



CareCloud, Inc.

Full Year and Fourth Quarter 2021 Results Conference Call

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CORPORATE PARTICIPANTS

Kimberly Blanche, *General Counsel and Vice President of Compliance*

A. Hadi Chaudhry, *President, Chief Executive Officer, and Director*

Bill Korn, *Chief Financial Officer*

Mahmud Haq, *Founder and Executive Chairman*

Karl Johnson, *President of CareCloud Force*

CONFERENCE CALL PARTICIPANTS

Jeffrey Cohen, *Ladenburg Thalmann*

Marc Wiesenberger, *B. Riley Securities*

Allen Klee, *Maxim Group*

Kevin Dede, *HC Wainwright*

PRESENTATION

Operator

Good day everyone and welcome to the CareCloud Inc. Fourth Quarter 2021 Results Call.

After the formal presentation, we will conduct a question-and-answer session. Please note this event is being recorded.

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

Kimberly Blanche

Good morning everyone and welcome to the CareCloud Fourth 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 a Director; Bill Korn, our Chief Financial Officer; Stephen Snyder, our Chief Strategy Officer and a Director, 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 27(a) of the Securities Act of 1933, as amended, and Section 21(e) 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 limitations, 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 reports filed with the Securities and Exchange Commission, where you will find a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

For anyone who dialed into the call by telephone, you may want to download our fourth quarter 2021 earnings presentation. Please visit our Investor Relations site, ir.carecloud.com, scroll down to Upcoming Events, click on Fourth Quarter 2021 Results Conference Call, and download the earnings presentation.

Finally, on today's call we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our fourth quarter 2021 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. Thank you everyone for joining us this morning to discuss our fourth quarter and full year 2021 results.

In the call, I will cover our 2021 results, discuss our emerging organic growth opportunity, review the strategic acquisition of medSR, and conclude by talking about the evolution of our Company.

I would like to begin by highlighting some of CareCloud's financial accomplishments for last year.

We are very pleased to report another year of strong financial results with a record level of revenue, EBITDA, non-GAAP net income and free cash flow. Revenues were approximately \$140 million, an increase of 33% year-over-year. Adjusted EBITDA was \$22.1 million, which was more than double 2020 levels, and we delivered adjusted net income of \$18.5 million or \$1.24 per share compared to \$8.5 million or \$0.63 per share in 2020.

Turning to our operational highlights for the full year, we made one strategic acquisition headlined by the June acquisition of certain assets of MedMatica and Santa Rosa Consulting. We subsequently rebranded it as medSR. This acquisition gives us new service offerings and staffing capabilities and expands our footprint into the health systems market. This provides us with greenfield opportunities to cross-sell our RCM and technology solutions such as business intelligence and robotic process automation.

We continued on the path of innovation as we introduced several new products during the year, like CareCloud Conductor, a family of technology solutions rich with interoperability and data exchange capabilities to accommodate more and bigger customers. We integrated our various acquired platforms with CareCloud's proprietary rule-based claim scrubbing engine, CollectiveIQ, that includes custom rules for over 80 medical specialties.

This integration of CollectiveIQ with these acquired platforms enables our clients to achieve an industry-leading first-pass rate of up to 97%, and we are planning to launch this platform for the healthcare IT industry very soon. We were pleased with the uptake and continued high utilization of virtual care visits on our platform. During the quarter, telehealth visits were 26 times that of pre-pandemic levels and at the peak of the pandemic a 44 times increase versus pre-COVID.

We also took steps to strengthen our management team particularly in the area of operations and sales and marketing. Today, we announced the appointment of Steve Link as Chief Operating Officer of CareCloud. In this role, he will be leading the Company's revenue cycle management operations, including all functional components of service delivery and client success. Steve was previously Senior Vice President of Client Operations at CareCloud and brings to the Company 30 years of operations, strategy, and process improvement experience, including leading multiple business units at athenahealth.

Additionally, we hired Brian Zelenka as Vice President of Marketing, who joins CareCloud with greater than 25 years of healthcare and technology experience building and leading high-performance teams. He has an impressive track record implementing data-driven marketing strategies that accelerate growth and profitability.

