

Babylon
Fourth Quarter 2021 Earnings
March 10, 2022

Presenters

Ali Parsa Founder and CEO
Charlie Steel, CFO

Q&A Participants

David Larsen, BTIG
Glen Santangelo, Jeffries
Richard Close, Canaccord Genuity
Anna Kruszewski, Citi
Falko Friedrichs, Deutsch Bank

Operator

Good morning, and welcome to Babylon's Fourth Quarter and Year-End 2021 Earnings Conference Call and Webcast. All participants will be in a listen-only mode. If anyone should require operator assistance during the conference, please press star-zero from your telephone keypad.

After today's presentation, there'll be an opportunity to ask questions. If you would like to ask questions at that time, please press star-one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star-two if you would like to remove your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Please note this event is being recorded.

Leading the call today is Dr. Ali Parsa, Founder and Chief Executive Officer, and Charlie Steel, Chief Financial Officer. Before we begin, I--we would like to remind you that certain statements made during this call will be forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 and as further described at the end of the press release that is posted on the company's website. These forward-looking statements reflect Babylon's current expectations based on the company's beliefs, assumptions, and information currently available to the company, and are subject to various risks and uncertainties that could cause actual results that differ materially.

Although Babylon believes that these expectations are reasonable, the company undertakes no obligation to revise any statements to reflect changes that occur after this call. Descriptions of some of the factors that could cause actual results to differ materially from these forward-looking statements can be found in the risk factors section of the company's registration

statement on Form F-1, filed on November 9th, 2021, and its other filings with the Securities and Exchange Commission.

In addition, please note that the company will be discussing certain non-IFRS financial measures that they believe are important in evaluating performance. Details on the relationship between these non-IFRS measures to the most comparable IFRS measures and reconciliation of historical non-IFRS financial measures can be found at the end of the press release that is posted on the company's website.

With that, I'd like to turn the call over to Babylon's CEO, Dr. Ali Parsa. Please go ahead.

Ali Parsa

Good morning, everybody. I would like to welcome everyone and thank you for your time and interest in Babylon. I'm joined today by Charlie Steel, our Chief Financial Officer. Today I will share an update of our progress in 2021, including our revenue growth, technology developments, and early operational performance. I will also share some business initiatives for 2022 before passing to--the call to Charlie to provide more details in our financial results and our guidance before we open the call for questions.

In our last earnings call, I spent some time describing Babylon and our philosophy. We believe in proactively managing members' health while leveraging the structural advantages offered by technology to deliver significant growth and, in time, cost savings through automation and prediction. Our message today is consistent, therefore, with our last earnings call and can be summarized as follows.

One, in 2021, we showed the scalability of our model by quadrupling revenue to \$323 million. Two, importantly, we demonstrated that we can do this while maintaining excellent customer satisfaction ratings and clinical quality. Three, we have signed further contracts to continue to grow at pace and will increase revenue by up to three times to circa \$1 billion, but in 2022 we will focus on improving the revenue mix with higher margin segments and building the software licensing pipeline for 2023.

Four, we will continue to invest in technology data and AI, which is a key differentiator for us, enabling further scale and cost savings and growth areas within our revenue mix. Five, we will decrease adjusted EBITDA losses as a percentage of revenue by six times, from minus 184% in 2020 to around minus 30% in 2022, and we will focus this year on reducing costs of delivery expenses for each contract.

Now, let me discuss three aspects of our performance in more detail, financial, operation, and technology. Financially, we continue to deliver a strong performance and re-affirm our status as one of the fastest-growing digital healthcare companies in the world. As I previously noted, we believe growth at the time that an industry is in transformation is an important indicator of

future market leadership. We have spent 2021 demonstrating our ability to grow, particularly in the United States.

Our revenue grew four times, from \$79 million to \$323 million in 2021, and this growth continues to accelerate. We did more revenue in January 2022 than the entire year in 2020. For the full 2022 year, we indicated that we expect \$900 million to \$1 billion, which is up to 40% higher than our forecast at the time of our listing on the New York Stock Exchange in October, of \$710 million for this year.

We continue to focus on growth in the United States' value-based care segment, but also building our software licensing pipeline during 2022 for revenues in '23. Importantly, we have achieved this growth while continuing to have the high Net Promoter Score and maintaining clinical safety. It is very important when growing to maintain the advocacy of clients and excellence of their experience in the same way that successful high growth companies have done in other industries.

It is worth noting that nearly 40% of our U.S. value-based care members were new in Q4 2021 and, because they are new, we need to invest heavily in year one to see benefits in year two and three. In particular, they are costly in the first quarter. As we have outlined before, this is because we take the medical loss ratio from the payers. We then add our own cost to engage the members, serve them, provide access to digital first primary care, incur the stop-loss insurance expenses, etc., etc.

So, by definition, a new group is loss-making in the first few quarters until we can start to affect their pathway into healthcare. And we aim reduce their medical claims expenses to a degree that this offsets our own cost and makes it profitable. We have done this in the UK, where we now see an average of 6.5 appointments per year for individuals who have had at least one appointment, and this is a huge driver to seeing the cost savings of up to 35% on acute care.

We are now simply doing the same in the U.S. The early results are encouraging, where in Missouri, for instance, we are seeing the same behavior pattern, with already 3.6 appointments per year for members who have had at least one appointment. Additionally, I'm proud that across all our territories, our clients love our services. For example, in Missouri again, Babylon's Net Promoter Score was 86 for the second half of 2021. We also achieved that while maintaining an excellent record on clinical quality.

