CareCloud, Inc.

First Quarter 2023 Results Conference Call

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. Welcome to the CareCloud, Inc. First Quarter 2023 Results Conference Call.

(Operator Instructions)

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. Welcome to the CareCloud First Quarter 2023 Conference Call.

On today's call are Mahmud Haq, our Founder and Executive Chairman; Hadi Chaudhry, our Chief Executive Officer, President, and a 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 negatives 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 first quarter 2023 earnings presentation. Please visit our Investor Relations site, ir.carecloud.com, click on News & Events, then click IR Calendar, click on first 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 first quarter 2023 results for a reconciliation of these non-GAAP performance measures to 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 first quarter 2023 earnings call.

We started 2023 building on an organic growth momentum we created throughout 2022. In the first quarter, we reported revenue of $30.1 million and Adjusted EBITDA of $4.2 million. We are pleased that these numbers are in line with our internal expectations and keep us on track to deliver on our full year's guidance.

Today, we will provide you with an update on our organic bookings momentum, our progress towards converting bookings into revenue recognized during the first quarter, the emerging growth opportunities in the Middle East, our increased focus on marketing efforts to raise awareness of our comprehensive solutions, and early adopters of our therapy EHR solution that I mentioned last quarter.

First, I will provide an update on the continued momentum of our overall bookings with a particularly meaningful contribution from our Wellness offerings, which includes chronic care management and remote patient monitoring. After about a year on the market, it continues to gain traction with our physician base.

Our recurring revenue bookings for the first quarter 2023 were over $8 million. 2022 was a record year for bookings, and that certainly continued in 2023. We have seen good momentum in overall bookings, including Wellness bookings over the last year, and I would like to share a little detail on how it's converting to revenue.

I'm going to talk first about overall bookings conversion and then break it down by tech-enabled RCM, force, and Wellness. First, of the total recurring bookings we signed in 2022, 92% of the potential revenue has gone live with us in some form or fashion. In the first quarter, on an annualized basis, we recognized 44%

of the potential revenue opportunity from those clients that have gone live. That said, each of the three businesses rank differently so I'm going to walk through each one of them on a standalone basis.

For our tech-enabled RCM, we have gone live with 88% of the potential revenue we booked last year in the first quarter. On an annualized run rate, we have recognized all of those potential revenues from the live clients. As a reminder, for our RCM solution, we typically anticipate a six-month time frame from signing bookings to going live with the business.

CareCloud Force, which is our staffing augmentation solution, we have gone live with 96% of the potential revenue but recognized just 4% in the first quarter, again, on an annualized basis. This is in line with our expectations, and there are a couple of factors that will cause this to ramp over the course of the year. First, the large contract that we signed late last year with a well-known publicly traded healthcare technology company is currently in the pre-production phase. Under the terms of our agreement, we are sharing SOPs, background checks, trainings, and the like before we can start recognizing revenue.

Subsequent to those close to the quarter, the second largest contract went live, and the customer is very pleased with the partnership so far. Together, these contracts represent a meaningful portion of the 96% of the potential revenue. The first contributed minimal revenue in the first quarter and the second will contribute to our second quarter results but is not reflected in the numbers we reported today.

The second factor leading to the divergence between potential revenue that has gone live and revenue recognized is that customers typically start with just a few employees and ramp up to their desired levels over time. It is our experience that customers, especially larger, more sophisticated customers, will take between three and four quarters to reach their potential.

Lastly, in our Wellness Solution, we have gone live with 93% of potential revenue and have recognized 7% of that potential revenue on an annualized basis. In this business line, go-live is defined by having conducted monitoring with, or provided services to at least one patient in the practice. We expect this to ramp over the course of the year, and there is typically a ten-month cycle of signing of physicians, identifying the appropriate chronically ill patients, engaging them via mail and phone to get consent, and onboarding them.

Once all of these are complete, the care managers create an individual care plan and work with physicians to implement it. We continue to work closely with our physician partners so they understand the ease of working with CareCloud and the value we provide to their patients. We look forward to sharing our progress on our next few quarters' calls.