With respect to sales and operations, we appointed Patti Peets as Senior Vice President of Sales to lead the Company's sales growth and market expansion strategy and execution. Ms. Peets joined CareCloud in 2014 and was previously Vice President of Client Solutions. She has 30 years of sales, consulting, and healthcare experience, including Sage and NextGen Healthcare.

Last but not least, we appointed Carinda Cox as Vice President of Sales Operations. She has 17 years of experience, including managing sales teams at Change Healthcare where she exceeded both growth and booking strategies in the ambulatory small practice channel.

I would like to point out that our sales team is now roughly 30 people, up from one or two employees at the time of the IPO. As I will discuss shortly, we look to continue to expand our sales resources over the course of the year. Our focus will be signing new clients as well as leveraging our vast customer base through the cross-sell and up-sell of CareCloud solutions.

We would now like to take a deeper dive into our organic growth strategy which has evolved over time from our prior history as a pure consolidator of billing companies. Coinciding with our diverse portfolio of products and services that we have amassed over the years, we have increased our sales and marketing efforts to fully capitalize on the addressable market opportunity that exists across our family of products. As an illustration of our increasing focus on organic growth, we invested just 2% of revenue on sales and marketing in 2019, while in 2021 we tripled that spend to north of 6%. Further, we intend to increase our sales and marketing investment by 20% to 25% this year, positioning us to execute on the marketing opportunities ahead.

To help manage this increased sales and marketing effort, we have, as mentioned, expanded our sales leadership team with extensive digital health experience. We believe that this stepped-up effort in sales and marketing will return a high level of organic growth versus what we have achieved in the past, namely new incremental business frequently carries with it higher margins than existing contracts on acquired businesses contributing to a higher margin profile moving forward.

Turning to our recent acquisition of medSR, we are now more than six months into the acquisition since it closed in June of 2021 and are pleased to provide an update of our progress. To review, the acquisition of medSR provides strategic value to CareCloud on at least two fronts: scale and expertise. Over the last two years alone, medSR has worked with greater than 100 hospitals providing a solid foundation upon which CareCloud can cross-sell products and services. medSR has entrenched relationships with the C-suites of these customers, providing CareCloud a warm introduction that we believe will bear fruit versus a pure cold calling effort.

The medSR acquisition is unique for us as it helps expand CareCloud's footprint in the hospital and health systems space, an area which until now we had only a small presence. The current labor shortage environment in hospitals combined with increased inflation provides a solid backdrop upon which medSR can thrive, given the Company's value proposition of staffing high level FTEs for short and long-term consulting engagements.

Six months in, we have completed most of the integration and training of employees, setting us up for cross-sell of products and services into the medSR base and vice versa. We continue to expect the transaction to be accretive to our 2022 financial performance. The transaction is consistent with CareCloud's strategy of targeting high quality, undervalued companies whose IP, human capital, and/or financial profile is something that we can leverage across our vast platform.

Our acquisition pipeline remains robust and we feel that we are in an enviable position to be a consolidator in the industry as many companies with less solid footing have been victim to increasingly stringent regulations, COVID-related fallout, labor shortages, and inflation.

This month marks my one-year anniversary as CEO of CareCloud, and I couldn't be prouder of our accomplishments this year and throughout our history. I believe the Company truly sits at an inflection point as we have evolved over the last 20 years since I joined the Company. We began as a pure play revenue cycle management Company, became the leading consolidator of the industry, and evolved into a fully diversified provider of digital health and technology solutions and services.

As Slide 4 depicts, we now offer leading solutions in practice management and RCM, electronic health records, project management staffing, and digital health solutions, improving the patient experience including telemedicine and digital front door tools. This breadth of overall capabilities is a key differentiator of ours and continues to attract prospects seeking a single partner to accommodate their digital health requirements. Our clients tell us that they prefer to work with vendors that can offer a wide variety of solutions to meet the ever-changing needs they face as they navigate through the complex healthcare environment.

