



CareCloud, Inc.

Second Quarter 2022 Conference Call

August 4, 2022

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

Kimberly Blanche, *General Counsel*

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

Bill Korn, *Chief Financial Officer*

Mahmud Haq, *Founder and Executive Chairman*

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*

Marc Wiesenberger, *B. Riley Securities*

Allen Klee, *Maxim Group*

David Larsen, *BTIG*

Kevin Dede, *H.C. Wainwright*

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

Operator

Welcome to CareCloud's Second Quarter 2022 Conference Call.

As a reminder, today's conference 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.

Kimberly Blanche

Good morning, everyone. Welcome to the CareCloud Second Quarter 2022 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, and Bill Korn, 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 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 2022 earnings presentation. Please visit our Investor Relations site, ir.carecloud.com, scroll down to News and Events, click on Second Quarter 2022 Results Conference Call and download the earnings presentation.

Finally, on today's call, we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our second quarter 2022 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

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

A. Hadi Chaudhry

Thank you, Kim, and thanks to all of you for joining us for our second quarter earnings call.

On today's call, I would like to discuss:

- a deeper dive into CareCloud's record bookings that are a direct result of our newly launched products and heightened focus on organic growth
- our soon-to-be launched products for remote monitoring
- a revision to our outlook that is attributable solely to a delay in our acquisition playbook
- and finally, an update on our sales pipeline.

To start with some highlights of the quarter, annualized recurring bookings of the new contracts of \$5.5 million, excluding one-time fees, were the highest in the history of the Company, almost double what we signed last year and compares to \$1.6 million in the first quarter of 2022. Revenue of \$37.2 million was up 9% year-over-year. Adjusted EBITDA of \$7 million increased 24% over second quarter of last year. Adjusted net income of \$5.6 million increased 23% over the prior year period.

Now, taking a closer look at bookings, we're especially pleased with the results this quarter, which are directly correlated with our efforts to drive the organic growth that we have been speaking about the last couple of quarters. As we have discussed, our growth strategy in recent quarters has evolved from a pure consolidation playbook to one that strikes a balance of accretive acquisitions complemented by organic growth achieved through investment in sales and innovation.

As mentioned, bookings from recurring sources were \$5.5 million, up 97% year-over-year and a record for CareCloud. Additionally, non-recurring professional services bookings of \$6.7 million increased more than

three times that of second quarter of 2021, due largely due to the acquisition of medSR that was completed late in second quarter of last year.

Additionally, while we want to stop short of giving bookings guidance, we have a high level of confidence that third-quarter recurring bookings will meet or exceed those of second quarter and may represent another record for the Company.

Importantly, a meaningful component of our bookings were derived from contracts for our newly introduced CareCloud Wellness that launched last quarter. Specifically, greater than one-third of our recurring non-professional services bookings came from our new Wellness product, demonstrating terrific early reception to this solution. As a refresher, Wellness, which launched in late April, is an effective way for our practices to support the treatment and well-being of the chronically ill patients that they serve. Additionally, it is a great source of referral revenue with little to no upfront cost.

Wellness' early results demonstrate that its value is clearly resonating with our physician base. While it is not the norm to get too granular around our booking metrics, we think it's important to share this information with you as it ties directly to the conversion of the robust pipeline activity that we provided a lot of details around last quarter. Most of all, it shows that our increased investment in product innovation and sales and marketing efforts are bearing fruit. Given the sensitivity around bookings and volatility by quarter, please note that investors should not expect us to provide bookings metrics every quarter.

We are pleased to be launching our forthcoming remote patient monitoring program this quarter. Remote patient monitoring, or RPM for short, is a digital health solution leveraging the Internet of Things, which tracks and monitors chronic conditions and potential emergent situations close to real-time. Using CareCloud's RPM solution, metrics like blood pressure, glucose measurements, heart rate or pulse, weight, and sleep changes in the elderly, as well as fetal monitoring, can all be instantly transmitted from devices to a patient's EHR, capturing a longitudinal view of the patient across the care continuum.

We plan to offer a full service to the physicians, providing care managers, supplying the device, and helping to populate the EHR with data transmitted from the cloud. At a minimum, our solution promotes connectivity to healthcare data whenever and wherever it resides, and at best can serve to alert doctors of potentially treatable situations and preempt them, improving outcomes and reducing costs in the process. We're excited to continue along the path of innovation by introducing this revolutionary digital health solution to the market. We sized the total market opportunity at north of \$100 billion over the next few years.

