



**CareCloud, Inc.**

**Third Quarter 2023 Results Conference Call**

**November 2, 2023**

## C O R P O R A T E P A R T I C I P A N T S

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

**Larry Steenvoorden**, *Chief Financial Officer*

**Mahmud Haq**, *Founder and Executive Chairman*

**Dwight Garvin**, *Executive Vice President & Chief Operating Officer, medSR*

**Karl Johnson**, *President of CareCloud Force*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Jeffrey Cohen**, *Ladenburg Thalmann & Co.*

**Neil Chatterji**, *B. Riley Financial, Inc.*

**Allen Klee**, *Maxim Group*

## P R E S E N T A T I O N

### Operator

Welcome to the CareCloud Inc. Third Quarter 2023 Results Conference Call.

At this time, all participants will be in a listen-only mode. Later, we will conduct a question-and-answer session.

I will now turn the call over to your host, Nathalie Garcia, CareCloud's general counsel. Ms. Garcia, you may begin.

### Nathalie Garcia

Good morning, everyone. Welcome to the CareCloud Third Quarter 2023 Conference Call.

On today's call are Mahmud Haq, our Founder and Executive Chairman; Hadi Chaudhry, our Chief Executive Officer, President, and Director; and Larry Steenvoorden, our Chief Financial Officer.

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

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 up to the date of this presentation, and we undertake no obligation to revise these forward-looking statements in light of new information or future events.

Please refer to our press release and our reports filed with the Securities and Exchange Commission, where you will find a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

For anyone who dialed into the call by telephone, you may want to download our third quarter 2023 earnings presentation. Please visit our Investor Relations site, [ir.carecloud.com](http://ir.carecloud.com). Click on News and Events, then click IR calendar. Click on third quarter 2023 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 third quarter 2023 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

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

### **Hadi Chaudhry**

Thank you, Nathalie, and thanks to all of you for joining our third quarter 2023 earnings call.

I have several meaningful updates to provide from the quarter, but first, we will start with a quick review of the quarterly results.

In the third quarter, revenue came in at \$29.3 million and Adjusted EBITDA came in at \$3.2 million. Larry will dive deeper into these numbers later in the call.

Overall, our recent progress on several fronts gives us confidence that the fundamentals of our business are intact and CareCloud remains on track to return to growth next year. As an example, we are pleased to report that after the close of the quarter, we signed a credentialing contract with an existing Force customer that we believe has potential to be quite significant. Implementation on this is already underway, so we can expect to recognize a portion of that revenue before year-end.

This quarter, we continue to make meaningful progress on several ongoing projects and goals, including the launch of our generative AI solution, the stabilization of medSR, our project-based professional service businesses, and the decisive action we took to align our cost infrastructure to our highest value business opportunities.

Digging deeper into our progress in the third quarter, I will start with an update on generative AI. We recently launched our CirrusAI solution, which incorporates generative AI technology. Just two weeks ago, we had the opportunity to demonstrate this solution at a Google-sponsored conference that brings together thought leaders across the healthcare industry. To kick off our go-to-market strategy for this solution, through the end of the year, we will be offering it to our client base free of charge.

This trial period will allow them time to better understand the benefits and how they can leverage them in their specific practice. They will then have the opportunity to purchase the competitively priced solution

starting in 2024. In total, we have launched three AI solutions, two for EHR and one for RCM, and that is just the tip of the iceberg for us.

We believe that our ability to stay ahead of the curve on the latest technology will give us a competitive edge in the market by improving the commercialization of our solution, and are actively working on additional features.

Over the past few months, we have taken effective steps towards stabilizing our medSR professional services business. We have continued to strengthen our relationship with Meditech, one of the dominant EHR providers, and over the past two years, medSR has evolved from a consultancy firm that mainly relied on short-term staffing projects for a single vendor to a more diversified and sustainable revenue model.

Our RCM practice has grown by almost 300% since 2021, and we also see a strength with our technology transformation practice.

We are optimistic for 2024 as we see a significant shift in our professional services, MedSR, pipeline mix towards RCM and tech transformation, and a strong demand for these solutions.

In addition, today, we have \$30 million in active pipeline opportunities versus \$12 million entering 2023. We are confident, because of the pipeline size and mix, that we can leverage our expertise and reputation to capture opportunities and deliver value to our clients and shareholders.