I have no doubt that we can continue to grow Babylon at significant rates while maintaining very high quality of care standards. Our mission is to make quality healthcare accessible and affordable for all. I think most now agree that we can delivery quality and accessibility, so our effort now is to prove that we can deliver affordability to members profitably. Let me be super clear on what that means.

While we will continue to keep our growth flywheel in motion, we are now focused on demonstrating how profitable that growth can become. Our goal is for every one of our clients and contracts to make a positive contribution to our profitability. Let me finish by explaining a bit more on our technology platform. We understand that most people who follow us are healthcare investors and analysts, but equally we are a technology company, and we have built the business from a technology perspective first.

For example, our product and in-technology team is one our largest, with over 600 engineers and technologists across three continents, over 100 of whom are highly specialized AI scientists and engineers. While their--this represents a significant investment, we demonstrated operational leverage, with technology costs declining as a percentage of revenue from 117% in 2020 to 28% in 2021, with a further expected decline to 15% in 2022.

In my summary of 21 things we delivered in 2021, I listed some of our technology team's achievements. But the great thing about technology platforms is that, once we create an advantage, they keep reinforcing it and accelerating their capabilities. Increasingly, people will see the advantages we can achieve through our technology platform.

I'm excited about what I see in the pipeline. This year, we are focusing our technology on our own operations to show what it can do for us, but in 2023 we will accelerate the licensing of this to others. We believe in time our technology licensing will play an important role in our ability to help others make healthcare accessible and affordable for their members, too.

Before I turn the call over to Charlie to review fourth quarter financial results, I want to take the time to recognize and thank all Babylonians across the globe for their tireless dedication during these past few months and over the last several years. It is not companies who deliver. It is their people.

The Babylon mission wouldn't be achievable if not for the extraordinary efforts of our teams everywhere, and I am very proud of our people and our accomplishment thus far. 2021 was a remarkable year for Babylon, and I couldn't be more excited to push forward into a very exciting future with this group of Babylonians. As I've said before, this is just the start for us, and we will continue to work together to transform this reactive, expensive, sick-care service for a few to a proactive, affordable, healthcare service for all.

With that, I'll turn the call over to Charlie, who will review our financial results in more detail.

Charlie Steel

Thank you, Ali, and thanks to everybody who's joining the call today. We appreciate your time and interest in Babylon. Today I plan to provide some further perspective on the performance and trends we are seeing in the business as we review our fourth quarter and full-year 2021 financial results, as well as provide details regarding our 2022 business outlook.

For 2021 overall, we're happy to report that total revenue and adjusted EBITDA results were in line with guidance we released in November, but more notable is the four times year-over-year revenue increase, from \$79.2 million in 2020 to \$322.9 million in 2021. This result is phenomenal. It's the product of the dedication, planning, and effort of the entire organization, and we are very pleased with this performance. During the fourth quarter, we had a successful listing in October as Babylon began trading on the New York Stock Exchange under the ticker BBLN.

Focusing on a few financial topics from the quarter, I'd like to discuss our financial performance and some of our KPIs, such as cost of care delivery margin, as well as the impact of our increase in value-based care revenue, reflected by a new VBC contract execution in Georgia and Mississippi. We also generated significant operating expense leverage during the quarter, largely due to our significant year-over-year revenue growth and continued discipline on expense management.

Moving to our financial results in the fourth quarter of 2021, we produced strong financial results and revenue growth in all segments. Our fourth quarter total revenue was \$119.7 million, almost 3X the revenue we generated in the fourth quarter of 2020. Top-line revenue growth was again driven by our value-based care segment, which accounted for 83% of fourth quarter revenue and was nearly four times the VBC revenue we generated in the fourth quarter of 2020.

Even as we closed out the year, we continued to add to our value-based care business, initiating new contract execution for over 100,000 new members on January 1st, bringing our global managed-care members, which includes our GP at Hand and RWT members in the UK, to over 440,000. Growth in VBC revenue and related revenue represents the most significant contributor to the top line.

Fourth quarter 2021 VBC and related revenue increased \$72.7 million to nine--\$98.7 million, or 279% over the \$26 million of VBC revenue in fourth quarter of 2020. This was as a result of accumulated membership growth during the first three quarters of 2021 as well as the addition of 64,000 new members of Georgia and Mississippi in the fourth quarter of 2021. Full-year 2021 VBC and related revenue was \$220.9 million, a 748% year-over-year growth from 2020.

Licensing revenue increased 30% year-over-year to \$7.8 million during the fourth quarter of 2021. For the full-year 2021, we generated \$60.1 million in software licensing revenue, which represents 144% year-over-year growth from the \$24.6 million of licensing revenue in 2020. As we have discussed before, because the entire licensing revenue from Telus was paid up front, \$28.4 million of the fee was recognized in Q1 2021. Normalizing for this, year-over-year growth and licensing revenue would be 29%.

Clinical services revenue, which is all of our service delivery outside of the U.S. plus our U.S. fee-for-service business, was \$13.1 million during the fourth quarter of 2021, an increase of 47%

from \$8.9 million in the fourth quarter of 2020. This year-over-year growth is attributable in part to the addition of 1.7 million members added in New York during 2021, as well as the increase in GP At Hand members in the U.K. For fiscal year 2021, clinical services revenue was \$42.0 million compared to \$28.6 million in 2020, a 47% year-over-year increase.

