CareCloud, Inc.

First Quarter 2022 Results Conference Call

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PRESENTATION

Operator

Greetings, and welcome to the CareCloud Inc. First Quarter 2022 Results Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Kim Blanche, General Counsel. Thank you, and over to you.

Kimberly Blanche

Good morning, everyone. Welcome to the CareCloud's First Quarter 2022 Results Conference Call.

On today's call are Mahmud Haq, our Founder and Executive Chairman; A. Hadi Chaudhry, our Chief Executive Officer, President and a Director; Bill Korn, our Chief Financial Officer; and Karl Johnson, President of CareCloud Force.

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 facts made during this conference call are forward-looking statements, including, without limitation, statements regarding our expectations and guidance for future financial and operational performance, expected growth, business outlook, and potential organic growth and acquisitions.

Forward-looking statements may sometimes be identified with words such as will, may, expect, plan, anticipate, upcoming, believe, estimate or similar terminology and the negative of these terms.

Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. These statements reflect our opinions only as of 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 2022 earnings presentation: please visit our Investor Relations site, ir.carecloud.com, scroll down to News and Events, 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 2022 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.

Welcome, and thank you for joining us today to review our first quarter earnings call.

First, to review our first quarter 2022 financial highlights. Revenue of $35.3 million was a record for a first quarter coming in slightly ahead of expectations and represented an increase of 19% year-over-year. Adjusted EBITDA of $4.7 million is tracking towards the full year guidance that we had presented in March when we offered our initial outlook. Adjusted net income was $3.5 million or $0.23 per share.

On the call today, I would like to discuss a few key themes as we continue to advance CareCloud's mission of becoming the leading technology and solution supplier to health care providers. Namely, I'm going to discuss number one, innovation, specifically some of our new products that are forging new and adjacent markets; number two, cross-sell success via further white space penetration; number three, the health of our sales pipeline; and number four, partnering characteristics of our successful Force initiative.

To start us off, I want to highlight two more of our recently launched digital health solutions, CareCloud Remote and our Chronic Care Management solution branded as CareCloud Wellness. Launched last month, CareCloud Remote gives us an Uber-like mobile clinician management solution with location services, allowing better scheduling for both clinicians and patients. The product is targeted to the home health market and extends our footprint beyond the clinic to the last mile of healthcare, the home. The solution helps practice groups to streamline referral management, improve staff assignment for home case management, and gives administrators and clinicians visibility and control over operational metrics.

Our target market for this offering is the larger practice. At this level of scale, the complexities around credentialing, coding and revenue cycle require a disciplined approach to referral generation and management for which CareCloud Remote is ideally suited. CareCloud Wellness was launched recently to address the needs of our core primary care providers by supporting the treatment and care of their chronically ill patients.

The Center for Medicare and Medicaid Services, CMS, through its Chronic Care Management program has increased reimbursement for chronic care effectively incentivizing providers to improve connectivity with care coordination and treatment of their chronically ill patients. CareCloud Wellness is a software-enabled service that extends care to high-risk patients with multiple chronic conditions. Through their providers, patients enrolled in Wellness receive regular communication from a team of dedicated practitioners and care managers. Care managers work in partnership with the provider to coordinate care plans that consider a holistic approach to chronic care management, inclusive of nutrition, medication and lifestyle management.

We believe the solution has great appeal to the provider, as there is no upfront investment to use the service. In fact, providers can drive revenue to their practices through the use of services, including e-prescribing and chart review.

Our target market represents approximately 50% of the clients that are using our core solution. We believe that if half of our eligible practices use Wellness, we have the potential to generate in the millions of dollars of revenue long term. I'm incredibly pleased that 75 customers have already expressed interest in Wellness in just the first week since the launch. We believe both Wellness and Remote represents a thoughtful approach to the cutting-edge innovation that our customers have come to expect from CareCloud.

Next, I would like to briefly touch on our Force partnership. As we have discussed in the past, relating to our Force program, the initiative is a powerful example of CareCloud striking mutually beneficial agreements with potential partners instead of acquiring them.

As one example, we are working with a large national provider of revenue cycle and EHR services, augmenting their workforce and performing a series of back-office tasks, leveraging both our onshore and offshore capabilities. This relationship started off small and has increased in size and scope as a result of the quality and results we have been able to demonstrate. Since launching Force two years ago, the program still contributes only a small amount of revenue at this time but has enormous potential.