I would like to take a moment to illustrate how our diversified portfolio positively impacts the outcomes of our customers. As just one example, we have been working with the Hutchinson Clinic in Kansas across a variety of initiatives since 2020 to address collection challenges, among other issues. During a recent interview, we were reminded by their CEO and CFO of the great work both of our teams have been doing together. Over the past several months, we have been deploying additional workforce, software, and automation that has delivered a dramatic impact to their bottom line.

While this increase in revenue and proper reimbursement is important, it is crucial to remember that the business of medicine is not just about bottom-line results but rather it has the opportunity to make an even broader impact on the community and those near and around central Kansas.

As shown on Slide 5, we have expanded our customer base from initially small physician practices to large practices and clinics, hospitals, and health systems spanning from 100 beds to 1,000 beds,

specialists, labs, payors, and vendor partners. With this backdrop exiting 2021, we are very excited about our prospects for 2022, as Bill will share later in our outlook.

Our newly issued 2022 guidance implies 10% revenue growth at the midpoint and low-teens EBITDA growth, which is a combination of organic growth and tuck-in acquisitions. We plan to increase wallet share within our vast client base and introduce new solutions that build on innovation we have forged in the area of digital health and patient experience while looking opportunistically at acquisitions. We note that our guidance does not contemplate any large transformative acquisitions.

Before turning over the call to Bill, I want to reiterate CareCloud's three pillars of growth as outlined on Slide 6: organic growth through adding new customers, products, and the cross-sell of products and services into our client base; acquisitions, which have always been part of CareCloud's DNA to drive long term shareholder value; and partnerships, mainly through our FORCE initiative in which we work with partners by leveraging our staffing, RCM, and technology capabilities. In fact, we have seen increased interest in FORCE to help mitigate labor shortages that are rapidly becoming more prevalent across the hospital setting.

We are well positioned in the market to deliver positive outcomes and help drive the success of our 2,600 strong customer base of medical practices and healthcare institutions. Our 2021 performance in these unprecedented times gives us confidence in our ability to achieve our 2022 outlook and emerge from this year even stronger than last.

I will now turn the call over to Bill Korn, our Chief Financial Officer to provide an update on the Company's full year and fourth quarter financials, as well as comment on our 2022 outlook. Bill?

Bill Korn

Thank you for joining us all on the call this morning.

I want to reiterate Hadi's sentiment that we are really proud of our fourth quarter results and what we achieved in 2021. On today's call, I'm going to share some 2021 financial highlights, review our fourth quarter results, and close by providing some color on our initial 2022 outlook.

First, I want to cover some of our financial accomplishments from last year. I feel strongly that our performance reflects continued traction in the marketplace. Revenue increased 33% year-over-year to \$139.6 million, and technology solutions represented 83% of the total. Thinking back three years ago prior to our acquisition of CareCloud and midway through our pivot to become a more technology-driven Company, technology-enabled solutions only accounted for 58% of our total revenue.

Taking a close look at the technology-enabled revenue, 49% of revenue was from clients using our core technology suite of electronic health records and practice management solutions, 21% was from clients using one or more components of our technology, 13% was from clients for whom we are providing IT services using our technology processes and know-how. Of the remaining revenue, 6% of revenue is from pure revenue cycle management, and as a quick comparison, pure RCM represented 26% of our total revenue three years ago and 75% of revenue at the time of our IPO in 2014. Clients where we provide comprehensive medical practice management services were 9% of revenue and other services accounted for the last 2%. All of these breakouts can be found in our earnings press release and our 10-K.

Now while our revenue growth was impressive, our improvements in profitability were even more noteworthy. GAAP net income of positive \$2.8 million for the year compared very favorably to a net loss of \$8.8 million last year. I want to call out that 2021 includes \$2.5 million related to a gain in the change of

fair value of the contingent consideration from the medSR acquisition, and this \$2.5 million has been excluded from our non-GAAP adjusted results; however, even without this non-cash gain, we delivered positive GAAP net income for the year for the first time since going public in 2014.

