



**CareCloud, Inc.**

**Second Quarter 2021 Results Conference Call**

**August 5, 2021**

## CORPORATE PARTICIPANTS

**Kim Blanche**, *General Counsel*

**Hadi Chaudhry**, *Chief Executive Officer*

**Bill Korn**, *Chief Financial Officer*

**Mahmud Haq**, *Executive Chairman*

**Stephen Snyder**, *Chief Strategy Officer and Director*

**Karl Johnson**, *Chief Growth Officer*

**Jerry Howell**, *Chief Executive Officer, medSR*

## CONFERENCE CALL PARTICIPANTS

**Jeffrey Cohen**, *Ladenburg Thalmann*

**Richard Baldry**, *ROTH Capital*

**Mark Weisenburger**, *B. Riley Securities*

**Allen Klee**, *Maxim Group*

**Kevin Dede**, *H.C. Wainwright*

## PRESENTATION

### Operator

Welcome to the CareCloud Second Quarter 2021 Results Conference Call.

Please note this event is being recorded.

I would now like to turn the conference over to Kim Blanche, CareCloud's General Counsel. Ms. Blanche, the floor is yours.

### Kim Blanche

Thank you. Good morning everyone and welcome to the CareCloud's second quarter 2021 conference call.

On today's call are Mahmud Haq, our Founder and Executive Chairman, A. Hadi Chaudhry, our Chief Executive Officer, President and the Director, Bill Korn, our Chief Financial Officer, Stephen Snyder, our Chief Strategy Officer and a Director, Karl Johnson, our Chief Growth Officer, and Jerry Howell, CEO of medSR.

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

All statements other than statements of historical fact made during this conference call are forward-looking statements, including without limitation, statements regarding our expectations and guidance for future financial and operational performance, expected growth, business outlook, and potential organic growth and acquisitions. Forward-looking statements may sometimes be identified with words such as will, may, expect, plan, anticipate, upcoming, believe, estimate, or similar terminology and the negative of these terms. Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. These statements reflect our opinions only as 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 second quarter 2021 earnings presentation. Please visit our Investor Relations site, [ir.carecloud.com](http://ir.carecloud.com). Click on Events 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 second quarter 2021 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

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

**Hadi Chaudhry**

Thank you, Kim. Thank you everyone for joining us on our second quarter 2021 earnings call.

2021 is shaping to be a breakout year for CareCloud. I am pleased to report not just a strong quarter, but a record-breaking revenue quarter. As a team, we are thrilled about this continued momentum and I feel great about what we have accomplished so far this year. As we charge ahead onto the back half of 2021, I am happy to report that we are raising our full-year outlook as we continue to integrate and cross-sell our acquired assets and drive increasing levels of organic growth.

The team remains focused on delivering leading technology enabled business solutions to medical practices and health systems nationwide. This mission is incredibly important as we empower the more than 40,000 providers we serve, while they focus on delivering excellent care to patients across virtually all communities in the country. This ability to deliver comprehensive end-to-end solutions necessary for our customers and prospects to thrive in today's healthcare environment continues to be a highly differentiated strength. It is remarkably rewarding to us to work with such a cross section of our healthcare system. Whether we are enabling the free doctor medical group in your neighborhood to run their businesses more effectively, partnering with a health system to automate mundane and repetitive tasks while working with complex enterprise groups and deploying over a full suite of products and services.

The responsibility we are entrusted is to deploy our software solutions to these incredible healthcare organizations, including our certified electronic health records products, our patient experience management platform and a host of other software applications is what fuels us to continue to innovate on their behalf.

In terms of continued growth, we're pleased to see this coming from a variety of drivers across other platforms and strategies. Our market continues to reward our expansive value proposition to organic sales of our award-winning software solutions to completely new customers and cross-selling opportunities for our industry leading services to existing customers open to aligning more of their critical practice functions with CareCloud. We also continue to pursue unique and interesting partnership and leverage our proven acquisition methodology. These growth cylinders are firing nicely and driving consistent growth, up and to the right.

Our investments in sales and marketing with a focus on driving top-line revenue growth, both organically and through acquisitions, while simultaneously finding new and distinctive area for automation and stripping out costs is paying dividends. A significant reason for this ability to continuously show strong performance has been our investment in the technologies that our customers use, our sophisticated internal software and process automation coupled with an industry best cost basis for a large portion of our team.

For today's call, I felt it important to focus on how we are evolving and why we continue to remain incredibly bullish on our prospects. During the last earnings call, we discussed our new brand and how the name CareCloud better reflects who we are today as a Company. How this name more richly encapsulates the technology-enabled solutions we take to market and how we have grown to be an industry leading tech company in the healthcare market.

