



CareCloud, Inc.

Fourth Quarter and Full Year 2022 Post-Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the CareCloud, Inc. Fourth Quarter and Full Year 2022 Post-Results Conference Call.

I will now turn the call over to your host, Kim Blanche, CareCloud's General Counsel. Ms. Blanche, you may begin.

Kimberly Blanche

Good morning, everyone, and welcome to the CareCloud Fourth Quarter and Full Year 2022 Conference Call.

On today's call are Mahmud Haq, our Founder and Executive Chairman, Hadi Chaudhry, our Chief Executive Officer, President and Director, and Bill Korn, our Chief Financial Officer.

Before we begin, I would like to remind you that certain statements made during this conference call are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

All statements other than statements of historical fact made during this conference call are forward-looking statements, including, without limitation, statements regarding our expectations and guidance for

future financial and operational performance, expected growth, business outlook and potential organic growth and acquisitions.

Forward-looking statements may sometimes be identified with words such as will, may, expect, plan, anticipate, upcoming, believe, estimate or similar terminology and the negative of these terms. Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. These statements reflect our opinions only as to the date of this presentation, and we undertake no obligation to revise these forward-looking statements in light of new information or future events.

Please refer to our press release and our reports filed with the Securities and Exchange Commission, where you will find a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

For anyone who dialed into the call by telephone, you may want to download our fourth quarter 2022 earnings presentation. Please visit our Investor Relations site, ir.carecloud.com, click on News & Events, then click IR Calendar, click on Fourth Quarter 2022 Results Conference Call and download the earnings presentation.

Finally, on today's call, we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our fourth quarter 2022 results for a reconciliation of these non-GAAP performance measures for our GAAP financial results.

With that said, I'll now turn the call over to our CEO, Hadi Chaudhry. Hadi?

A. Hadi Chaudhry

Thank you, Kim, and thanks to all of you for joining us for our Fourth Quarter and Full Year Earnings Call.

2022 was a big year for our company on several fronts, including record bookings, redefining the tech-enabled revenue cycle solutions, And our Wellness brand, which includes our Chronic Care Management and Remote Patient Monitoring, is rapidly gaining traction in our user base.

Our Wellness offering had another record booking quarter in the fourth quarter, ending the year with approximately \$8 million of bookings. As a reminder, revenue recognized may differ from our bookings due to timings of go-lives, patient adoption ramps or other factors.

2022 was also the first full year of operating medSR under the CareCloud's umbrella, and it delivered strong performance from both a revenue and margin contribution perspective. As a reminder, one of the key considerations of the acquisition was leveraging their 200+ hospital relationships into cross-sell RCM related services. We acquired them in 2021, and during that year they generated an annualized revenue of \$27 million. Last year they recorded \$30 million, a 9% increase.

But that's not the full story. Over the last year, we reestablished and strengthened our relationships with several leading health system software vendors and confirmed our cross-selling thesis by increasing medSR RCM-related revenue by approximately 300%. We will continue to leverage our relationships for recurring revenue tech-enabled RCM deals, which will help overall growth.

Shareholders will appreciate the improvement in its contribution margin, increasing from 3% in 2021, the year we bought them, to 14% for all of 2022, and ending 2022 with a 24% run rate directly as a result of cross-selling and realizing the anticipated cost synergies.

I also want to highlight our tech-enabled Revenue Cycle Management solution, which is truly differentiated in the market as it sits on top of our industry-leading, state-of-the-art software technology products to help us drive better revenue growth in this mature year EHR and Practice Management market. Not only is it an end-to-end solution for our physicians, but it is also vendor-agnostic.

Also during the fourth quarter, we hosted our first Analyst and Investor Day where we shared details around our robust solutions, the value we provide to our clients, the depth and experience of our senior leadership, the benefits of our global workforce, and participants were also able to hear from two of our clients. I thought it was very beneficial, not only in educating the investor community, but also the potential user base of our comprehensive capabilities. I'm very pleased so many of you could join us for the informative event.

We also used this event as an opportunity to announce that we were changing our common stock ticker symbol, from MTBC to CCLD, to better align with our corporate brand. We started trading as CCLD on January 10 of this year.

I will now turn to an update on the organic growth strategy that we initiated in 2020. We are pleased to report that, in 2022, we recorded our highest organic bookings growth of 94%. Over the past two years, we expanded our sales team from 13 people to over 50, which we believe is a significant factor driving this growth.