For non-GAAP adjusted net income, we generated \$18.5 million or \$1.24 per share, an increase of \$10 million over adjusted net income of \$8.5 million in 2020. Adjusted EBITDA of \$22.1 million more than doubled in 2021 while adjusted EBITDA margins increased 550 basis points to 15.8%.

During the year, we completed the strategic acquisition of medSR that Hadi mentioned, which added professional services to our offering and gave us a sizeable footprint in new markets, including health systems and hospitals, in which we believe there's a meaningful opportunity to cross-sell some of our technology solutions. As you can see, we are making progress on all fronts.

Now turning to fourth quarter highlights, revenue of \$37.5 million increased 17% compared to a year ago. From a revenue standpoint, this quarter we saw patient volumes return to a more normal cadence, continuing our pattern of normal organic growth...

GAAP net income of \$3.5 million compared favorably to \$155,000 last year. Please note that this includes the \$2.5 million gain in the change of fair value related to the medSR acquisition that I mentioned a moment ago. Even without the change in the estimated value of the earn-out, we would have reported a GAAP net income in excess of a million dollars in the quarter.

Non-GAAP adjusted net income of \$5 million was flat with last year.

Adjusted EBITDA of \$6.1 million increased 7% compared to \$5.7 million last year. This increase was primarily driven by the realization of synergies from our prior acquisitions. Adjusted EBITDA margins came in at 16.3% compared to 17.8% a year ago. The fourth quarter adjusted EBITDA margins were slightly impacted by the addition of professional services revenue from our midyear acquisition of medSR.

Turning to our balance sheet and cash flow, we ended the year with \$10.3 million in cash, including \$1 million in restricted cash from the medSR transaction, and generated \$6.1 million in cash flows from operations in the quarter, and we ended the year with net working capital of \$6 million.

Finally, guidance for the full year 2022. We expect revenue to be in the range of \$152 million and \$155 million, which represents 10% growth at the midpoint, and adjusted EBITDA to be between \$24 million and \$26 million, reflecting 13% annual growth at the midpoint even after the incremental sales and marketing investments.

Now let me provide some additional color that is underpinning our guidance. As always, our annual guidance is based on a combination of organic growth and growth from tuck-ins and excludes major acquisitions. While we don't normally guide to quarters, I want to provide a reminder of the fourth quarter to first quarter seasonality in our industry.

We typically see a sequential decline in revenue from Q4 to Q1 due to patient deductibles resetting on January 1. This has historically been partially offset by flu-driven visits in Q1, but we are seeing a very mild flu season as we did in Q1 2021, given the social distancing and increase in people working from home. Given the puts and takes, we are expecting a roughly 10% sequential step-down in revenue and a similar dollar decline in adjusted EBITDA since our costs are related to the volumes of activity and not to payments.

Looking over the course of 2022, our third quarter is typically the high point of the year as physician visits related to the start of the school year pick up and flu shots are being administered. Adjusted EBITDA generally follows the same seasonal pattern.

I'd like to close by talking about our capital structure. Earlier this year, we took our first small step towards reducing our cost of capital by launching a Series B preferred stock with an 8.75% dividend rate. As of the end of February, we raised approximately \$27 million on a net basis and are using the proceeds to retire \$20 million of our higher dividend Series A preferred. We are grateful to our Series A investors as this was an important financial instrument that allowed us to fund our growth strategy and reach the point we are at today.

Our goal is to reduce our exposure to Series A and lean on more cost-effective sources of capital in the future. We are considering several paths forward depending on market conditions, including offering an exchange to allow Series A shareholders to exchange for Series B shares, selling more Series B and using the proceeds to redeem more Series A, considering debt options to allow us to redeem more Series A, and selling common equity to retire Series A.

We are fortunate to have multiple options and are cognizant of potential shareholder impacts of our choices. Rest assured we will choose the best combination of actions that we anticipate will produce the highest expected return at the lowest risk for common shareholders. Look out for further steps to reduce our cost of capital as the year progresses.

In conclusion, we are pleased with our 2021 performance and believe we are well-positioned to continue to execute our strategic initiatives and look forward to keeping you posted over the course of the year.

