



Augmedix Inc.

2022 First Quarter Earnings Conference Call

May 9, 2022

C O R P O R A T E P A R T I C I P A N T S

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Manny Krakaris, *Chief Executive Officer*

Paul Ginocchio, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Ryan Daniels, *William Blair*

Mark Wienberg, *B. Riley, FBR*

Brooks O’Neil, *Lake Street Capital Markets*

Allen Kee, *Maxim Group*

P R E S E N T A T I O N

Operator

Welcome to the Augmedix Inc. 2022 First Quarter Earnings Conference Call.

Please note, today’s event is being recorded.

I now would like to turn the conference over to Caroline Paul, Investor Relations. Please go ahead, ma’am.

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, 2022. 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 and Management's Discussion and Analysis of Financial Condition 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, May 9, 2022. 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.

For those new to the Augmedix story, we offer technology and services that reduce the medical note documentation burden for doctors and save them two to three hours a day. Feedback from our clinician customers is that our product is life-changing and brings back the joy of being a doctor again, lost after years of grinding out notes behind a keyboard.

We provide two documentation solutions, both of which rely on the ambient conversation between physicians and patients, a real-time synchronous solution, which we call Live, and an asynchronous offering, which we call Notes. Both solutions allow doctors to have natural conversations with their patients with no change to their normal workflows nor any new technology to learn. For the Health enterprise, Augmedix Doctors experience higher job satisfaction and can see more patients, which usually generates additional revenue.

We are pleased with our ability to deliver a strong first quarter performance, as we built upon our booking's momentum in the prior period. We continue to see an increasing need for our products with doctor retention and burnout remaining a key area of concern for healthcare organizations in the U.S. Additionally, Augmedix continues to benefit from healthcare organizations' investment in digital solutions to improve physician workflows, enable increased capacity, and reduce costs at scale.

Turning to our recent financial performance, revenue for the first quarter of 2022 was \$7 million, representing a 46% year-over-year increase. We anticipate significant revenue growth will continue to come from our existing customers' increased adoption of our Live & Notes offerings. Future revenue growth should also benefit from the incremental penetration we expect from our new product launches.

During the first quarter, we again made meaningful progress on our growth initiatives by further building on our robust sales pipeline and expanding relationships with our existing enterprise customers. Our pipeline remains extremely healthy and is the strongest we have ever seen at Augmedix.

Our existing customers are continuing to buy at a healthy rate, as demonstrated by our high net revenue retention rate. We believe we are in a great position to not only bolster our existing customer base, but continue to drive into new, untapped markets in the industry. Recall that we are only scratching the surface of this \$6 billion market opportunity, where healthcare organizations already under contract with Augmedix represent an aggregate annual revenue opportunity of over \$1 billion.

We remain focused on this land and expand strategy. When we land within one of these enterprise accounts, we implement our solution among an initial cohort of physicians who we believe would be prime beneficiaries of our service based on their individual productivity metrics, and we gradually expand our footprint once we demonstrate the targeted ROI.

We continue to make meaningful progress on our automation initiatives and development of new products to cater to different segments of the market. With respect to new products, I am pleased to announce that we have completed our first-ever iOS client application. This is significant as it will enable us to address some major healthcare enterprises that do not allow Android OS within their networks.

In addition to our new client application, our coding solution is in beta with a handful of physicians. Coding is a critical element of documentation as every service performed by a physician during a patient encounter must be coded in order to qualify for reimbursement. Coding is typically done by physicians. We are extremely pleased with our coding solution's very high accuracy level. Recall, our coding suggestion is fully automated based upon the metadata generated during our Note creation process.

Finally, we have completed development work on our pre-charting solution and will initiate beta testing within the coming weeks. Like coding, pre-charting is an essential element of medical documentation. It involves extracting relevant historical information from a patient's health record and inserting that information into the current chart, or medical note, prior to the current visit. This task is typically relegated to medical assistants or other support staff, which as we all know, have been and remain, in very short supply.

Looking ahead into 2022 and beyond, we are confident that we can build upon our success over the past few quarters. We have laid the groundwork to drive additional revenue growth and progress on gross margin. We expect the initiatives we are undertaking with existing customers and the pathway we are creating for future customers, combined with the fact that we offer the broadest suite of services in our industry, will ensure continued market share gains within the ever-expanding market in which we operate. We are excited for what is in store for the remainder of the year and are confident that Augmedix will continue its rapid growth.

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

Paul Ginocchio

Thank you, Manny.

As stated, revenue for the three months ended March 31, 2022, was \$7 million, a 46% increase from \$4.8 million in the same period from a year ago, and slightly better than our guidance of \$6.9 million. Growth was again driven by existing client expansion, new clients, and strong growth in our Notes offering.