As CEO, I've recently had the opportunity to travel across the country and visit some of our tremendous customers. It is a delight to see how we are empowering our clients with solutions to tackle many of the challenges they are facing daily so they can focus on patients while we focus on their business. On a recent trip to a client, we discussed how Microbots, our robotic process automation bots are increasing the throughput of our respective teams, driving out inefficiencies in their workflows, and speeding up cash flow, saving them tens of thousands of dollars annually and decreasing their days in AR. On another trip, we learned how clients are leveraging our cloud-based business intelligence platform, Precision BI, to perform deep reimbursement analysis and discover payment gaps from insurance carriers to improve reimbursements and even predict visit trends for new and existing patients.

As we think about, the why we do, what we do, our focus is all about enabling the business of healthcare and giving providers the solutions they require to deliver the care needed to their patients. We do this through a variety of means, but the primary way we accomplished this is through a vast array of software platforms we have as a part of our product portfolio, as well as our additional capabilities to craft customized solutions as needed to meet the unique needs of our customers. We achieved these results on behalf of our clients because of our software products are inextricably linked with our service offerings. It is this combination of technology enabled business solutions that is driving the success our customers enjoy and further propelling us to new heights.

That provides a good bridge to our most recent acquisition. In June of this year, we closed on a strategic acquisition, with the specific intent on helping us accelerate our growth in the hospital market, which has historically not been a large opportunity for us, and we want to change that.

The acquisition was a combination of two companies that had recently come together, Santa Rosa Staffing and MedMatica Consulting Associates. These two organizations have been serving the hospital market for over two decades and have partnered with more than a 100 health systems over the past two years alone.

This is now going to market as medSR. We believe there are remarkable synergies between medSR and CareCloud to drive new growth opportunities within the hospital market. Uniquely, we're not focused on competing directly against other EHR vendors in this segment. There is significant upside in a massive addressable market for us to go after where we don't need to compete directly with an EHR offering. Rather, we plan to work together and partner with these companies in meaningful and cooperative ways to best serve our mutual clients.

Through this acquisition, medSR now has the ability to market solutions for business intelligence with our Precision BI platform and the Robotic Process Automation through our vendor specific micro-bot deployments, and recommended tailored solutions in revenue cycle management, intelligent accounts receivable wind-down services, provider credentialing and medical coding, to name a few.

This is of course additive to medSR's premier healthcare IT and operations consulting competence and long-established stands in our vendor agnostic technology transformation and activation services for their clients.

One of the biggest sales challenges in the hospital market segment is access to decision-makers. medSR's years of experience and stellar reputation, we believe, positions us for continued future growth while providing medSR with the capabilities required to accelerate and meet the needs of their hospital clients. We couldn't be more excited about this latest acquisition.

One early proof point of our thesis to drive growth by combining medSR's proven processes, domain knowledge, and deep health system relationships with our operational scale and resources is a recent health system win in Pennsylvania. This is a great example of our sales organization, working together to expand share of wallet.

This latest deal is great validation and we are very optimistic about our growth prospects in the health systems space. We believe there is more to come as we are in active conversations with half a dozen other health systems. As we continue to work this exciting pipeline, we expect these deals to shape up like any enterprise sales and likely have slightly longer sales cycles and take a bit more time to mature than our mid market and smaller practice deals.

Switching focus to the second quarter sales, our increased investment and sales and marketing, combined with our expanded solution set, has continued to contribute to growth and has resulted in new customer signings and expansion through upsells. As we have said before, organic sales are a relatively new endeavor for us and we're pleased with the steady growth engine the team is building. We continue to place more fuel on this engine and it shows as we have increased our year-over-year investment in sales and marketing from \$1.5 million in 2019 to \$6.6 million in 2020 and are on pace to increase that by another 30% to 40%.

We will continue to make these investments, so long as we can maintain our sales momentum and healthy client acquisition costs. While our CAC has historically been hovering around an industry low of \$0.50 or for every dollar invested in sales and marketing, we yield \$2 in bookings. We believe that we must continue to constantly evaluate these metrics and adjust as necessary.

I'm pleased with the team and the progress we are making, and continue to believe that it is not unrealistic for us to be closing by the fourth quarter of this year at a rate of twice the average bookings of Q4 2020.

Allow me to focus your attention on another incredibly important topic. Many would agree that CareCloud is widely regarded for its comprehensive suite of beautifully designed products, a flexible go to market approach and its powerful technology platforms. However, some might not fully appreciate other market

positions. That is why I am focused on ensuring that we have crystallized our brand and market position, and more explicitly articulate the distinction between us and our competitors.

Our Company is in the technology enabled business solutions today, and truly have a distinct position in the healthcare ecosystem. We have the unique ability to execute well, in both the ambulatory and health system market, in contrast to many of our peers. When we offer point solutions such as telephones applications, appointment reminder calling tools and simple mobile apps for charge entry to name a few, our main software platforms encompass our full suite of proprietary and comprehensive core system software for financial, clinical, patient and analytics workflows. Much of our cloud-based ERP solutions do the same as in the other industries. This is vastly different to other competitors that may look similar to us on the surface.

In our mind, there's a very clear line of delineation between traditional mom-and-pop or large medical billing companies, BPOs, healthcare technology companies like us and pure play SaaS businesses.