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

Mahmud Haq

Thank you, Bill. We are pleased to report another year of record financial performance and look forward to setting new records in 2022 and beyond. I would like to thank our customers, shareholders, and employees for their continued support of CareCloud's mission.

We will now open the call to questions. Operator?

Operator

Thank you, sir.

We'll take our first question from Jeffrey Cohen with Ladenburg Thalmann.

Jeffrey Cohen

Good morning everyone. How are you?

A. Hadi Chaudhry

Good morning, Jeff, I'm good. How are you?

Jeffrey Cohen

Just fine. I guess firstly if you could discuss in further detail your guidance for 2022. It seems a little lighter than we had previously expected. What are the inputs and factors that you're taking into account when taking growth rates down toward the 10% as a midpoint?

Bill Korn

Thanks for the question, Jeff.

As we put forward our guidance, we're always torn between expressing the optimism we have to grow the business, the opportunities to have step-function growth from acquisitions, as well as setting reasonable expectations for the marketplace based on pure organic growth. So based on that, as we look at the volume of customers and we look at the volume of healthcare visits, we think getting to that net growth that you see in our guidance is a good approximation of where we'd be without doing anything major and strategic.

Now, rest assured we're always looking for great opportunities for step-function growth, but it's impossible to predict those and therefore we always leave those out of the guidance. We've tried to balance this and be conservative. I think it's all of our goal to exceed the numbers that we've put forward, but we don't want to set unrealistically high expectations and then run the risk that people are disappointed in the future.

Jeffrey Cohen

Okay, got it, and then secondly for us, could you talk a little bit about your current base of customers, and going forward, over at least this year if not next year as well, talk a little bit about the offerings and the platform and where you're expecting most of the growth from current customers, whether it be the larger companies or the onesies and twosies on the smaller side.

A. Hadi Chaudhry

Thank you Jeff. Definitely, we mentioned earlier, there are three major areas for us, the sort of customer who uses our core technologies, so we still continue to see about roughly 50% of the revenue coming from the clients who are using our core technology platform, whether it's our EHR or practice management and the like, and we still see about 20%-plus customers roughly who have been using at least one component of our technology, at least one component or more components of the technology, but it may not be the core component.

Our professional IT services, that number stands somewhere around 13%, and this is primarily the projects that we are doing with the help of our medSR division, and the rest of the revenue is being generated by either pure RCM services, our FORCE deals and the like.

In terms of the future opportunities, we do see some increase in the FORCE deals, and Karl can talk a bit more about the more opportunities we see there. In terms of—I think we will continue to grow in the same way, 50%-plus. Our goal is to keep on increasing this 50%, the revenue share, using, utilizing the core services, and then our next priority or the next segment is of course the 20%, which is today, which is at least one component of the products and the services that the client should be using.

So we see the same traction in each area. With the help of medSR, as we mentioned earlier, we do see more and more opportunities as we have ramped up our sales and marketing efforts and planning to increase it further in this coming year. With those additional connections coming in with the help of the medSR and other related opportunities, we do see that we should be signing more business into the larger enterprise base.

Jeffrey Cohen

Okay great, and then last...

A. Hadi Chaudhry

Karl, would you like to add anything in terms of—sorry, Jeff. Go ahead.

Jeffrey Cohen

No, go ahead, Hadi.

A. Hadi Chaudhry

Karl, would you like to talk about our opportunities that we see on the FORCE side?

Karl Johnson

Yes, I'd be happy to add a little color to what you've already said, which is right on point. Certainly overall if we compare ourselves to where we were a year ago, the percentage of FORCE sales is almost triple where we were, and I think I'd attribute that to a number of factors. One is just an increased effort on the sales and marketing side with net new deals. Two, definitely there is a dramatic shortage of qualified workers in the U.S. at hospitals, large practices, revenue cycle companies that we've been able to tap into and to meet a need there. Three, the acquisition of medSR has gained us a whole new set of connections at an executive level, and we've already seen a number of very strong deals come into play that really have enhanced what we're providing in the way of FORCE.

Thank you Hadi.