Dollar-based net revenue retention for the first quarter of 2022 was 133% for our Health Enterprise customers compared to 135% in the fourth quarter of 2021 and 113% in the first quarter of 2021. 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 quarter. It includes upsells, expansion, and churn, but excludes revenue from any new logos that were added during the last 12 months.

Average Clinicians-in-Service in the first quarter of 2022 rose 53% as compared to the first quarter of 2021, an acceleration from the 49% year-on-year growth in the fourth quarter of 2021. 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 first quarter of 2022 was 45% as compared to 44% in the corresponding prior-year period and compares to 45% in the fourth quarter of 2021.

Total operating expenses for the first quarter of 2022 rose 31% to \$8.5 million versus \$6.5 million in the first quarter of 2021. Operating expenses increased due to annual salary increases, incremental investments in Sales and Marketing as we expand our Commercial team and extend our marketing reach, investment in the Engineering team as we enhance our technology platform, and increased G&A costs due to being Nasdaq-listed company.

As a reminder, we expect revenue growth to outpace operating expense growth during the course of 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 \$4.7 million in the first quarter of 2022, compared to a loss of \$3.7 million in the first quarter of 2021.

Just a quick comment on our recent debt refinancing. I'm very pleased to have SVB as our new lender and relationship bank. The improved terms on our \$15 million of debt highlights the increased maturity of our Company. The lower interest rate will save us \$1.3 million in cash interest expense in the next 12 months, plus we will extend our interest-only period by about a year from September 2022. We also have access to a \$5 million AR line of credit plus another \$5 million term-loan tranche upon the achievement of certain milestones, both of which will further boost our liquidity.

We are excited to have SVB as our bank as they have helped so many other technology companies grow and scale.

We ended the first quarter of 2022 with \$37 million of cash and restricted cash. In light of our \$40 million public offering in October 2021 and recent debt refinancing, we have further extended our operating runway to execute our strategy.

Now, turning to the outlook for the second quarter of 2022. Given the strength of our bookings quarter-to-date and the health of our backlog, we expect revenue growth in the second quarter of 2022 to be in the 41% to 43% range year-over-year, or approximately \$7.3 million to \$7.4 million.

Regarding gross margin, we expect the gross margin to be in the range of 42.5% to 44.5%. Recall, at scale, we have indicated that we expect Live gross margins to be in the range from 50% to 55% and Notes gross margins to be in the 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.

I am thrilled with Augmedix's start to 2022 and the strong foundation in place for the remainder of the year.

Before we finish, I would like to welcome Will Febbo to the Augmedix Board of Directors. Will joins us with years of industry experience, most notably at OptimizeRx where he currently serves as CEO, and which he has built into a powerful force in the digital health industry. I and the rest of the Board are truly excited to work with Will as we continue to build on Augmedix's leadership position. Will joins Laurie McGraw, who you may recall, we added to our Board in March. We are grateful for the impressive Board we have assembled. Each member brings a wealth of experience and expertise to help guide our Company forward and realize the full potential of the enormous opportunity in front of us.

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

Operator

Today's first question comes from Ryan Daniels with William Blair.

Ryan Daniels

Hey guys, thanks for taking the questions. Manny, let me start with a couple for you. Interesting commentary on some of the new product offerings. Maybe you can start with the coding. I'm curious, if you add that on with existing providers, what the ARPU uplift would be for that solution?

Manny Krakaris

Hey Ryan. Coding, we don't expect to sell separately, or as a menu item. We intend to, initially at least, bundle it with the existing live service, to further differentiate it from the offerings of our competitors. I don't see that being additive to the top line, but it will enable us to, like I said, differentiate ourselves more fully against any other companies that offer a live service.

Paul Ginocchio

It will help us with retention as well. Both of those things will help growth.

Ryan Daniels

Absolutely, and then with the addition of iOS integration, how big of a hurdle has that been historically for you? Do you think this is something that can really open up more opportunities, or was that not a major hurdle with health systems not allowing Android into the tech mix?

Manny Krakaris

Well, it's a good question. We wouldn't have developed it if there wasn't a need for it. There are at least two very large healthcare systems, two of the largest, that are iOS-only healthcare systems that we've not been able to penetrate because of the Android operating system that we base our architecture on. Having iOS at least opens up the door, the possibility to being able to cater to those healthcare systems. Hopefully, that will prove to be useful to us as we continue to grow.

Ryan Daniels

Absolutely, and then maybe just a bigger picture question for you, and you alluded to this in your prepared comments. But recently a huge focus on burnout, improving productivity as margins are getting hit, retention given workforce turnover we're seeing in health care and higher wages, and you seem to be a solution that can address all those. I'm curious, are you seeing more of the customers look to you just to help them less with efficiency and billing and coding and more with making their physicians happier and

using it as a recruiting tool, or using it as a retention tool, et cetera? If so, how does that change your sales approach? Thanks.

Manny Krakaris

Good question. Burnout is clearly top of mind with many of our customers, and we continue to demonstrate how we can help them in terms of relieving the burden on doctors that is contributing—a major contributing force to the burnout problem. How that translates into future growth, it's anybody's guess. But we know that we're hitting a very sensitive area right now for the healthcare industry. We're very well-positioned with both solutions, both our Notes and Live solutions, to saving doctors a lot of time and stress and burden related to their jobs that comes from documentation.

We feel we're in the right place at the right time with the right solution. I don't know what that translates to in terms of growth, what impact it will have on our growth, but the industry can no longer, I don't think, sustain its present practice of trying to hire temporary workers to deal with the overload of their permanent staff. I don't think that's a sustainable solution. It's much too expensive. They are increasingly coming under fire, as you probably already know, because you've covered the industry, Ryan. I think that they're going to be looking to third-parties to help them deal with this problem, increasingly so.

Ryan Daniels

Appreciate the color and congratulations on a very strong start to the year. Thanks, guys.

Manny Krakaris

Thank you, Ryan.

Operator

Thank you much. The next question comes from Mark Wienberg with B. Riley FBR.

Mark Wienberg

Thanks. Good afternoon. Appreciate taking the questions. Building on one of the earlier questions, how does the iOS expansion impact your relationship with Google, if at all? Google recently started working with the Mayo Clinic and using NLP to analyze data within the EHR. Is there an opportunity to leverage your relationship with Google and expand into the Mayo Clinic?

Manny Krakaris

We would hope so. Look, we have a very good partnership with Google. I seriously doubt that they're going to have an issue with us expanding the operating system of our client application to cater to healthcare systems that have not adopted Android. In fact, it helps them because it gives them access to a broader pool of data as a cloud provider. I don't think that they'll have a negative reaction to it.

In terms of the Mayo Clinic, the specific opportunity there, we're aware of it. We know that they have a very close and strong relationship with the Mayo Clinic. All I can say at this point is that we work very closely with Google and their healthcare customers. We're cautiously optimistic that we'll continue to leverage that relationship going forward.

Mark Wienberg

Understood. Helpful. Then of the approximately 80 clinicians and service you added sequentially, wonder if you could talk about the proportion of Live versus Notes there, and then of that relationship, how should we think about that scaling throughout the year?

Paul Ginocchio

Hey Mark, it's Paul. Still a majority of our new clinicians in service are Live versus Notes. Notes launched in the middle of 2020. It's growing as a proportion of our clinicians. It's the highest as a percentage of our bookings and it's feeding into our clinicians and service. But again, I think the best way to say is a majority are still Live. In the incrementalism, the majority are still Live

Mark Wienberg

Understood. Then it looks like ...

Manny Krakaris

Sorry, Mark. Let me just add a little bit of color to that. Please keep in mind that Notes, up until very recently, was locked among many, if not most, of our major healthcare enterprises. It had to be unlocked. That took quite a while. Even though we launched Notes in the middle of 2020, it wasn't until this year, in fact, that it got unlocked. Please keep that in mind as you're refining your model.

Mark Wienberg

Yes, makes sense. Just wondering if you could talk about the cash burn throughout the year. I think it was about \$4.2 million in the first quarter. How should we think about that as we move through the balance of the year?

Paul Ginocchio

Hey Mark, it's Paul again. I think if you look back at our last five or six quarters, our burn's typically been between four and five. I think that historical burn rate is probably a pretty good estimate of what's going to happen for the rest of the year.

Mark Wienberg

Helpful. Thanks. Just two more from me. I think we did see a workers strike at one of your largest health system customers in the middle of April. I'm wondering if you think that's going to have any impact on the business and maybe potentially reaching some of your overages that might be impacted.

Then just the last question's for housekeeping, if you could update us on the share count. Thank you very much.

Manny Krakaris

Okay, I'll take the first question, Mark. We've seen zero impact from the strike at one of our customers, and we don't anticipate any adverse impact from that.

Paul Ginocchio

On the share count, 37.4 million is a good number for common shares outstanding.

Mark Wienberg

Thank you very much.

Operator

The next question comes from Brooks O'Neil with Lake Street Capital Markets.

Brooks O'Neil

Good afternoon, guys. Thanks for taking my questions. I have a couple of basic ones. First one would be, could you just talk a little bit about what you saw month-to-month during the quarter and maybe what you saw as we extended into April in terms of activity, interest, new wins, whatever?

Manny Krakaris

Hey Brooks, it's Manny. The year started relatively slowly and it's picked up steam as the quarter progressed. As I mentioned in our note, bookings was very strong towards the end of the quarter and we continue to see that building up. We're again cautiously optimistic that the need for our services, our products amongst the target market that we're focused on will continue, will persist throughout the rest of the year. Yes, and that's really how I see things right now.