Drilling down to the medical practice level, we believe a typical practice, on average, can drive incremental revenue of up to one-third annually through a combination of chronic care management and monitoring, of which we can capture a meaningful percentage. We note also that the timing of our RPM product launch may coincide with CMS's favorable treatment towards the proactive management of chronic care conditions. CMS increased reimbursement for chronic care management in 2022. We believe that following additional work by the device providers, inclusive of proof points regarding adoption and improvement of outcomes, CMS may increase fees for remote monitoring in future years. These favorable rates may serve to incentivize providers to do more monitoring.

With respect to our acquisition strategy, and has been the case for some time, we strive to balance accretive acquisitions that integrate well with our cloud platform and deliver value to our shareholders with a reasonable level of organic growth stemming from new customers, same-store sales, and product innovation. While we are happily exceeding expectations with respect to the organic component of our strategy, our acquisition playbook took a pause through the first half of 2022.

As we outlined in our outlook in March, our 2022 guidance always contemplated a small amount of acquired growth that would be required to hit our revenue and EBITDA targets. While the acquisition pipeline remains

robust and we continue to evaluate a number of opportunities, none felt compelling enough to execute from either an accretive or strategic standpoint. For one thing, private valuation expectations remained lofty despite the slide in public company valuations year-to-date.

In a recent industry report, it was noted that healthcare tech M&A was down in the first half of 2022, as acquirers struggled with valuation disconnect driven by the big step-ups resulting in lofty post-money valuations of the last couple of years. Given that our criteria for doing a deal requires us to target an ROI over three to four years, this fiscal discipline and selectivity left us with a gap to meeting our full-year outlook. Meanwhile, we are hopeful that private company valuations begin to reset in the back half of the year.

In setting our guidance earlier in the year, we incorporated the anticipated wind down of revenue from two customers that came to us as part of a prior acquisition. At the time of acquisition, the clients were in the process of merging their operations with another health system, each of whom had a different EHR mandate from whatever clients were utilizing. As such, we believed there was a risk that revenue would wind down, and while this potential attrition was factored into our guidance, our expectation was to make up the revenue with acquired growth, which is now likely pushed out to 2023.

Accordingly, we now expect revenue in the range of \$140 million to \$143 million, versus our prior expectations of \$152 million to \$155 million, due to an expected shortfall in acquired revenue. In doing so, we are reducing our EBITDA guidance to a range of \$22 million to \$24 million from \$24 million to \$26 million previously.

I want to reiterate that the fundamentals of our business remain strong, as evidenced by our record bookings, and the absence of any tuck-in acquisition is the sole driver of the guidance reduction that Bill will expand upon.

Before I turn it over to Bill for his financial review, I would like to comment on the health of our sales and pipeline activity. We went into a fair amount of detail last quarter about how our increased investment in sales and marketing and product innovation would lead to an uptick in organic growth, and we are seeing early success of this in both the funnel of pipeline opportunities as well as bookings.

We are pleased that our pipeline at the end of second quarter was \$40 million, a 60% increase above the \$25 million we had in the prior year. Moreover, the incremental pipeline build or creation was \$21 million, up 50% from the prior-year period. Average contract value or deal size increased 42% over second quarter of last year, which is suggestive of two things: larger customers in the pipeline; and also a greater scope of products and services being delivered across our platform. For example, enterprise accounts were 64% of the pipeline, while small accounts comprised of 16%, and mid-sized practices were the remaining 20%.

Further, as an illustration of increasing product density, our teams are actively working with clients representing an estimated \$50 million in annualized revenue from CareCloud Wellness, which we introduced in the market just last quarter. All told, though we fell shy of our acquired revenue targets through the first half, the health of our pipeline, our sales motion, and bookings strength has never been better in the history of our Company.

To summarize:

- We delivered record bookings in the second quarter, with an expectation for as good, if not better, in the third quarter
- Year-to-date, we have announced innovative digital health solutions, inclusive of wellness for chronic care management and the soon-to-be-launched remote patient-monitoring solution
- Our sales and marketing efforts continue to ramp, and early results are encouraging as evidenced by CareCloud's record bookings

- We continue to work through an active acquisition pipeline with the goal of completing one or more deals in the back half of this year or early 2023. We look forward to reporting our progress to you as we navigate through the rest of 2022.

