



Augmedix, Inc.

Third Quarter 2022 Earnings Call

November 14, 2022

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

Ji-Yon Yi, *Investor Relations*

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*

Marc Wiesenberger, *B. Riley Securities*

Charlie Montang, *Lake Street Capital*

Allen Klee, *Maxim Group*

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

Operator

Greetings, and welcome to the Augmedix Inc. Third Quarter 2022 Earnings Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Ji-Yon Yi, Investor Relations. Thank you. You may begin.

Ji-Yon Yi

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 September 30, 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 includes 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 defer 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 in 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 and subsequent reports filed with the SEC.

Also, during our call today, we may discuss non-GAAP financial measures, which adjust our GAAP results to eliminate the impact of certain items. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP to GAAP measures in today's financial results press release.

This conference call contains time-sensitive information and is accurate only as of the live broadcast today, November 14, 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

Thank you, Ji-Yon. Good afternoon, everyone, and thank you for joining us.

I'm very pleased to announce a record third quarter. Our results reflect our team's continued focus on executing across our strategic priorities to drive enterprise customer expansion, differentiating our AI driven core platform and flexible product solutions, and intelligently scaling our business model.

Importantly, these initiatives are driving operating leverage, which has resulted in a reduction in our operating losses and cash burn quarter-on-quarter. As we stated in Q2, we expect that trend to continue and for operating losses and cash burn to decline in 2023 versus 2022.

Our third quarter results serve as validation that we're gaining traction and at the front end of realizing meaningful operating leverage. Improving operating leverage will be a key theme for Augmedix in 2023 as we continue to aggressively grow the topline. Total revenue for the third quarter of 2022 was \$7.9 million, representing a 40% year-over-year growth rate. This is our fourth consecutive quarter near the top of our 30% to 45% multiyear revenue growth target range.

Retention and staffing shortages remain at the forefront of concern for health care organizations across the U.S. Recent published report by Bain and KLASS cited labor shortages and wage inflation as major catalysts to driving demand for solutions that improve productivity and alleviate labor needs. Moreover, COVID-19 era staffing shortfalls combined with burnout among physicians, nurses, and other clinicians continue to plague providers, which in turn has been exacerbated by substantial wage inflation over the past 18 months.

We see these industry tailwinds boosting demand for our differentiated documentation solution, which directly address these labor challenges by reducing administrative burden, improving productivity, and increasing retention. The strong demand environment, our effective go-to-market strategy and differentiated market positioning have resulted in a very healthy pipeline for what is typically a seasonally slower fourth quarter.

Notably, we also had record bookings in the third quarter, with September representing the largest bookings month in our Company's history. We have a number of additional large orders in the pipeline, which underscores how our solutions are addressing the human toll of physician burnout, and are

resonating with both existing and new clients. This highlights our continued commercial momentum, as the health of our pipeline reinforces our optimism for 2023.

We continue to drive meaningful organic revenue growth through our land and expand strategy with enterprise accounts. As an example, one of our larger East Coast based health systems wanted to specifically address its retention issues and increase efficiency to enable their physicians to see more patients. We implemented our solution among an initial cohort of physicians who we believe would be prime beneficiaries of our services based on their individual productivity metrics.

The health system realized an ROI from our service that was in line with the target we have established for that system at the outset of the program. Based on those results, the health system placed our largest ever single order. Our footprint at this enterprise will cover a significant portion of their total physician population.

Our partnership with Google continues to generate strategic introductions to large health systems. In the third quarter, we successfully converted another introduction into a new customer. As a reminder, our Google partnership expands beyond engineering collaboration, and now includes a systematized go-to-market effort, which harnesses the power of over 1,000 enterprise focused Google Cloud reps.

During the third quarter, we formalized our integration into the Google Cloud Platform marketplace, allowing GCP Health System customers to allocate their GCP financial commitments towards the purchase of Augmedix services.

Turning to our product development efforts. We are excited by the positive response we're starting to see with the commercial release of Augmedix Prep, our pre-charting solution. Augmedix Prep addresses another distinct administrative workflow challenge for clinicians: the time and resources spent before patient encounter begins with respect to a patient chart.