Next, I will provide an update on our efforts in the Middle East. As discussed last quarter, we remain committed to pursuing the emerging growth opportunities in the Middle East. We set our sights first on the UAE, given the government's plan to mandate EHR adoption in the next few years, similar to the meaningful use initiatives in the U.S. a decade ago.

We have started making progress in this area and are very close to completing setting up an entity in the UAE to capitalize on this potential opportunity. We are continuing to pursue the certification process and planning to hold a groundbreaking at the Precision Med Expo in the UAE at the end of May. We have already begun the process of getting our solution certified and filing for required attestations.

In terms of these international opportunities, we feel CareCloud is uniquely positioned for success for a couple of reasons: our status and reputation as a publicly traded company in the U.S., our over two decades of experience in the EHR, professional services, and tech-enabled RCM businesses, the cost-effectiveness of our scaled operations, and our cultural familiarity with this part of the world. We look forward to keeping you posted as these potential meaningful opportunities unfold.

I will now turn to an update on our marketing efforts. First, we are proud to report that for the second straight year, we were recognized in the best-in-class report under the category of small practice ambulatory EHR and practice management. This year, we are focused on continuing to raise awareness of CareCloud's offerings in the market to fuel our organic growth.

We have had meaningful presence at many of the industry conferences this year, such as VIVE and HIMSS. These conferences not only provide many leads for new customers, they also create opportunities to showcase our comprehensive solutions to the market.

For some additional context, at the time of the IPO, we spent just 1% of revenue on sales and marketing. As of last year, that number had grown to 7%, and this year, it is on track to reach 8%. This current marketing campaign seeks to bring attention to our innovative solutions including our tech-enabled RCM solution, which is truly differentiated in the market as it sits on top of industry-leading, state-of-the-art software technology products to help us drive better revenue growth in this mature EHR and practice management market.

Our telehealthsolution, which was ahead of the curve launching a year before the pandemic, quickly became an integral part of healthcare practices. AI has been a hot topic in the news lately but for CareCloud, it is nothing new as we have been leveraging AI from its very early stages.

Our first AI-based product launched in the early few years of the Company, was a scrubbing engine, and we have since launched several others over the last few years. Since then, we have layered in robotic process automation bots, or RPA bots, to automate mundane tasks and streamline back-office processes in addition to being leveraged by our clients.

It's been our belief that open APIs of AI will be the next wave of innovation in healthcare similar to many other sectors. So we are evaluating ways we can effectively and safely use solutions like OpenAI and ChatGPT in a compliant and secure manner for our medical providers. We see this as a further opportunity to leverage AI to improve workflow in EHRs and practice management systems as an avenue to reduce cost, increase profitability, and improve patient outcomes. We are still in the R&D phase and not yet ready to make it provider-facing.

Finally, an update on our therapy market opportunity I mentioned last quarter. We are making progress with two early adopters who have already gone live. They are supporting our thesis that our end-to-end solution is a welcome change to outdated solutions prevalent in the market today.

Wrapping up, CareCloud's first quarter results represent a strong start to the year and leave us well positioned to focus on our numerous opportunities for growth throughout 2023, keeping us on track to meet our full year's expectations.

With that, I will turn the call over to Bill to review the financials. Bill?

**Bill Korn**

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

I'd like to start by reiterating Hadi's sentiment that we are pleased to report that the first quarter results were in line with what we expected and we are on track to achieve our full year goals.

In the first quarter, we reported revenue of $30 million. While down year-over-year, the decline can be largely attributed to three factors. First, the loss of revenue from two customers due to health system mergers. Approximately $2.6 million of the decrease in first-quarter revenue was due to these two clients who completed migrating to their acquirer's platforms in mid-2022.

Second, some softness in medSR, which is a project-based professional services business that tends to fluctuate: medSR revenue was down $1.2 million from first quarter 2022. Our professional services business continues to be strong, and while our expectation is that second quarter professional services revenue will be similar to first quarter, we have a number of major projects in our pipeline for the second half of 2023.

Finally, the first quarter of 2022 included approximately $1.2 million of revenue from revenue cycle management for services which were COVID-related. This was not present during the first quarter of 2023. Despite these three factors, we still remain confident of the full year picture. Of the first quarter revenue, approximately 87% came from our tech-enabled business solutions and professional services. We reported a GAAP net loss of $401,000 and Adjusted EBITDA came in at $4.2 million.