As we are just scratching the surface here, our Force pipeline has increased exponentially, as I will explain shortly, consistent with our three-pronged strategy of organic growth, acquire and partner, we continue to evaluate additional partnerships on an ongoing basis that would either be a strategic fit with our core business, or have the potential to forge new markets.

As you know, we acquired medSR last year, in part to augment our capabilities in consulting and project management while creating meaningful opportunities to cross-sell our technology and RCM services. One example of our cross-sell success since acquiring medSR that I would like to share is the work we are doing for a multi-location behavioral health system in the mid-Atlantic.

medSR was initially contracted to provide consulting services for a new EMR implementation. They even hired us to work down the legacy accounts receivable remaining from the old system. Given our results there, the client hired us for full outsourcing of their entire billing system. So what started as a six-month consulting assignment evolved into a 100% RCM services engagement, leveraging multiple services. We are pleased with the early results of medSR and look forward to talking more about future successes.

The final topic I would like to cover is the health of our sales pipeline. As we discussed in our fourth quarter earnings call, we are excited about the many solutions in our portfolio, which we have amassed both through acquisition and internal development that can move the needle for our customers. Things like telemedicine and automated tools to support the check-in process and improve patient experience, to name just a few.

We stated last quarter that we intend to increase sales and marketing spend by 20% to 25% to execute on the growth opportunity that our platforms present. As such, I'm pleased to report that, for the first quarter, our incremental sales pipeline is up nearly 50% year-over-year to $22 million, and that the level of interest in our products is exceeding pre-pandemic levels.

Our total pipeline stood at approximately $40 million at quarter end. Taking a more granular look, not only was our pipeline up meaningfully year-over-year, it accelerated as the quarter progressed. Namely, we increased the pipeline by $4.6 million in January and by $11.2 million in March, an increase of 142%. I'm pleased that these positive dynamics have followed through in the second quarter as well, accentuated by our new product releases.

A closer look into the composition of our pipeline reveals that enterprise accounts, which we define as 25 or more providers, represented 36% of the pipeline improvement in Q1 of 2021 and increased to 50% as of the latest quarter. Conversely, small group, which we define as one to five providers was about 35% of the pipeline creation in the year-ago quarter and declined to 28% in Q1 2022. This shift is deliberate and represents a pivot towards larger enterprise deals. Full-service technology-enabled solutions remain the largest component of the pipeline increase, increasing from 50% in Q1 of 2021 to 55% this quarter.

A little more color around Force. Force represented just 2% of the pipeline growth in the year-ago quarter and accelerated to 10% this quarter, representing a fivefold increase year-over-year. We realize that a pipeline is just that: a probability-weighted set of opportunities in various stages and that there is work to do to bring these deals to completion. But given the exponential increase in deal activity and positive early read-through the first quarter, we have confidence in achieving our 2022 targets and a high degree of optimism regarding our emerging organic growth opportunities.

To conclude my prepared remarks, we are pleased to report a solid start to the year by exceeding our revenue expectations and tracking toward our full year outlook for both revenue and EBITDA. We released two new digital health solutions to the market to improve practice efficiency and drive revenue that is getting strong reception from our customers.

Our sales and marketing efforts are ramping up as planned, demonstrated by the improvement in our pipeline and early evidence of cross-sell success.

On the acquisition front, we continue to execute against a robust pipeline of both small and large potential acquisitions. We look forward to keeping you posted on our progress throughout the year.

At this time, I will turn the call over to Bill for a closer look at our first quarter results.

Bill.

Bill Korn

Thank you, Hadi. And thank you, everyone, for joining the call today and for your interest in the CareCloud story.

I believe that we are off to a great start for 2022 and our first quarter results demonstrate that our solution set is meeting the needs of the market today. On today's call, I'm going to review our first quarter financial results and reiterate our 2022 outlook.

For the first quarter, we generated revenue of $35.3 million, which increased 19% compared to a year ago. Taking a closer look, revenue from our technology-enabled solutions represented 85% of total revenue and consisted of 48% from clients using our core technology suite of electronic health records or practice management solutions, 15% from clients using one or more components of our technology like our business intelligence software, and 22% from clients where we are providing IT services, utilizing our technology processes and know-how.