Now I will turn the call over to Bill for a closer look at our second quarter results. Bill?

Bill Korn

Thank you, Hadi, and thanks, everyone, for joining us on the call today to discuss our second quarter results.

The second quarter was in line with our expectations. On today's call, I'll review the quarterly and first-half results and discuss our guidance revision in more detail.

For the second quarter, we generated recurring bookings which will produce annual recurring revenue of \$5.5 million, almost double what we did in second quarter last year. As Hadi noted, we do not plan to provide bookings on a quarterly basis going forward as they can be lumpy, but given our strong second-quarter results, we thought you would appreciate the insight today. It is evident that our organic growth initiatives are starting to take hold as our newer products represent a significant portion of new recurring bookings.

Our second quarter revenue was \$37.2 million, representing an increase of \$3.2 million, or 9% year-over-year.

Our GAAP net income of positive \$2.7 million compared very favorably to a loss of \$227,000 last year. This represents the fourth quarter in a row where we've delivered more than \$1 million in positive GAAP net income.

Our GAAP net loss per share was \$0.07, based on the net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the quarter.

Our non-GAAP adjusted net income was \$5.6 million, an increase of 23% year-over-year. Adjusted net income per share was \$0.37 compared to \$0.31 per share for the year ago quarter.

Adjusted EBITDA of \$7 million increased 24% year-over-year and set a new record. Our adjusted EBITDA margin of 19% increased 220 basis points compared to last year and increased 540 basis points sequentially to the highest level since we went public in 2014 as we continue to reduce cost and drive further efficiencies from our previous acquisitions.

Taking a look at our results for the first half, revenue for the first six months of 2022 was \$72.6 million, an increase of 14% compared to \$63.8 million in the first six months of 2021, with 85% generated from our technology-enabled solutions.

For the first six months of 2022, our GAAP net income was \$3.9 million compared to a GAAP net loss of \$2.2 million in the first six months of 2021. This equates to a loss of \$0.26 per share after subtracting the preferred share dividends. Our non-GAAP adjusted net income for the first six months of 2022 was \$9.1 million, or \$0.60 per share.

During the first half of 2022, our adjusted EBITDA was \$11.7 million, an increase of \$2.4 million, or 26% from \$9.3 million in the same period last year.

Now, I'll turn to the balance sheet and cash flow. We ended the second quarter with \$10.2 million of cash and equivalents and generated \$5 million of cash flow from operations during the quarter and \$8.1 million year-to-date.

As Hadi mentioned, we're adjusting our guidance to reflect the fact that we have not made any acquisitions yet this year. Our original guidance for the year assumed we would complete one or two tuck-in acquisitions during the year, contributing approximately \$13 million of revenue, which would have offset the revenue from the two customer transitions that Hadi mentioned.

Though we factored in the wind-down of this revenue in our guidance, we expected to replenish the loss of these customers with acquired revenue. However, we have not yet found a deal on terms we believed provided a compelling return to shareholders, and we prefer to pass on a deal rather than to close it on terms which are not as favorable as we would like. With five months left in the year and the current disequilibrium between public and private valuations, we think it's unlikely that any potential acquisition will meet the assumptions baked into our original guidance. We're always looking for game-changer deals, and we will let investors know when we have something compelling to talk about, but we have removed any impact from our 2022 guidance.

With that as the backdrop, we now expect 2022 revenue to be in the range of \$140 million to \$143 million and adjusted EBITDA to be in the range of \$22 million to \$24 million.

Going into the second half of 2022, I'm pleased that our robust product solutions are resonating in the market and our organic growth strategy is starting to take hold. I look forward to keeping you posted on our progress in the remainder of the year.

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

Mahmud Haq

Thank you, Bill.

I would like to thank our employees, customers, and shareholders for their continued support. As Hadi mentioned, we are very pleased with the expansion of our platform, organic growth initiatives, and resulting booking trends. We look forward to continuing to update you on our progress throughout the year. Thank you.

Operator?

Operator

Thank you. Our first question comes from Mr. Cohen with Ladenburg. Please proceed with your question.