The end of 2021 in the United States, we had 167,000 VBC members, of which 84% were Medicaid, 9% commercial, and 7% were Medicare. At the end of 2020, we had 66,000 U.S. VBC members, of which 88% were Medicaid and 12% were Medicare. At the beginning of 2022, we added over 100,000 new U.S. VBC members with increased penetration to Medicare members, posting 11% of our total U.S. VBC members as of January 31st.

Percentages of total U.S. VBC members for Medicaid and commercial members declined slightly, to 83% and 6% respectively. In tandem, the monthly revenue increased from approximately \$40 million in December 2021 to over \$80 million in January 2022 as a result of the increased VBC business in the U.S. For the full-year 2021, as I have discussed before, we generated \$322.9 million of total revenue, slightly exceeding our guidance of \$321 million and achieving a four times multiple of 2020 revenue.

We are pleased with our 2021 revenue performance and are encouraged by the growth and impact that VBC is making in its first full year. As we have mentioned before, management has placed significant emphasis on delivery on revenue growth, a strategy reiterated by increasing FY 2022 revenue guidance significantly, to \$900 million to \$1 billion, representing expected incremental revenue of over \$0.5 billion dollars for 2022.

For reasons I'll discuss shortly, this exceptional revenue growth comes with associated margin impacts in the short-term. I'll discuss impacts that influence the fourth quarter results, and also touch on some of our initiatives.

Cost of care delivery expense was \$129 million for the fourth quarter of 2021, up from \$40.4 million in the fourth quarter of 2020. Our cost of care delivery expense increased as a result of the additional medical claims expenses associated with the new VBC business we added in 2021.

Further, as we implement new contracts, such as the two new contracts in the fourth quarter of 2021 covering 64,000 U.S. VBC members, we incur incremental costs, including those related to increasing capacity of our virtual provider network and care management staffing and member marketing initiatives. With these activities, we expect to see longer term margin benefits as our ability to generate better health outcomes increases with digital engagement.

As a follow on to Ali's remark our year one investments in VBC contracts, I think it's helpful to provide further perspective on what we do to support a contract with a new cohort to facilitate digital first engagement. There are several pillars to stand up as we seek to optimize our engagement with members. Firstly, commensurate with the number of new members in a

specific cohort, we need to ensure sufficient capacity is established in the virtual network to support new member interactions.

There is also a staffing component to this initial and disruptive build up where medical professionals, support staff, and local outreach ambassadors need to be vested, hired, and trained to the elevated standards we at Babylon hold ourselves to. This process, which is necessary in any new state that we enter and required to be in place before we can interact with a single member, can take up to several months.

Once this infrastructure is established, we can optimize our engagement with new members. This process begins with initial outreach, which includes marketing, community events, and outreach ambassadors, and can take up to three months. From this initial push, sign-ups to the Babylon platform take place gradually over time. The ultimate goal of this initial engagement push is to schedule and complete a virtual consultation, at which point the Babylon team can continue to engage with the member regularly over time and establish ongoing care and high-value interactions.

When Babylon converts someone to being a repeat user of its business, it has a meaningful impact on how that person chooses to navigate the healthcare system. For repeat users of Babylon's service, evidence indicates that Babylon is quickly becoming their gateway into the healthcare system, which enables Babylon to improve their experience and better control cost of care. In Missouri, for example, we've seen encouraging results, where more than half of patients that completed their first appointment go on to have future appointments.

Understanding this process and the time and costs associated with setting up new cohorts is crucial to contextualize our costs of care and margins as we enter new states and sign up new cohorts. Nearly all of these costs are included in the cost of care delivery expense, thus impacting our cost of care delivery margin. Incremental technology expenses associated with new contracts are minimal, which is the reason why we see--continue to see the benefits of operational leverage.

Finally, while we haven't been unaffected by the dynamic of catching up on the backlog of procedures that were delayed as a result of COVID-19, we believe we have been impacted less than the rest of the industry due to our population being predominately Medicaid, i.e., younger and healthier.

For 2021, the cost of care delivery margin, which is revenue minus cost of care delivery expense, was 10.3%. It's important to note that the cost of care delivery expense comprises both medical claims expenses and Babylon's own costs incurred in covering our members, which, during the contract start-up phase prior to achieving engagement with our members, can place pressure on margins.

We are seeking areas for improvement to this. For example, our current scaling model for our virtual provider network is built for speed of growth and clinical quality rather than for financial efficiency, and we are actively working towards a more efficient network in scheduling for providers to better manage the expense to support the network.

Technology expenses, comprised of platform and application expense and R&D expense, were \$25.3 million in the fourth quarter of 2021, a decrease of \$12.4 million from \$37.7 million in the fourth quarter of 2020, a 33% year-over-year decrease. Given the significant growth in revenue, technology costs declined as a percentage of revenue from 92% in the fourth quarter of 2020 to 21% in the fourth quarter of 2021.

Sales, general, and administrative expenses were \$77.9 million in the fourth quarter of 2021, up from \$18.2 million in the fourth quarter of 2020. As a percentage of revenue, however, SG&A expenses were 65% compared to 44% in the fourth quarter of 2020.