Our remaining revenue is derived from 4% from clients using just revenue cycle management services, 9% from managing several clients' entire medical practices, and the other 2% from other services. All of these breakouts can be found in our 10-Q.

Revenue growth in the quarter was driven by strong results from medSR, the company we purchased in mid-2021 to give us a larger presence in the hospital space. medSR achieved record revenue during Q1 and signed more business than the revenue they recognized, increasing their backlog and positioning themselves for additional revenue growth during Q2.

GAAP net income of $1.1 million compared very favorably to a net loss of $2 million last year, despite a $500,000 increase in sales and marketing expenses. We have now reported at least $1 million of GAAP net income for three quarters in a row. Non-GAAP adjusted net income of $3.5 million represented a 20% year-over-year increase. Adjusted net income was $0.23 per share.

Adjusted EBITDA of $4.7 million increased 28% compared to $3.7 million last year. Our adjusted EBITDA growth was driven primarily by our increasing revenue and reduced expenses as a percent of revenue. Our adjusted EBITDA margin increased to 13.4% compared to 12.4% a year ago. The one hundred basis point year-over-year improvement was a result of a decrease in our G&A and R&D expenses as a percent of sales, offset by a small increase in our sales and marketing as a percent of sales.

Now turning to the balance sheet and cash flow. We ended the first quarter with $10.1 million in cash, including restricted cash, and $6 million drawn on our SVB line of credit. We generated $3.1 million in cash flow from operations during the quarter and net working capital of $8.7 million.

Finally, for guidance, we are reiterating our outlook at this point in the year. We continue to expect revenue to be in a range of $152 million to $155 million, which represents 10% growth at the midpoint, and Adjusted EBITDA to be between $24 million and $26 million, reflecting an adjusted EBITDA margin of 16.3% at the midpoint.

During the quarter, we issued $26.6 million of Series B preferred stock and redeemed $20 million of Series A, swapping an 11% coupon for 8.75%. Our goal is to continue lowering our cost of capital, so you can expect to see further redemptions of Series A preferred stock in the future. Our Series A preferred is redeemable at $25 per share, anytime going forward.

We continue to evaluate creative approaches to retiring our Series A with a keen eye on minimizing dilution to our existing common shareholders. To wrap up, our strong first quarter results give me good confidence that we will achieve our full year goals.

Additionally, we are making progress on all of our growth initiatives, setting the foundation for sustainable above-market growth.

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

Mahmud Haq

Thank you, Bill.

I am thrilled that our year is off to such a great start, setting us up for another strong year. I would like to thank our customers, shareholders, and all our associates for their trust, loyalty and support of CareCloud's mission.

We will now open the call to questions.

Operator.

Operator

Thank you. The first question comes from the line of Jeffrey Cohen with Ladenburg Thalmann. Please go ahead.

Jeffrey Cohen

Hi, good morning. Hadi, Mahmud and Bill, how are you?

A. **Hadi Chaudhry**

Hi, Jeff. Thank you. Good morning. How are you?

Jeffrey Cohen

Just fine. So a few questions from our end. Firstly, could you talk about the size of the commercial team domestically here and any efficiencies that you're seeing now and potentially throughout the balance of the year?

A. **Hadi Chaudhry**

Thank you, Jeff.

As we mentioned even on the last call and from the couple of last quarters that we continuously have been focusing on increasing our sales and marketing team, as far as we can keep seeing the success and increase not only on the pipeline, but also on the closing of deals.

We do see that uptick. And in terms of the numbers right now on the U.S. side, we have about roughly 32 resources. And in addition to those, we have about 22 SDRs on the digital marketing and on the offshore side, which is helping the U.S. side. There is another probably five-or-so senior positions that we are currently hiring for, because we do see that things have been significantly starting to improve on the demand generation and on the sales pipeline.

Jeffrey Cohen

Okay. Got it. That's helpful. And could you talk about some of the growth drivers that you anticipate from the CareCloud Force going forward? And talk about that funnel and the predictability of your estimates and those revenues from the Force program?

A. Hadi Chaudhry

Sure. Let me just start this off, and then I'll hand it over to Karl, and he can talk about it a little bit more in detail.

And as I mentioned during our call that we do see, if we look from the pipeline perspective, a significant increase, which is about fivefold compared to the last year when it comes to Force, the opportunities, the pipeline that we have been able to generate.