Taking a closer look, we more than doubled the level of bookings from recurring revenue opportunities from 2021 to 2022. We also appointed new sales and marketing leadership in 2022 to better capitalize on the opportunities ahead of us. We anticipate that these trends will continue into 2023.

We are laser-focused on converting our 2022 bookings success into revenue in 2023. Excluding revenue from two large health system customers that were acquired and migrated to their acquirers' systems, we are forecasting 12% organic growth in 2023. Bill will get into this in more detail in a minute. Our goal is to produce double-digit organic revenue growth, and we believe we have a path to achieve that. Our 2023 outlook is driven exclusively by organic growth, and any acquisitions would be incremental to our forecast.

Let's turn now to our physical therapy EHR solution. Subsequent to the end of the quarter, just last week in fact, at the American Physical Therapy Association's Annual Meeting, we launched a version of CareCloud's talkEHR that is specifically tailored to meet the demanding needs of the rehabilitation market. It includes comprehensive and easy to use, end-to-end tools for managing patient information and tracking their progress.

In terms of the market dynamics for software solutions in the rehab space, it is fairly mature and dominated by a couple of vendors, but it is our understanding that innovation has not been at the forefront for some time. That is where we see the biggest opportunity for us.

Our Remote product is already being used by a leading rehab practice, consist of over 2,500 clinicians. This is an example of CareCloud challenging the status quo with a solution that we believe to be technologically superior. We are seeing strong interest in this offering and look forward to keeping you posted on our progress moving forward.

Finally, as we look to 2023, we feel our current established position in the industry has set us up incredibly well to capitalize on a new era of growth and we see an abundance of emerging opportunities in our future, including our first non-U.S. customers.

The first area of focus for 2023 that we are actively exploring is entering the new market of the UAE, which represents a particularly attractive opportunity for CareCloud as the government will be mandating EHR adoption over the next few years. This has many parallels to the Meaningful Use initiative in the U.S. that we benefited from a decade ago.

We see these opportunities in the health system space, through our medSR division, our proprietary ambulatory EHR for the private practice space which will need to be certified with the Ministry of Health, and Prevention in the tech-enabled RCM space, and with various other digital health initiatives. We hope to enter this new market in the upcoming year, and we'll keep you updated on our progress.

The Company's solid operational results in 2022 can be attributed largely to our powerful combination of technology and services which are redefining the next generation of RCM solutions for the ambulatory setting.

To summarize, first, we are optimistic about our organic growth initiatives that are starting to take hold. Our Wellness digital health offering, our medSR hospital offering, our workforce augmentation offering, our expansion to non-U.S. markets where we feel we have a distinct competitive advantage. Second, one of our top priorities in 2023 is onboarding our new clients and turning our record bookings into revenue. Finally, we feel that our work in 2022 has left us well-positioned in the industry to deliver continued growth moving forward.

Now I will turn the call over to Bill for a closer look at our fourth quarter and full year results. Bill?

Bill Korn

Thanks, Hadi, and thank you all for joining today's call.

In the fourth quarter, we reported revenue of \$32.5 million, GAAP net income of \$499,000 and adjusted EBITDA of \$5.7 million. For the full year, we reported revenue of \$139 million, GAAP net income of \$5.4 million and adjusted EBITDA of \$22 million. These results were in line with the expectations.

Approximately 88% of our 2022 revenue came from technology-enabled business solutions. Clients using our technology-enabled revenue cycle management services represented approximately 52% of our annual revenue, with over 90% of that revenue coming from clients who also utilized our EHR or practice management software, as well as our services.

Let's look at the full year on a "same-store" basis, which is highlighted in our earnings presentation deck. You'll see we stripped out the contribution of two large customers to highlight our annual revenue performance on a consistent basis. These were each unique instances, and it's important to dig into the details here.

These two health systems had been acquired in 2016 and 2018, before we started servicing them after our 2020 acquisition of Meridian Medical Management. In 2022, they finally completed the migration onto their acquirers' software platforms, winding down our services. We knew this was a likely outcome when we bought Meridian, and adjusted our purchase price accordingly.

While the timing was later than what we were originally led to expect, this meant that we earned some extra revenue and profit margins for two years. But the end of the extra revenue for these two large customers means that reported results overall look less favorable.