Brooks O'Neil

Great. Second question. It's great to me that two big things have happened here in the first part of the year. One is, as we cycled past the end of COVID, at least as we see it right this minute—obviously could come back but I think most people are reporting that things have returned to normal. Then two, the merger between Microsoft and Nuance. I'm curious if you see any significant impact on your business that relates to those two overarching events out there in the marketplace?

Manny Krakaris

Sure. With respect to the COVID question, we're pleased obviously that COVID does not seem to have as much of an impact on the U.S. healthcare system as it had. I think it's really, I'd say, neutral right now as far as our Company is concerned and the impact it receding in the U.S. has on our Company. Longer-term, I think it's a positive thing for the industry in general. Hopefully, we'll benefit from that.

With respect to Microsoft and Nuance, obviously Microsoft is a powerful force not to be trifled with. We look at what they do, but we don't get fixated on our rear-view mirror and we do believe that they are in our rear-view mirror. I think we're—as I've said before on this call, we're very well-positioned with our products. We like how they're positioned relative to our competition. We have the broadest suite of offerings out there. That includes Microsoft-Nuance. We remain pretty confident with our position in the market.

Brooks O'Neil

Great. Then just one last one. You talked a little bit in the prepared comments about labor issues, I think mostly as it relates to the hospital environment. But are you having any issues with regard to labor internally in terms of engineers, salespeople, any of the kinds of people you'd need to continue to grow your business aggressively?

Manny Krakaris

That's a great question, Brooks. Look, we're not impervious to the labor situation in the U.S. It's been hard and continues to be difficult to hire highly qualified people. We have been successful thus far on the basis of a few things, I think. One is the mission of the Company has an inherent appeal to people. We're actually helping people with their lives and that resonates with a lot of candidates. Two, the culture here that we've developed. You've visited our offices. You've noticed firsthand, we have a very collegiate and open culture here and environment, and that resonates with several candidates as well.

I'm not going to say that it's super easy to higher topnotch people, but we've not had trouble hiring the people that we need to hire. Importantly, we haven't lost any key people, knock wood. The people that we hire, we take great pains in screening and interviewing for fit, not just skill level, but also cultural fit. As a result, our attrition rates are quite low.

Brooks O'Neil

I think that's great. You didn't mention it, but in my personal view, strong leadership at the top of the Company is extremely important. I think you and Paul are doing a great job leading the Company, so keep it up.

Manny Krakaris

Thanks, Brooks. Appreciate it.

Paul Ginocchio

Thank you, Brooks.

Operator

Thank you. The next question comes from Allen Klee with Maxim Group.

Allen Klee

Yes. Good afternoon. For the new product pre charting, can you tell us a little bit about how much of a need this is solving and any data you've had of what the value is to the consumer?

Manny Krakaris

To the consumer, I'm not sure. This is really a product directed at the physician or the physician assistant or medical assistant because they're the ones tasked with doing the pre-chart. The work itself involves just extracting information, historical information from the patients EHR into the current—populating the current medical note.

Then before the physician encounters the patient, they'll skim through that pre-chart, look for anything that they've deemed to be relevant to help them prepare for the questions they are going to ask the patient. The reason why we even developed this product is because of inbound requests from some major healthcare systems that were looking for relief for this particular task that their staff is burdened with. We went to the trouble of developing it and we will commercialize it. Our plan is to commercialize it shortly.

Allen Klee

Are there other companies that offer this service now?

Manny Krakaris

I presume there are. I don't know of many that do. In fact, I don't know of any that do, but I would imagine that this thought is not unique to us. The need exists. I'd be surprised if we're the only ones that do it, but we know that a couple of our major customers have asked for it so we're planning to deliver to them.

Allen Klee

That's great. My last question was; you are guiding to gross margins. I thought I heard 42.5% to 44.5%. That would be down sequentially from what you just did. Is that due to conservatism or people going back to the centers that costs associated—or what's the factor behind that?

Paul Ginocchio

Thanks, Allen. What you're seeing in that gross margin guidance is an uptick in the percentage of clinicians serviced out of the U.S. We do have a marquee health system that for now requires their clinicians to be serviced out of the U.S. The system added a significant number of clinicians at the end of '21 and early '22, who subscribed to our Live service.

That's a higher ARPU service. This has increased our revenue exposure to the U.S. and U.S. service clinicians contribute a lower gross margin percentage than those customers serviced outside the U.S. That's the principal reason for the 2Q gross margin guidance.

Allen Klee

Got it. Thank you very much.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the floor to Manny Krakaris for any closing comments.

Manny Krakaris

Thank you. I just wanted to thank everybody for their interest in the Company. We look forward to continuing to inform you on our progress as the year progresses. Thank you very much, everybody. Thank you.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.