A. Hadi Chaudhry

Thanks Karl.

Jeffrey Cohen

Okay, and just one more quick one, if I could, for Bill on the adjusted EBITDA guide of 24% to 26%. It looks like you would expect that the adjustments would be similar to 2021 with the GAAP gain being at or slightly larger than the 2.84 from 2021. Is that a good way to phrase it?

Bill Korn

I think so. In terms of the adjustments between GAAP net income and non-GAAP or adjusted EBITDA, one of the things to take into account is that if we were to do a large-scale acquisition, that might raise the amortization of intangibles, and it might raise the transaction and integration costs, but it doesn't really change the long-term impact of the business. In some ways, adjusted EBITDA is a more steady state number that you could look forward to, and when you think about the Adjusted EBITDA growth, recognize that we are also increasing our investment in sales and marketing from where we were in 2021, so despite increasing the sales and marketing investment, we'll still be growing the bottom line.

Jeffrey Cohen

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

Bill Korn

Thanks Jeff.

A. Hadi Chaudhry

Thank you.

Operator

The next question will come from the line of Marc Wiesenberger with B. Riley Securities.

Marc Wiesenberger

Thank you. Good morning. Appreciate you taking the questions.

Bill, if you could just follow along with that kind of commentary on the sales and marketing investments and when should we expect the revenue to flow through from those investments? Is that going to come more in the second half of the year?

Bill Korn

Good question, Marc. As CFO, you'd love to be able to hire a salesperson and on the first day that they arrive, they sign a million-dollar customer who goes live that minute, sees a patient, and insurance pays them within 24 hours of the visit, but then the reality comes in, which is that it does take people a little bit of time to ramp up, bigger clients take a little longer to sign, sometimes there's a month or more before we're going live, often because they need to give notice to a previous provider, and then they see patients but of course we get paid at the point that the doctor gets paid, so I guess that's a long-winded answer to say when we make those investments in the first quarter of the year, you start to see the result in the second half of the year. As you make the investments during second quarter, you really only see some incremental results in Q4, at best.

Now from our perspective, the investments we're making now really are driving 2023 revenue and 2023 profitability, which is why we feel it's important to increase the investment level now to be able to continue that growth into the future.

Marc Wiesenberger

Very helpful. Thank you.

A. Hadi Chaudhry

Marc, just to elaborate a little bit more, thank you, to add to what Bill has said, on the enterprise side, what we have seen is historically it takes roughly for us between five to seven months for an account to go live, because as Bill mentioned, the notice period and then the basic initial integration, configurations and the like, then another probably three more months when they get actually fully ramped up. So, as we are shifting a little more focus towards the enterprise size or the large customer, that's roughly five to seven months and three more months. On the midsized, somewhere between three to five months, and then you can add another two to three months on the go-live side. Just to add some more color to what Bill has said.

Marc Wiesenberger

That was very helpful. Appreciate it.

Bill, if you could also talk about the trajectory that we saw in the gross margin throughout 2021, kind of compare and contrast the first half of the year versus the second half of the year, and then how do we think about that moving throughout 2022?

Bill Korn

Yes, good question. When you think about the gross margin, recognize that when we bought medSR, we picked up a revenue stream that's a little bit different, and I'd say in medSR, because it's really sort of service driven, the direct operating cost is usually a little bit bigger percentage of revenue than it is for either our SaaS business or our RCM business. In some respects when you think about the gross margin, gross margin declined in the second half of 2021 primarily due to the fact that medSR was there, so when we think about 2022, you're going to start at a little bit lower level.

I expect that assuming we don't do any other major acquisitions, by the end of 2022, you'll be back to the gross margin levels that you saw at the beginning of 2021, which really means improvement in gross margins, improvement in profitability throughout a combination of efficiencies and leveraging our technology and our offshore team throughout the business. Of course, depending on what happens, were we to find another really compelling strategic opportunity, depending on the margin profile of that business, it might increase or it might decrease the gross margins going forward.

