



Augmedix, Inc.

First Quarter 2021 Earnings Conference Call

May 13, 2021

CORPORATE PARTICIPANTS

Caroline Paul, *Investor Relations*

Manny Krakaris, *Chief Executive Officer*

Paul Ginocchio, *Chief Financial Officer*

PRESENTATION

Operator

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

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Caroline Paul, Investor Relations.

Caroline Paul

Thank you, and 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 March 31, 2021. A copy of the press release is available on the Company's website.

Before we begin, I'd 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" section of our Form 10-K with the Securities and Exchange Commission on March 31, 2021.

This conference call contains time-sensitive information and is accurate only as of the live broadcast today, May 13, 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.

I am pleased to welcome you to Augmedix's maiden earnings call to review our first quarter 2021 results. As many of you know, following the completion of our reverse merger last year, we began trading on the OTCQX in March. I would like to express my sincere gratitude to all the investors who participated in our recent financing.

As this is our first call as a public company, I will use the next few minutes to provide an overview of our business and will then provide an update on our first quarter accomplishments. I will then turn the call over to Paul Ginocchio, our Chief Financial Officer, to provide more detail on our financial results during that period, and then I will wrap up and open up the call up for questions.

Augmedix is a leading provider of remote medical documentation and live clinical support. We have one overarching theme, which is a relentless focus on re-humanizing healthcare by enabling doctors to be doctors, so they can focus on patients while we take care of clinical documentation and support for them. This results in higher clinician productivity, which helps generate additional revenue for healthcare enterprises, and increases clinician and patient satisfaction.

Additionally, doctor retention is a huge problem in the U.S., costing an estimated \$4.6 billion every year. The total cost to a healthcare enterprise to replace one doctor can be as high as \$1 million. Our documentation support helps doctors save two to three hours a day, improving their quality of life, which leads to a higher doctor retention rate.

At Augmedix, we have pioneered a unique approach to clinical documentation. Our platform is powered by a combination of proprietary auto-speech recognition and machine learning technologies within our Notebuilder tool, that, in combination with human assistants operating in HIPAA-secure locations, generate accurate and timely delivered medical documentation.

Our hybrid machine-human approach to clinical documentation enables not only natural physician/patient conversations, which is very important for physicians, but also physician mobility, given the mobile devices through which our service is accessed and the remote nature of our offering. The COVID-19 pandemic served as a further catalyst to the shift to remote solutions, and we believe we adapted seamlessly to the constraints imposed by the pandemic on in-person specialists.

In terms of how our solutions works for physicians, they simply activate our service through a dedicated smartphone or Google Glass unit, which we supply, via their unique authentication code, which opens up a secure communication channel to our service platform. Physicians have a choice of our real time service or non-real time service.

Under the real time service, which we call "Live", our specialist observes the interaction between the doctor and the patient, both visually and audibly, and makes the appropriate contextual selections within their note-creation application. This then drives our auto-sentence generation model within our Notebuilder tool. Completed medical notes are supplied back to the doctor in real time.

Under the non-real time service, which we call "Notes", the conversation between the doctor and patient is recorded. It then passes through our software model and the text output is edited by our specialists and further processed by Notebuilder into a comprehensive and accurate medical note. Notes using the non-real time service are supplied back to the doctor, typically, the next day.

Both approaches allow the doctor to spend all their time with the patient, without typing notes on a laptop, and eliminate the need for an in-person scribe, thereby also affording more patient privacy.

Our solutions are currently trusted and used by over one dozen major American health systems and a broad base of independent clinicians supporting medical offices, clinics, hospitals and telemedicine. We estimate that our solution saves clinicians two to three hours per day, increases productivity by as much as 20%, and increases clinicians' satisfaction with work/life balance by more than 40%. Our Net Promoter Score of 57 is well over the healthcare industry average of 27, and is yet another testament to our value proposition.

Our service is usually provided under a monthly subscription revenue model, so we have good visibility into our future business outlook.

Over time, we aim to increase the automation of clinical documentation, which represents a multi-billion-dollar market opportunity. Hence, the recent media attention and activity in the space. As more data is collected and harvested through machine learning, our models should be able to automatically process an increasing proportion of the medical note across an increasing number of patient visit types. The effect of automation on our business is that it reduces the time to create the note, provides more uniform note quality, and reduces the amount of time required to train specialists.

What is most exciting is that we are just at the beginning of this journey. We estimate our total addressable market to be about 300,000 doctors in the U.S., representing a potential annual revenue opportunity of about \$6 billion. There is significant opportunity in front of us to penetrate the clinical documentation market, where healthcare organizations already under contract with Augmedix represent an aggregate opportunity of about \$1 billion.

As it relates to our go-to-market strategy, we have assembled an experienced team to unlock these exciting opportunities through an enterprise approach that is highly data-driven. When we land within one of these enterprise accounts, we implement our solution among a select group of physicians who we believe represent ideal candidates to benefit from our service, based on their individual productivity metrics. Once we demonstrate targeted return on investment for these initial cohorts of doctors, we gradually expand our footprint within the enterprise. As such, we have this tremendous land-and-expand opportunity both within our current base and among new enterprise accounts.

Turning to our recent financial performance, revenue for the first quarter of 2021 was \$4.5 million, up approximately 21%, compared to the first quarter of 2020, and a nice acceleration from our 15% year-over-year growth in the fourth quarter of 2020. Revenue growth was partially impacted by the COVID-19 resurgence in the earlier parts of the quarter, compared to the same period of the prior year. We believe that, over time, we can return to our historical revenue growth rates of 30% to 45%, that we experienced in 2018 and '19. We anticipate significant revenue growth will continue to come from our existing customers' increased adoption of our Notes and Live offering.