Our pre-charting solution enabled the extraction of relevant historical information from a patient's health record into a current chart or medical note. We believe that Augmedix Prep can save clinicians about 1.5 hours of administrative burden each day, providing relief with respect to staffing shortages, a major challenge for our health systems today.

We are additionally pleased with the commercial rollout of our iOS client device to complement our existing Android client device operating system. With this rollout, we are now able to offer clinicians the option to personally select their preferred operating system for each client application, thereby broadening our reach to include all clinicians and health care enterprises, regardless of which operating system they use. We believe that offering such choice will further enhance clinician satisfaction and retention.

Our customer facing software products also remains on track to be commercially released in 2023. This ambient class solution addresses a large segment of the medical documentation market. This is a software product that clinicians themselves use to generate medical notes with no human intervention on our part. We anticipate it will enjoy even higher gross margin than our current product portfolio.

Finally, we continue to make impactful advancements with our proprietary Ambient Automation platform and Note building technology in our pursuit of enabling fully automated medical notes. As we begin to realize the benefits from our machine learning, the percentage of notes that is automated has been increasing at a steady pace and now represents a meaningful proportion of the 50,000-plus medical notes we generate every week. We anticipate realizing gross margin benefits from increasing levels of automation.

In closing, we are very pleased with our third quarter results. We remain confident that we are firmly positioned with large opportunities ahead. We continue to execute on our strategic initiatives and focus on delivering strong growth, improving gross margins, and increasing operating leverage.

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

Paul.

Paul Ginocchio

Thank you, Manny.

As stated, revenue for the three months ended September 30, 2022, was \$7.9 million, a 40% increase from the \$5.6 million in the same period a year ago. Growth was again driven by existing client expansion, new clients, and higher growth in our Notes offering. Dollar based net revenue retention for the third quarter of 2022 was 130% for our health enterprise customers compared to 122% in the third quarter of 2021.

As many of you know, net revenue retention measures on a dollar revenue at our existing clients a year ago grew into in this most recent quarter, includes upsells, expansion, and churn, but excludes revenue from any new logos that were added during the previous 12 months. Our 130% NRR puts us at the higher end of most SaaS companies.

Average clinicians in service for the third quarter of 2022 rose 43% as compared to the third quarter of 2021 and compares to 49% year-on-year growth in the second quarter of 2022. Our two-year stacked year-on-year growth rate accelerated 85% in the third quarter versus 81% in the second quarter. We define a clinician in service as an individual doctor, nurse practitioner or other health care professional using either our Live or Note 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 both penetrate the market and grow our business.

Adjusted gross margin for the third quarter of 2022 was 45.9% as compared to 45.3% in the corresponding prior year period, and compares to 44% in the second quarter of 2022. The improvement in gross margin is a direct result of the increasing scale of our operations. Total operating expenses for the third quarter of 2022 were \$9.1 million, down sequentially from the \$9.3 million in the second quarter of 2022. Non-GAAP operating expenses, which excludes stock-based compensation, grew 28% compared to the third quarter of 2021.

Operating expenses increased year-on-year due to annual salary increases, incremental investments in sales and marketing as we expand our commercial team and extend our marketing reach, and investments in the engineering team as we further enhance our technology platform, note automation capabilities and expand our product portfolio. Also due to increased G&A costs of being a NASDAQ listed company.

The quarter-on-quarter growth of gross profit, combined with the sequential decline in Opex allowed us to reduce our quarterly operating losses by over \$500,000 versus the second quarter of 2022. We expect mid-single-digit growth in Opex into the fourth quarter of 2022 from the third quarter of 2022.

One of our primary objectives is to consistently reduce our operating losses on a sequential basis, and we are pleased with the strong progress we've made in this most recent quarter. Adjusted EBITDA, which we calculate by adding back depreciation, amortization, taxes, interest, and stock-based compensation to net loss, was a loss of \$4.5 million in the third quarter of 2022 compared to a loss of \$3.8 million in the third quarter of 2021.