Normalizing to remove the impact of these two customers, our revenue increased \$8.6 million or 7% from 2021 to 2022, driven by a combination of our medSR acquisition in mid-2021, and organic growth. In

2023, we anticipate our revenue growth on a like-for-like basis will be around 12%, but without eliminating the impact of these two customers, that growth is clouded.

Our GAAP net income of \$5.4 million in 2022 was almost double our net income of \$2.8 million in 2021 and set a new record. Our adjusted EBITDA of \$22.2 million was also a record.

Our fourth quarter revenue of \$32.5 million was down year-over-year, but excluding those two customers, the revenue from our core business would have been essentially flat from the fourth quarter of last year. Our adjusted EBITDA of \$5.7 million was down 7%, which is less than our top line decline, as a result of improving margins in our medSR business.

Turning to the balance sheet and cash flow, we ended the year with \$12.3 million of cash. We generated \$21 million of cash flow from operations for the full year 2022, \$6 million of which came from the fourth quarter.

In terms of our outlook for 2023, we are reiterating the guidance we provided at our December Investor Day. We expect revenue of \$142 million to \$146 million, which represents 12% organic growth when we strip out those two large customers from both 2022 and 2023. We have only included organic growth in our guidance, so if we complete an acquisition, even a small “tuck-in,” it will bring incremental revenue.

We expect adjusted EBITDA of \$24 million to \$27 million, which implies 15% growth at the midpoint.

Our quarterly revenue distribution will look a little different this year for two primary reasons: first, the loss of the two customers which contributed revenue in the first half of 2022; and second, the timing of new revenue from our Wellness offering, which is expected to ramp up in the back half of this year. In 2023, revenue will be weighted with approximately 44% in the first half, and the remaining 56% in the second half of the year. This compares to 2022 results with 52% generated in the first half, and 48% in the back half.

Our profitability will also be impacted by the seasonality of our business. First quarter revenue is always hurt due to deductibles in most medical insurance plans, which typically depresses revenues by 5% to 8% without impacting our costs, since we process the same value of claims, but payments are lower since individuals pay their deductibles much more slowly than insurance making the primary payments. This year will be no different.

As we continue to focus on lowering our costs, we are forecasting improvement in our margins throughout 2023, despite the loss of the two customers who were generating higher-than-average gross margins by the time they exited.

To conclude my remarks, I'll reiterate Hadi's sentiment that we have built out our solution to meet the changing needs of our physician partners, while sticking to our true roots as a world-class RCM provider. I believe 2023 will be a pivot point for our business where organic growth really begins to accelerate. Our overarching goal is to deliver double-digit organic growth, and we believe we have built the foundation to achieve it in the future with the combination of new customers and cross-selling.

I thank you all for your participation in our call today and look forward to updating you throughout the course of the year.

I'll now turn the floor over to our chairman, Mahmud, for his concluding remarks.

Mahmud Haq

Thank you, Bill.

2022 gave us our strongest year of organic sales activity, both new customers and new services for existing customers. We are proud of this accomplishment and look forward to seeing this new business turn into revenue during 2023.

I would like to thank our customers, shareholders and all our associates for their trust, loyalty, support of CareCloud's mission.

Let's open the call to questions. Operator?

Operator

Thank you.

We take our first question from the line of Jeffrey Cohen with Ladenburg Thalmann. Please go ahead.

Jeffrey Cohen

Hello, Hadi, Bill and Mahmud. How are you?

Mahmud Haq

Good morning, Jeff.

Jeffrey Cohen

Just to clarify, Bill, the two customers' contribution to 2022 revenue, was that \$8.6 million I heard you call out?

Bill Korn

Jeff, I think we said that the \$8.6 million was the revenue growth that we would've had if you excluded those customers. Their contribution was actually, in total, a little closer to \$10 million.

Jeffrey Cohen

Okay, got it. Perfect. Could you talk about bookings and trends on that front, or perhaps any backlog related to your funnel? Do you anticipate that the growth you'll see in '23 is going to come from new customers, new accounts, new territories, or will that be amped up by increased offerings on EHR, practice management and Wellness?

A. Hadi Chaudhry

Great question, Jeff.

I think if you just look at the overall bookings, as we mentioned, that for 2022 we grew our booking numbers by roughly 94%. One-third of those, approximately, are about, as we mentioned, \$8 million we closed under the Wellness offering during 2022. We absolutely have seen a similar trend going forward. It should be closing somewhere close to the same one-third, at least for the foreseeable future quarters in terms of Wellness. But overall, the growth, the bookings should be coming from all of these places, whether it's the different EHR offering, our tech-enabled RCM services sitting on top of our technology

suite, our workforce offering, and by leveraging through our medSR relationships and selling into that space the recurring revenue RCM deals.