Lastly, as we announced in an 8-K in early October, we are actively working on improving profitability and positive free cash flow by aligning costs with highest return opportunities. We expect most of the positive impact will be realized in 2024. Larry will discuss this in more details in a few minutes. All of these factors just discussed give us increased confidence that we can return to profitable growth next year.

Now turning to an update on our business opportunities. As discussed earlier this year, we revamped our website to enhance the user experience and highlight all of our solutions. Our next-generation end-to-end therapy solution is live on our upgraded website, and we recently launched a marketing campaign to highlight this offering. We are confident that this campaign, along with the new website, will go a long way in raising awareness of this solution in the physical therapy market.

Next, I will provide an update on our opportunity in the Middle East. We are pleased to announce that we are making meaningful progress on our global expansion efforts in that region. We have been strengthening our business development and establishing the permanent presence in Dubai, UAE, near the innovation and technology hub of Dubai Internet City.

Our product teams have been ensuring that our system adheres to the UAE Health Data law, which requires that Health Data is stored within the country. At the same time, we are working diligently to integrate our system with the national database, which operates similarly to a health information exchange. We are also excited to present our solutions and services at Arab Health Conference in Dubai in Q1 of 2024.

Arab Health is one of the largest Healthcare conferences, with over 100,000 expected attendees from 180 countries. We look forward to providing you an update on our earnings call next year.

In terms of upcoming milestones, CareCloud is preparing to launch CareCloud Prime, a state-of-the-art cloud-based electronic health record platform designed to meet modern physician's demands.

Formerly known as CareCloud Go, this project was a significant goal following CareCloud's acquisition a few years ago. CareCloud Prime offers advanced features such as cloud-based accessibility, seamless interoperability, user-friendly design, improved patient engagement, and AI-powered clinical decision support.

It includes tools like Cirrus chat for staff interactions, global search for navigation, and unified patient records for proficient data exchange emphasizing efficiency. It also provides health providers with customizable templates as well as provides support for value-based care model tools such as proactive care management, remote patient monitoring, and seamless telehealth integration.

CareCloud Prime is more than just another product in our portfolio. It represents our commitment to continually improve and innovate to better serve our client's evolving needs.

In summary, although we faced some headwinds this year, we entered the fourth quarter feeling confident after the steps we took to stabilize the business and re-prioritize cost structure. Because of these strategic actions, we believe we have made it past our low point and are on upswing. The steps we have taken and the progress made this quarter give me confidence in reiterating our full-year guidance and our ability to return to growth in 2024.

Now, I will turn the call over to Larry to give you a closer look at the numbers. Larry.

**Larry Steenvoorden**

Thank you, Hadi, and good morning, everyone.

Before I review the third quarter results, I want to share a little more detail on our recent cost realignment initiative. The third quarter is my first full quarter as CareCloud CFO. I took a fresh look at our cost infrastructure, and along with Hadi and the Board, we made some tough but necessary decisions to pare back in certain areas of the business.

As you know, transformation decisions are difficult, but the goal was to ensure the company continued investing in growth while also establishing a sustainable foundation for improvements in positive free cash flow and profitability. Most of the actions are scheduled to take place in the fourth quarter, but I anticipate some will carry over into 2024.

We expect these changes in our expense profile to result in approximately \$10 million of annualized free cash flow improvement. Approximately \$5 million is related to operational expense savings, and the other half includes the completion of R&D Investments, specifically our next-generation CareCloud Prime platform that Hadi just discussed.

This has a twofold benefit for us. First, we will see a notable reduction in our capitalized software going forward, and second, we now anticipate realizing the ROI for these investments.

Now, turning to the third quarter results. Revenue of \$29.3 million was level sequentially and compared to \$33.7 million year-over-year. The primary reason for the year-over-year decline was a loss of the two customers due to health systems mergers.

Our wellness offering continues to gain traction, showing growth in the monthly sequential number of patients. Adjusted EBITDA for the quarter of \$3.2 million reflects a margin of 11%. This compared to an Adjusted EBITDA of \$4.8 million a year ago. The decline in quarterly EBITDA was a combination of lower revenue and related margins partially offset by lower selling, marketing, general, and administrative costs in the current period.

Turning to the balance sheet and cash flow, at the end of the third quarter, we had \$6.4 million in cash and net working capital of \$5.5 million. Cash provided by operations was \$4.3 million, and there was \$3.2 million in net cash used in investing activities.