Our Adjusted EBITDA loss in the third quarter of 2022 declined from \$5.3 million in the second quarter of 2022. We ended the third quarter of 2022 with \$27 million in cash, cash equivalents, and restricted cash.

Additionally, we have access to a \$10 million of additional liquidity via an AR line of credit and another term loan tranche under our existing credit facility with SVB.

Based on our third quarter, operating cash burn after Capex of \$3.8 million, we continue to have over two years of operating runway. Remember, last quarter, we said that cash burn would decline in 2023 versus 2022, and our third quarter results highlight that emerging trend.

Turning to a brief update regarding our third quarter 10-Q. Ahead of our up listing a year ago, we put plans in place to further strengthen our internal controls to be consistent with larger season public companies. As part of these steps, we transitioned to a new top tier accounting firm. With this change, we identify that we should update the application of one accounting policy related to commissions. Previously, we expense commissions in the quarter of the bookings. Now we are capitalizing and amortizing commissions over two years.

We made that change in the third quarter, and it resulted in a positive in material reduction to our losses in 3Q '22 and in 3Q '21. This change has no impact on our cash or cash position. We have put remediation plans in place to address the material weakness arising from this change and our filing extension with the SEC regarding our 10-Q. We will file our 10-Q within the five-day grace period.

In summary, Management has thoroughly reviewed and concluded their financial statements present fairly in all material aspects the Company's financial position, results of operations and cash flow for all the periods disclosed.

Now, turning to our outlook for the fourth quarter of 2022. Given the strength of our recent bookings, and the health of our current backlog, we expect revenue in the fourth quarter of 2022 to be approximately \$8.5 million to \$8.6 million. Our revenue guidance implies a further acceleration of our sequential revenue growth rate.

Regarding gross margin for the fourth quarter of 2022, we expect it to be similar to what we reported in the third quarter. Recall at scale, we have indicated that we expect Live gross margins to be in the range of 50% to 55% and Notes gross margins to be in the range of 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'm proud of our team's commitment to drive our mission forward to rehumanize, the physician-patient relationship and address the largest pain points in the U.S. health care system: physician burnout and staffing shortages. I'd like to personally thank the entire Augmedix team for the strong results we delivered in the third quarter. There's growing demand for solutions that directly address the major economic challenges health care organizations continue to face stemming from labor shortages and wage inflation.

We are uniquely positioned to address these issues with our differentiated documentation solutions. We remain confident that the need for our services will continue to increase, given the compelling ROI our offerings deliver. We look forward to a solid fourth quarter and beyond, and to delivering long-term value to our stakeholders. Thank you.

With that, we'll now open it up to questions.

Operator.

Operator

Thank you, sir. Your first question will be from Ryan Daniels at William Blair. Please go ahead.

Ryan Daniels

Hi, guys, congrats on the quarter. Thanks for taking the questions.

Manny, can you go into a little bit more detail about the ROI study you mentioned with a large client that led to a big expansion? I want to know if you can go into little bit more detail about what drove that specifically: it was revenue cycle, was it pure doctor productivity? Then in regards to that large contract, is that going to roll out kind of in waves, or all at once? Any more details there will be helpful? Thanks.

Manny Krakaris

Sure. Thanks, Ryan.

With respect to the ROI, there are two metrics that we look at when we calculate the estimated ROI from our offerings for specific doctors, individual doctors. One is the wRVU of a specific doctor, which is a standard unit of measure of productivity of a doctor, and the other is the average amount of time each doctor spends in the EMR per visit. We track those two metrics over time. That determines the lift based on the improvement in those two metrics that the particular doctor realizes after using our service. When we aggregated those across the initial cohort of doctors, the ROI, the lift that was given that was represented by the increase in wRVUs, was right in line with what we had estimated.

We have a lot of empirical data that supports that estimate. We're pretty confident in what we had given that customer. Based on that result, they increased the size of the doctor population that was going to be served by our service substantially. The cohorts that have been added came in large chunks, much larger than the initial cohort. We're onboarding them as fast as we can.