Jeffrey Cohen

Okay.

A. Hadi Chaudhry

But consecutively, the last three consecutive quarters were better than the previous ones and we foresee, yes, it has to stabilize, it has to just stay at a certain average, it cannot just be that every other quarter can be better than the last one. But overall, if you look at what our goals are for this year, we'd like to see even higher than the 2022 overall booking numbers.

Jeffrey Cohen

Got it. That's helpful, Hadi. Then I guess lastly, we hear you on cadence and on seasonality. Could you talk about, are you taking any price cuts out there, and can you also talk about inflationary pressures that you're seeing anywhere, any effect, particularly on your labor costs? Thank you.

A. Hadi Chaudhry

Great. I can still start the answer and Bill, please feel free to jump in. I think you probably would be referring to some of the conversion, the rupee to dollar conversion or the foreign currency conversion cost and the inflation factors there.

I think it's because all of the revenue for us being generated has been so far on the U.S. side., so even if there is a devaluation of the foreign currency that goes in the short-term to our favor. Long-term, because as inflation starts kicking in, it still goes back to being normalized at the same level, so we do not see anything in the long run. Short-term, there could be some additional benefit to us because of that change, but in the long-term, it should again go back to our overall thesis, our overall model of leveraging the offshore team.

Bill, anything you would like to add?

Bill Korn

Yes. I think we are fortunate that we're operating in labor markets where there's still lots of people who want to work. When we look for new employees, fortunately, as we look overseas, we get plenty of really qualified applicants. Again, I don't have scientific data, but I'd say anecdotally, I hear from people who are using India for offshore that they're under a lot of pressure, and I'd say we're doing fine.

We're treating our employees well. We're helping them keep pace with inflation, but we're not seeing overall dollar-denominated costs going up and we're not seeing positions going unfilled. We're fortunate that we're open for business and if we get new contracts, we're easily able to staff up to do the work.

Jeffrey Cohen

Okay. Got it, that's helpful. Thanks for taking our questions.

A. Hadi Chaudhry

Thank you, Jeff.

Bill Korn

Thank you, Jeff.

Operator

Thank you.

We take the next question from the line of Allen Klee with Maxim Group. Please go ahead.

Allen Klee

Yes, good morning. You talked about one of your goals for this year is translating your bookings into revenues. Can you give some details, specifically on the Remote Patient Monitoring and Chronic Care Programs, of what you're planning to do to execute on that? Thank you.

A. Hadi Chaudhry

Yes, good morning, Allen, and thank you for your question.

First talking about the non-Wellness offering bookings that continue to be, as we have mentioned before, going live towards a six-month average, because large clients could be between six to eight, or 10 months or more, and small ones could be live within three months. At an average, it's about six months full lifetime for non-Wellness bookings.

For Wellness bookings, whether it's the Chronic Care Management or Remote Patient Monitoring, that adds another layer of complication, which is the adoption by the patients. I think what we are looking at right now about \$8 million bookings in 2022 under the Wellness. We anticipate, in the first half of this year—actually, lets step back, that roughly 70% of the practices already have been moved into production. But when I say moved in production, it's not that we have started to generate revenue; some of that could be that we are reviewing the eligibility of the patients. We may have been establishing the connections with the patient to bring them on board, to see would they be interested in participating in Chronic Care and Remote Patient Monitoring.

In terms of the revenue recognition, we anticipate that roughly 25% of the 70% that we have moved in production, revenue will be realized, or we will be able to realize in the first half of this year. The rest, or most of it will be towards the second half of the year, and some percent probably could even be pushed into 2024. This adoption absolutely will improve as there will be more and more awareness on the patient side as to more and more value-based care models will push in. I think that awareness will improve the patient adoption rates, but this is how we are forecasting, this is how we are looking at it right now.

Allen Klee

Thank you.

My last question is you talked about expanding internationally; could you just educate us a little bit on what the regulatory environment, or what the other incentives are in those countries to adopt what you're offering? Thank you.

A. Hadi Chaudhry

Thanks, Allen.

Just talking a bit about this at a high level, first of all, this is for us a work in progress. We are still in discussion and talking to even, wherever possible, the government officials in that area. It will take us a couple of more months to be able to exactly understand all the different incentives.