In addition to that, our bookings for the first quarter have also increased proportionately in terms of the percent on the Force deals side. On the other side some of the large possible anticipated opportunities we are working on, and though none of those have yet materialized, but we are almost at the final stages of the decision-making process.

With that, I'd like turn it over to Karl.

Karl Johnson

Good morning, everyone.

Yes, as Hadi mentioned earlier, the initial concept of Force was to provide certain potential M&A targets where they weren't a good fit for us, but yet we could offer them something that could make their businesses healthier and provide us excellent margins. Since then, we've really evolved to become a staff augmentation solution for larger groups and hospitals, and especially interesting is moving into other companies that are providing electronic health records and services to physician practices. So that's where we've seen a big shift.

I think on top of that, we have seen a very close working relationship with the medSR team. And as they're into facilities with consulting and support services, a natural flow of that has been on to providing back-end services for Force either on a project basis and frequently then moving into an ongoing basis.

I hope that's helpful.

Jeffrey Cohen

Yes. Thank you. And then lastly, from our end. Bill, if you could provide any commentary on the sequential pace and cadence of your anticipated top line for the year. Are we correct in assuming that it looks like sequential quarter-over-quarter for Q2 and Q3 and a softer Q4, as you performed in prior years?

Bill Korn

Yes. Thanks, Jeff. So yes, you're correct. As you know, and I'm sure everybody knows, we always go through a period as does most of the industry in Q1, people see the doctors, but they have deductibles. And when our revenue is a percent of what the doctor collects, the revenue goes down sequentially. So Q1 is following that normal cadence. Starting with Q2, you'll see just normal visits. And by the way, last year and the year before, there had been some impacts from COVID. I'd say by now, we're really not seeing a major difference between the level of visits and what you would have seen in 2019, '18 and previous years.

That means you'll see sort of the normal cadence. Q2 will be a little more activity. Q3 will be our seasonal peak. It always is our seasonal peak, especially with lots of back-to-school visits, people getting flu shots. And then in Q4, you find people, when they can avoid it, they don't schedule visits with their internists the week between Christmas and New Year's. So you sort of get one less week in the quarter, and I would expect to see that in 2022 as well.

Jeffrey Cohen

Okay. Perfect. Thanks for taking the questions.

Bill Korn

Thanks, Jeff.

A. Hadi Chaudhry

Thanks, Jeff.

Operator

Thank you. The next question comes from the line of Allen Klee with Maxim Group. Please go ahead.

Allen Klee

Yes. Good morning.

Could you talk a little more about CareCloud Wellness in terms of how you're positioning this product competitively? And you mentioned you've had a lot of interest in the beginning, kind of what's the feedback you're getting and why that is?

A. Hadi Chaudhry

Good morning, Allen, and a great question. Thanks for the question.

One thing, the way we started looking at it and if you go back in the history, I think we all understand that Chronic Care Management was one of the initiatives that CMS, I think, launched in around the 2015 time frame and that it was very restricted and the target was to get it matured over the next couple of years. So that's the backdrop.

This year, just shifting the focus towards more digitization in this upcoming year, the CMS has increased the reimbursement rate by roughly about 50% for some of the Chronic Care Management procedures. Our unique situation in this whole equation was, for our clients who are using the core technology components and between the core and part of at least one of the technology components, the clients that are using that number over 70% of our client base today.

For those clients, all what they need to do is, is check off a button saying, okay, yes, and sign the contract, and we will take it over from that point. Their current operational expenses will not be increased. We will be providing all the care managers and the people who will be needed, the providers who will be required helping them create the plan. And then our technology plays in by, for example, checking the eligibility of the patients who can be eligible for these Chronic Care Management procedures.

Then the outreach will be done with the help of our Chronic Care Management team. And in the documentation or the procedure that has to be done using the telehealth documentation, the telehealth communication takes place. And then again, back to our technology which submits the claim and tracks the claim to make sure it gets paid and at an appropriate level.

I think our one uniqueness in this thing is an integrated combination of technology and the services. If a company is a typical company who just offer the Chronic Care Management services, they still have to rely on someone else's technology when it comes to claim submission, tracking reimbursement at the right correct rates, documentation of the charts, the care management plans and all that. So that's what we believe is our one unique element.