Jeffrey Cohen

Hi, Hadi, Bill, and Mahmud. Can you hear me okay?

A. Hadi Chaudhry

Yes, we can. Good morning.

Jeffrey Cohen

Wonderful. Couple of questions.

I guess firstly, on the back-half guide and Hadi's comments about the third quarter as good or now better than the second quarter, could you talk about the cadence of back half for modeling purposes? It looks like probably \$35 million or \$35.5 million for Q3 and Q4. Any specific reading into the cadence on the back half from your comments?

A. Hadi Chaudhry

Sure. Thank you for the question, Jeff, and let me get started from the booking standpoint, the organic sales strategy standpoint, and I'll turn it over to Bill for the back of the year from the financial aspect.

As we mentioned during the script, the second quarter, finally, we were able to hit record booking numbers. On the recurring revenue side, it's \$5.5 million, and with the onetime fee it was about \$5.7 million. Roughly one-third of that was coming from our recently launched project of Wellness. Based on these additional products, the Wellness product, and our upcoming remote patient-monitoring launch, which we will provide the details later in the third quarter. And also, with the robust pipeline, if I can just share the numbers for the pipeline. At the end of the second quarter, we had about \$40 million in open pipeline, and this is excluding our current upsell opportunity for the Wellness only in the existing client base. We are actively currently working with a potential possible opportunity of client, which could generate about \$50 million in annualized revenue. Of course, we cannot close all of it; even if we're able to close, let's say, half of it over the next one year to one and a half years, that will be a good number.

With that, with this background, I think we're very much—and the visibility that we have at the level of the deals—in the negotiation phases, we're confident that the third quarter is going to be either same or better than the second quarter in terms of the booking. The fourth quarter, optimistically, could even be better than the third quarter because we anticipate some results from the remote patient-monitoring initiative as well.

Jeffrey Cohen

Okay, I got it. It sounds like the third quarter will be better, but yet that falls outside of your guide of up to \$143 million.

Bill Korn

Jeff, I would use our guidance for total revenue, and there's two factors going into the cadence. As you know, normally for us, third quarter is our biggest quarter. However, we're getting more traction from new organic customers. As more customers are signing up, somebody who signs up today and goes live a month from now, well, you're going to get a fraction of the quarter's revenue during the third quarter, and you'll get a full quarter during Q4.

I think if I were you, I would actually spread it and, contrary to normal years, actually put a little bit more into fourth quarter and a little bit less into third quarter for 2022.

Jeffrey Cohen

Okay, I got it. Then, second from our side, could you talk a little bit about CareCloud Force? I didn't hear any mention specific of that and how it's doing.

A. Hadi Chaudhry

Yes, that's great, and I'll turn the floor over, in a moment, to Karl Johnson, who is our President of the Force product initiative. Yes, we continue to see more and more traction towards the Force. If we talk about our second-quarter bookings, about 20%—25% was coming from the Force bookings. We continue to see more and more—the increase in our pipeline for the Force, and we're also in some active conversations with some really large opportunities from the Force standpoint.

With that backdrop and background, I'll turn to Karl. Would you like to just add some more?

Karl Johnson

Yes, absolutely. Thank you, Hadi.

Certainly, what we've seen is continued difficulties by hospitals and other large service organizations in finding employees, and I would go on to say that that's not just a U.S. problem. We've also seen that offshore. We've been very, very pleased with the revenues, as Hadi mentioned, from Force. The new sales were 25% of total bookings, which is up from a year ago of about 15%, the second quarter in a row that it's been in that range. The pipeline with the deals that Hadi mentioned, two very substantial deals that are in final stages of legal review would certainly get us in that same range of percentage of sales.

It's really looking very optimistic. It's really morphed into the core of what we're doing and continue to push forward on new growth. Thank you.

Jeffrey Cohen

Okay, perfect. That does it for us. Thanks for taking the questions.

A. Hadi Chaudhry

Thanks, Jeff.

Mahmud Haq

Thank you, Jeff.

Operator

Our next question comes from Mr. Wiesenberger with B. Riley Securities. Please proceed with your question.

Marc Wiesenberger

Thanks. Good morning. Appreciate you taking the questions.