But in terms of an opportunity, as I mentioned during the opening remarks, it's similar to how the EMR adoption was conducted at the beginning, in the first—around the 2000 time, after the Obamacare and the Meaningful Use and those implementations started to take place.

In this UAE market, and more specifically initially talking about the Dubai market, the UAE government is similarly pushing the implementation of adoption of the Electronic Health Record systems. We see the opportunity to be in three areas. One is leveraging our medSR division and providing an opportunity for implementation, the activation of these health systems in that space. UAE initially, and then we anticipate expanding to the gulf coast region; it could be Qatar, it could be Saudi Arabia and that area.

The second opportunity is our own ambulatory EHR, which we need to get certified first, but then we can start offering it in that area.

The third thing is the revenue cycle. We understand the revenue cycle of that area is different and the definition of RCM is different than that of the U.S., because there is one standard platform. The practices will have to log on to the same platform to create the claims, the insurance submissions, and the government authorities have to log on to the same portal to pull the claim for processing. But our U.S.-based medSR-trained staff and positioning, and our global workforce primarily based out of Pakistan, these in combination together we believe set us in a very unique position there. That sets us up for success in that area.

There are a lot of initiatives from government we're initially reviewing, and again, once we get it finalized, we will communicate. There is a Health City there. We may end up opening an office in Health City because that gets us connected with all the different players in the industry, in the market there.

Allen Klee

That's very helpful. Thank you so much.

A. Hadi Chaudhry

Thanks, Allen.

Operator

Thank you.

We take your next question from the line of Michael Donovan with H.C. Wainwright. Please go ahead.

Michael Donovan

Thank you, Bill, Hadi and Mahmud. I'm calling on behalf of Kevin Dede as he's on the road.

Hadi, you mentioned leveraging relationships to drive recurring revenue. Can you talk more to recurring revenue and how customers expand services with CareCloud once they're on-boarded?

A. Hadi Chaudhry

Thank you, Michael, good morning.

There are a couple of the different ways we can look at it. One, I specifically made that comment from the medSR division's perspective. One of the reasons for the acquisition of the medSR business was because of their 200+ relationships into the health system space, into the hospitals; their connections, whether it's with the right decision makers, whether it's the CFOs or the Head of the Revenue Cycle, or the CIOs there. With their help, we are able to now leverage those relationships and started to offer RCM recurring revenue deals in that space.

As we explained earlier, that this is a one-time project-based revenue, most of the revenue of the medSR. But because of this connection now, we're able to leverage those relationships and start selling our tech-enabled RCM solution, and this process already started to come in. because in the year 2022, the RCM related revenue of medSR division has grown by over 300%. That already has set us up for success in that area, so that we would anticipate on growing further in 2024.

Actually, I have Dwight with me who heads our medSR division. Dwight, would you like to give some more color?

Dwight Garvin

Sure, I'd be happy to. To highlight Hadi's point, we saw several of our clients this year start out with something as simple as a technology system selection process, and then that ramps right into staffing an interim CIO, right into taking over a lot of their RCM components, to now management, and doing things around what we really get through RCM recurring revenue. We've seen that in several of our clients this year.

Michael Donovan

Okay, great. Appreciate it. To get a better understanding on international expansion, so the UAE is trying to position itself to also be a medical tourism hub. Is this something that you take into consideration when looking for new markets?

A. Hadi Chaudhry

You hit the nail on the head, Michael, absolutely. That's one of our reasons, on the digital health space, because based on the different studies we looked at in different places, there's one consistent number. That market is expected to grow by 25% CAGR in the digital health space over the next few years.

We started a small project or initiative, I think probably two years back, for telehealth, by providing a platform on which we can connect, on one side the doctors, and the other side the patients. With this introduction, or with stepping into the Middle East side, we are thinking about trying to get that live. Also, coming back to your point, yes, that is one of the reasons, the medical tourism there.

Michael Donovan

Okay, thank you. I appreciate the added color.

A. Hadi Chaudhry

Thank you.

Operator

Thank you.

Ladies and gentlemen, we have reached the end of the question-and-answer session.

I'd now like to turn the call back over to Kim Blanche for closing remarks. Over to you.

Kimberly Blanche

We'd like to thank everyone who's joined us today. We appreciate your interest in us as a Company and your participation on today's call. We look forward to speaking with you again next quarter.

Thank you all and have a great day.

Operator

Thank you.

Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.