and overall guidance in a little bit more detail, in particular maybe discussing some of the nuances of provider versus revenue growth. That's obviously going to start to deviate more in the future as you sell Notes at a lower ASP, so I'm just curious if you can offer a little bit more color on guidance. Thanks.

**Paul Ginocchio**

Sure. Thanks, Ryan.

First on the mix between Live and Notes, we do expect increasing percentage of our new clinician bookings to come from Notes, and that will decrease ARPU over time.

Second, on our revenue guidance, we said similar. I think as you look at our bookings, momentum, and backlog, I would think the revenue growth will come in at or maybe slightly above. I'd say maybe it's 33% to 35% year-on-year growth in the fourth-quarter, compared to 33% in the third.

**Ryan Daniels**

Very helpful. Then, can you go into a little more detail on the National Cooperative of Health Networks Association partnership? It sounds like they have 38 hospitals that could benefit from your solutions. Is this more of a hunting license for your sales team to go in under a corporate level agreement or MSA, master services agreement, or an implicit endorsement where they're going to push it out to their customers? Just any more color on how that could augment provider adds going forward.

**Manny Krakaris**

Sure. Good question, Ryan. It's a little bit of both. The NCHN will promote our service, if you will, to their membership who are in dire need of assistance with documentation, burden of their physicians. As part of that process, we will of course go into the individual systems, and we already have contracted with one of them to demonstrate to them the value proposition we can deliver and offer the service to those specific individual members.

**Ryan Daniels**



Great, that's helpful color. Then maybe just a big picture one for you. As we go through earnings season, I think one of the largest comments from providers that we cover is that they're seeing a ton of workforce burnout and turnover and difficulty recruiting clinicians.

One of the things we've heard about Augmedix in our channel checks is not only that it reduces the provider burnout by keeping them out of the EHR so much, which they hate, but also it appears that some of your clients are using it as a pure recruiting tool, saying that we're going to offer this to our recruits as a differentiator. I'm curious how you're capitalizing on what's a mega trend in healthcare that seems something you can address and maybe something that can really benefit the growth of the company over time?

**Manny Krakaris**

Well, Ryan, you're absolutely right. The industry is under tremendous pressure today to recruit and retain medical staff; that includes physicians, nurse practitioners, clinicians, you name it. Anything that we can do that relieves that tension created by the burden of documentation on those medical practitioners would be and is being received with open arms. It is both a recruiting tool and a retention tool. When we go into enterprise, we emphasize the ROI, which is very demonstrable based on the data that we've collected from our existing customers.

But also we emphasize the retention benefits of relieving that burden from these enterprises. They use that, as you mentioned, as a recruiting tool. It is very difficult today for most enterprises to recruit qualified staff. It's becoming increasing so. They're looking for and they are desperate for solutions to help them resolve that issue.

**Ryan Daniels**

Very helpful. Then final one and I'll hop off. Any more color on some of the data sharing agreements that you've been discussing with your partners? It seems like that's a big opportunity to identify more providers it could benefit by the solution. Just any discussion on progress there and maybe what that actually is for those less familiar in regards to identify the potential high-ROI users. Thanks, and congrats again.

**Manny Krakaris**

Sure. Thanks, Ryan.

The data approach that we use to demonstrate the value proposition to enterprises is predicated on two key metrics. One is wRVUs, which is work relative value units. It's a standard unit of measure of performance of individual doctors. It's a metric that most major healthcare enterprises do track for each of their individual practitioners. The other metric that we look at is the average amount of time that each clinician spend in the EHR per visit. What we do is we map every physician's metrics on a grid according to those two axis.

We know from empirical data that we've collected from our existing customers what the productivity improvement curve looks like once they've adopted our service after a given period of time. We know from that curve when we plot all the physicians (inaudible) enterprise where they reside on that curve and we know the steepest part of that curve. We identify those physicians that do reside on the steepest part of that curve that demonstrate the highest improvement in wRVUs. Those are the initial targets that we go after.

What we do when we go into an enterprise is we name the individual doctors that we believe would benefit the most. What that does to the enterprise is it provides them with a tool to motivate productivity



within the enterprise. What I mean by that is they will go to an individual doctor that we've identified and let them know that they can receive the service without changing anything in their workflows and the enterprise will cover, say, 50% to 75% of the cost of the Augmedix service. But if they improve their productivity by adding one additional patient to their daily schedule, the enterprise will cover 100% of the cost of the service.

They know from the data we presented them that particular doctor can easily generate or add another patient to their daily volume. Now we have management promoting the service based on our data within the enterprise, and that has helped unlock the opportunities within each of our large enterprises.

**Paul Ginocchio**

And I'll just say, Ryan, we rolled this out about a year ago. We've got a number of clients on there, and we continue to add additional clients or increase our relationships to include this data sharing, but we're a year in and we've got more clients to unlock.

**Ryan Daniels**

Perfect. Thanks so much, guys. I appreciate it.

**Manny Krakaris**

Thank you, Ryan.

**Operator**

Our next question is from Bill Sutherland with The Benchmark Company. Please proceed with your question.

**Bill Sutherland**

Thank you. Hi, Manny. Hi, Paul. Just a couple from me.

In a couple of client calls, one thing I noted was that as happy as that condition was, the penetration, at least in their group, had not really gotten that deep. I forget what the number was. Give us a sense of the reasonable penetration level. I know it's all over the map probably. Then, what are some of the strategies to go after that \$1 billion opportunity, because it's such low-hanging fruit, seems to me.