I just wanted a follow-up on a comment that was just made about tight labor market conditions domestically, and then, I think, internationally was said. Does that mean that you are potentially providing some of your services to international customers? Is that a change or expansion from any kind of previous scope of work?

A. Hadi Chaudhry

(Multiple speakers)

Yes, sure. Please go ahead, Karl.

Karl Johnson

No, what I was talking about is the services, labor services. The workforce extension we're providing is to U.S.-based customers exclusively. Many of those customers are used to utilizing offshore resources, which, with the pandemic and other challenges, have also been tight.

Marc Wiesenberger

Got it. Understood. Appreciate that.

Then, maybe just actually following up on that, in the current environment are you seeing changes in terms of your domestic customers' ability or willingness to leverage partners with non-US resources? Does that, any potential change there in your customers' preferences, open up additional opportunities going forward?

Karl Johnson

Yes, absolutely. I would say you're spot on there. If we look at the bookings for Q2, a significant share of those bookings were from organizations who had had immense challenges in using offshore resources in the past. But because of the pressure that they've had to get labor in the U.S., they've not been able to do that, have then turned to offshore resources, so it certainly has opened up some new opportunities for us.

Marc Wiesenberger

Got it. Appreciate that.

Then, as you're going to market with these expanded offerings, can you just talk about the value proposition you're leading with? Have you had to change that messaging at all or adapt your pricing strategy? Do you anticipate needing to do that going forward to drive accelerated adoption?

A. Hadi Chaudhry

A great question, Marc.

Our core offering, that remains the same, but if you think about it, the future of the healthcare as more and more the whole industry is moving towards the digital health, the telemedicine, or more going towards risk management, or pay-for-performance models or more proactive health management models. There's been a significant push from the CMS side as well on the care—the CCM point of view. Then, we believe, that after the chronic care management, the remote patient monitoring is going to get a lot more traction.

If you think about it, more and more devices are now becoming available. The wearable devices significantly have been advanced from the technology standpoint, so it will become more and more easier for the vendors to collect the data proactively from the patient symptoms point of view, and then crunch that data, analyze the data, and then raise the red flag and alert into the EHR system. We have started to step into the next level, the next generation initiatives. Yes, we, even from internally, if you talk about chronic care management, we saw a lot of tremendous excitement from our existing client base only.

There is an external, too. We have launched initially from the upsell standpoint into our existing client base because of the tremendous opportunity that was already there, and then these new products have become part of our overall offering.

From the pricing standpoint, from these two services, if I talk about the chronic care management and the remote patient monitoring, we are providing not only just the services and the technology, but also the resources, the care managers; for example, who will pick up the phone and talk to the patient. The pricing structure for chronic care management and remote patient monitoring is slightly different than our rest of the offering, but there is a comprehensive pricing model that exists for that.

Of course, these two come with higher revenue models, because, as an example, for remote patient monitoring, devices will also be involved. If it's an FDA-approved device, it will be reimbursed by the Medicare, as an example, so that will also become part of our revenue model.

Marc Wiesenberger

Very helpful with all that detail. Appreciate it.

Then, just two more from me. I'd love to hear about the medSR activity and ability to convert project-based revenues to recurring revenue. Then, just the other one would be, as you think about the economy and if it should deteriorate a little further in the back half of the year, maybe into the beginning of next year, how should we think about what parts of your business might be impacted the most, thinking about exposure maybe to elective procedures or more discretionary spending from patients? Thank you.

A. Hadi Chaudhry

Sure. Thanks, Marc.

On your first question, if I just take as an example, if I talk about it, before the acquisition or before we acquired medSR, an year before the acquisition, their RCM-related revenue was, let's say, about \$1 million recurring, or \$1 million roughly revenue. This year, so far, we already have closed more than twice of that number through the medSR help, whether it's coming directly as an upsell RCM deal or with the help of our CareCloud Force.

We already have started to see the results, and that's why about the reason our bookings are up it's a combination of all of those pieces: some support from that upsell through the medSR relationships; our existing core technology and the services that we have been offering; and the new products that we're in the process of launching or have already launched such as chronic care management. We do see that medSR—through the help of medSR more and more sales coming in.

To the second question, if you think about it from the medSR standpoint only, that is more like a project-based revenue in terms of the consultancy or health system implementation and configuration, so that would continue to be the same. We do not see any impact on that revenue. If you just talk about the patient from the elective surgeries and those standpoints, there were some down force—some changes during the COVID, but even that backlog is coming back now. At least in the early future, if you look at that timeframe, we do not see any impact from either one of those things, or the two concerns.