While it is true that we go after similar customers across a light market segment, and even offer comparable value propositions, such as electronic health records, practice management system and revenue cycle management services amongst others, the way we deliver these solutions and the manner in which these solutions are performed and executed are fundamentally different in practice.

While there are similarities, other opportunities for scale, growth and innovation and enterprise value far exceed those of traditional billing services and BPOs. In our opinion, we share more similarities to cloud based SaaS companies, who's customers use their own products than we do to large medical billing companies and BPOs, who typically rely on third party software products. In fact, more than 80% of our revenue is directly derived from customers using at least one of our technology solutions.

We also believe we have a slight advantage in some areas over pure-play SaaS companies, as we are able to add services and drive a much larger average deal size than you would typically see from monthly software subscription fees alone. In other words, we are neither a BPO nor are we a pure-play SaaS provider, we are a tech Company providing healthcare software and services to provide this nationwide. We do this by leveraging both technology and services to create valuable integrated solutions for our customers, primarily through proprietary platforms.

Further, our customers and prospects come to us or whatever competitors, because of our proven ability to provide them with our award winning out-of-the-box software products and tech-enabled services, as well as our ability to custom develop or customize our systems to meet the unique challenges by leveraging our large global team of R&D and IT professionals. When you analyze the market landscape, this strategy is highly differentiated and gives us a competitive advantage. This approach provides up with deeper client engagement, enabling a more complete service offering to our customers across a larger portion of their corporate business.

Our technology DNA is enabling our enterprise sales team to win deals where others simply do not have the solutions needed, or are ill-equipped to execute against stated requirements. One recent example from this last quarter was over closing both SpringHills management services organization. SpringHill is a pioneer in building and operating extended care and rehabilitation communities, while also utilizing a remote patient monitoring system. The executives at SpringHills MSO felt burdened by the disintegration of technology and service providers they would need to implement their integrated RCM system with and actively support their entire continuum of care, including post-acute care, assisted living, memory care, and home care services.

It's been close to a year annualizing and vetting several options without finding a partner that could provide them with the end-to-end software they needed, to effectively manage their business. Because of our ability



to leverage over more than 500 cost-effective R&D team members to tailor a solution to meet their needs, we now call SpringHills our CareCloud client, and we are trained to work with them to deploy the solutions they need to care for their patients across 35 locations.

The work we do is important, and we are making great strides as a company. We have seen how important healthcare workers are in our daily lives, especially this past year or so. I want to thank all of our team members for the work you do day-in and day-out to help our customers deliver care to patients and operate their businesses.

I will now turn the floor over to Bill to walk us through over financials. Bill?

**Bill Korn**

Thank you, Hadi.

Second quarter 2021 was another quarter of exceptional growth for CareCloud. Revenue was a record \$34.1 million, an increase of \$14.5 million, or 74% from the second quarter of 2020, and 6% above our previous all-time high. Our annual revenue run rate is now \$136 million, which is 29% above our 2020 revenue, and 111% above by 2019 revenue. This is proof that our strategy of growing through a combination of organic growth and acquisitions continues to propel our growth to a level significantly faster than the industry as a whole.

Our second quarter 2021 GAAP net loss was \$227,000, as compared to a net loss of \$4.8 million in the same period last year. The 2021 net loss reflects \$3.1 million of non-cash depreciation and amortization expenses, and \$1.7 million of stock-based compensation. GAAP net loss was \$0.27 per share, based on the net loss attributable to common shareholders which takes into account the preferred stock dividends declared during the quarter.

I mentioned that our revenue grew by 74% second quarter 2020, our total operating expenses grew at a much lower rate, 41% year-over-year, enabling us to reduce our net loss by 95% from second quarter 2020 to second quarter 2021.

Our non-GAAP adjusted net income for second quarter of 2021 was \$4.5 million or \$0.31 per share, calculated using the end-of-period common shares outstanding. Our non-GAAP adjusted, diluted net income per share is \$0.26, using end-of-period shares outstanding plus common shares issuable upon exercise of in-the-money warrants, and vesting of outstanding restricted stock units.

Our adjusted EBITDA for second quarter 2021 was \$5.7 million or 17% of revenue, compared with \$191,000 in the same period last year. Our adjusted EBITDA increased by an eye-popping 2,861%, or approximately \$5.5 million from Q2 2020, in large part due to the cost savings resulting from integrating the businesses we acquired last year. This was our 17th consecutive quarter of positive adjusted EBITDA, and was just \$50,000 shy of our record adjusted EBITDA set in fourth quarter 2020.

Revenue for the first six months of 2021 was \$63.8 million, an increase of 54% compared to \$41.4 million in the first six months of 2020. As our service offerings have grown more complete, and the fraction of clients directly utilizing our technology has grown, we have updated the details we provide in our 10Q and 10K, to describe our revenues. The vast majority, approximately 81% of our revenue for first half of 2021, was directly driven by the use of our technology assets. This includes 52% of our revenue, which comes from clients using our core technology suite, 23% of our revenue comes from clients who use one component of our technology, and 6% of our revenue comes from clients where we're providing professional IT services, using our technology processes and know how. Another 8% of our revenue came from clients where we're providing revenue cycle management services, where we're using the technology ourselves,

but our clients are not. Nine percent of our revenue is from clients where we are managing their entire medical practice, and approximately 2% of our revenue comes from other services.