**Manny Krakaris**

Great question, Bill.

Now, as I just mentioned, we have this data-centric approach, and as Paul elaborated on, we launched it about a year ago. When we identify specific practitioners or physicians within an enterprise as the initial cohort that we track, it takes about a year to realize the benefits and to see it in the data. There is an inherent lag in when you can reap the benefits of this data-driven approach, but it is powerful when the data supports your contention in terms of the ROI for the customer. We'll continue to pursue that strategy. It seems to be working.

If we look across enterprises and we look at the data that we've already collected from them, typically anywhere from 25% to 40% of all the physicians within an enterprise will fall within what we consider to be the sweet spot of that productivity improvement curve, which is the steepest part of the slope of that

improvement curve. There's a tremendous pathway for us to expand within those enterprises, just looking at those particular doctors.

**Paul Ginocchio**

Maybe I'll just add to that.

Obviously, Manny talked about the most important way for us to expand our existing enterprises, which is just through data.

The second thing we've done is we've launched Notes just over a year ago. That's going to unlock certain physicians who may not be the best fit for Live. That just expands our opportunity set within the enterprise. Obviously, we've been expanding our customer account management team that also goes hands-on and helps us faster expand existing.

**Bill Sutherland**

Got it. Thank you. I have to ask the COVID question. I know most of your MDS, or I'm sorry, your medical documentation specialists, are in Bangladesh and other offshore, but is there any comment there in terms of how it might have impacted your quarter? Thanks.

**Manny Krakaris**

Well, I don't think it's really impacted our quarter. We had a good quarter, both from a revenue perspective but also from an operations perspective. Our utilization rates are high. They've continued to increase. We've adapted well to the challenging environment. I think as the pandemic subsides in varying parts of the world, we will be returning to a more normal operational capability, and so we'll have, as Paul alluded to, some impact on our gross profit margin. But that will be ameliorated by other initiatives that we're undertaking to boost our gross margins.

**Bill Sutherland**

Right. Okay. I think that's it for me. Nice job with the quarter, appreciate it.

**Manny Krakaris**

Thanks, Bill.

**Operator**

Our next question comes from Marc Wiesenberger with B. Riley. Please proceed with your question.

**Female Speaker**

Hi. This is (Inaudible) for Marc Wiesenberger.

In mid-September, you guys extended your MSA with Sutter Health, and within that, they included an option to rollout on Augmedix Notes. I'm wondering if you could talk about how that has scaled thus far and what are your expectations for the alternate mix within Sutter between Live and Notes.

**Manny Krakaris**

Paul, you want to tackle that one?

**Paul Ginocchio**

Sure. It's as you said, we've signed that new relationship with Sutter to unlock Notes within that enterprise. It's still early days. We're going to listen to them about how they want to present that to the doctors with our assistance.

We haven't given a long-term mix. We still think the majority of our clinicians, long term, will be on the Live service, and the minority will be on the non-real-time, or the Notes service. Where individual enterprises fall within that overall mix will depend a lot on the workflows and the specialties and the shifts that each of the individual doctors within the enterprise fall. I think each enterprise will have a different mix, but overall we think the majority is Live and the minority is Notes.

**Female Speaker**

Then another question from me. I know the company has talked about introducing additional incremental offerings such as pre-charting. I'm just wondering if you could talk a little bit more about the products roadmap and how we should think about pricing and unit economics for the upcoming offerings.

**Manny Krakaris**

Sure. Products like pre-charting, we view them as a kind of entry-level service that has broad appeal across most major healthcare enterprises that need that service to relieve some of the burden from not the physician necessarily, but other medical staff, given the shortages of medical staff in the industry. And because of its very low price point, we feel that we can establish a broad beachhead within these enterprises from which to upsell our other higher value-added services such as the medical note itself.

**Paul Ginocchio**

In that pre-charting, because it'll be more automated, will be an enhancement to our gross margins profile.

**Female Speaker**

Awesome, great. Sorry, one more question from me. I know we've talked about two-thirds of growth will be from existing accounts and one-third from new accounts, but can you guys talk a little bit more about how you're prioritizing your sales and marketing efforts? I know you talked a little bit about it in the call, but if you could add any more color, that would be super helpful.

**Manny Krakaris**

Sure. We actually have a bifurcated sales organization that is split roughly according to the split in our revenue between existing and new. We have five enterprise sales managers focused on generating new sales from new customers. Then we have about 15 what we call customer success managers, who are focused on retaining and expanding business within our existing enterprise accounts.

**Paul Ginocchio**

I think that our plan would be to potentially add a few heads to the SM team in 2022 and grow our account team more in line with or maybe just below our clinicians' service growth.

**Female Speaker**

Awesome. Thank you.

**Manny Krakaris**

Just to elaborate on that point. Sorry. We continue to see great returns on the investment we make in sales and marketing, as evidenced by our LTV to CAC ratio, which is very high relative to Seth industry benchmark. As long as we continue to see that great return on that investment, we will continue to invest in sales and marketing.

**Female Speaker**

Awesome. Thank you, guys.

**Paul Ginocchio**

Thanks, (Inaudible).

**Operator**

There are no further questions. At this time, I'd like to turn the call back over to Manny Krakaris for closing comments.

**Manny Krakaris**

Great. Well, that concludes this earnings call session. Thank you, everybody, for joining and have a good night. Thank you very much.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.