Marc Wiesenberger

Thank you very much. Yes, thank you. Perfect.

A. Hadi Chaudhry

Thank you. Thanks, Marc.

Operator

Our next question comes from Mr. Klee, Maxim Group. Please proceed.

Allen Klee

Yes, good morning.

Just following up on remote care and Wellness, just to understand it a little better, when you talk about launching remote patient monitoring this quarter, is this new from your Wellness offering, in addition to that? Then, you mentioned also CMS going to have some new rates. Can you go into a little more color on that also? Thank you.

A. Hadi Chaudhry

Good morning, and thank you for the question.

There's a slight difference in the overall context, whether you talk about chronic care management or remote patient monitoring, both are towards, one, the digital health, and the second thing is preventative health management, or the proactive management of the well-being of the patient.

In chronic care, so the patients that have one or more chronic conditions, those are being proactively managed with the help of the care providers, the caregivers who connect with the patient, go through their medical records, talk to the patient for a certain number of minutes each month and provide them the guidance, what they should be doing during the month. For example, diabetic patient, where they can do half an hour call, where the caregiver will get on the phone with the patient, looking at the chart of their diabetic results and can guide the patient what the patient should be doing, whether it's exercises, whether it's the change in the diet plan, or whatever—or if there is some change in the medication that needs to be done. That's how that chronic care management is handled.

From the reimbursement standpoint, CMS and the insurances are reimbursing the time of—provided by the caregivers to the patient under their chronic care management guidelines. In the bigger picture, at the end, so this will reduce the hospitalization rates, and we already have started to see the change in the hospitalization rate. This was the first step towards that preventative, the futuristic health management.

Now, the next level is going to be the remote patient monitoring where the devices will be involved. If you think about the chronic care, it's just only that you're talking to the patient and asking the questions by looking at the existing charts and based on the questions the caregiver will be asking. In the second one, for example if you're wearing a smartwatch which can capture your blood pressure, your oxygen level and the like, so that data, automatically over the Internet, gets transmitted to the EHR, gets compiled, and a meaningful alert gets fired to the doctor. The doctor can pick up the phone and call the patient and asking them, "Okay, we see that your oxygen level has dropped. Your temperature is high. You may have ABC problem. Come and see us for the treatment," or go to a lab for a lab test, as a simple example.

In terms of the reimbursement, the government, the CMS increased the rate for chronic care management in 2022, almost doubled on the certain-procedure level basis. For remote patient monitoring this year, they did not do that, and we believe one of the reason is the higher—from the adoption standpoint, it will take a little more time for the patient to adapt to these, or to convince to use these devices for the betterment of the their health. Based on these, we believe as the more vendors are coming and the results and the outcomes will be available, the CMS reimbursement should be increasing, hopefully, the reimbursement will get more attractive down the road over the next few years.

Our uniqueness is going to be the same on the remote patient monitoring, as well. We will provide a comprehensive solution: the devices, the platform, our technology platform; our services when it comes to RCM. We will make sure that the claims from those services get submitted to the right insurance and the right fee and get reimbursed at the right level. The third thing is the caregivers, as well. It's going to be a comprehensive solution in our case and fully integrated with our EHR and practice management platform.

Allen Klee

All right. Thank you. That's very helpful, very informative.

My last question has to do with churn, and I think the really key question here is, what should we think that normalized churn is? Because as you talk, if you did \$5.5 million of bookings, if we think about that, if that's \$22 million a year and let's say you recognize half of that as revenue, \$11 million, and you divide that by around \$140 million of revenue, that's 7% organic growth. But that's before churn. We recognize that there were two big events that happened, but just going forward, what should we think a normalized churn should be so that—how we should think about net organic growth? Thank you.

A. Hadi Chaudhry

Thank you, and a great question.