Now, when we launched this product just about two weeks back, it's basically we're just going back to the client saying, count on us and give us a chance, you don't have to worry about your additional expenses. Your current expenses will not increase, we will generate additional revenue for you and then we charge a certain fee out of it. So this is literally a risk-free model for our existing clients. As we step back and looked at our existing client base who are using our entire core technology component or one of the core technology components, about 50% of that client base today is eligible for this Chronic Care Management service. So even if we, let's say, are successfully able to sell this to the 50% of that potential eligible client base, even that will add for us a couple of million dollars in additional annualized recurring revenue. So we are excited about it.

Allen Klee

That's great. Thank you. And then I was just looking at Page 10 of your investor presentation. I'm just curious, from that, can we back into what medSR's revenue was for the quarter?

Bill Korn

I'm not sure that you can get the medSR revenue directly from there. I think when you look at the 10-Q, you'll see in the footnotes that it will give you some more details. But medSR had a great, strong quarter in Q1. As a first pass, look at what it was in Q3 and Q4, and it will be pretty similar in terms of Q1.

Allen Klee

That’s great. Thank you so much.

A. Hadi Chaudhry

Thank you.

Operator

Thank you. The next question comes from the line of Marc Wiesenberger with B. Riley. Please go ahead.

Marc Wiesenberger

Yes. Thanks. Good morning. Appreciate you taking the question.

Just following up on that last question regarding kind of Page 10 in the slide deck. If we back into it, it looks like that 22% of professional IT services is about $7.8 million in sales, and that's pretty strong growth, but kind of the 65% coming from the remaining technology driven solution was maybe just over $22 million, and that actually would be a decline year-over-year. Bill, if you could talk to those dynamics with regards to what really was driving medSR and then the technology potential year-over-year decline.

Bill Korn

Recognize you haven't got the Q, so you haven't got all the final numbers. So I'd say taking the percentages, it gets you close, but doesn't get you exactly there.

In terms of medSR, there's been a good response from clients. I think the fact that they're now part of CareCloud, and we've got a lot of capabilities and they're part of a large public company, means that the clients are interested in working with us. So that business is growing really nicely. This is the third full quarter that they've been part of us and it's—I would say that that deal has worked out very well.

In terms of the remaining core business, I'd say that it is roughly flat from where it was last year. I wouldn't say there's major increases, decreases, I wouldn't read too much into that.

Marc Wiesenberger

Got it. Okay. And I guess based on medSR's 1Q results and maybe your expectations for the remainder of the year, does that impact your thoughts on their ability to hit any of the earn-outs?

Bill Korn

Well, it's hard to know how they'll wind up with the earn-outs, although I'd say on a quarterly basis we always re-estimate what we'll pay in terms of the earn-out, and as is required by GAAP and by our auditors, Grant Thornton, each quarter, there becomes a small adjustment to the income statement showing either an expense if you think you're going to pay out more than originally anticipated, or a credit if we think we'll pay out a little bit less.

I'd say the revenue was really strong, but the earn-out criteria that we designed were pretty strict and require hitting a number of things in addition to revenue, most importantly, profitability.

I don't know whether there'll be a payout or not. I'd say whether there is or isn't, the business is doing really nicely and exceeding our expectations. And if it turns out if we don't have as big payout as recently anticipated, strike that up to doing a good job negotiating the terms of the earn-out in order to get people enthusiastic about selling it and still keeping the cash in the bank.

I think we've done a good job in terms of structuring that.

Marc Wiesenberger

Very helpful. Appreciate all that color. And nice to see some more university system wins. I think UNMC was your sixth RCM win in the oral pathology space. And then the one you put out this morning with the University of Tennessee was the seventh. I'm wondering, have any of the prior wins led to broader adoption of the CareCloud platform across those health systems? And maybe why has oral pathology been an area you're getting traction in maybe relative to others?

A. Hadi Chaudhry

Thank you, Marc, for the question.

I think one of the reasons is simply our proof that we have been able to perform really well with the combination of our technology-enabled RCM services and some technology pieces. Of course, every time the first win is a more difficult one. And if we prove to the client that we can add really the value and improve the profitability and the revenue for the client, it automatically becomes the referral for the next one.

A number of these are also the results of some of the referrals from the prior clients in the same space. And especially earlier this morning, the press release you must have looked at, we went through an RFP process, which they have literally tested us from every single possible area with a whole list of questions, and then evaluated and reviewed the numbers compared us with other competitors. And the earlier ones, we literally after that closing and within the next week, we already actually have started working on another opportunity.

Again, we yet need to see if we are able to close that or not. But this seems to have started to give us a lot of attraction and attention towards CareCloud products and services, especially in this space.

Marc Wiesenberger

Helpful. Appreciate it. And then just a final one for me. With regards to CareCloud Wellness and Remote, are these incremental revenue generating offerings, or are they bundled with the kind of current pricing? And how should we think about those going forward? Thank you.

A. Hadi Chaudhry

Good question, Marc.

For CareCloud Wellness, when it comes to Wellness, there would be a different and additional pricing on top, because in this case, if you think about it, there will not be any additional expenses for the existing client. And in order to perform these services, we are going to need care managers, providers, maybe nurses or nurse practitioners. So all that additional staffing, of course, needs more expenses at a higher rate or a higher expense versus a regular RCM services and the like. So it does come with additional expense, and additional revenues they will receive. But again, this will be tied to the additional revenue that they will get. In terms of the additional expense on their books, there won't be any additional expense.

When it comes to Remote, similar to how we sell the rest of our packaged services, either it can come as a percent for the entire package, or in some cases one or two products can be sold separately and the services can be separately priced. For example, in some cases, we price credentialing separately because the clients want that to be based on their setup. It could be that the app that we are using, that's part of the overall package, the client might say, okay, so I'm fine paying 5% or 6%, whatever the agreed-upon fee is, for all the rest of the services, but this app, for example, we will not be using it more extensively or we ill be using more extensively. So let's come up with a separate pricing.

Just to summarize, Wellness come off with the separate additional pricing out of the revenue and Remote is just a part of a regular package—the way we sell the rest of the technology-enabled RCM services.

Marc Wiesenberger

Got it. Thank you. Appreciate it. Congrats on a good quarter. Thank you.

A. Hadi Chaudhry

Thank you.

Operator

Thank you. The next question comes from the line of Richard Baldry with ROTH Capital Partners. Please go ahead.

Richard Baldry

Thanks. Given the volatility in the tech sector recently, I'm curious if you've seen any impact on the M&A pipeline sort of or what people are looking for? Or has it stalled out anyone's willingness to transact in this market, or waiting out maybe a better market down the road, or maybe the pressures to put more people into the pipeline? Just any discussion about changes that you're seeing in that part of your business?

Bill Korn

Good question, Rich.

We continue to have great opportunities for M&A. I would say that we, as we have since before we were public, we have a strong pipeline, and I'd say the pipeline of potential deals, the portfolio of companies that we might potentially do deals with is probably stronger than ever. But at the same time, we continue to have really high standards.

And so at this point, we don't have another acquisition to talk about, but I'll say that we're always talking to people, and just stay tuned.

Richard Baldry

You talked about sort of the front of the sales funnel growing pretty quickly of late. Can you talk about maybe looking deeper into the funnel, have you seen any changes in sales cycles at all? Or would the makeup of the front of the pipeline argue for any changes, either lengthening of durations or win rates given the end markets that are sort of filling into the front of the pipeline. So we can kind of gauge how we think that increase in the front will impact your ongoing growth rate? Thanks.

A. Hadi Chaudhry

Thanks, Rich, for the question.

The one factor that we mentioned, which was a deliberate transition, which is what we see is a higher percent towards the enterprise pipeline versus the smaller wins. So there's an advantage and some temporary short-term disadvantage, because the enterprise deals typically take a little longer to close and then even to go live, compared to the small practices where the closing cycles are typically shorter, and then go live is also shorter. The enterprise deals, they are more sticky. They come with a higher margin.

The combination of all that, we absolutely see much better growth opportunities in the quarters to come. But yes, the closing cycles might be a little longer. And then by the time they will be completely ramped up, will be slightly higher. And if I talk about in terms of the months, what we have seen is, at an average, the closing cycle, it's about six months on an enterprise deal and could be another few months until everything completely goes up and running, fully ramped up somewhere between three months to six months.

For the smaller ones or small-to-midsize, it could easily be between 30 days to 60 days in terms of the closing cycle and then between one month to three months in terms of when the practice goes live and ramped up fully on the revenue side.

Richard Baldry

And two sort of quicker ones. The R&D line has been oscillating a bit lately. Could we talk about what a good run rate would be? And then what will pace the exchange process for the preferred, both seem to be trading at premiums. So it seems like demand and for the new series, demand is good. So how quickly do you think you'll run through that process? And what is the real determiner behind that? Thanks.

Bill Korn

Two good questions. So in terms of R&D, right now what I'd say is recognize that as we're developing new products, the expenditure that relates to things that are not yet in production is capitalized, and you see that in the cash flow statement. And then when the product is actually in production, then it hits the income statement. So total dollars have been about the same.

There's an accounting treatment that, again, we discuss with Grant Thornton, based on the timing of when things go into production. I would expect the total dollars to be roughly constant over the year, although having said that, it will be roughly constant, maybe it will decline a little bit quarter-over-quarter. Not a lot, but I'd say we've got a strong team. But as we get things completed, we may not be adding as many new people. So we may see a little bit of a slowing of the growth that's there. The amount that hit the income statement, last year, there were some fluctuations. I think you can sort of see where we were in Q1 and think about that as being the right run rate for the rest of the year.

Now redemption of the Series A Preferred is an interesting question, because I'd say, for the life of us, we can't figure out why the Series A stock, that that we initially sold at $25 a share, we've redeemed $20 million of the Series A at $25 a share. We've said that we plan to redeem more Series A, and it will be at $25 a share. People are willing to pay close to $27 for it, which I guess is that they don't believe us.

And probably the only rational reason is they say, gee, we know you're not going to sell common at these prices, and they're probably right about that. But we have other ways that we could potentially raise capital, as we did a few months ago starting to sell a lower coupon Series B. I can't give people guidance as to when we're going to redeem the remainder of the Series A. But rest assured that you'll see that happening bit by bit. As we think about any redemption, our first criteria is really, how do we be accretive to our common shareholders?”

We're not going to do this in a way that costs us more. We're not going to do this in a way that adds risk, but we are going to deliberately reduce the amount of Series A that's outstanding, because frankly, the market is very happy to give us money at 8.75%. So there's probably no reason to keep paying the 11% as we have on our Series A.

Richard Baldry

And then the last would be on today's announcement, you have Tennessee, you've touched on it, but was that a competitive win? Is it something that's meaningful in size? Just some sort of broad base there. It does seem like there's some momentum in that university segment. Thanks.

A. Hadi Chaudhry

Great question. Yes, it's a competitive win. And then when it comes to the revenue, typically we do not talk about a client’s revenue. But I would say it's absolutely on the ARR basis, on the annualized recurring revenue basis, it's a few hundred thousand dollars. But this is just—I would say it's another one on the list of oral pathology for these universities, and we are getting more momentum just because of these consecutive or the continuous win in the space.

Richard Baldry

Thanks.

A. Hadi Chaudhry

Thank you.

Operator

Thank you. The next question comes from the line of Bill Sutherland with Benchmark. Please go ahead.

Bill Sutherland

Thank you. Good morning, everybody. My questions have been largely answered.

I was thinking, Hadi, about some of the product introductions you were talking about last time, the Conductor suite primarily. Maybe update us on where those stand, because I think there were going to be some additional modules and whatever traction that you're seeing with those.

A. Hadi Chaudhry

Thank you, Bill, for the question. Good morning.

In terms of the adding more products to the suite, yes, we will be doing that over the next quarters. Each quarter, we are anticipating at least launching something. And as we get close to that, of course, we'll make an announcement, but we are on track towards those plans.

In terms of the traction, again, it's part of the pipeline, and the unfortunate—I shouldn't say an unfortunate part. The one inherent limitation is, because, again, this is the kind of the deal which needs more time to sell, to mature, to understand by both parties. They need to look the specification documents; they need to make sure that their team understands how to do the initial integration and all that. So we are making progress in terms of the opportunities in the pipeline. We do not have a win yet, but we are still optimistic and we will share whenever we will have the next win. And we will keep on adding more products that are in the queue as part of the conductor suite. And we are on track for it.

Bill Sutherland

Okay. That's all I've got. Thanks, guys.

A. Hadi Chaudhry

Great. Thank you, Bill.

Operator

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

I would like to turn the call back to Kim Blanche for closing remarks.

Kimberly Blanche

Thank you to everyone who's joined us today. We appreciate your participation and your interest in us as a company. We look forward to speaking with you again next quarter.

Thank you all, and have a great day.

Operator

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