Marc Wiesenberger

Understood. Could you shed light on the conversations you're having with the mid-sized and large practices, as well as the health systems, and how they're communicating their financial positions, and does that have any impact on the outlook for medSR and how have your expectations for that business changed over the second half of 2021 into the first half of 2022, and then also comment on the Oracle and Cerner acquisition as potential opportunities for medSR would be helpful too.

A. Hadi Chaudhry

Let me just try to answer a part of the question, and Bill, feel free to jump in.

When it comes in terms of any of these clients sharing with us their financial positions or their goals, not specifically that by design anyone does that, but for all the rest of the existing clients that we have, we do have based on their historical numbers, financial numbers, we do do our own internal forecasts and we understand that over the next couple of quarters, how we see the growth coming up, and those growth have already been incorporated into our financial forecast.

In terms of stepping into these other larger groups, we have not yet seen or have not been to the point where we want to be, just because of the fact that these large deals through the health systems, typically, take a little more time than a typical small to medium sized deal, because of their different board members, the C-level and the process they have to go through to get the deal to close with any new vendor.

Since the acquisition of medSR, in the annualized recurring revenue side of it, leveraging the existing relationships, we have had some decent success in terms of closing \$800,000 to \$900,000 in annualized recurring revenue, but our active pipeline—and when I say pipeline, where we are in active conversations

with some of the deal at different stages, whether we are going through the RFP process or we have some discussions—that pipeline is somewhere between \$4 million to \$5 million, and the active overall pipeline is even much bigger at this point.

But again, I just want to remind you of the fact, that typically these deals, they take even much longer than compared to the small- to medium-sized practices, and even in many cases the health system-based enterprise clients, these deals take even more time to get closed.

Marc Wiesenberger

Helpful. Appreciate it. Then just a final one from me, you have data from across approximately 40,000 providers. Wondering what your plans are to potentially monetize the data that you get from patients, maybe in an anonymized way, and to leverage customers or payors or even life science companies. Thank you very much.

A. Hadi Chaudhry

Thank you. Very good question. Actually as you were saying, at least with one opportunity, we're in active conversations. Nothing has yet been finalized, but if that happens, this will be our first client towards that direction, and we are seriously considering that part. It has not been signed, but we believe we are very far ahead in the conversation, and if that gets materialized, we will make an announcement accordingly.

Marc Wiesenberger

Great. Thank you very much.

A. Hadi Chaudhry

Thank you for the questions. Thank you.

Operator

The next question comes from the line of Allen Klee with Maxim Group.

Allen Klee

Good morning. If we look at your Capex and your capitalized software in 2021, I think they were around \$3 million and \$8 million or so. How do you think about the direction of those two numbers for 2022?

Bill Korn

Good question, Allen. I would think about those numbers being fairly consistent in the future. Capital expenditures in our business aren't huge amounts, but as we continue to grow, we're always adding facilities, adding computers. We do leverage a lot of cloud services, so for a lot of our compute power, we don't actually have to go buy the servers. Amazon or Google does.

In terms of the capitalized software, as you know, when you're developing new software, there are specific rules in GAAP as to when it gets capitalized versus expensed, and so basically work on new products that are not yet in production gets capitalized and so that's the investment that you see in 2021. You should continue to expect to see that going forward into 2022 as well.

Allen Klee

Okay. Thank you.

Operator

We'll take our next question from Kevin Dede with HCW.

Kevin Dede

Good morning Hadi, Bill.

Hadi, you referenced Conductor but you didn't really tear into how you're proceeding with it. A little confusion on the third quarter call, I was just wondering if you wouldn't mind taking some time to review that and your outlook.

A. Hadi Chaudhry

Good morning Kevin, and thank you for joining, and thank you for the question.

You're very right about that. As you remember, this product is for us, we are stepping into a different market segment. So there were twofold purpose of the Conductor. One is for us, creating a database and library of all the interfaces that we have created since the inception of the Company and/or that now we have the capability because of the different acquisitions we have done.