As a reminder, our first quarter revenue is typically down 5% to 8% from Q4 due to insurance deductibles resetting at year-end. While it is typical for our revenue to be back-half weighted, in 2023, it will be more so than usual because of record bookings from new clients who are ramping up over the year, and our Wellness solution, which we expect will build and become a bigger contributor in the second half of 2023. As Hadi mentioned, we expect that our new CareCloud Force clients who signed with us last year and were in preproduction during first quarter will start generating significant revenue in the second half.

Between the growing adoption of Force, more new clients continuing to go-live every quarter and Wellness visits that continue accelerating as more patients start taking advantage of this new capability, we are projecting rapid organic growth during third and fourth quarters. As for profits, the majority of our costs are fixed. A typical Adjusted EBITDA cadence closely mirrors the revenue seasonality.

To provide another level of granularity, in the first quarter, we processed a similar number of claims as in fourth quarter 2022, but recognized lower revenue due to deductibles. With the same fixed cost structure, as revenue goes down, GAAP net income and adjusted EBITDA decrease, as was the case this quarter.

Turning to the balance sheet, we ended the quarter with $8 million in cash. I'd like to reassure everyone that our credit relationship with Silicon Valley Bank, which is now a division of First Citizens, is sound, and they are honoring our agreement to the fullest. We ended the quarter with $10 million drawn on our $25 million line of credit, and SVB has assured us that the terms of our credit agreement are unchanged.

I'll close my comments by reiterating our 2023 guidance. We expect revenue of $142 million to $146 million and adjusted EBITDA of $24 million to $27 million. As a reminder, we believe that 42% to 44% of total revenue will come in the first half of 2023 and 56% to 58% will flow through the back half of the year. As we benefit from additional revenue with the same overhead structure, we expect the adjusted EBITDA distribution will more likely look like 30% in the first half and 70% in the back half of the year as our newer offerings ramp up over the course of 2023.

In terms of medSR's quarterly cadence over the course of the year, we are seeing great traction with projects, which will result in a strong second half of 2023. We're all going to need to be patient in the second quarter. The first quarter results put us on good footing for the year ahead. We're happy with our progress on the organic growth front and look forward to updating you later in the year.

With that, I'll turn the call over to Mahmud for his closing remarks.

**Mahmud Haq**

Thank you, Bill.

We are pleased with our strong start of 2023, and we are proud of the work that the CareCloud team has done to set us on the right path for a successful year. As always, I would like to thank our customers, shareholders, and all of our employees for their continued support of CareCloud's mission.

Let's open the call to questions. Operator?

**Operator**

Thank you, sir. (Operator Instructions)

Your first question will come from Jeffrey Cohen at Ladenburg Thalmann. Please go ahead.

**Jeffrey Cohen**

Hey, good morning, everyone. How are you?

**A. Hadi Chaudhry**

Good morning, Jeff. We are very well. Thank you. How are you?

**Jeffrey Cohen**

Great. Nice to see everyone at HIMSS.

I wanted to kind of probe you a little further, Hadi, to talk about some of the AI and the past, present, and future functionality at CareCloud. If you could more specifically kind of lead that into some of the ChatGPT conversation, talk about some of the inputs there as far as verbal inputs, and then perhaps talk about some of the data mining and the onboarding as well, please? Thank you.

**A. Hadi Chaudhry**

Sure, Jeff. That's a great question, and that's probably the hotest topic in the industry today, not only from the healthcare perspective, it's from the overall industry perspective.

As I mentioned, we are in the process of currently exploring and our R&D team is working on all of the possible ways to leverage the AI with the help of this open AI or APIs that have become available now. I can just share with you as an example that probably should help you understand the kind of things that we are trying to work on. We are in the process of, to begin with in the first phase, utilizing the ChatGPT, the most recent version, which is probably the version 4.0, trying to introduce the concept such as the copilot concept or a medical assistant concept.

We already have, as part of our talkEHR, the medical assistant or our Allison assistant AI. We're just trying to make that further smart. What can happen is anonymously, not sharing any PHI, we're going to take the medical history, social history, the current medication, all of those, can pass it on to the AI engine. The AI engine can even generate the basic, complete, full suggested care plan for that patient, and that will be suggested to the doctor.