Let's go back. If I talk about the last three years—excluding these two outliers, the two clients that we talked about. Those were more like a calculated risk. We have a—there's a high level of risk and the visibility at the time of acquisition. We baked that into our valuation when we're acquiring the companies. Excluding those two outliers, our 2020 churn was about 10%, and we highlighted that. Then, 2021, we improved it down to about 8-point-some percent for the year in terms of the revenue. For 2022, right now, we're on track to hit somewhere between 8% to 9% as well. That's our churn, excluding these outliers. I think in this industry anything around 1% a month is the norm, and it seems like we have been doing better than 1% a month for the last few years, and it's continuously improving. Again, there's this one outlier side.

Now, towards your other question, yes, that is right in terms of the organic growth. So far, if you look—if you think about it, we have been entirely focused on growing through the acquisitions, or most of—if you talk about the balance, it was mostly acquisitive growth and very small focus on or no focus on the organic growth, the organic sales.

Over the last few years, and primarily the last two years and then the last and this year, in the second half of the last year, we finally have started to see some results over organic growth activities, whether it's the marketing or the sales, we increased the number of employees on the sales and marketing. We hired leadership. We started focusing on other marketing and brand recognition activities, so those have started to bear fruit, and that's why the second quarter is the highest one, a record in our history. With all that I mentioned earlier, our third and fourth quarter looks like that it's going to be even better than that.

The year 2023, the way we're looking at it—and we will provide the guidance at the beginning of the next year—we believe, with everything on the horizon and our visibility, the next year should come as a full organic growth, at least in the single-digit organic growth year for us, excluding any acquisitions.

Allen Klee

That's really helpful. Thank you so much.

A. Hadi Chaudhry

Great. Thank you.

Operator

Our next question comes from Mr. Larsen with BTIG. Please proceed.

David Larsen

Hi. With CMS' proposed physician fee schedule, they talk a lot about shifting everybody into value-based care, and all of the major health plans are talking about digital-first products that have value-based care wrapped around them. With this Wellness solution and the remote patient-monitoring solution, first of all, that \$5.5 million in bookings, over what time period is that going to get recognized? Is that like—can we think about that on an annual basis?

Then, secondly, can you give a sense for what the in-sell potential is into your existing customers? If every one of your existing clients purchased the Wellness platform, just any sense or color around what that total dollar revenue potential could in theory be?

A. Hadi Chaudhry

Hey. Thanks, David, for the question. Good morning.

Yes, you're right from CMS that that's the digital-first, and that is the reason, I think, we were focused at the same time in addition to our core offering. Whether it's the practice management or the EHR or the revenue cycle, we already have started to invest in that technology.

From the revenue ramp-up standpoint, excluding Wellness or remote patient monitoring, typically for small practices, it's about 30 to 60 days for one to five practices that we start recognizing the revenue. From a midsized, practices for up to 25 providers, it could be somewhere between three to six months and between six months to close to a year on an enterprise client, 25-plus provider client. This is also based on the type of service they have—they're looking forward to get from us, so I think the average timeframe comes down to about six months for us, where we're able to start recognizing the revenue out of these bookings.

For Wellness, though, we do not have much data with us right now, because it's just hardly three months we're into this. But we already have made live the clients who will generate about close to \$600,000-plus in annualized recurring revenue out of one-third of the bookings that we had in the last year—I'm sorry, the last quarter. My whole point is that literally within the first three months we were able to make about roughly five clients live within the three months' timeframe. So, that should help and give you some color on the ongoing live perspective.

For the same case from the remote patient-monitoring standpoint, we yet need to see in the fourth quarter, after the launch, the time, how much time it will take. It could be slightly more than the Wellness because in this case, the hardware devices will be involved. Those need to be sent to the patient. Patient needs to be trained to do it. They need to be convinced to use it, so the going-live time can be longer. That's what we're predicting, but we yet need to see as we get into the next year.

David Larsen

Then, any sense for the in-sell potential, if all of your customers purchased the Wellness...

A. Hadi Chaudhry

Perfect. If you think about it, I mentioned in the second quarter, for Wellness, we already have out of the booking there \$5.5 million. One-third of that was coming from the Wellness. There is roughly the same number, and actually slightly higher, which is already out for signatures. So far, our wins when the contract is out for signature is virtually 100%, so we anticipate that to be closed.

In addition to that, out of our existing client base, after reviewing everything, crunching over the data and the numbers, there is roughly \$50 million in annualized recurring revenue we can get if every single existing client signs up on for Wellness, so that's roughly the number. We all understand all \$50 million is not going to get signed, but that's the full potential for opportunity in the existing client base.

Now, in terms of the remote patient monitoring, just because of the adoption rate, all this \$50 million virtually would also be eligible for the remote patient monitoring, and even more than that, beyond that because it's not necessary that you would only go for remote patient monitoring in the case which is, at this moment, reimbursable by the insurance or the Medicare. The doctors can still monitor the patient and can call them for a different appointment based on that monitoring, so we believe that even that potential is going to be more than the \$50 million—at this moment we're going after for Wellness program.

David Larsen

Great. Thanks very much.

Then one more quick one. In the Wellness solution, can you talk a little bit about your costs? If you have an Uber-like model where a member can basically access a home-health individual or a nurse or a doc from Uber-like solution, are you paying those providers on a per-hour basis so that the revenue is matched with the cost, or are those full-time salaries that you're covering?

A. Hadi Chaudhry

Yes, another good question. Thank you.

One is the devices, and patients will get our branded devices through our provider, through the practices who will sign up for remote patient monitoring. Some of the features, some of the devices are and will be FDA-approved, so those will even get reimbursed by the Medicare, so the patient won't even have to pay for those devices.

The second part is, of course, our technology, and the third thing which I talked about was the care managers. One, that the practice can opt to have their own providers, where they can reach out to the patient and provide those services, or they can just keep working as it is without a change and we step in. We provide them a full turnkey solution: devices, platform, revenue cycle, and also the caregiver, the care managers. The care manager can take the first step by connecting to the patient if there is a problem, and then can hand it over at a certain point to the provider, all guiding the provider that this is an alert that we have received, all through our chronic care management call. This is a concern, and then the provider can take the next step. Yes, in this scenario, we will be paying those care managers, and that will be part of the overall pricing package for the client.

David Larsen

Great. Thanks very much. Appreciate it.

A. Hadi Chaudhry

Great. Thank you.

Operator

Our next question comes from Mr. Dede with H.C. Wainwright. Please proceed.

Kevin Dede

Hi. Thanks.

Hadi, just real quick back on the care manager part of the Wellness solution. I understand that you'll be bringing the first touch, but I'm just wondering if those people are medical professionals or just relationship managers? Where are you in building your staff to support that activity?

A. Hadi Chaudhry

Good morning, Kevin. That's a good question. Thank you for the question.

It's a combination, Kevin. It could be nurse practitioner under the supervision of a doctor, or just the relationship managers under the supervision of the nurse practitioners. There are clear guidelines from CMS, and those care managers have to be compliant with those requirements. That's exactly what it is. In some cases we may be using some external help wherein if needed, and we already have that staff available, up and running. That's why I mentioned that already five clients have gone live, and we already have started to take care of the chronic conditions of the patients.

Kevin Dede

Okay. Thanks, Hadi.

The \$40 million pipeline, I know you talked to this a little bit, but could you—I guess it just hasn't gelled for me. Could you just review how long you think it will take to convert it all? Understand a certain percentage short term, but I'm just wondering if you expect to convert it all or if it—and it's absolutely solid-sign business, or is it just feedback from sales on prospective business?

A. Hadi Chaudhry

Great. Kevin, the \$40 million that you're talking about has already gone through the prospecting phase, so the initial connection has been made. We know that we're at some stage of active conversations. Like any company who are doing the sales, not all of them can be converting. For us, of course, our initial conversion rate was not great, which every quarter are continuously improving as our organic growth engine is getting further matured. You can already see the results in the second quarter.

I think the way I would look at it is, if we're able to hit that \$5.5 million, \$5.7 million in annualized recurring revenue closing, or the bookings for the quarter, the record quarter, and we believe that the third quarter—based on the visibility that we have. We have good reasons to believe the third quarter is going to be either same or better than the second quarter. Then based on these additional products, the fourth should even be better than that. I would just consider those numbers, at this point, the conversion rates, because that conversion rate is continuously improving as we're evolving and maturing our sales engine.

Kevin Dede

Okay, Hadi. Thank you very much for the additional color. Appreciate it.

A. Hadi Chaudhry

Thank you, Kevin.

Operator

Ms. Blanche, I'll turn the call back to you for closing remarks.

Kimberly Blanche

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

A. Hadi Chaudhry

Thank you, everyone. Thanks. Bye-bye.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.