You will see the new revenue breakdown when you read our 10Q, which will be filed later this afternoon, and we believe this will better assist the market in understanding who we actually are; a technology company in the healthcare space that serves a diverse group of clients, in an incredibly large, adjustable markets.

For the first six months of 2021, our GAAP net loss was \$2.2 million or \$0.63 per share, compared to a GAAP net loss of \$7.3 million in the first six months of 2020. Our non-GAAP adjusted net income for the first six months of 2021 was \$7.4 million or \$0.51 per share.

During the first half of 2021, our adjusted EBITDA was \$9.3 million, an increase of \$8.4 million or 876% from \$958,000 in the same period last year.

As of June 30, 2021, we had approximately \$9.5 million of cash. During second quarter 2021, cash flow from operations was approximately \$1.1 million. However, our spending included approximately \$4 million during the quarter, to resolve a pre-existing matter from our purchase of CareCloud Corporation in 2020. The cost of this settlement was entirely borne by the seller, who forfeited \$4 million of the purchase price in the form of shares of our series a preferred stock, which was held in escrow. This one-time payment was contemplated at the time of the acquisition, and without it, our cash flow from operations would have been approximately \$5.1 million, similar to our adjusted EBITDA and our adjusted net income. Our net working capital on June 30, 2021 was approximately \$8 million.

Based on our record-breaking second-quarter revenue, I'd like to close by updating our forward-looking guidance for the fiscal year ending December 31, 2021. Our second quarter revenue set a new record and surpassed expectations, and we anticipate continued strong momentum during the second half of 2021. We have increased our full-year revenue guidance from a range of \$133 million to \$137 million to a range of \$135 million to \$138 million at or above the midpoint of our prior guidance range.

This represents growth of 28% to 31% over 2020 revenue. This includes organic growth of new clients, as well as cross-selling new services to existing clients, and includes revenue from the Med SR acquisition which occurred on June 1, 2021. We anticipate this will be our seventh consecutive year with annual revenue growth of 25% or more, a record few public companies have been able to achieve.

We still expect our adjusted EBITDA to be \$22 million to \$25 million for full-year 2021, growth of 103% to 131% over 2020 adjusted EBITDA, as we realize the benefits of cross-savings and a full-year of additional scale from the CareCloud of Meridian acquisitions in 2020.

When we look at our second quarter 2021 adjusted EBITDA, taking into account the normal revenue seasonality which caused our first-year adjusted EBITDA to be seasonally low as always, and we consider the cost reductions which we put in place, we are very comfortable reaffirming our \$22 million to \$25 million full-year adjusted EBITDA guidance.

I will now turn the floor over to our Chairman Mahmud for his concluding remarks.

**Mahmud Haq**

Thank you, Bill.

It truly is a pleasure to see how we continue to evolve and provide leading technology-enabled business solutions to healthcare organizations across the country. There is no question in my mind that this will be



yet another record-breaking year for growth and profitability. I would like to thank our investors, customers, and employees for their continued support.

We will now open the call to questions. Operator?

**Operator**

Thank you.

Our first question comes from Jeffrey Cohen with Ladenburg Thalmann.

**Jeffrey Cohen**

Good morning, Mahmud, Hadi, Bill and Kim, how are you?

**Hadi Chaudhry**

Good morning, Jeff. Good, thank you.

**Jeffrey Cohen**

Just a couple from our end at the moment. Could you talk a little bit about the commercial organization and sales force, and talk a little bit about some of the pipeline that we should expect out there, how you're looking at it, and where maybe coming from as far as your multiple channels for the quarter and forward. Thank you.

**Hadi Chaudhry**

Sure. Thank you, Jeff. Thank you for the question. I can give some color and then I'll have Karl jump in for some more details. We continue to believe, and in the first half of this year, we see a steady sales from to up-sell and cross-sell activities. The key areas they call with have included coming from RCM services to SaaS 9s and incorporating BI with these RCM deals.

We are still building the team for this, as you mentioned, this is still a new endeavor for us as we started investing more and more in the last year. This year's medSR acquisition, this was primarily as we have explained this earlier, is more strategic acquisition, and the whole idea behind this was our foot in the door and an opportunity or leverage the connections that we have established with the different health systems.

With that, we are very, very excited and optimistic about the upcoming opportunities in that space. I think we are tracking very well in building the team and the pipeline, while we don't specifically, on the granular basis, quarter-to-quarter talk about the numbers in terms of the bookings, but based on where we are today, we believe for the full year, we will be able to increase our overall sales bookings over the last year.

We don't think it's unrealistic, as we have mentioned earlier, for us to be closing by the fourth quarter at a rate of twice the average of Q4 2020. Some of the notable ones and new logos include a company that is using Force to perform AR services and it's for over 100 FTEs, we will be providing from the Force CareCloud team standpoint, and also able to partner with SpringHill, as we have mentioned. They have about 35 skilled nursing home and assisted living facilities, and there are many others' new logos that we have been able to do to partner with.

Karl how would you like to put it?

**Karl Johnson**

Yes, the thing that I will respond to that is in those expectations of where we should be by Q4 are firmly being supported by the growth in the pipeline. We have seen a very significant growth in our pipeline are opportunities, people that we're in discussions with, we've been working very hard with the sales team. We made that big investment last year and early this year in increasing the size of the sales team. They've been working very hard on cross-selling services.

What I mean by that is, in addition to just selling revenue cycle services or software services, now we have the ability to add in credentialing services, coating services, robotic process automation, staff augmentation, and the like. Really there is strong reasons for why we think that that sales goal is achievable. Thank you.

**Jeffrey Cohen**

Hadi, would you say that in a non-M&A environment, which is pretty short for you, are you seeing the additional revenue coming from bolt-on and add-on services and utilization? Or, are you seeing the increase coming from purely new accounts or what might be the combination there?

**Karl Johnson**

It's actually a combination of the two. What we're seeing is we're seeing new logos that are coming on board that are using a broader range of our services than they may have in the past, and we're also seeing upsells to existing clients adding in services.

**Jeffrey Cohen**

Okay. Got it. Then lastly for me, any specific specialties to call out that you're seeing some traction in or some more significant uptick in out there?

**Karl Johnson**

I think that with the acquisition of medSR, we're looking at larger multi-specialty hospital groups, but we've also had very good traction number of specialties to simplify it, typically looking at specialties with larger average revenue per claim, like orthopedics versus pediatrics. We're really pushing hard on those specialties that generate more revenue for us as a Company. They have complexity in their needs, where we come in and make a good start.

**Jeffrey Cohen**

Has that included any ASCs to-date?

**Karl Johnson**

Tangentially, yes.

**Jeffrey Cohen**

Got it. Perfect. That does it for us. Thanks for taking the questions, nice quarter.

**Hadi Chaudhry**

Thank you, Jeff.

**Operator**

Our next question comes from Richard Baldry with ROTH Capital.

**Richard Baldry**

Thanks. Could you maybe discuss very broadly how normalize do you feel the operating environment is with regard to COVID, and made from a few different angles, either patient volumes you're seeing coming through, how much back to normal that looks, the M&A environment, are you seeing people start to feel like they're getting their own businesses back in order, which makes them more willing to consider, looking at an M&A with their operations not so much under distress, let's say, at any other aspects, just so we can feel like how normal this quarter felt.

**Hadi Chaudhry**

Great and thank you, Richard. A very good question. Let me answer in a couple of different ways. In terms of the patient volumes, what we're looking at, it's almost back to the pre-COVID levels. The mix might be little different. When I say mix, we see a more and more trend towards the utilization of the telehealth services, but for us, when we look at pre-COVID, during COVID, and post-COVID now, it's back to the normal, almost close to where it should be with a slightly different mix.

In terms of some other talking points about the telehealth, we conducted another survey in the later half of last year from the telehealth standpoint and questioned dozens of customers across our organization. The participants who responded, about 11% mentioned that their practice reported frequent to occasional telehealth use. During COVID, that number went up to for the same population, it was about 93% of the practices reported frequent to occasional telehealth use. After COVID, that number is at 63%, based on the survey responses.

So, we can see even from—and the same thing speaks to when we actually look at it from the overall organizations telehealth numbers. Before COVID and we have shared these numbers before, the telehealth appointments were 1% of 1/10 of the overall appointments, and that number went up to somewhere around 25% to 30% range of the total appointments during the pandemic. Post-pandemic, we are tracking at somewhere around 7% to 8% range. That's from that perspective. There's another survey we conducted in terms of —do the practices think that they will be able to survive as a medical practice organization. Except for one who said they're thinking about shutting down, either all of them are completely opened or back to normal. When you get a chance, you can access the practice pulse survey results from the CareCloud website as well.

Steve, would you like to add some, sorry Richard.

**Richard Baldry**

If Steve wants to add some color, that would be great.

**Stephen Snyder**

Sure. I'd be happy to answer. Thanks for the question, Richard. Maybe just addressing the M&A part of your question. I think as you alluded to, the reality is with regard to COVID related factors have certainly added some frothiness to valuations. Of course, that's been seen across most industries and segments of the market, including valuations in our space.

Likewise, if we think about the types of companies that historically have been the targets of our acquisition strategy, many of those companies could be classified, characterized as “distressed” companies. For those companies, some of the governmental relief, together with some of the extended credit terms from lenders and also increased grace from landlords and the like have enabled some of the investors of distressed companies to delay these inevitable exits.

But, I think as your question really alluded to, we really see this trends normalizing as we move forward. Of course, if you are an investor in a Company that within the financial statements, has experienced some element of declining revenues or profitability has been negatively impacted by COVID related factors, and if you feel like you've turned the corner and things are progressing turning in the right direction, as a seller, if you have the ability, you probably would rather wait until you have a couple of quarters so that you have proof at least in your financial statements that you really turned the corner and you're back to steady-state.

Our belief is that for many of the companies who have the ability to hold on a little bit longer until they have the ‘proof in the pudding’ as it were in the financial statements, many of them will. Having said that, again, for many of the distressed types of companies that we really focus on, there may still be opportunities.

**Richard Baldry**

Okay then, to follow up. If I look into the Opex side, the sales and marketing stepped up pretty significantly in the quarter and year-over-year has grown pretty strongly. How do you see that continuing to trend into the second half? How much more of a scale up or change in percent allocation there? Then tied to that, the R&D actually went down, which it might not have expected. Where do you see that trending near-term, long-term? Thanks.

**Bill Korn**

Thanks, Richard. In terms of sales and marketing, as we've mentioned, we are continuing to put more emphasis on this. We do intend to continue increasing our investment in sales and marketing. Frankly, we've told the sales team there's no finite budget for what you can spend as long as you continue to deliver results where you signed up \$2 of new annual recurring revenue for every \$1 that's invested.

We've told our sales leadership to keep adding people. Keep thinking about more innovative ways to grow the business, and we'll continue to do that. I would anticipate that you will see sales and marketing continue to increase as we move forward in the rest of the year. Frankly, when you mention the idea that we're going to be growing our bookings dramatically from where they were in 2020. Well, the only way you do that is you need to be making more increased investments. We'll continue to do that.

In terms of R&D, I guess there are a couple phenomenon going on here, because some of the biggest cost drivers of R&D are people who are U.S. based onshore employees. Some are offshore employees. If you think about 2020, right after we bought CareCloud, we actually inherited a fair number of our R&D subcontractors overseas. We have largely moved all that work back to our own team.

But we continue to look at tasks and say, what can get done leveraging offshore resources more cost-effectively? If we can get the same results and spend a few dollars less, why not do that? We will continue to keep the brain trust here in the U.S.: the architects, the product managers, the visionaries, the folks that are controlling the design and integrating the various technologies that we have. But we'll always look to do that as cost effectively as possible.

**Richard Baldry**

Thanks. Congrats on a good quarter.

**Hadi Chaudhry**

Thanks.

**Mahmud Haq**

Thank you.

**Operator**

Our next question comes from Mark Weisenburger with B. Riley Securities.

**Mark Weisenburger**

Thank you. Good morning. I'm wondering if you could highlight some of the marquee customers that Med SR works with, what percentage of the business operates under any type of recurring or repeatable relationships. Also, their business model is pretty different than a lot of your prior acquisition. I'm wondering if you could contrast the integration and cost rationalizations going forward relative to how we thought about that with other deals.

**Hadi Chaudhry**

Good morning, Mark and thank you for the question. The CEO of medSR is with us, Jerry. Jerry, over to you please.

**Jerry Howell**

Sure. Thank you. I appreciate the question. First off, I want to say how pleased I am to be part of CareCloud .

Probably the best place to start is by providing background on our services and customers. We have four primary service areas, the first being implementation of healthcare systems to include Clinical, Revenue Cycle, and ERP applications. We support all vendors agnostically. Second is strategic services around IT planning, operational consulting, business intelligence and analytics. Third is IT Managed Services, whereby organizations are turning over all are part of their IT support to us. Last is revenue cycle. We have a revenue cycle practice that now has significantly more capabilities, but we've always been involved with operations consulting in the Revenue Cycle space.

Our clients include a wide variety of academic and non-academic health systems, community hospitals, as well as some large physician groups.

We've got a strong group of community hospitals that we're providing primarily MEDITECH services to coast-to-coast.

We have moved rapidly within the last two months to integrate. I think you asked about integration and cost of delivering services. We've moved aggressively to integrate our back-office systems with CareCloud corporate. We've taken significant steps to streamline our operations including finance, human resources, payroll and IT. All areas of integration have gone very well for us.

I would like to discuss recurring revenue verses revenue that we need to sell continuously, and the relationships we have with our customers. For most of our contracts that we're signing for services, probably

the typical time that we're involved is six to nine months on an initial basis. Most of those customers represent relationships that we have had a continuous year-over-year relationship with. Each contract, represents unique projects and different initiatives.

We also have a number of contracts that we put in the managed services category where organizations may be moving from one hospital information system to another and are turning over parts of their IT operation to us. For example, we are providing legacy system support of all of a client's existing applications while they transition to a new application. This managed services type of work probably represents somewhere between 10% and 15% of our business

Lastly, we are very bullish on the revenue cycle management work we can do now within the hospital and acute care space. We are aggressively working towards cross-selling those revenue cycle management services into our client base. I'm very excited that we actually do have one new contract won within the last two months where we'll be working with a behavioral health provider that is going to be utilizing CareCloud services for AR management, AR rundown, as well as an ongoing RCM support. We believe is a great proof-of-concept. We are also talking to a couple community hospitals for the same scope of services.

We are very optimistic about our new position within CareCloud.

**Mark Weisenburger**

Thank you.

**Jerry Howell**

Hopefully that answered the question.

**Mark Weisenburger**

Yes, it did, very helpful. Thank you.

**Jerry Howell**

You're welcome.

**Mark Weisenburger**

I think the final rule associated with the No Surprises Act was recently passed and it goes into effect in early 2022. I'm wondering how that could impact CareCloud's RCM business, and if you've done anything to potentially quantify potential impacts.

**Hadi Chaudhry**

Thanks for the question, Mark. We are currently just reviewing the details and I don't think we have a good material information right now to share, but we will look into it and we have the capability to address any and all of those things.

**Mark Weisenburger**

Got it. Okay. Then one final one for me, cybercrime ransomware across the health system has obviously been a big topic lately. Wondering if you could talk about CareCloud's current capabilities to ensure



customers are protected. If maybe additional investments might be needed and potential opportunities for any new verticals in the future. Thank you.

**Hadi Chaudhry**

Great question and then you're right. It's continuously been on the rise, especially on the health system side or the healthcare sector across the board. Recently over the last six months, in addition to our internal data security and the compliance team who make sure that all the best in the industry standards and the best practices have been implemented.

We contracted with another external security firm who basically monitor across the network locally and internationally and keep on monitoring the traffic in addition to just the conventional way of making sure that the computers and the nodes and the other servers are protected.

If there is any abnormality, even at the network traffic level, the alerts are raised and then they quickly jump in. Their approach is basically they eliminate if there is anything that's too much suspicious automatically and if there's anything that needs to be blocked and a concern is raised to us, they do it, but our team is closely working with them and now the entire organization's network is actively monitored internally and externally. I hope that answers the question.

**Mark Weisenburger**

Thank you very much.

**Hadi Chaudhry**

Thank you.

**Operator**

Our next question comes from Allen Klee with Maxim Group.

**Allen Klee**

Hello. You mentioned that in the hospital market, a challenge is getting to the decision-maker. A big challenge is also of all the different doctors and nurses involved that they can integrate all the information correctly, and often if you don't have a family member who is an advocate who's there, mistakes happen and there's a lot of problems. Is there anything that you're looking or doing that can try to work on that?

**Hadi Chaudhry**

Thanks for the question and good morning. Great question. I think in terms of the day-to-day operations from the existing RCM standpoint or smaller technology solutions standpoint, we have been working with different health systems for the last 20 years and especially since the IPO by acquiring some of these bigger companies, the number of hospitals, number of health system who became part of us, we have partnered with them.

We have sort of figured out many of these operational issues that how we best need to deal with and almost literally and virtually in every single case, and we have examples after examples where we have significantly improved the overall performance of their health systems from the RCM from their revenue standpoint. We go back to them to improve their—from the denial rates perspective to improving the AR and so on.

That's where our technology helps. We look at the many disintegrated systems within the hospital. Yes, it's a bigger task for any hospital to come to a decision of implementing one consolidated full system. But where we provide the help is—well, we can look at the disintegrated pieces and we come up with the customized solution which can sit in-between and try to eliminate many redundancies. This very basic same single example of anesthesia system being used, there's a cardio system being used, both of them are generating a different stream. So, we take the stream, consolidate it, (inaudible) using our small piece of software custom developed for that specific area, for example, if there's a surgery conducted, they had to be two streams / encounters, one coming from anesthesia and other coming from cardiology. If either one of those two is missing, our system flags it and that's how we start to add value. This a very simple, basic example.

Our earlier point was, even though we have lot of these capabilities, the problem is finding that opportunity to be standing in front of them, that we have these capabilities, and so the decision-maker can hear from us, from our sales team that these are the things that we can do. That's where we believe this medSR relationships will be really helpful.

**Jerry Howell**

Hadi, this is Jerry, let me answer that with just a little bit of color on the medSR side with the health system work that we've done.

For the last 20 years, we've really focused on services and technology enabled solutions. We have not traditionally provided the technology, but our experts are working with our clients to use their installed technology more effectively. Within our market segment over the last 10 plus years, with the wide adoption of physician order entry and automated clinical documentation, our consultants have worked with all of our leading clients on using that technology more effectively in coordinating care and the different segments in the health system, and also providing for better clinical outcomes and better patient experience.

One project I would like to mention is a good representation of the operational work we are doing/ It is with a large health system in the Virginia/Maryland area. They've been a long-term user of a leading clinical information system. But they feel that their clinical and business processes are not aligned with the effective use of technology. Patients are waiting for too long to get responses back from a contact center, or results from providers. We will be working with them to use that technology more effectively, but also help them modify their processes to, improve the patient experience. I think we're working right at the forefront of that critical need.

**Mark Weisenburger**

Thank you very much.

**Jerry Howell**

Thank you.

**Hadi Chaudhry**

Thank you, Allen.

**Operator**

Our next question comes from Kevin Dede with H.C. Wainwright.

**Kevin Dede**

Hi. Good morning, Hadi. You mentioned the medSR deal will put you in a better position to partner with other firms in addressing hospital systems. Could you elaborate on that? Maybe give us a few examples and how you see that growing, and talk to, I guess the spousing—the CareCloud brand within that endeavor.

**Hadi Chaudhry**

Thank you, Kevin. I'll let Jerry take it over but I can just reiterate the same point I just mentioned that in this hospital space, one challenge always we historically have to deal with it, getting in front of the decision-makers. But I'll leave it to Jerry. Jerry why don't you jump in, please.

**Jerry Howell**

Sure. What we are working with our salesforce who have relationships across the health systems that we've historically called on. We have traditionally called on the Chief Information Officer and IT executives. Now as part of the CareCloud enterprise, we are working actively with our sales teams to call on Chief Financial Officers, Vice President of Revenue Cycle, and discuss with them the capabilities that the new medSR has around hands-on staff supplementation for AR management, operational consulting about optimizing the Revenue Cycle and then the ongoing challenges of Revenue Cycle management outsourcing.

At one of our clients that has been a good IT services client of ours, we got the introduction to move from the IT area into the financial space, had some discussions with the CFO and the VP of Revenue Cycle and introduced our CareCloud services to them. So, we're now in the process of crafting an agreement to help them do AR wind-down on some old accounts that they had, put in some processes to ensure that their AR performance continues to improve as well as ongoing support. Still in the discussion phase is an initiative to move their Revenue Cycle operations in its entirety or in parts, to an ongoing CareCloud RCM relationship.

We believe it's a model for continued success with a lot of our clients as many of our community hospitals in rural settings or single sites within a community, are all struggling on the Revenue Cycle performance aspect. This solution or this combination of services and technology definitely enables them to take advantage of our capabilities at a reasonable cost. It's something that we believe is going to fuel significant growth for us. Did I answer the question?

**Kevin Dede**

Yes, that certainly helps, Jerry. Thank you. Obviously, in sales and marketing growth, you've added headcount, right. That's clear. But given that the CareCloud brand and the fact that you've embraced it across the entire operation, I'm curious to see how you're promoting it or advertising it across the country at this point. Can you speak to that sales and marketing budget that's not specific to headcount and perhaps more specific to advertising?

**Hadi Chaudhry**

Sure. Great. Thanks for the question, Kevin. I will hand the floor over to Bill in a minute in terms of the specific to the numbers. I think your point is absolutely right. The first thing was for us to change the name earlier in the year and the reason was, the rationale was that CareCloud name better represents who we are today and our commitment to providing all the Cloud-based solutions and to the customers segments we serve.

I think now we're feeling to your point, it's very important that we get this message across very clearly to the industry, and even if you think about it today, as Bill mentioned, even from our revenue description

perspective, we have changed, we have merged the Revenue Cycle and SaaS lines to avoid any confusion and Bill can talk about the details of those a little further.

We're also in the process of engaging with a PR firm to help with our IR people to making the appropriate changes to the website, to making the changes in different filings from 10Qs to all others and helping address through these earning calls. Right now, hitting on all the different areas to get this message across.

But yes, we have changed over time and it's time now for us to crystallize who we are. It's just not merely the name change, and as a matter of fact, if I talk about in terms of little numbers for the first half of the year, if I look at the overall revenue, 52% of the revenue is coming from the clients who utilizes our core technology components. When we say core, it's the certified EHR system and the practice management system and patient engagement solutions. About 23% of the revenue today comes from the clients who are using either one or more components of our technologies such as either RPA or precision BI and apps and the like. Then there is a 6% which comes from the different professional IT services. It is about over 80% revenue is all technology-related, so that's the message we'll be giving in every possible way.

Bill, would you like to share it in terms of the sales and marketing and in specific numbers, please?

**Bill Korn**

I don't think we want to share specific numbers of exactly what we're going to spend and how we're going to apportion it. Other than to say that in the world of 2021, we're probably doing less of the people getting on an airplane and visiting customers. But having said that, we're working on maximizing engagement with potential customers focusing on clients where we think there's an opportunity to improve their business by cross-selling and letting them use additional services.

We're doing a variety of things and I guess I'd say that anytime you're trying to build a culture to a new brand, it's a long process and it's something that the whole company is always focused on.

We know, Kevin, you've been a proponent of the single-brand idea for a long while, so we've totally embraced that concept as well and we think that is bringing benefits to our clients.

**Kevin Dede**

Great. Well, thank you, gentlemen. Thanks for entertaining the questions.

**Hadi Chaudhry**

Thank you, Kevin.

**Operator**

That concludes today's question-and-answer session. At this time, I would like to turn the conference back to Kim Blanche for any additional or closing remarks.

**Kim Blanche**

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

**Hadi Chaudhry**

Thank you.

**Operator**

That does conclude today's conference. We thank you for your participation. You may now disconnect.