Finally, we are reiterating our 2023 guidance for revenue between \$120 million and \$122 million and adjusted EBITDA between \$15 and \$17 million. A combination of factors, including the credentialing

contract, medSR's meaningful contract ramping, and continued solid execution in our core revenue cycle business, provides the pathway to achieving our full-year expectations.

In conclusion, we have taken tough but necessary actions to realign for growth and steady improvement in our financial performance. I believe we will not only end the year from a position of strength but be better positioned going into 2024.

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

**Mahmud Haq**

Thank you, Larry.

As expressed earlier, we feel that our solutions are very well-positioned in the marketplace. The team is ready and fully engaged to drive future success and shareholder value. I would like to thank our employees, customers, and shareholders for all they do to support CareCloud's mission.

Let's open the call to questions. Operator.

**Operator**

Thank you. We will now begin the question-answer session.

(Operator Instructions)

The first question comes from Jeffrey Cohen with Ladenburg Thalmann. Please, go ahead.

**Jeffrey Cohen**

Oh, good morning, and thank you very much for taking the questions.

Just a couple for Larry and, firstly, for Larry, could you maybe equate the guidance and the Adjusted EBITDA to free cash flow or cash production or net income?

**Larry Steenvoorden**

We would have to put that out separately, Jeff. Absolutely can do that as a follow-up.

**Jeffrey Cohen**

Okay, perfect. Then, could you talk a little bit about the CirrusAI arrangement with Google and which offering specifically that's going to pertain to, and if that also ties over to the Prime platform that you plan to introduce?

**Hadi Chaudhry**

Okay. Good morning, Jeff. Thank you for the question.

Generative AI, I think one of the biggest discussed topic nowadays in any industry. For us, as we mentioned earlier in the year, we started focusing towards how we can leverage this generative AI technology into our platform to help the healthcare market segment.

We are working on a number of other various different features to be incorporated, and we will keep on announcing as those features develop. But we started with the backend improvement, how we can leverage

the generative AI from where we can improve the revenue cycle management work by our employees, which later on will also be available in the SaaS model.

As you know, one of the complex procedures is the appeals process, where you need to appeal certain decisions of the insurance companies and, especially, into the out-of-network space or the workers comp space. With the help of the generative AI, now the system can systematically generate appeals, and based on the internal testing, the result seems to be very promising. We believe the payment processing cycle, as well as the collection through those appeals, should improve with the help of that.

On the front end, we focused on the most important thing for any physician which is the clinical decision. When the patient walks in, in order to record the complete session where the doctor has to look at, for example, their medication, their lab history, the diagnosis, so many different pieces of information the provider has and then come up with the next diagnosis and tests.

Think about this as either it's a second opinion or the system will suggest to the provider these could be the potential diagnosis procedures; these probably could be the suggestive orders, the lab test that the provider should order, and based on all that, gives them a recommendation. Now, it's up to the provider to accept it as is or just look at it if there is certain aspect that needs to be changed, removed and added and can be completed.

It also even suggests the medicine or medications. Think about the rare diseases. There could be some instances where the provider may not be able to quickly diagnose and may have been able to diagnose after multiple visits. Now, with this help in generative AI, as the model will keep learning more and more, the results will keep on improving. We should be able to diagnose or treat those diseases much earlier than they would have.

From the business standpoint, one is the adaptability. We need to make sure that the doctors and the users understand and realize the importance of such features. We are turning it on, at least for now, until the end of the year, free of charge. There won't be any charge. It will be a risk-free trial. The clients can start using it to get accustomed to it.

Then, entering into the next year, we have a plan to start pricing it out on a license basis. We will announce the price once that gets finalized.

Of course, the second thing is the market positioning, the marketability of our product. If you look at our competitors, I think all the competitors, everyone is trying to come up with some solution. This is at the high level, and any further questions, I'll be happy to even connect with you offline to explain further.

### **Jeffrey Cohen**

Thank you, Hadi. That's helpful.

Lastly for us, could you give us a sense of your OUS business now, and give us a sense of what you may anticipate going forward on growth or aggregate revenue for OUS?

### **Hadi Chaudhry**

Okay. Probably you're referring to the Middle East opportunity that we are focusing on. We are making continuous progress. For this year, as even on the last call I mentioned, our goal is to at least being able to sign a contract or a few contracts and recognize some revenue in the next year. We will include that when we issue the guidance for the next year on the next earnings call.