Ryan Daniels

Okay. That's—(multiple speakers)

Paul Ginocchio

Ryan, to be clear, we're not completely done with the onboarding. We still have a—it's still ongoing.

Ryan Daniels

Okay, perfect. Then, is that becoming more of the sales pitch on a go-forward basis? I know there's a lot of value proposition to the offering with productivity, with burnout, with turnover, recruiting; but is that pure ROI proposition and data sharing becoming a bigger and bigger piece of the sales outlook?

Manny Krakaris

It is. I mean, it's a standard part of our pitch. Because we want to make sure that health care systems recognize that we're not just relieving them of a staffing issue that they may be encountering, but we're actually helping them boost our top line, which is very appealing to them. We want to stick with that. We are sticking with it. But there are other factors that cause these health care systems to want to subscribe to our service. Doctor burnout is one of those, and the staffing shortages is another.

Ryan Daniels

Got it. Then, a question in the iOS client device rollout. Is the advancement towards that operating system you think can open up more doors? I'm curious if it was ever really a barrier that individuals had to use an Android device for this solution, or if that was just something that they easily take on. Is this really going to expand your product offering a lot in your view?

Manny Krakaris

Well, it was done for two reasons. One was to obviously broaden the universe of doctors that we could service with our solutions, because not every doctor or every health care system is on an Android system. There are some large healthcare systems that are exclusively iOS. We want to make sure that we were not excluding those from our prospect list. The other was in anticipation of the rollout of our fully automated solution, which we call Go, Augmedix Go. That's going to be rolled out in 2023, and it will be an iOS-based client device solution.

Ryan Daniels

Okay, perfect. Then just final question here, you discussed this a little bit, but any more feedback on the Prep product? I know you mentioned, its saving about an hour-and-a-half of burden for clinicians. Obviously, that's got to be favorable for them and for an ROI perspective, but just what's the early feedback or reception you're seeing either with new clients or within the existing client base? Thank you.

Manny Krakaris

Sure. We are getting good reception. One of our large enterprise customers, we're in negotiations with them on finalizing a contract for Augmedix Prep. We're encouraged by the progress we've made with them and with other clients on deploying that product across their systems. I remain optimistic that Augmedix Prep will resonate with several big enterprise customers.

Operator

Do you have any further questions, Mr. Daniels?

Ryan Daniels

No, I'm all set. Thank you very much.

Operator

Thank you. Next question will be from Marc Wiesenberger at B. Riley Securities. Please go ahead, sir.

Marc Wiesenberger

Yes, thank you. Good afternoon.

If you could touch on a little bit more about the Google Cloud integration and the potential for customers to leverage the spend through you and maybe how you see that accelerating growth.

Manny Krakaris

Sure. Hi, Marc.

We formalized our partnership and membership in Google Cloud Platform marketplace. That's a formal contract that we executed. But we also had to technically integrate into that system, which allows their

customers, their cloud customers, to go online, get in this portal, the Google portal, and select the services that they wish to subscribe to. We are one of those services.

They furthermore on that portal, through that portal, can pay for those services based on the commitments they've already made to Google with respect to the annual spend that they've committed to. What it does for us is it eliminates one of the significant barriers or time syncs in the sales cycle. That is the budgetary process. Because they've already gone through it when they did the annual commitment with Google for their cloud, that just shortens the sales cycle with those customers.

Marc Wiesenberger

Got it. Understood. That kind of dovetails with my next question. If you could talk about the current level of integration across the range of EHRs that you work for and maybe that could provide additional self-service opportunities. How do you think about that going forward?

Manny Krakaris

Sure. Great question, Marc.

Our efforts to integrate with Epic, Cerner, Allscripts, etc., the big EMRs are ongoing. We are fully integrated with Athena, as you may already know. Integration into the EMR unlocks Augmedix Go. It is an imperative of ours to ensure that we are as integrated as possible with as many EMRs as possible. We have dedicated ample resources towards that effort, which is ongoing.