This product, by creating this product internally, this is putting us in a better position for future acquisitions, where there's another company we acquire so their platform is there, we, in a much more effective way, can create those interfaces. The second thing is when we sign a new client and we have to make the client live, and it has to go through a creation of the interface, even for that, this product is helping us improve the go-live time of that new client that we are signing. As far as the internal implementation is concerned, we virtually have completed the incorporation or integration of this new product.

When it comes to the external use, since we are hitting now with the help of this product the vendors, the target market, the segment is the different vendors, whether it's EMR vendors or practice management vendors, or some of the enterprise groups, we conducted so far some webinars and have done at least one campaign. There is interest out there. So far, we did not have any success, but we are still optimistic of this technology (inaudible) because all what we need is a couple of the closings, a couple of the signings through the year to generate a decent number in terms of the revenue. But internal efficiencies have already kicked in because of the development or the launch of this product.

Kevin Dede

Hadi, you mentioned that you have 30 salespeople on staff now. Where do you think that number goes this year?

A. Hadi Chaudhry

It's a good question, Kevin. We have not specifically defined the number of employees to grow, but we do anticipate, as I mentioned, increasing the sales and marketing spend by 20% to 25%, which will be a combination of additional resources, some additional campaigns, even investment in some of the media

campaigns and all of those pieces together. Keeping in view wherever we see more results coming in, we will keep on investing on that side. But yes, it will be a combination of some additional resources on the enterprise sales side because of the opportunities we see now through either the medSR, our own pipeline and in the medium sized segment as well.

Kevin Dede

Okay, fair enough Hadi. Now in that expansion of budget, have you classified some of the expense for campaigns? Do you think most of it will be digitally focused, print? Can you give us a little insight on how we might actually see you raise the CareCloud brand through media?

A. Hadi Chaudhry

Absolutely. It is a combination of all of those and the one of the interview that I was referring to for Hutchinson as well, so we are doing a campaign, as an example, in that area based on how good we have performed with that one health system. It's one example. There are a number of others also that we'll be moving forward, doing a couple of other states as well.

But to answer your question, it is a combination of whether it's digital campaigns or even door-to-door campaigns based on some of these anchor clients, where we have tremendously improved the overall performance and have created an impact in the community. In terms of how much of what that split is, those are the numbers, Kevin, we would like not to disclose. That's something internally we would like to continue and improve the overall deliverability.

Kevin Dede

Fair enough, Hadi. Thank you.

Bill, could you give us the Series A and the Series B count at this point?

Bill Korn

Rather than giving it as a count, I'll try to do this a little simpler and do it in dollar terms. Over the life of our Series A, over the six years that we were selling it, ranging from the first \$5 million that we sold back in 2015, we sold a total of about \$133 million worth of Series A. As you've seen now that we've launched Series B, we are redeeming the first \$20 million of Series A, that will happen at the end of this week, and we have sold so far about \$27 million worth of Series B.

As we think about our prospects going forward, we don't have to do anything, but we will look at options to offer Series A shareholders the chance to convert their shares to or exchange their shares for Series B. That would lower their coupon a little bit but would give them a couple years of call protection. We might decide that it makes sense to sell some more Series B and use the proceeds to redeem Series A. We've had discussions with banks and we'll look at whether it makes sense to take on some debt to redeem Series A.

Finally, not at today's share price, but maybe we'll see a point where the market looks at us and says, "Gee, \$152 million, \$155 million Company, \$24 million to \$26 million of adjusted EBITDA, maybe the share price is not appropriate," and maybe we'll see that share price gets to a level where it makes sense for us to sell some common stock and use the proceeds to redeem Series A.

I'm not sure which of those paths we'll take, but if I had my crystal ball, I'd say that 12 months from now you might not see a whole lot of Series A left on the balance sheet. You might see a lower cost of capital.

Kevin Dede

Fair enough. Thanks Bill. Thanks Hadi.

A. Hadi Chaudhry

Thank you Kevin.

Operator

Okay, it looks like we have no further questions at this time, so I'd like to turn it back over to Ms. Blanche for any additional or closing remarks.

Kimberly Blanche

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

Thank you all, and have a great day.

Operator

That does conclude today's conference call. We thank everyone again for your participation.