In terms of our progress on the UAE side, there are a number of steps; one is incorporating the entity. We have completed that. The second thing is getting the license to conduct the business in different categories,



so we have completed that. Third step is onboarding at least the management employees and certifying them so they should be able to transact the business in the UAE. We are in this third process.

On the other side we are actively working on one large and two smaller opportunities there. On our technical IT side, they have to make sure that our products certify to the local requirements, such as making sure the data stays within the UAE. Secondly, once we have a client, we have to start working with authorities to get the EHR and the different other items from the platform certified.

I hope that answers the question.

**Jeffrey Cohen**

Yes, perfect. Thanks for taking our questions.

**Hadi Chaudhry**

Thank you, Jeff.

**Operator**

The next question comes from Neil Chatterji with B Riley. Please go ahead.

**Neil Chatterji**

Good morning, and thanks for taking our questions.

Just on the quarters, wanted to see if you can talk more about any seasonality you might have seen in 3Q and what gives you the confidence and that kind of the sequential ramp or strength at the fourth quarter with reaffirming the full-year guidance. Was there any MedSR projects impact that might have shifted from 3Q to 4Q?

**Larry Steenvoorden**

Yes. Hi Neil. It's Larry, thanks for the question.

As we look at Q3 to Q4, the Q3 seasonality is now really similar to Q3 of last year. Again, the big impact on the year-over-year comparison was the two large health system mergers.

Now, as we look at Q4, a couple of key factors. One certainly is the professional services MedSR. Really great developments there on some of the contract wins. Also, we put out the press release about the credentialing and the revenue that we're going to start to recognize a portion of that in Q4.

medSR is really the key driver in Q4. Our core RCM business with the solid execution will also support the confirmation for the full-year guidance. All that gives us the confidence also going into 2024 with our back log.

As we look at 2023, it's a transformation year from the health system mergers and just setting us up for growth into 2024. We want to finish strong and then go into the next year from that same position of strength.

**Neil Chatterji**

Great.



Just one follow-up on that. Just in terms of that medSR business, just looking at the chart with the mix, look likes Meditech and RCM were thrown in the mix. What's driving some of that traction you're getting on that side?

**Hadi Chaudhry**

We have Dwight Garvin, who is heading the medSR business, so I can start, and then he can finish the question. If you think about the overall industry, the largest player in the health system space, let's say has somewhere between 40% to 50% market share. That's the relationship we lost. Until we acquired medSR, the primary focus of the organization was with that one, the top player in the market.

Once we lost that opportunity, we started working towards the next in line and Meditech is among the top three, I would say, in that space. Over time, we have been able to reestablish not only our relationship with Meditech, but in addition to that our marketing strategy was more oriented towards finding the opportunities for Meditech. That's one.

The second one is the RCM. When we acquired medSR, their RCM-related revenue was hardly \$1 million out of \$30 million roughly that they were doing. That has improved by a multiple of four now and because that was also one of our reasons for the acquisition was these health system relationships. We should be able to leverage those relationships, and we can now talk to the CEOs, the CFOs there, and should be able to cross-sell and up sell our RCM services.

Those two seem to be becoming the primary drivers of our medSR, or updated medSR business. Those are the two major contributors, but Dwight, if you would like to add anything, please go ahead.

**Dwight Garvin**

Sure. Thank you, Hadi.

Just to expand upon what Hadi said, what we're seeing in our RCM space is really moving from that advisory model where you have short-term engagements and moving those into more of a managed service. Now we can take our relationships, established throughout all our other practices, sell them as advisory services then turn those into long-term recurring revenue-managed services models. That's really what we're targeting.

At the same time, expanding on our Meditech business, really making some very key hires in the business development side this year, and those have allowed us to really strengthen that partnership within Meditech. I hope that answers your question.

**Neil Chatterji**

Yeah, great. Thanks for that, and I'll hop back in the queue.

**Hadi Chaudhry**

Thanks, Neil.

**Operator**

(Operator Instructions)

The next question comes from Allen Klee with Maxim group. Please go ahead.

**Allen Klee**

Yes. Good morning.

For the CareCloud Prime offering that's coming, talk about how that compares to what you have today and how you think about would this be an upsell to existing clientele or new customers and would there be a price differential? Just help us understand a little more about that. Thank you.

**Hadi Chaudhry**

Thanks, Allen. Good morning. Thanks for the question.