Again, at the end of the day, it's the doctor's responsibility to finalize, to sign off on the care plan or the care plan the doctor wants to use, but I think that should just help you kind of to understand that that's the level. There could be 50 different variables that could have been passed to these open APIs. The results can be received. We can parse it, compile it, and can suggest the information to the doctor. It can help in the identification of rare diseases after submitting all this information. In the case of a rare disease, our system can suggest leveraging the same AI that this patient could have been infected by this one rare disease, doctor. Please conduct these five additional tests as an example.

These are some of the examples that this is how we are trying to leverage. We will communicate with the help of other press releases either late in this quarter or early in the third quarter. By that time, we should have our first integrated, AI-based system, whether we're leveraging the open APIs or the ChatGPT's open APIs, that product, we expect that to release.

**Jeffrey Cohen**

Okay. That's helpful. Hadi, tie that in a little bit to requirements on your hardware and backbones there as far as GPUs, CPUs, storage, some of the requirements on cloud or hardware at your end?

**A. Hadi Chaudhry**

I think if you think about with the technology advancements, most of these kinds of things have become now irrelevant because it's so easy being in the cloud. If you need to increase the processor, it's just a matter of a mouse click, and just approving it and it can give you more processing power. I think since our infrastructure has already been deployed very effectively between the different cloud environments, we do not see any hurdles when it comes to the infrastructure. The cost, by increasing the small hardware increase, is minimal because we are not trying to buy a whole new big server from scratch. So, we don't see any issues on that front.

**Jeffrey Cohen**

Okay. That's helpful.

Then lastly for us for, I guess, for Bill or Mahmud, any commentary on the M&A environment, how things have moved in any particular direction or trends over the past, say, four or five months?

**Bill Korn**

Good question, Jeff.

We continue to see companies that on the surface look like potentially interesting acquisition targets. We also continue to see people have expectations that are probably very good for them but don't make a whole lot of economic sense for us. We're going to continue to do what we've done in the past, which has applied a rule of thumb that says when I'm doing a transaction, I'd like to think that I'm going to get a return on my investment in three to four years. I'm going to get profits or cash flows equal to what I invested in three to four years. If we feel pretty confident, then it looks like it's going to be a good investment for our shareholders. If the company has a valuation that's 5 times revenue, and they've never been profitable, and we don't see any way that it's going to make sense, then we'll pass.

We do think that as the next 12 months unfold, eventually the economy is going to get into a recession. Eventually, companies are going to start to recognize that they're getting in trouble and there are going to be some tempting targets. We're always looking for those.

**Jeffrey Cohen**

Okay, got it. Perfect. Thanks for taking our questions. Appreciate it.

**A. Hadi Chaudhry**

Thank you, Jeff.

**Operator**

Your next question comes from Allen Klee at Maxim Group LLC. Please go ahead.

**Allen Klee**

Yes, good morning.

Questions on when you broke out the pieces of the decline in revenues, one of them was more volume related to COVID-related cases in 1Q '22. Do you have a sense of how much extra you think that factored into the rest of '22? Have you factored that into your full year guidance?

**Bill Korn**

Thanks, Allen.

We did some work for a couple of organizations that were doing large-scale COVID testing. There was a lot of that revenue that actually was recognized in first quarter of '22 in part because some claims sort of got delayed and then finally got approved and therefore generated a bulk of revenue. There's a little more that's in the next three quarters. It certainly was much less than we saw in Q1.

I think Q1 of '22 was kind of extraordinary in that regard. I would say that we've probably all seen that very few people are going to labs for COVID tests today. A lot of people are even doing COVID tests at home. There's not a whole lot of revenue from COVID testing. It's probably good for us that COVID is largely at the rearview mirror at this point, but that was certainly a factor in Q1 when you're doing the year-over-year comparison.

**Allen Klee**

Thank you. You mentioned that you have—oh, go ahead, sorry.