A one-time noncash recapitalization transaction expense relating to our listing of \$148.7 million was booked in the fourth quarter of 2021 to reflect the calculated values of the fair value of shares issued to invest in Alkuri and the warrants assumed in excess of the fair value of the net assets acquired in the transaction upon the closing of our business combination. For the full year in 2021, the adjusted EBITDA loss was \$174.1 million, an increase of \$28 million from our 2020 adjusted EBITDA loss of \$146.1 million.

Moving to balance sheet items, I'll provide the most relevant balance sheet and cash flow information with some context of the changes. Cash and cash equivalents as of December 31st, 2021 was \$262.6 million, and debt raised through our AlbaCore financing totaled \$200 million. We executed an additional debt funding arrangement for \$100 million with AlbaCore at the end of 2021 and expect to receive the funds the end of March 2022.

The contract provided a capital commitment, subject to only to customary closing conditions, without any interest expense for three months, as the capital is not immediately required by us. When added to our cash balance at December 31st, 2021, this provides aggregate cash availability of over \$360 million. Acquisitions to date have been funded largely by equity, allowing us to grow with minimal cash investments, reducing cash burn.

In January this year, we raised 2022 revenue guidance to a range of \$900 million to \$1 billion from our initial guidance of \$710 million, an increase of 34% in the midpoint of the range. The growth in 2022 revenue is largely related to value-based care, where we initiated implementation of contracts covering over 100,000 new U.S. VBC members starting in January 2022. The guidance we have provided for the market for 2022 did not include any acquisitions, and none are planned at this time.

We are reaffirming revenue guidance for 2022 ranging from \$900 million to \$1 billion, a 3X increase over 2021 revenue. This outlook includes consideration of Medicaid re-determination.

Adjusted EBITDA loss for 2022 is effectively approximately 30% of 2022 revenue, demonstrating continued operational leverage with declining losses in successive years, from 950% in 2019 to 184% in 2020 to approximately 54% in 2021. This reflects significant revenue and member growth in U.S. value-based care contracting.

With increased penetration of US value-based care business to the overall mix, the company will incur incremental costs, including those associated with expanding the virtual provider network in supporting new members, as I outlined earlier. At the top end of the revenue range of \$1 billion, of which approximately 90% is VBC related, every 100 bps of MLR improvement translates roughly to \$9 million of cost of care delivery margin.

It is worth noting this is not symmetrical because, as MLR declines, we have stop-loss insurance and other protections embedded within our contracts to mitigate the downside risk. It's also helpful to appreciate that, as of today, the weighted average tenure of our U.S. VBC members is less than eight months, with our VBC contracts in Missouri and California having the longest tenure, at less than 18 months. We have shown that only is there significant demand for our solution, but also we have the ability the operationalize and scale the business to match that demand.

Now is the time to demonstrate we can drive improvements in the same way we delivered up to 35% acute care savings in the UK. Just as we focused on delivering our projected revenue growth in 2021, far exceeding expectations, management is now planning to increase focus on cost of care delivery margins for the rest of 2022 to reach our profitability goal on all of our business lines.

Whilst we believe we can continue to deliver significant revenue growth, we will balance this against the cost of growth and the means of funding it. We take a disciplined approach to the deployment of capital, solely considering how we best deliver future value to shareholders. In the short-term, this means not only adding to revenue but also driving operational leverage in the business, particularly by focusing cost of care delivery margin improvement. We continue to evaluate the timing to reach profitability on a cash and adjusted EBITDA basis, which we are targeting as no later than 2025, and management's incentive plans are aligned with this goal.

2021 was about proving we can deliver growth. 2022 is about continuing that growth but also proving profitability. Additionally, the board and management noted the lack of liquidity in the stock, and we are looking at potential ways to alleviate this.

In summary, we delivered strong financial results in the fourth quarter and for the year. I want to thank all the Babylonians for their incredible contributions to the year, and for our advisors and stakeholders that have worked hard to help us grow and succeed in our mission to provide the highest quality care to our members.

And with that, operator, we're now ready to open the call for questions.

Operator

Thank you. At this time, we'll now be conducting a question and answer session. If you'd like to ask a question today, please star-one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star-two if you would like to remove your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. And our first question will be coming from the line of David Larsen with BTIG. Please proceed with your questions.

David Larsen

Hi. Congratulations on a good quarter. You know, the biggest sort of change I hear this quarter relative to last quarter is your focus on profitability. Can you maybe just talk a little bit more about how you squeeze water from the sponge in terms of earnings over year one and year two? Where does, like, that potential 30 to 35% in cost savings come from? How do you reduce inpatient admissions for your plan clients? Just any sort of color or examples that you can provide on that would be very helpful. Thanks a lot.

Ali Parsa

David, this is--.

Charlie Steel

--Sure, David--.

Ali Parsa

--Ali. Thank you for your question. Oh, Charlie, go ahead.

Charlie Steel

Sure. So, David, Ali can talk a little bit about the operational side of this, but I thought I'd give a little bit of an update on the financial side of this. So, it goes back really to what Ali was saying earlier about how we think about this by providing a lot of primary care up front in a highly accessible way in a digital first way.

So, examples of this on the low-hanging fruit that we have, for example, is reduction in ER admission. So, I think we've disclosed before that we see the average saving being around \$340 per member each time we avoid an ER episode. And the more that we have people using Babylon, the more that we can do that.

So, another bit of information, for example, is that, for people who have had one appointment with us, on average they go on to have in total just under four appointments per person. So, what you see is, once we've hooked that initial engagement, we really see that engagement

continuing. And that--by the way, that's exactly the same as what we also see from our statistics in the UK.

David Larsen

Okay.

Ali Parsa

David, just to pick up on what Charlie--okay. If you want to follow, please go ahead.

David Larsen

No, please go ahead, Ali. Thank you.

Ali Parsa

Yeah. David, I just wanted to follow-up on what Charlie said. You mentioned that it's like squeezing water out of stone, but that assumes that the system is highly efficient and has optimized for the best delivery of care. What we both know is that the system is actually anything but efficient. We do not provide enough care for people until they head into crisis emergencies. They end up in the hospitals, who are incentivized to maximize the amount of money they can take out of them, and also then there is significant amount of waste in this system.

We believe that actually, if you look after people really well up front, you will avoid those expensive crises and emergencies. In UK, we have spent three times per capita less money on people. We have a very efficient primary care system across the country. And even in that system, we manage to save cost.

Now, it is true that we saved up to 35% in UK, but that's because all of our patients go through us so we can manage their costs completely and well. And here, the numbers may be a little bit different. We also share those cost savings with our payers in return for protection against our down side, so the numbers may be a little bit different. But what matters is that, if you take just the simple belief that if you look after people up front really well, you avoid their emergencies and crises. You must believe that we will be able to save the cost.

This is not an efficient system. It's not like taking water out of storm--stone. It actually is much more like taking water out of the sponge.

David Larsen

Yeah, that's actually what I referenced, taking--squeezing water from a sponge, not squeezing water from a stone. So, yeah, I'm very, you know--.

Ali Parsa

--Oh, my apologies. You're absolutely right. Sorry about that, yeah.

David Larsen

Yeah. Yeah, no problem at all. And then can you talk about your mix of lives, please? Like, Medicaid around 83%, Medicare 11%, commercial 6%, how would you expect that to trend over time, and is any one of these buckets more profitable than the other?

Charlie Steel

Yeah, David. So, over time, we expect to see a lot more coming out of the commercial, but also coming out of Medicare as well. And I think sort of when we think about profitability, as of today, the Medicaid lives, as you'd probably expect, are less than profitable than the other lives that we've got.

But I think sort of part of this is two-fold. One is that it's important to remember that our mission is to deliver affordable, accessible healthcare to all. And the way that we think about this is delivery of healthcare needs and keeping people healthy, as Ali was mentioning earlier. We don't think about kind of diving people up into young, old, rich, and poor, although that is the way that we're paid.

So, over time, we expect to see many more other cohorts coming through around, as I say, Medicare and commercial. But at the same time, though, we also think that, once you can deliver successfully on Medicaid, it also actually makes delivery of the other types significantly easier.

David Larsen

Okay. It seems to me like there's a lot more premium to go around in Medicare and also commercial. And if you can be profitable in Medicaid, you could probably be--certainly be profitable in Medicare and commercial with the higher premium rates.

Charlie Steel

Exactly. And this goes back to--.

Ali Parsa

--That is absolutely our intention.

David Larsen

Okay. And then in terms of, like, your total lives on platform, 276, that's about 100,000 lives higher than what we had been sort of expecting for 1Q of '22. Can you maybe talk about where those new wins are coming from? Are they additional sells into existing health plan clients, where they're expanding into additional products that they have, like commercial and Medicare products, or are those entirely new health plan wins? And any color on the commercial win, in particular, would be helpful.

Charlie Steel

Yes. So, David, these are entirely new health plan wins. The commercial lives coming through during 2021 came through our IPAs.

David Larsen

Okay, very helpful. I'll hop back in the queue there. Thanks.

Operator

Thank you. Our next question comes from the line of Glen Santangelo with Jeffries. Please proceed with your question.

Glen Santangelo

Yeah, thanks and good morning. Thanks for taking the questions. I just wanted to follow-up on Dave's question regarding the EBITDA margin improvement. You know, maybe--I think what we're all trying to understand is where this operating leverage comes from. I mean, it seems like you're benefiting just on the negative EBITDA margin. You're benefiting from a mix shift. But could you maybe talk about your first cohort of patients in Missouri? Are they profitable yet? I mean, they--this--you're already into year two with that cohort of patients, and I'd be curious if you could talk about how maybe unprofitable they were when they came, you know, into the fold and maybe where the profit on that cohort stands now.

Charlie Steel

Yeah, sure. So, Glen, just taking the two bits in turn, so first of all, when we think about the operational leverage, that's because that's coming through from our technology, fundamentally. And the reason for that is that, when we add new cohorts and new members, we basically have an almost zero marginal cost of technology delivery in doing that. The only OpEx cost really in that is around some more hiring, some more administration on the SG&A line, but then also some marketing as well. So, we've got huge operational leverage, and that will continue as we continue to grow.

When we look at the cohorts in Missouri, I think sort of they--I will be disclosing sort of more on this when we've brought some aggregated contracts we can put together, because clearly the financials for single contract can't be disclosed. But what I would say, though, is it kind of goes back to the operational base that I was talking about earlier, which is when people have had one appointment, they go on to have just below four. And we've seen that engagement in Missouri. So, very, very strong engagement and continuing engagement from people who are engaging, and we continue to increase that engagement on that contract.

Glen Santangelo

All right. Maybe if we could just talk about the cadence of EBITDA through 2022, Charlie, I think, you know, based on the guidance that you gave of a negative 30% EBITDA margin, you're assuming, you know, almost negative \$300 million in EBITDA, you know, and that's on an adjusted basis, which doesn't take into account, like, stock comp and things like that. And, you know, even with the \$100 million in funding, you know, you only have about \$360 million cash.

So, it kind of feels like you're gonna burn through all that cash in 2022. Am I thinking about the cadence correctly, and any sort of color you can provide around that?

Charlie Steel

Yeah, sure. So, look, let me just be very clear. There's no need for us to raise to cash in 2022. We'll always do what's right for the company and also stock liquidity and other concerns as well. But look, like, remember the growth, right? We're growing in 2022 by nearly \$700 million, right? So, that's 3X what we've got in 2021. That is just, like, phenomenal growth, and clearly that comes at a cost and requires some capital. But we'll always disciplined no matter how we think about spending our capital.

The one other thing I would just note, though, is that raising capital in order to grow isn't the only way that we can grow, right? So, just to give you an example, our software licensing machine can also take cash up front for that software licensing and use that in order to grow. And we've done that twice already, and we could potentially continue to do that.

Glen Santangelo

Okay. That's helpful. Maybe just one last question. I mean, just to follow-up on your comments about, you know, the--alleviating maybe the lack of liquidity in the stock, could you maybe just give us a sense for, you know, where's the fully diluted share count today if I include all the options and warrants? I didn't see that in the release. And I'm--you know, and the last part of the question is I just want to make sure I understand. When does the lock-up expire from, you know, both the pipe investors and the employees, just so we have all those dates and the correct share count so we're all using the same number?

Charlie Steel

Yeah, sure. So, the lock-up expires April 21st. We have disclosed in our F-1 filing the total number of shares, and we will do that again in our 20-F. There hasn't been a change in that. It's just over 400 million shares.

The one thing that I would encourage you to note, though, is that that share count includes the management earn out that only start to kick in about \$12.50. So, in effect, up to \$12.50, there's a higher share count and that is material. It's about 10% of the outstanding shares that doesn't affect stockholders at all. If that \$12.50 share price is not achieved within five years, those shares are effectively canceled.

Glen Santangelo

Okay. Thanks for all those details.

Operator

Thank you. Our next question comes from the line of Richard Close with Canaccord Genuity. Please proceed with your questions.

Richard Close

Yeah, thanks for the questions. Can you discuss in more detail the focus on licensing? Specifically, is that more global, or do you see licensing in the U.S.? And what does the pipeline look like from a licensing perspective right now?

Charlie Steel

Sure. So, up until now, we've basically done a small number of very large contracts that is generally, relatively speaking, quite bespoke, but at the same time are highly profitable for us and leverage our excellent technology platform. What we're spending some of 2022 doing is making that product much more SaaS-able so that basically there's more self-service and we can do smaller but not so bespoke licensing contracts, and that will be global.

One of the big advantages of our platform is that we can spin up new countries incredibly rapidly. You've seen that we've done that in 11 countries in Southeast Asia, for example, again in Canada where we license our software as well. And we can add new countries to the platform very rapidly. It's basically a few SE models. We do the translations and the local regulatory requirements. But basically, there's 11 countries in Southeast Asia we've spun up in a matter of months onto our platform.

Richard Close

All right. Do you have a target in terms of percentage of revenue you would think licensing would be in 2023?

Charlie Steel

Yeah. So, the number we had out there before is about 10% of revenue, and we don't see a reason for that to change--.

Richard Close

--Okay--.

Charlie Steel

At this point in time.

Richard Close

Then just to be clear, with, like, a focus for license on 2023, are you placing less emphasis on adding new value-based care business in the U.S., you know, in 2022 and 2023, or--just curious there.

Charlie Steel

Absolutely not. We're--we've got so much demand coming for our product that actually it kind of goes back to the questions that we had earlier about exactly how we continue to grow. We want to grow incredibly rapidly. We can do that, and we've demonstrated that we can do that,

but we just need to make sure we can balance the capital needs with that growth at the same time. But U.S. value-based care is the core element of growth in 2022.

Richard Close

Okay. And then my final question--.

Ali Parsa

--Maybe I can--.

Richard Close

Go ahead.

Ali Parsa

No, I was just gonna add to this to make it super clear. When we took Babylon public and we talked to each other at the time we were doing our IPO, we came with the bodacious growth numbers we could see that are based on the demands that were ahead of us. We beat those growth numbers. We were gonna do \$710 million or so this year. We've increased that by 40%, or so to up to \$1 billion.

At the very same time, we did say that we will focus on growth. When we have this scale, we will then turn those contracts profitable. And as we build the technology necessary to deliver those contracts, we will eventually license those technologies. So, we are sticking exactly to the plan that we outlined at the time of the IPO. And if you refer to those documents, almost nothing changed. We are playing it page by page going forward--.

Richard Close

--Okay, that's helpful--.

Ali Parsa

--With the goal of deploy the technology, make the technology show itself, and then license that technology to somebody else. But none of those wheels will star. We will, as Charlie said, add \$700 million of new revenue this year, and we will accelerate that growth next year, too.

Richard Close

Okay. And then with respect to the U.S. valued-based contracts, can you just remind us in terms of, you know, what is the duration of the contracts, in terms of are they annual? Or, you know, just curious there how you think about, you know, the timing of those contracts and, you know, where there's any renewals, just thoughts there.

Charlie Steel

So, the average contract length, Rich, is around three years. It's important to note, though, that when it comes up for renewal, the engagement is with Babylon as a brand, right? So, users see Babylon, they engage with us, they engage with our clinicians, and therefore they're quite

sticky. And we'd hope to see those renewals happen, of course. The contracts are pretty early on, so we haven't had any renewal discussions with any parties at this point in time, but we've got no reason to believe that anything would not be renewed.

Richard Close

Okay. All right. Thank you.

Operator

Our next question comes from the line of Daniel Grosslight, with Citi. Please proceed with your questions.

Anna Kruszewski

Hi, guys. This is Anna Kruszewski on for Daniel. Thanks for taking my question. I wanted to go that cost of care delivery margin pressures you guys have been seeing. Was there anything you could give any more color on provider hiring as you build out your network, whether you're had to offer additional incentives to attract talent, and then also if you feel that you have enough provider capacity currently to support all your new value-based care lives? Thanks.

Charlie Steel

Yeah. So, actually just--.

Ali Parsa

Sure. Thank you for this. Thanks, Charlie. We are in different places, so we can't see each other.

But I think it's--we are not seeing any further pressure on the cost of care that we expected. We are seeing, actually, things are going as we planned. And you must remember that, because we get our--so much operational leverage on our commissions, we actually need significantly less commissions per value-based care member than, say, a telemedicine company needs. So, we don't need to hire people in the hundreds or in the thousands. We just need a small number of people to look after our patients.

In average, that's probably one full-time physician, a couple of nurses for every 2,000 to 3,000 people. And as we deploy our technology and our leveragability, those numbers are falling significantly. We use our care assistances extensively to allow less doctor involvement, because so much of what we do patients self-administers to. I mean, about 40% plus of all our interactions is with technology only.

So, actually we are not seeing that pressure on our operations. And also, our mission to make healthcare accessible and affordable for everybody and help those most in need in any society we are in, including United States, is highly attractive to a very large group of practitioners, so we're finding little problem in that front so far.

Anna Kruszewski

Okay, gotcha. Thanks. That's helpful. And then, going back to the composition of the new value-based care members, it was really helpful you guys broke that out. I was wondering if you could provide any color on how you're expecting that to change throughout the year as it relates to the potential for PMPM uplift.

Charlie Steel

Yeah. So, as you can imagine, the PMPM, particularly around Medicare and commercial, are higher than the PMPMs on Medicaid. So, we'd expect to see that trend follow through. We've also converted some of our value-based care members in California from professional risk onto global capitation risk. That was the last of just about 10,000 members that have gone through to global cap risk. So, that--we'll see an increase in the PMPMs come through there as well.

Anna Kruszewski

Okay, gotcha. And sorry, I just want to clarify what you just said. So, all of the California members have been converted to the global capitation risk?

Charlie Steel

Yes, they have on Medicare. Yeah.

Anna Kruszewski

Okay. Thank you.

Operator

Thank you.

Ali Parsa

We'll make an announcement with further detail on that shortly.

Operator

Thank you. The next question is coming from the line of Falko Friedrichs of Deutsche Bank. Please proceed with your questions.

Falko Friedrichs

Thank you very much. Hello. I have three questions, please. My first question is on your guidance for 2022. Taking the monthly run rate--revenue run rate from January obviously, yeah, leads you right into the guidance corridor. So, are you being just very, very conservative with that revenue guidance, or is there anything we should be aware of in terms of potential additional contract wins in 2022?

Then my second question is also on the guidance. So, if we were to assume additional contract wins in '22, is it fair to assume that you would then obviously break through your revenue guidance, but would probably miss your EBITDA margin guidance because these new contracts tend to be at a lower margin at the onset?

And then my third question is we noticed you're now targeting your adjusted EBITDA breakeven no later than 2025. And unless we are wrong, we thought that your previous goal was to achieve that adjusted EBITDA breakeven by 2023. So, we were just wondering why that is now being pushed back a little bit. Thank you.

Charlie Steel

Yeah, sure. So, let me talk about those things in turn. So, starting with the last one, which is the adjusted EBITDA guidance, going from '23 to '25, we actually updated that a few weeks ago. But the reason for that is that we're just seeing massive growth ahead of where we expected. And that's the reason why we can upgrade our growth forecast for this year from where we originally were at \$710 million to \$900 million to \$1 billion.

When we think about that, exactly as you say, the run rate revenue in January was over \$80 million. The only sort of, I guess, fly in the ointment around revenue for this year is when we think about the Medicaid re-determination. That's been pushed out quite a few times already, but we have an assumption within the business around that. But at the same time, though, it's actually as you say, we also have a fantastic commercial team that's so busy winning new contracts.

What we can also do, though, is be a lot more selective about those new contracts at the same time, because basically we've got the pressures around the funding of that massive growth. We have a huge amount of demand for our products and services, and we're in the fortunate position we can be a lot more selective about that, which will also help drive the profitability.

Falko Friedrichs

Okay, thank you. But it's then fair to assume that your EBITDA margin guidance for 2022, that is assuming that you win further contracts, right, that minus 30% goal?

Charlie Steel

Yeah. So, the reason why we've guided around the 30% is because we're focused on the operational leverage, but at the same time it allows us to grow faster, or indeed a little bit slower, than we might otherwise want to.

Falko Friedrichs

Okay. Thanks a lot.

Operator

Thank you. Our final question is coming from the line of David Larsen from BTIG. Please proceed with your question.

David Larsen

Just one more quick follow-up. Can you talk about the in sell potential into mainly the U.S. value-based care business? You know, you're serving 24 million people globally. How many of those lives would be good to roll onto the value-based care platform? Any thoughts there? And I think you had mentioned a \$3.6 billion pipeline at the time of the IPO, just any high-level comments or color around that would be great. Thanks.

Charlie Steel

Yeah, sure. So, David, the pipeline continue to grow--.

Ali Parsa

--So, David, to--.

Charlie Steel

We've got--sorry, I was--I'll cover the pipeline quickly, David. Actually, Ali and I are in different locations on the other side of the world.

But the pipeline continues to grow. As I mentioned, like, we've got a huge amount of demand for our value-based care product primarily in the U.S., but at the same time, we've got scope for further expansion and conversion of people from the other products that we deliver over to value-based care. Ali, you might want to expand on that.

Ali Parsa

So, the question for us--the challenge for us is not demand. The challenge, in a way, is to do exactly what you described, David, which is how to balance the demand of our existing clients, who are seeing the positive effects of our work and want to take us from a very tiny percentage of the members to increasing number of their members, versus our need to bring new clients in and the appetite of new clients to be added versus our also desire to balance our book from Medicaid to Medicare to commercial.

So, that is primarily the balancing act we are performing on how to add new clients while continued the in sell and satisfy the demands out of our existing clients. In a way, as I'm sure you appreciate, this is a fantastic problem to have. I emphasize again I am not sure how many stock anyone is covering that grew fourfold last year, continued to grow threefold this year, have reduced the EBITDA losses by six-fold in a two-year period as a percentage of revenue.

We are continuing to do what we promised to do, which is build scale, as many, many other disruptive technology companies did in their earlier stages, and as we build the scale, apply technology and operational leveragability to bring that scale to profitability. This year we will show that almost every one of our contracts will become or will show a contribution to the growth margin. And in their totality they will be a great contributor.

From there, almost we will just keep playing the same flywheel. We remain incredibly positive about this business. United States couldn't have been better for us. United Kingdom business is

doing very well. The Rwanda business is growing. Our licensing business demand pipeline is growing. So, we are super happy. Charlie, anything you want to add to that?

Charlie Steel

No, nothing else to add onto that, but very, very excited about the pipeline growth in 2022, continuing to deliver, and really pleased that we are delivering on our promises, as Ali said.

David Larsen

That's very helpful. Thank you. And then just any thoughts on omicron? There have been a couple of companies in the space that have significant Medicare exposure that have had, you know, higher utilization rates amongst their Medicare population in the hospital setting. Are you seeing that or not, and what are your sort of assumptions in '22 for COVID? Thanks.

Charlie Steel

Yeah, sure. So, for 2021, actually our medical claims expenses were lower than the revenue that we received on the contracts in aggregate across the whole business. So, that's very positive. We have not seen a significant uptick in the way that you say, David, in our claims expenses. And I think, sort of as I alluded to last time, that's partly due to the fact that, number one, is that we can continue delivering our services remotely, but number two, we also have a significant Medicaid population that's generally younger and less exposed to other hospital care procedure needs that Medicare populations may be more exposed to.

For 2023--excuse me, for 2022, we also do see some sort of some automatic stabilizers, basically, within the contracts, because if we get an increase in PMPMs, for example, from CMS or from the states, we get that translated through into our PMPMs through our contract. So, it's not as though we lose out from that, and therefore we see that automation stabilizer coming back.

David Larsen

Okay, great. Thanks very much.

Operator

Thank you. At this time, we have reached the end of the question and answer session, and I'll now turn the call over to Ali Parsa for closing remarks.

Ali Parsa

Thank you very much. Thank you, everybody, for your interest in Babylon. We are, as I said earlier, at the very early days of what we are trying to do. We started coming to the United States some time ago, as a company with \$18 million of revenue in 2020. In this January, we did more revenue in a single month than we did of the entire year. We delivered in 2021 four times growth on our revenue. We've delivered--we will deliver at least three times or circa three growth this year in our revenue projections. And we continue to focus significantly on demonstrating the leveragability of our model.

We are not doing anything beyond what we've promised to do. We are delivering on that promise, but this is very early days for us. We think that we have the potential to create a valuable, significant global company in healthcare that will change, that industry, as I mentioned before, that is primarily reactive, that's it about sick care, into a proactive healthcare company that we all need. We all need to be pre-warned about things are going to happen to us. We need people to look after us as opposed to wait until things go wrong and then have all the hassles of dealing with that sector that is inconvenient and impractical.

So, there is a long way to go, but this is an industry that needs a fundamental change, and I hope that we can be part of a group of companies that will deliver that change. Thank you for your interest. Early days with a long way to go, and we couldn't be more excited about what we are seeing in front. Thank you for your time.

Operator

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