There's a couple of ways here we need to look at. One is over time. If we go back, our first system was in 2004, 2005, our first generation of the entire solution. Then we kept bringing the new next-generation solutions every couple of years. The reason that triggers this is the compliance requirement or the regulatory requirements, or the market expectation. What are the new features that's needed?

The other side is the technology platforms. This is a very rapidly changing world where after five, six years, the technology becomes almost obsolete. In order to have a more viable, reliable, and effective product, you need to bring the products to the next technology platform. This is from the technological perspective, this will be on the new backend technology.

The second thing is it will have more features. We are focusing to have more features towards value-based care models, preventive medication, the preventive health care and the like, and a number of other things; more effective, better chart-sharing model versus the previous model. I think all of those things together.

Another key aspect is when we acquired CareCloud Health, they were working on this platform for the last number of years. For us, we had another platform, which we call TalkEHR. Today, both of those platforms are active. We can sign up the client. They can service the client. Both platforms are certified platforms. This is going to be our next generation over the next number of years. Both of those two sets of clients, we foresee would be transitioned into this future platform.

We're not planning on doing it starting next month. Whoever would like to transition on their own, we would love to bring them onto this new platform as a seamless transition, no additional and extra cost for them. This will become our flagship platform going forward with the next generation of healthcare features and capabilities and the technology platform.

**Allen Klee**

Thank you.

My other question is if you could just talk a little bit about the credentialing contract and what you're doing, and how you think about the opportunity there.

**Hadi Chaudhry**

Great question, Allen. We have Karl with us too, and he's the one who was working on this relationship. I can get started, and then we'll hand it over to Karl.

From the service or the product, when we talk about our end-to-end revenue tech-enabled revenue cycle management services, the first piece into the revenue cycle we believe begins with the credentialing. If you do not credential a client effectively, he won't be able to generate the revenue or provide services, even if the provider sees the patient; the reimbursement either will not happen or will not come at the optimal level it should come.

We have been working on our side internally on building up a platform which can help us on the back end, help us track more effectively the applications that we have filed. Wherever the electronic submission is

possible, the system has a capability to do that. It flags the application that needs the follow-up, and now also with the help of the different AI, many of the applications can be completed systematically without any human intervention, which improves the accuracy level and also the staff time.

That's one. We also have been and we mentioned as part of that release, we are working on delegated credentialing certification like establishing a CVO (Credentials Verification Organization). Think about that CVO as the insurance company has delegated their credentialing role to the company.

Hypothetically talking, if commercial insurance takes an average 20 days to credential a provider, we believe internally we should be able to credential the same provider at, let's say, five days instead of the 20 days. Our capability has become very much strengthened, and we think that we can go out and start marketing the credentialing more effectively. With that, this is our first large contract we have been able to sign.

I don't know if, Karl, if you could share some details, please.

**Karl Johnson**

Yes. The relationship met a need of the customer to make sure that their clients were credentialed so that when they were doing revenue cycle work, they were getting paid for those services. We were able to come in at a price point and a cost structure that was incredibly attractive to them, along with our existing resources that are trained and up to speed. As Hadi mentioned, the delegated credentialing piece is huge and takes a long time to take care of.

We've really leveraged our offshore resources. We've been doing credentialing for our own clients for many, many years. This happened to really fit a need and actually opened up some doors for some additional discussions with some other large companies that need this on a back end.

We really think that there's an untapped market for this to come at it in a way that is much more cost-effective than those companies that are dedicated credentialing companies. Also it has the distinct advantage of having one-stop shopping so that if we're helping with RCM services or software services, credentialing is a very natural add-on functionality.

**Hadi Chaudhry**

Just to give you some idea in terms of the revenue from this opportunity, as we mentioned, that it's tens of thousands of providers that we will be positioning or presenting this solution to with their help. At only 5% penetration into that client base, we are expecting, something over \$1 million in annualized revenue. That's a 5% penetration.

There's a big opportunity there, and as Karl mentioned, this will become a good first case study or a model for us to go and sell with other larger opportunities.

**Allen Klee**

Thank you very much.

**Operator**

This concludes the question-and-answer session.

I would like to turn the conference back over to Nathalie Garcia for any closing remarks.

**Nathalie Garcia**

On behalf of the Company, I'd like to thank everyone who has 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.

Thank you, everyone, and have a great day.

**Operator**

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.