**A. Hadi Chaudhry**

Sorry, Allen, so to your question, yes, it has been baked in, and we do also see towards the tail end instead of the COVID test revenue, we see some opportunities, though it's not as big as the COVID testing was initially. as an example certain labs who have been authorized to send the free test kits to the patients under the government program. But though the public health emergency is ending, most of that is going away and number is not as big as COVID—but that's going to help us offset some of that. All this has already been baked in for the rest of the year.

**Allen Klee**

That's great. Thank you.

You mentioned that you have a new Force client that will be generating revenue in the second half. Can you provide any color on that?

**A. Hadi Chaudhry**

Sure.

This is one of the deals we signed towards the end of last year. When it comes to typical small Force deals, those practices or those deals can go live within 30 days or 60 days, but when we are dealing with a large publicly traded national company and where we have to provide a couple of hundred employees, we have to go through, as an example, the sharing of the SOP and agreeing on the SOPs. Then the extensive training on both sides, the data security checklist verifications, so we have been going through all of those. Everything is going smooth, everything is on track, but the go-live instead of 30 to 60 days could span between two to three quarters as an example.

Our largest one, we anticipate some time towards the close of the second quarter going live, and that we will have the revenue in the third and the fourth quarter. The second to the largest one, which is also a significant one, has gone live, which I mentioned as part of my call earlier, in this recent month, and we already have started to receive very good feedback from the clients. You will see some of that revenue in the second quarter already.

This opens up—actually, this is our first—the way we are looking at it, this is our first large deal for the Force in this space, which hopefully should open up more doors for us with similar other large organizations in the country.

**Allen Klee**

That's great. Thank you.

My last question is on converting bookings from Wellness to revenues. You're using a third party, my understanding is, to make this happen. Can you explain a little to the degree to what they're doing to ensure adherence and collectability and that they're doing it and not the doctor's office, which I know with some other companies that's created a challenge for those two issues? Thank you so much.

**A. Hadi Chaudhry**

Sure. Great question.

If you think about it, we are a tech-enabled RCM, EHR practice management and technology company. That's what our strengths have been for such a long time. The chronic care and remote patient, we stepped in, there was one thing we do not want to, day one start by doing ourselves, as an example, the trained care managers. Some of those as a partnership with that company, with the back end, they are helping us to bridge some of those gaps, but because we are the ones who have the most capability on the revenue cycle, on the technology platforms, software, so most of that work is us sort of collaboratively we are conducting. But when it comes to the care manager part, there have been involvement or there have been participation from our third party.

We are looking at it, for our clients. For them, it's us. It's our responsibility to work with that third party to deliver the right results. As I mentioned, just because the three pieces involved, one is us, the second thing is the client, and the third piece is the patient's adaptability, and that's why it's taking a little more time to ramp up. We absolutely anticipated the same from day one when we stepped into this, but this means the first go-lives, I think by the end of this year, we will have a much better model to forecast when and how the revenue will be recognized.

I think so far, we are making great progress. As mentioned, over 90% has already in the production or preproduction stage. Either we are conducting eligibility checks, or we are engaging the patients to take their consents, or we already have started to talk to the patient through the help of the care managers taking an approval and review by the physician, by the doctor and have started providing the preventative care and then can start submitting the claims.

**Allen Klee**

Thank you very much.

**A. Hadi Chaudhry**

Thank you.

**Operator**

Your next question comes from Neil Chatterji at B. Riley Financial. Please go ahead.

**Neil Chatterji**

Good morning. Thanks for taking our questions.

Thanks for the color on the kind of second-half strength versus first-half. Maybe just on kind of quarterly cadence on the top line for the rest of '23, I guess a couple of things there. Just how should we think about the potential dollar impact on the two clients rolling off the second quarter? Then how should we think about just third quarter versus the fourth quarter, maybe for like the CareCloud Force and Wellness conversions? Would that contribution be more kind of back-end loaded in second half or kind of more evenly distributed?

**Bill Korn**

Thanks, Neil.

In terms of the quarterly cadence, the two clients that rolled off last year, for the most part, their use of services dropped by the end of the second quarter. For example, if you looked in 2022, you saw that the third quarter revenue was about $3.5 million less than the second quarter, and that was almost entirely due to those clients. What you're going to see when you do the comparison, Q1 of '23 to Q1 of '22, you're looking at a quarter without the clients versus with, so you see a negative. You're going to have the exact same phenomenon in Q2. By the time you get to Q3 and Q4, you'll be comparing against a period when those clients were largely down.

I say largely because as you would expect with a large hospital, it's not like they were doing $12 million of business one day and zero the next day. Gradually one group after another moved off, but the bulk of the business was out in the second half of the year. When we're doing that comparison in third and fourth quarters, you won't have that phenomenon.

When you think about both Wellness and Force, what you're seeing is business signed last year, going live, as Hadi mentioned, with these two Force clients. One of them started using billable work in April. Another one is going to be going live by the end of the quarter. You'll start to see real revenue in Q3 and even more revenue than that in Q4. Similarly, with Wellness, you have a little bit of revenue right now but of all, the business that we signed up last year, while we are working with most of those doctor practices, we haven't yet hit the majority of the patients. As this thing rolls out, you'll see it kind of roll exponentially.

I think you're going to see a phenomena that's little seen in the past. I guess there's actually one more factor that needs to be taken into account, which is the organic bookings. If you go back a couple of years, we really weren't signing a lot of new clients on a typical quarterly basis. The amount of revenue from a new client was not dramatically different than the amount of revenue from an old client that happened to have retired.

Now we're signing up a lot more new business than we're seeing doctors retiring, selling their practices, or leaving us. In fact, every quarter, you're getting the impact of the clients who signed up one or two quarters before, and it's growing. You're going to see a very different shape to the revenue curve than you have in the past.

In some respects, some of those costs, and clearly, when we're providing more services, we need more people, but for example, the people who are doing the work on these two big Force deals, they're here. The clients are doing background checks on the people. The people are here, they're on the payroll, they're in the cost of goods sold in first quarter, just not billable. By the time you get to the third and fourth quarters, they will be billable, so a lot of that extra revenue goes straight to the bottom line.

**Neil Chatterji**

Got it. Great.

Then just one follow-up here, just on gross margins, you might have touched on it a little bit there on the COGS, but I think there was the seasonality impact of the deductibles kind of depressing sales and not as much on the cost side. Just curious on kind of the expectations on gross margins for the balance of '23.

**Bill Korn**

Good question.

Yes, I think when you're looking at Q2, Q2 numbers are not going to be so dramatically different than Q1. I'd probably think about the gross margin in Q2 being pretty similar. As you get into Q3, you're going to see revenue growing. You're going to see some costs growing, but not as fast. You're going to see gross margins increasing. By the time you get to Q4, you're going to see a significant increase in gross margins. It's hard to predict this, but I would expect that by the time you get to Q4, you're going to see a higher percentage of gross margins and probably even a higher percentage of adjusted EBITDA than we've ever shown before because you're going to be seeing this rapid growth in revenue.

Don't expect that in Q2. Don't expect to see improvement in Q3. But I would look at Q4 as being the point to look at and say the business is getting a little closer to a steady state now.

**Neil Chatterji**

Got it.

Just one last quick follow-up, just on the sales force. I think you had a meaningful increase in '22. Just kind of curious how to think about that in terms of that potentially expanding more at all in '23. Then can you just remind us on the typical productivity ramp there.

**A. Hadi Chaudhry**

Sure, Neil, and thanks for the question. This is Hadi.

Yes, you're right, as seen from the overall expense standpoint, we mentioned we anticipate increasing from 7% to 8% in terms of the percentage for sales and marketing expense, even from the workforce perspective. I shared this number on my last call when we spoke at the beginning of this year, our number of entire sales and marketing people were somewhere around 55-ish and today, that number is close to 67, 68.

I'm talking about the overall sales and marketing team offshore and onshore together. Yes, we continue to increase, as we see that we keep on making the progress and we can keep on signing the deals. You can see that in terms of the first quarter booking numbers. It's, again, $8 million, it's almost similar to the fourth quarter last year.

**Neil Chatterji**

Then just as far as the productivity ramp?

**A. Hadi Chaudhry**

You mean those salespeople being trained on and start contributing?

**Neil Chatterji**

Yes. The typical timeline.

**A. Hadi Chaudhry**

Yes. I think by the time when any salesperson joins us, and first of all, we try to hire someone coming from at least the healthcare industry, have an understanding of what they are selling, plus a lot of experience, at least in general sales and marketing. Three months is a good time frame for what we see from the day the person joins to the day when the person should become effective.

Between these three months, the trainings are conducted on our product lines, the tools that we are using, at least 30 days, the person gets shadowed by another experienced salesperson. When the engagement is done, the additional—one of our experienced salespersons also stays on the call to make sure the right pitch is done, and the deal gets closed. Then I think on the fourth month and fifth month, the person should start getting it independently and start selling the deals.

**Neil Chatterji**

Great. That's it for me. Thanks.

**A. Hadi Chaudhry**

Thank you.

**Operator**

Your next question comes from Bill Sutherland at The Benchmark Company. Please go ahead.

**Bill Sutherland**

Thank you. Hello, everybody.

Hadi, I was thinking maybe I'd like get a little more color on the Mid-East initiative in terms of kind of a time frame that you're starting to think about and what the financial implications could be, particularly as you ramp it up. Then kind of maybe even touch on the potential that you see.

**A. Hadi Chaudhry**

Good morning, Bill. Thank you for the question.

The way we are looking at this opportunity, there are three major opportunity areas for us. One is our bread and butter, which is our RCM capability. One is the RCM on the revenue cycle side. The second one is our EHR for ambulatory practices, though that percent is very small in the UAE, the Middle East market. Most of that comes under the government. The third piece is our medSR-related professional services business. It could be a Meditech implementation. It could be a Cerner implementation. These are the three large areas.

I think where we can bring in a lot of value, in addition to our market reputation, two decades of experience in the industry on the U.S. side and then a cost-effective global workforce, primarily from Pakistan. It's about a two-hour flight roughly, three hours flight from Pakistan. There are no issues for the visa. The employees can travel there and we can provide the same solution in a much more cost-effective way.

We have seen so many different numbers in terms of the TAM when you go and start doing the search, but there is one consistent thing that over the next six, seven years, this health sector in the Middle East is expected to grow at a CAGR of roughly over 30%, or around 30%. I think that opens a lot of doors for us and especially for the early adapters who step in when it's in the early stages of this evolution that's going to come in those countries.

As mentioned, from setting up the entity and all that, we are almost done. There are a few minor things that have been left behind. We will do a groundbreaking. We will be presenting. We will have a booth at that expo, at that trade show. We will be speaking. Our leadership from medSR will be speaking there. We'll start engaging, whether it's the government-based authority, the government-related people or the other, the competition in that area. We will keep on sharing the information, but I think this year by the end of this year, we hope we should be able to start closing some business from that area.

**Bill Sutherland**

Okay. That sounds like it will probably be starting out with the medSR kind of implementation.

**A. Hadi Chaudhry**

You are absolutely right, Bill, because the hospital implementation will ramp up significantly what it is today based on the government initiatives. Those large health system implementations since our medSR acquisition, even before we acquired this company, had 20 years or two decade-plus experience in this activation, implementation, training, and all of those things, and even providing internal CIOs as an example.

Whether we are providing those from our U.S. workforce or from the Pakistan workforce, I think we have a good handle and an experience on how to pull these projects off, especially with the medSR team. The team has done an implementation of 400 FTEs, 500 FTEs, the largest one on the U.S. side. That combination should absolutely help us do a similar thing in the Middle East in a much more cost-effective way.

**Bill Sutherland**

Okay.

One more for me. Bill, I wanted to think about the implications, the blended gross margin as you begin to convert these bookings in Force and Wellness and they become a more meaningful part of the revenue mix. Maybe just characterize the different kind of gross margins that we should be seeing across the business lines? Thanks.

**Bill Korn**

Hi, Bill.

I think that one of the things that you need to think about in terms of the gross margin is that in first quarter in the results that we just published, you've got cost without offsetting revenues. Clearly, some of that is, again, as you're getting started, so that's kind of suppressing the gross margin. I think that we find that we can get very good margins in our Force business. That should be as good as our typical margins for the rest of our healthcare-enabled services.

I think with Wellness, day one, you’re going to see a little bit lower level of margin, in part because we're relying a little more on a third party and in part because we're going to start off overstaffing, putting in more people, making sure we're doing things right. Over time, you'll see the margins in Wellness improve.

I think that when you look at 2024, you'll see margin expansion coming from Wellness. In the second half of '23, as Wellness revenue grows, some of that will probably be a little bit lower level of gross margin, but it will be offset enough by the new clients and everything else that you'll sort of see by the time you get to Q4, a meaningful expansion in our overall gross margin.

**Bill Sutherland**

So, the character of each individual business such as Wellness isn't particularly different from your profile currently. It's just a matter of getting it (multiple speakers).

**Bill Korn**

Yes, again, if you think of Wellness, the chronic care management visits have a higher staffing component. The remote patient monitoring engagements, as those get set up, that's done largely automated. Again, day one, CCM engagement where I'm using a third party will probably be a little bit lower margin. Then you ramp up, and then you hire and get some of our people trained, and then you start giving people the remote devices, and by the time you're monitoring their blood pressure in a totally automated fashion with no people, now you've got a pretty nice margin profile.

**Bill Sutherland**

Well, that's exactly what I was thinking. Okay, thanks guys for the color.

**A. Hadi Chaudhry**

Thank you, Bill.

**Operator**

(Operator Instructions) Your next question will come from Constantine Davides at EF Hutton. Please go ahead.

**Constantine Davides**

Thanks.

You guys have obviously done a great job of adding some new services and solutions over the past several quarters. I guess we've all been focused on the upsell opportunity of those services into your sort of legacy base. What I'm wondering is, you look back four, five, six quarters. Are you starting to see that you're able to swim maybe a bit more upstream in terms of attracting new logos? That is to say, are you seeing sort of more enterprise opportunities than you have in years past?

**A. Hadi Chaudhry**

Good morning, Constantine. Thank you very much for the question.

Let's take an example of this therapy EHR that we launched. If you think about it, the therapy today based on the number of providers is our third-largest specialty. We do not have or until now, we did not have our own EHR designed for the therapy practices, though this market has been dominated by some of these large players who have been in this industry for such a long time, whether it's Raintree, whether it’s WebPT, and a number of others.

Today, the way it works is the clients in this space may have been using one of these other industry EHRs. In some cases, we have interfaces, other cases our employees connect to those EHR systems remotely wherever it needs to, but all the rest of the RCM work has been done and all the other pieces by our team members through our platform. Now for us, if you think about it being the third largest specialty, it makes more sense for us to, first of all, penetrate into our own existing client base because that's where the easy opportunity exists.

That does not mean that we do not launch it externally. We do launch it externally at the same time, and we do get some of those deals from external, but the easy sell or the opportunity that exists within our Company is far better than—or is a low-hanging fruit, I would say, instead of going to the external one. If I take—since this is something new we just started, we still need to spend probably another few quarters before we can go full force externally with the large campaigns.

Talking about Wellness as an example, 2022, our primary focus, most of the focus was of our internal client base. This year, we have gone or we have, you can say, 50% to 50%, we anticipate 50% of the bookings should come from our internal client base, and the other 50% should come—and I'm talking about Wellness offering as an example—the 50% we anticipate could come from the new logos. This offering could even become the anchor, as one of the services we are offering, but we will try to sign the full end-to-end deal, including RCM.

We already have started to see some results, and we did sign a few clients in the first quarter, the new logos, from the Wellness offering. From your point, we already have started to see that, and our campaigns are in progress, and we are making progress there.

**Constantine Davides**

Great. Thanks for the color. Appreciate it.

**A. Hadi Chaudhry**

Thank you. Thanks, Constantine.

**Operator**

There are no other questions. I will turn the conference back to Kim Blanche for any closing remarks.

**Kimberly Blanche**

On behalf of the Company, I'd like to thank everyone who's joined us on today's call. We appreciate your participation and your interest in us as a Company, and we look forward to speaking with you again next quarter. Thank you all, and have a great day.

**A. Hadi Chaudhry**

Thank you.

**Operator**

Ladies and gentlemen, this does conclude your conference call for this morning. Again, thank you all for participating, and we ask that you please disconnect your lines.