Regarding customer adoption in the first quarter of 2021, we were pleased to meaningfully expand our existing relationship with one of our enterprise accounts, a large non-profit, integrated health system serving a number of communities on the West Coast. This system had a limited number of clinicians using our service initially, but once they realized the ROI attained by the initial cohort of their doctors, they significantly expanded their use in March and April. This is a prime example of how we land and expand within health enterprises. We expect our bookings momentum to continue over the course of this year, given the health of our backlog and our robust pipeline.

Looking ahead to the remainder of this year and beyond, we're very excited about the potential for incremental revenue growth and gross margin improvement that can be achieved through a number of initiatives.

First, the 2020 launch of Notes allows our specialists to asynchronously create medical documentation and, thereby, enables Augmedix to compete head-to-head with other non-real-time documentation solutions.

Second, the launch of our Live service to the emergency room setting has further expanded our total addressable market.

Third, the launch of Notebuilder in 2020, which utilizes auto-speech recognition technology, will continuously enhance the note creation process. We continue to iterate on Notebuilder and invest in technology, on which we expect to earn an attractive return in the form of higher gross margins in the future.

Fourth, we are thoughtfully building our exposure and scale of operations in Asia, with a focus on gross margin improvement, by targeting the more profitable operation centers in the region.

Finally, we are focused on potential partnerships and business development opportunities that are complementary to our core clinician documentation solutions. For example, we remain focused on care reminder adoption and other opportunities that capitalize on our unique communication channel with clinicians.

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

Paul Ginocchio

Thank you, Manny.

Revenue for the three months ended March 31, 2021 was \$4.8 million, a 21% increase from the \$4.0 million in the same period of the prior year. Growth was driven by existing client expansion, new clients, and increased numbers of clinicians using our new Notes offering. Dollar-based net revenue retention improved to 113% for our Health Enterprise customers, compared to 108% in the fourth quarter of 2020.

As many of you know, net revenue retention measures what a dollar of revenue at our existing clients a year ago grew into in this most recent period. It includes upsells, expansion and churn, but excludes revenue from any new logos.

Gross margin in the first quarter of 2021 was 44.4%, as compared to 34.8% in the corresponding prior year period, and compares to 44.2% in fourth quarter of 2020. Gross margin improvement was driven by operational efficiencies in our cloud platform, plus higher exposure to our Bangladesh service engine. Excluding stock-based compensation expense, gross margin increased to 45.5% from 34.8% a year ago and 44.5% in fourth quarter '20.

Total operating expenses for the first quarter of 2021 were \$6.5 million, a 17% increase from the \$5.6 million in the first quarter of 2020. Excluding stock-based compensation expense from both quarters and transaction expenses, operating expenses grew 10% year-over-year.

R&D expenses for the first quarter of 2021 were \$1.4 million, compared to \$1.5 million in the first quarter of 2020. The decrease was due to lower training expenses, partially offset by an increase in personnel-related expenses as we continue to support product development.

Sales, general and administrative expenses for the first quarter of 2021 were \$5.1 million, compared to \$4.1 million in the first quarter of 2020. The increase was primarily attributable to an increase in personnel, as we continue to expand our commercial team, as well as expenses related to building out our general and administrative infrastructure and support staff, as we manage continued growth as a public company.

Adjusted EBITDA, which we calculate by adding back depreciation, amortization, taxes, interest, transaction expenses and stock-based compensation to net loss, was a loss of \$3.7 million in the first quarter of 2021, compared to a loss of \$4 million in the first quarter of 2020.

We ended the first quarter of 2021 with \$19.3 million of cash and restricted cash. Please note that we pay annual bonuses in the first quarter, which tends to lead to a seasonally higher cash usage.

As Manny mentioned, we were pleased to complete our reverse merger and concurrent private placement, which generated gross proceeds of over \$27 million. At the end of the first quarter, we also completed a debt refinancing consisting of a \$15 million secured term loan, which provided us nearly \$2 million of additional capital and an 18-month interest only period.

Now, turning to our outlook for 2021, we expect outpatient activity to continue to pick up as COVID-19 in the U.S. retreats, and this is expected to provide us a healthy environment for our commercial efforts. Based on the bookings we experienced in the first quarter, we anticipate quarter-over-quarter revenue growth to be similar to, or slightly better than, the prior quarter-over-quarter revenue growth rate of 5.4%. Additionally, we expect second quarter bookings to be on pace or slightly better than our first quarter bookings.

Regarding gross margins, we would anticipate some gross margin improvement in 2021, albeit to a lesser extent than we saw in 2020. Remember, over the long term, we have indicated that we expect Live gross margins to range from 50% to 55% at scale and the Notes gross margins to range from 55% to 60% at scale.

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

Manny Krakaris

Thank you, Paul.

Our vision for Augmedix is immense, and we believe that we are just at the beginning of our journey. Our mission is to transform the clinical documentation process through our relentless pursuit to facilitate doctors' jobs, so they can focus on patient care, and save themselves two to three hours per day in the process.

I'm truly grateful for the wonderful team we have assembled at Augmedix. Our progress is truly a testament to their dedication and passion, and I feel very privileged to work alongside this team as we continue down a path of growth and innovation. We are also grateful to our newest investors who share our commitment to rehumanizing healthcare and are providing the means for Augmedix to carry on its mission.

We look forward to updating you on our business.

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

Operator

It appears that there are no questions at this time. I would like to turn the floor back over to Manny Krakaris for closing remarks.

Manny Krakaris

Thank you, Operator. I wanted to thank everyone for participating on our maiden earnings call and look forward to continuing to update investors on our progress throughout the year. Thank you very much, everybody.

Operator

This concludes today's conference, you may disconnect your lines at this time. Thank you for your participation.