Marc Wiesenberger

Got it. Then just the final one for me. How do you envision, if at all, changing the sales cycle and the go-to-market strategy for your potential new offering, which I think you've said many times is significantly more automated? How does that look relative to the current offerings? Thank you.

Manny Krakaris

Great. Well, what we're thinking of doing is, right now we have three distinct solutions that we go into an enterprise with. The three portfolio products we have are Augmedix Live, Augmedix Notes, and Augmedix Prep. We want to be going forward is transition to a platform sale, with Augmedix Skill serving as the foundation or linchpin of that platform that would be available across the enterprise, and then enabling any doctor that is a subscriber of Go to upgrade to other services or add other services to the extent they would want those services. It's an easier way for us to grow within an enterprise by moving to that strategy.

Marc Wiesenberger

Great, thank you very much.

Operator

Thank you. Next question will be from Brooks O'Neil at Lake Street Capital. Please go ahead.

Charlie Montang

Hi, guys. This is Charlie Montang on for Brooks O'Neil. Just a couple of quick questions for me.

My first question, do you guys have any comments on the situation with McKesson?

Manny Krakaris

Paul, you want to... (multiple speakers)

Paul Ginocchio

Hi, Charlie. Yes, Charlie, they filed a—they've obviously filed some Form 4s and a 13-D. We don't like to speak for any of our shareholders. But, I think we'll just leave it at that. I'll just say that we are working with McKesson to make sure if they at some point in the future want to dispose of shares, that it can be orderly and in an expedited fashion.

Charlie Montang

Okay, got it. Then just one more question for me, kind of have the strong trends that you saw in Q3 continue into October and November?

Manny Krakaris

I beg your pardon. Could you repeat that, Charlie?

Charlie Montang

Yes, sorry. Have the strong trends that you've seen in Q3 continued into October as well as November?

Manny Krakaris

Well, judging by our pipeline, I would say, yes. We haven't seen any evidence of anything changing from what we saw in the third quarter. We're very encouraged by what we see for the fourth quarter.

Charlie Montang

Okay, that's it for me. Thank you.

Operator

Thank you. Your next question will be from Allen Klee with Maxim Group. Please go ahead.

Allen Klee

Yes, good morning. Oh, not good morning. Good afternoon. Couple.

It's just on your gross margin for the quarter was better than what you had guided to. In the prior quarter or two, you had mentioned that some of the impact of the gross margin was due to more U.S. customers, or that's information that had to be stored in the U.S. Could you talk about why it was better? Was it due to that shifting, or the mix of the type of businesses that you're selling?

Then second, I just wanted to clarify, did I hear you say that you expect your operating expenses to be up single digits sequentially in fourth quarter '22 compared to third quarter '22? Thank you.

Manny Krakaris

Sure, Allen. On your second question, that's correct. We're looking for mid-single-digit sequential growth in Opex from third quarter to the fourth quarter. You are correct in your interpretation.

Second, on gross margin. U.S. revenue as a percent of our business has increased year-to-date. We are still working with those headwinds which would face our gross margin. We did see just some good efficiency in operating improvements in the third quarter relative to the second. That sort of scale and efficiency drove the higher gross margin. That was really it. We are still on the front end of the automation and technology improvements. We still believe we have significant gross margin expansion from those. But again, as we scale, our ability to be efficient with both our technology and labor improves, and we saw that in the third quarter.

Allen Klee

That's great. Thanks so much.

Operator

Thank you. At this time, we have no further questions registered. Please proceed with any additional comments.

Manny Krakaris

Well, I'd like to thank everybody for joining us on this earnings call.

As I mentioned before, we're really excited about the fourth quarter and beyond. We believe that we are very strongly positioned in the marketplace with our differentiated and very broad product portfolio, to which we're expanding with new offerings that we've already talked about into 2023. We continue to press on automating the medical note as much as possible, and we're making tangible progress on that front.

With that, I'll conclude this session and thank everybody for joining us on this call. We look forward to keeping you updated on our next earnings call.

Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending.