

Babylon Holdings Limited
Second Quarter 2022 Earnings
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Presenters

Ali Parsa, Founder and CEO

Charlie Steel, CFO

Darshak Sanghavi, Global Chief Medical Officer

Q&A Participants

David Larson – BTIG

Allen Lutz – Bank of America

Daniel Grosslight – Citi

Dev Weerasuriya – Berenberg

Glen Santangelo – Jefferies

Richard Close – Canaccord Genuity

Stefan Ward – Pareto Securities

Operator

Good morning and welcome to Babylon's Second Quarter 2022 Earnings conference call and webcast. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

Leading the call today, Dr. Ali Parsa, founder and Chief Executive Officer. Charlie Steel, Chief Financial Officer. And Dr. Darshak Sanghavi, Chief Medical Officer.

Before we begin, we would like to remind you that certain statements made during this call will be forward looking statements as defined by the Private Securities Litigation Reform Act of 1995 and as further described at the end of the press release that is posted on the company's website. These forward looking statements reflect Babylon's current expectations based on the company's beliefs, assumptions and information currently available to the company. And are subject to various risks and uncertainties that could cause actual results to differ materially. Although Babylon believes these expectations are reasonable, the company undertakes no obligation to revise any statements to reflect changes that occur after this call. Descriptions of some of the factors that could cause actual results to differ materially from these forward looking statements can be found in the Risk Factors section of the company's annual report on Form 10-F filed on March 30th, 2022 and its other filings with the Securities and Exchange Commission. In addition, please note that the company will be discussing certain non-IFRS financial measures that they believe are important in evaluating performance. An explanation of these non-IFRS financial measures, reconciliation of non IFRS financial measures to the most comparable historic IFRS

financial measures and calculation of certain non-IFRS financial measures can be found at the end of the press release and in the presentation slides for today's call, both of which are available on the company's website.

With that, I'd like to turn the call over to Babylon's CEO, Dr. Ali Parsa. Please go ahead.

Ali Parsa

I would like to welcome everyone and thank you for your time and interest in Babylon. I'm joined today by Charlie Steel, our Chief Financial Officer, and Darshak Sanghavi, our Chief Medical Officer.

Today, I will share an update on our performance in the second quarter of 2022, including our financial and operational results. I will then pass the call to Darshak to provide more color around our clinical initiatives. Charlie will then provide more details on our financial results before we open the call for questions.

I would like to center my comments today around three key themes. Firstly, our continued track record of growth and delivering strong financial results. Secondly, the performance we are seeing in our value-based care contracts, including strong margin improvements and key operational performance indicators. And finally, our disciplined approach to cost and our outlook for the future.

Our revenue for the quarter came in at \$265 million, a 4.6 times increase from where we were last year. In the same period, we have taken on an additional 185,000 US value-based care members through six new contracts in five US states. I know growth is not as important today as it was merely a few months ago, but this is exceptional growth by any standard. As I mentioned on previous occasions, we believe exceptional growth is an early indicator of future market leadership and therefore an important indicator of a company's performance.

Looking to the rest of 2022, we are reiterating the revenue guidance we have previously announced of \$1 billion or greater, which is more than threefold revenue growth from 2021.

While we continue to build our growth pipeline through relationships with top players in the United States, as I discussed last quarter, we're simultaneously committed to maintaining a focus on profitability of both existing and new deals. When examining new opportunities, we evaluate each proposal on its potential to reach profitability and only consider those where we can see a path to margin neutrality from year one and significant margin improvements in every year thereafter.

As we grow our footprint in the United States, we have also significantly diversified our VBC revenue mix to balance our Medicaid exposure with Medicare and Commercial members. As a result, revenue from Medicare and Commercial populations this quarter made up approximately 40% of our overall value-based care revenue. I am also happy to announce the launch of a new

contract at the start of Q3 to provide services to approximately 10,000 new Medicare Advantage members in New Mexico, which will further diversify our membership and revenue mix.

In fact, as of July, we expect revenue from Medicare population alone to make up more than 40% of our overall VBC revenue. We expect the proportion of Medicare and Commercial value-based care revenue to continue to rise as we look to 2023 and beyond.

Turning to examine our margin performance in our existing VBC contracts. I'm glad to share that we have continued to see improving trends in profitability across all our VBC populations as our cohorts of contracts age beyond their first few months.

Over the last two quarters, both Medical Margins and Clinical Care Delivery Expenses as a percentage of revenue have made great improvements. Medical Margins, which we define as one minus claims expenses as a percentage of our VBC revenue, improved from just below -5% in Q4 2021 to 0 in Q1 and to now just over 2% this quarter, giving a seven and a half percent margin improvement in the span of only three quarters.

This is still very early days for us and we expect as we onboard more of our members more quickly in each contract, identifying the most at risk members, helping to manage their health needs more proactively to avoid expensive crises, the medical margins should continue to grow. Indeed, while the above medical expenses indicate our performance across all our contracts, as we reported before, our older contracts and our Medicare and commercial contracts are already demonstrating better margins.

Across our business this quarter, we saw engagement and penetration rates increasing. In our most mature VBC cohorts in Missouri, we saw household penetration rise once again this quarter to a total of 39%. Furthermore, we learn more with each cohort we take on and are seeing our engagement rates continuing to rise faster in our newer cohort. In Georgia and Mississippi, we have sustained weekly, high risk member sign up rates, which are 4 times and 6 to 7 times faster respectively than our more mature New York and Missouri markets.

In each of Georgia and Mississippi in the first six months alone, since we launched operations, we have already signed up 26% of high risk members, allowing us to provide our services to more of the members who need them most and to the members where we can make the biggest impact on further reduction of Claims Expenses.

It should be remembered that these are Medicare members who were often given to us precisely due to the difficulty of their engagement, and our results show a marked improvement from the time before they were allocated to Babylon.

Our Clinical Care Delivery Expenses have also continued to fall as a percentage of revenue from 27.9% of our total revenue in Q2 2021 and 9% last quarter to 8.2% this quarter. This represents our expenses for the totality of our clinical operations across the globe and should not be

mistaken with the cost of our clinical services to just our US VBC members. This significant reduction in costs as a percentage of revenue is due to operational efficiencies, which come with scaling our digital first model. In addition, as we settle in each new market, we cross-pollinate our learnings to continuously make our operations ever more efficient. For example, we have begun benefiting this quarter from initiatives to move our clinician model away from employing clinicians licensed in a single State, as it is customary in the United States, to employ clinicians licensed across many States, able to take appointments across multiple States as needed to match demand as we have learned to do in other countries.

As a result, our clinician utilization has risen from 45% in Q2 last year to over 60% in Q2 this year and continues to rise. Unlike some other digital health providers who employ clinicians on a gig economy model, we focus on recruiting highly skilled, fully employed clinicians who are fully trained on our systems and committed to our mission. While when we entered the United States in early 2020, we were initially focused on meeting enormous telehealth demand during the pandemic, as Darshak will explain further, we have subsequently been able to shift to implement lessons learned from our many years of operating in the UK and move towards an ever more efficient system.

As we continue to scale to cover more members and deliver our care more efficiently, and as each of our cohorts mature from their early first few quarters, we expect to see further progress across all our deals towards profitability.

Moving to consider our Adjusted EBITDA results, I'm happy to announce that this quarter we delivered an Adjusted EBITDA result of -\$68.7 million, beating consensus expectations by more than \$10 million. As I mentioned last quarter, our digital first approach allows us to scale very efficiently. Our operational expenses and our technology costs, which comprise of Platform and Application and Research and Development expenses, remain relatively flat as we scale, allowing us to take on more lives and increase our revenue without substantially increasing overheads.

In Q2 last year, technology and SG&A costs made up 116% of our revenue, whereas this quarter, they were just 38%. We expect to continue to see the benefits of leveraging our technology and existing infrastructure as we scale, providing our services to new members in ever more efficient ways. Furthermore, we expect further profitability improvement in this regard from this quarter onwards, as we have recently taken actions to accelerate our path to profitability.

In the first half of 2022, as the cost of capital increased markedly, we have witnessed a clear shift in the priorities of investors from growth to profitability. Growing at scale was the right thing to do when the capital needed to fuel it was available at record low cost. Today however, this is no longer the case. At this time, it is important that we face the new realities and do so decisively.

Charles Darwin once wrote, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." We therefore implemented a series of decisive measures to accelerate our path to profitability. By reviewing the return of every

contract and the efficacy of every dollar spent on operating costs, we announced a cost reduction program that aims to lower the Adjusted EBITDA losses for the remainder of 2022 and targets run rate Adjusted EBITDA savings of up to \$100 million in 2023.

Going forward, all our technology or services output will be measured for their direct value to the improvement of contract margins, and our growth will be concentrated on new value based care or software licensing deals that are cash flow positive and meet or exceed our financial projections.

In spite of this strong operational performance I described above, our stock has not been performing. We are, of course, concerned and focused on the issue. While history has shown that markets can sometimes overreact, we believe that we have been particularly hurt by the fact that we chose to bring Babylon into the public markets through a SPAC process. The market has since collectively and somewhat indiscriminately punished almost all SPAC companies as many were showing hockey stick revenue projections which have turned out not to come through.

Ironically, one of the reasons we chose to go public via a SPAC in the first place was so we could show to the market our hockey stick projections. At the time we projected increasing revenues from \$79 million in 2020 to \$321 million in 2021 and \$710 million in 2022. We have been one of the few companies that have met and remain on track to exceed these projections by a large margin, but we still suffered the same stock decline as others.

We are taking active steps to remedy some of the negative consequences of this outcome to improve our shareholder base and capital structure. This was one of the reasons we exchanged both the private and public SPAC warrants for common equity during Q2. We will continue to take further steps, and while these changes cannot unfortunately happen overnight, we do think that incrementally the market will start to see the true underlying value of our business.

When Jeff Bezos, founder of Amazon, was asked in a recent interview about the plunge of that stock from \$113 to \$6 per share in about one year period in 2001, his response was, "The stock is not the company and the company is not the stock." He described that while the stock was plunging, the internal metrics of the business were improving.

Babylon scrutinizes its internal metrics constantly, and on almost every important operational matter, they are improving fast and performing as well as it could be expected at this stage of our development. As I outlined above, from Q2 revenue growing 4.6 times and US value based care members growing by 220% year over year to up to seven times improvement in the speed of high risk member sign up to a corresponding 31% ER avoidance in our longest serving VBC contract, and a seven and a half percent improvement in our medical margins in the last three quarters, almost all our key metrics are performing well.

We believe that if we continue to focus our efforts on delivering on our promise, maintaining our quality and moving closer to profitability, the stock price will reflect that over time. We believe

that the progress we have shown this quarter, including our increasingly disciplined approach to costs, positions us well as we look to the next few years.

The needs of those who we have been serving have not gone away. Demand for healthcare will continue to increase while the supply of new innovative solutions will reduce due to the new market conditions. Our task remains to stay in the service of those who will need us most, and we are well-placed to emerge from the current conditions stronger.

Before handing over to Darshak, I'd like to thank the entire Babylon team for their hard work, resilience, and the relentless commitment they have shown this quarter. They have continued to deliver every day to assure we are able to provide high quality care to our members in an ever more efficient way. The commitment and passion they exhibit exemplifies our company's mission, and we are fortunate to have such brilliant Babylonians.

I am truly thankful to those who have invested in us. I know the market conditions have not been kind to us, but I promise you that we have the ambition, determination and single minded focus to do all we can for Babylon to emerge stronger and to provide the deserved returns for our investors.

With that, I'll pass the call over to Darshak, who will provide more detail about our clinical operations. Darshak?

Darshak Sanghavi

Thank you, Ali, and thank you everyone, for joining the call today. I'm excited to give more detail on our clinical operations and explain more about why our members love our service and how we're working to improve margins across our cohorts. What's our secret? Well, it's not such a secret. We make people healthier via more accessible and better care.

Before I dive into discussing our clinical operations, a quick introduction. My name is Darshak Sanghavi, and I'm Babylon's Chief Medical Officer. Before joining Babylon, I was Chief Medical Officer for Medicare & Retirement at UnitedHealthcare and at OptumLabs, and held a senior position during the Obama Administration at the Center for Medicare and Medicaid Innovation. In these roles, I created and oversaw programs impacting tens of millions of Americans. I'm also a practicing pediatric cardiologist and hold the rank of associate professor at the University of Massachusetts Medical School.

I came to Babylon because I've come to believe that incremental change cannot truly improve the quality and access of care globally. We have to fundamentally rethink our model and delivery of healthcare. That's what we are doing at Babylon. However, technology and innovative products alone cannot solve healthcare. Rather, they are ingredients in a broader strategy that must be well informed by deep health care experience and a focus on addressing the drivers of poor care outcomes and high costs.

At Babylon, we focus on improving value by investing heavily in the talent, technology and processes to execute on this rubric. So what does that look like? To begin, our team continuously focuses on operational excellence, increasing efficiency and driving down the clinical care delivery expense for our virtual first model.

For example, this quarter we've moved to a multi-state licensing model for our primary care clinicians and increased utilization in our national care model, allowing us to match doctors across the nation with our patients in their time of need. Simply put, patients get care when they need it 24/7 and we keep our clinicians at the right level of busyness. We have once again delivered a lower clinical care delivery expense as a percentage of revenue this quarter and believe we will see further improvements through initiatives being implemented in Q3 and Q4 this year.

The key to unlocking value, however, lies not just in making care more efficient, but in making our patients healthier and happier. This starts by engaging our patients in value based care contracts and delighting them, as evidenced by our 4.8 star rating on the Apple App Store. We've demonstrated accelerated learning for reaching out to patients and engaging them in our digital programs. Over time, we've shortened our cycle times and speed of onboarding onto our digital platform. We've also increasingly focused on onboarding high risk members by targeting the patients who are most at risk of high cost using AI based models. We are able to make sure that we service patients where we can have the greatest impact on improving health and reducing costs. For example, in newer value based care contracts with attributed and assigned patients, we are now signing up high risk patients at rates four times and 6 to 7 times faster respectively than our initial ones.

Over two years, we reached 39% of households in our first market, Missouri. But in our more recent ones active under a year, we've already signed up over 26% of high risk patient households in Georgia and Mississippi and onboarded them onto the Babylon app. We do this by learning from each contract and by replicating the most effective outreach strategies, as well as utilizing local community health workers in each region we enter.

We also make sure we meet patients where they are, which is particularly important to engage our Medicaid members and offer immediate value at initial outreach calls. For example, our team recently contacted a patient in the rural Midwest who disclosed they lacked housing. By using our platform to seamlessly connect the patient to a social worker who was able to provide them with housing, we were also able to onboard the patient into our services and engage them in a next day comprehensive primary care intake appointment, allowing us to assess their needs and refer them for any further care as needed. A strategy that peer reviewed studies show, dramatically lowers medical costs.

Another data point. When outreaching to members who need behavioral health services, our team successfully onboards half of all outreached members to complete a digital first appointment.

After we engage patients at scale, our care model goes to work for them. We focus on six clinical drivers, all backed by a digital first model 24/7 access to primary care, integrated behavioral health, peer to peer same day virtual specialty consultation, tech enabled chronic condition management, high complexity episode management and personalized care teams for complex patients.

Through our clinical initiatives, we target specific key focus areas which have the highest spending impact on our populations. To take one example, our partnership with Sitka to provide digital peer to peer subspecialty consultations resulted in having 91% of specialty consults remain contained in Babylon's digital ecosystem. Allowing, for example, a primary care clinician to assist a patient with eosinophilic esophagitis fully via digital care.

Another example. Our health graph shows that depression and anxiety are two of the biggest cost drivers in our covered populations. And it has been repeatedly proven that high quality, timely mental health care dramatically reduces care costs. Therefore, we screen individuals on their initial intake for mental health needs and provide behavioral health care integrated within our platform whenever necessary to give them a seamless, accessible support experience.

Having delivered over 5,000 mental health appointments in our most recent month in the US, we recently have tracked outcomes in hundreds of patients enrolled after diagnosis of anxiety or depression. And we know that our digital mental health model reduces GAD-7 and PHQ-9 scores into near normal ranges in 33% to 42% of patients.

This year, we've already deployed our Chronic Condition Management program using our platform, including our DaytoDay technology to address clinical journeys for pre-natal and post-natal care, transitioning care from hospital discharge, digital first journeys for mild anxiety and depression and low back pain. And we are on target to release programs for diabetes, cancer prevention, hypertension, menopause, sexual health and substance use disorders this year.

Our patient-first and digital-first approach supported by an extraordinary clinician culture now embedded in a fully employed model. The doctors work for Babylon full time and not as off the side of their desk contractors. Enabled by Babylon's product and technology stack, our doctors provide complex end to end care, a far cry from typical transactional fee for service virtual visit mills. Our clinicians meet in regular Grand Rounds, work together to share knowledge amongst themselves via instant messaging, develop and maintain national standards of care.

Most recently, for example, when the oral drug Paxlovid became available for COVID in the US, our clinicians actioned national protocols that allowed safe and effective prescribing.

By focusing on providing digital care where possible and through the work we have done, recruiting and training full time digital first primary care clinicians, we have been able to address high complexity conditions in a digital first manner, including complex mental illness via our

collaborative care model, syphilis in pregnancy, managing and preventing severe asthma and many, many more situations.

It's worth emphasizing this point. Since our inception in the UK in 2013, we've invested enormous time and effort to develop a virtual first comprehensive model. It's simply untrue that great digital first primary care can come from simply retrofitting old school doctors with FaceTime. Instead, Babylon has developed painstaking protocols, clinician training and expertise to work remotely.

Value based care doesn't happen overnight. That's why peer reviewed data suggests our model is associated with a 15% to 35% reduction in acute care costs in the UK, a goal we believe can be achieved in the US.

With that, I'll hand over to Charlie to give some more detail on our financial performance. Charlie?

Charlie Steel

Thank you, Darshak. And thank you to everybody joining the call today. We appreciate your time and interest in Babylon.

Today, I'd like to share some further comments on the trends we're seeing in the business as we review our Q2 2022 financial results. I'll discuss our overall financial performance and key KPIs such as medical margin, focusing particularly on the trends towards profitability we are seeing in our value-based care contracts and the significant operating expense leverage we have generated, as well as providing an update on our financial guidance for the full year 2022 results.

As Ali mentioned, we're happy with our financial performance this quarter. We reported revenue of \$265 million, which places us on track to achieve our revenue guidance for the year. Alongside this performance, we delivered an Adjusted EBITDA loss of \$68.7 million, beating consensus expectations by over \$10 million. Our Adjusted EBITDA margin for Q2 was -25.9%, and we are on track to meet our updated guidance for the year of \$270 million or less. We are pleased with these results, which are the product of dedicated planning and commitment by the entire organization.

I'd also like to briefly comment on the current macroeconomic conditions. We continue to monitor the impact of external factors such as inflationary pressures on our business. However, we expect any such impacts to be significantly mitigated due to the nature of our digital first business model, our previously announced cost reduction actions, and the pricing structure of our value based care arrangements.

Moving to discuss our financial results in more detail. As mentioned earlier, revenue for the quarter came in at \$265 million, representing a 4.6 times increase from the revenue generated in the second quarter of 2021. Top line revenue growth was again driven by our value based care

segment, which is over six times the VBC revenue generated in the second quarter of 2021. VBC and related revenue increased by \$205 million quarter over quarter to a total of \$244.1 million and accounted for 92% of Q2 revenue. This has been driven by significant increases in our VBC membership base, with the total VBC memberships increasing to 269,000 US VBC members in the quarter compared to just 84,000 in Q2 2021.

We continue to take a proactive approach to diversifying our VBC member mix with a focus on increasing our proportion of higher PMPM and easier to engage Medicare and Commercial populations. Which combined contributed to approximately 40% of VBC revenue in Q2 2022. Since Q2 2021, we have increased our Medicare population by over 2.5 times, taking our total Medicare membership from 12,000 members to 31,000 members this quarter.

In July this year, we also launched a new VBC contract to cover an additional approximately 10,000 Medicare Advantage members in New Mexico. With the addition of this contract, we expect revenue from Medicare populations alone to account for more than 40% of our total VBC revenue in July. Looking forwards, we expect this and the percentage from Commercial populations to continue to rise as we look to 2023 and beyond.

Licensing revenue this quarter was \$7.4 million during the second quarter of 2022, a decrease of 11% from \$8.3 million in Q2 2021. This reduction was largely driven by FX headwinds in our licensing contracts denominated in pounds sterling, and would have been roughly flat on a constant currency basis. We continue to actively engage in building our licensing pipeline this year, with the aim to increase our proportion of higher margin licensing revenue from 2023 onwards, which we expect to be a key contributor towards achieving profitability no later than 2025.

Clinical services revenue, which includes our clinical services delivered in the UK and Rwanda as well as our US fee for service business was \$13.9 million during the second quarter of 2022, which was an increase of 38% from \$10.1 million in the second quarter of 2021, driven by increased virtual consultation volumes in both the UK and US. One of our key focuses in 2022 is to enhance cost of care delivery margin and utilize our operational leverage as we scale.

Our continued rapid revenue growth has had associated margin impacts in the short term as we proactively engage members upfront, which comes with associated costs in order to prevent expensive crises and reduce long term downstream healthcare costs. As discussed last quarter, we have broken out our cost of care delivery expenses into two components, Clinical Care Delivery Expense and Claims Expense to differentiate between the costs incurred by Babylon in delivering our service offering and our members' claims expenses.

Clinical Care Delivery Expense increased year on year, coming in at \$21.6 million for the second quarter of 2022, up from \$16 million in Q2 2021. We expect our Clinical Care Delivery Expense to be highly scalable, and we've seen progress this quarter with costs dropping as a percentage of total revenue from 28% in the second quarter of 2021 to 8% this quarter due to utilizing

operational leverage across our network that comes with scale and implementing initiatives to increase efficiency across our clinical organization as Ali and Darshak discussed earlier.

Claims Expense for the quarter was \$239 million, which was an increase from \$40 million in Q2 2021, primarily due to the addition of 185,000 new VBC members in the last year. However, Medical Margin, which as Ali mentioned we define as one minus our claims expense as a percentage of revenue, improved year over year by five percentage points, improving from -3.2% in Q2 2021 to 2.2% in Q2 2022, as well as improving by three percentage points quarter over quarter.

Combining both, our Cost of Care Delivery expense came to \$260.4 million for the quarter, which is an increase from \$56.4 million in Q2, 2021 due to the increases in our membership. Quarter over quarter, Cost of Care Delivery expense reduced by \$11.1 million from \$271.5 million, and on a percentage of total revenue basis, we've seen improvements in quarter over quarter with Cost of Care Delivery expense decreasing by four percentage points to 98% of total revenue from 102% of total revenue in Q1, 2022.

I'd now like to move on to discuss our operational costs. As mentioned earlier, digital scalability and operational leverage is a key pillar on our path to profitability, and we're pleased to see both technology and SG&A expenses falling as a percentage of revenue this quarter.

Our technology expenses, which are comprised Platform and Application expenses and Research and Development expenses, were \$32 million in the second quarter of 2022, which was an increase of \$10.3 million from Q2 2021. While our total Technology expenses were greater as a result of increased Research and Development expenses versus the second quarter of 2021 due to the operational leverage of our technology, Technology costs actually decreased as a percentage of revenue by more than half, from around 37.8% in the second quarter of 2021 to just 12.1% in this quarter.

Similarly, our SG&A expenses, which increased to \$68 million this quarter versus \$45.1 million in Q2 2021 have also decreased as a percentage of revenue. SG&A expenses reduced to 25.6% of revenue this quarter, compared to 78.5% in the second quarter of 2021, further demonstrating the scalability of our operations.

Moving on to discuss Adjusted EBITDA. For the second quarter of 2022, our Adjusted EBITDA loss was \$68.7 million, an increase of \$19.1 million from our Adjusted EBITDA loss of \$49.6 million in Q2 2021. We have continued to see a trend of margin improvement this quarter with an Adjusted EBITDA loss margin of 26% in Q2 2022 compared to 86% in Q2 2021, which represents a 60 percentage point improvement year over year.

In July of this year, Babylon also announced cost reduction actions to accelerate our path to profitability. These efficiencies are being implemented during Q3 2022, with the expected

financial impact predominantly from Q4 2022 onwards, and we expect to ramp up to \$100 million per annum in cost savings on a run rate basis during 2023.

The majority of our cost reduction initiatives come from shedding non-core activity and delivering operating efficiencies. Examples of this include centralizing our cost base, supporting South East Asia operations to the UK and US, rationalizing our global physical office footprint as we embrace new working practices following the pandemic, streamlining our supplier and professional services costs and headcount optimization in non-core business areas. As a result of these initiatives, we expect our monthly adjusted EBITDA loss to decrease to a run rate of \$18 million or less by December 2022.

Due to the design, implementation and communication of the plans in July 2022, Babylon expects to recognize a restructuring provision in the third quarter of 2022, primarily relating to employee severance and benefits. We expect this restructuring charge to be an add back to our Q3 2022 reconciliation from net loss to Adjusted EBITDA.

We've also performed an impairment review this quarter as a result of the decline in our share price and a discontinuation of certain features considered within our development costs intangible assets. As a result of the analysis, the Company identified that the carrying amount of these assets exceeded their values in use by \$53.2 million. This impairment charge has been added back to our Q2 2022 reconciliation from net loss to Adjusted EBITDA.

Moving to the balance sheet. Cash and cash equivalents as of June 30, 2022 was \$187 million, compared to \$42 million as of June 30, 2021. In June and July, we also completed our Warrant Exchange transaction launched in May 2022 with the intention of simplifying Babylon's capital structure and reducing the potential dilutive impact of the warrants. As a result of these transactions, Babylon issued just over 4.2 million Class A ordinary shares in exchange for just over 14.5 million public and private placement warrants, comprising all of the outstanding warrants that were assumed as part of our business combination with Alkuri Global Acquisition Corp. in October last year.

I'd like to end by giving an update on our guidance for our 2022 performance. Last quarter, we updated our revenue guidance for the full year 2022 to be \$1 billion or greater, and we are reiterating that guidance today. As we announced in early July, we've improved our Adjusted EBITDA guidance from a loss of \$295 million or less per year to a loss of \$270 million or less, with forecasted monthly December 2022 Adjusted EBITDA loss of \$18 million or less as mentioned. This improvement in our adjusted EBITDA guidance is due to the cost reduction actions I mentioned earlier. We are confident that we will continue to see positive trends in our profitability and reiterate our expectations of being Adjusted EBITDA and cash flow breakeven by 2025.

To conclude, I'm incredibly proud of the strong financial results we once again delivered this quarter. I'd like to thank our whole team of Babylonians for their hard work this quarter and their

continued commitment to deliver the best possible care for our members. I'm proud to continue to work alongside them every day to drive forwards on our mission to make high quality healthcare accessible and affordable for everybody on Earth.

And with that operator, we are now ready to open the call questions.

Operator

At this time, we would now like to open the floor for questions. If you do have a question, please press star, one on your telephone keypad at this time. If you're using a speakerphone, we ask that while posing your question, you pick up your handset to provide the best sound quality. Again, if you do have a question or comment, please press star, one on your telephone keypad at this time. Please hold a moment while we assemble our queue.

We'll take our first question today from David Larsen with BTIG. Sir, the floor is yours.

David Larsen

Hi. Congratulations on the EBITDA beat and the very good momentum that you have heading into the second half of the year. Can you talk a little bit more about the expected increase in Medicare mix? I think I heard you say that effective July 1st, that Medicare is going to be 40% of your value based care lives. Did I hear that correctly? And -- what is driving that? And can you give a sense for maybe what the difference is between a Medicare margin and a Medicaid margin is? And I would assume that that would lift your overall margin profile. Thanks.

Charlie Steel

Hi, David. Thank you very much for the question. So, yes, exactly correct. It's Charlie here. We have a new contract that started 1st of July. It's with a provider system. It's also a new client for Babylon, which is a Medicare Advantage contract. And with that combined exactly as you say, with the better margins on the Medicare and also Commercial contracts, we do see that the blended margin mix will continue to improve. The thing to note is that 40% is not of members but of overall revenues that will be from Medicare and commercial after that point in time.

David Larsen.

Okay. And can you talk about what led to that win? Was that with an existing client where they awarded you the MA lives because the performance in other areas? Or is that sort of a brand new health plan client win?

Ali Parsa

David, this is Ali. The answer is the latter. This is a brand new win. It's not from an existing client. And more interestingly, it is not from a payer, but it's from a health system which marks our expansion into doing significant deals with health systems.

David Larsen.

Okay, that's very helpful. And then just any any sense for the difference between a Medicare MA margin and a Medicaid margin? Is Medicare maybe, I don't know, 50% more profitable? Just any color there would be very helpful.

Charlie Steel

Yes. As we've already shown, I think, David, earlier on this year, you've seen the existing earliest cohorts that we've had within Babylon showing around 20% on the commercial side and then 18% on the on the Medicare side, albeit a little bit lower on the Medicaid side. As I mentioned earlier, we expect to continue to see the margin blend improving over time as we take on more Medicare and commercial contracts and as Medicaid as a percentage of revenue starts to become lower.

David Larsen

Okay, great. And then, it's my understanding that Medicaid redetermination timing has been pushed back into 2023. And the states actually have a fairly long period of time to actually implement that redetermination process. What impact will that have on your business relative to prior expectations? Is that a positive or not? And why?

Charlie Steel

Yes, I think that is a positive in the sense that we continue to get the revenue as we expected coming through. For 2022, part of the reason why we can reiterate the guidance and we've got more certainty around that is because we now know that that has been pushed out, as you say. So we're working very hard to make sure that we start to get some of the margin out of those Medicaid contracts. And we expect for various reasons, for a lot of this to continue during 2023 as well.

David Larsen

Okay. And then just one last one from me. I think I heard you say that you're expecting about an \$18 million per month sort of negative EBITDA in December of 2022, which would imply, you know, a little bit less than \$60 million a quarter and EBITDA loss as we head into 2023. I would assume that as you progress through 2023, margins shouldn't -- should improve on a quarter to quarter basis, is that right?

Charlie Steel

Absolutely. So the \$18 million is just one snapshot in time. That trajectory will continue downwards through 2023 as well. And that's very much our expectations as well.

David Larsen

So you'll certainly be, you know, better than \$200 and we'll call it \$216 million for the year for 2023. \$18 a month would imply \$216 for the year. And you should be better than that for 2023. Okay. Thanks very much. I'll hop back on the queue. Thank you.

Charlie Steel

Great. Thanks. And David. Yes, that's the assumption to make.

Operator We'll move to our next question from Allen Lutz with Bank of America. Please go ahead.

Allen Lutz

Good afternoon and thanks for taking the questions. I guess, with a focus on cost cuts here, how should we think about revenue growth or just the strategy into 2023 and 2024, conceptually? I know that you want to kind of pivot more into higher margin contracts like Medicare Advantage. But just from our scene here, how should we think about the path of revenue growth to get to that breakeven in 2025? Thanks.

Charlie Steel

Yeah, sure. Thanks, Allen. So I think the cost cutting measures and rationalization sort of come into two buckets. I think the first one is how we think about the company's strategy moving forward. And look, one example of that is how we -- our physical office in Southeast Asia. We're really focusing on our US VBC contracts and that's sort of really where -- all our effort is going from a commercial standpoint.

What I would say, though, is we have a massive, massive pipeline of people wanting to sign up business with us. And I think what we're finding now is that we can be a lot more discerning about the contracts that we take on as a result of that. Of course, it will temper growth to an extent, but we will still be the fastest growing value based care business in the industry in our view.

We put out a number when we did the listing back in October last year of just over \$1.5 billion for 2023. We've very much committed to the numbers in the past and will continue to commit to those. And in some ways that's how we should think about growth, is that we have made some commitments around our top line revenue growth in the past. We've exceeded them to a degree -- or massively already actually. But we will make sure that we continue to keep those commitments, and that will also align with being one of the fastest growing value based care businesses in the industry.

Allen Lutz

That's helpful. And then, Ali, I think you made a comment on 7.5% margin improvement in one of the contracts through onboarding numbers more quickly and helping patients manage health needs more proactively. Can you talk to anything specific that you found where you're able to cut costs more quickly when you're onboarding members? Are there any things or any learnings that stand out to you over the past couple of quarters? Thanks.

Ali Parsa

Thanks, Allen. That 7.5% improvement in medical margins over the span of three quarters was related across all of our contracts and not just one. So that was the average. But as we have Darshak [inaudible] in this quarter, I -- pass it on to Darshak so he can provide you with more information.

Darshak Sanghavi

So thanks for the question. What we found is that we've used our data to analyze really where we have the most compatible medical conditions and really almost across every line of business, and by that I mean commercial, Medicare and Medicaid, we're finding that mental health services, which were particularly skilled at in deploying digitally, are a critical driver of engagement and improvement in total cost of care. And so, -- as I alluded to, almost half of our visit volumes have been actually mental health care services. And those individuals have been quite deeply engaged in the care models we provided.

And we found that really by addressing mental health in a virtual first model, particularly in historically disadvantaged populations in rural remote areas or others, or mental health care services, that not being available coupled with primary care and the addition of our collaborative care model has, we believe, been one of the key -- strategies by which we think total cost of care is being improved. That, I also want to emphasize again, coupled with the fact that we focused principally on access to care. In other words, through a digital first model, our members can get care typically within hours of needing any particular needs.

Just consider what that looks like. You're concerned about COVID. You're concerned about a skin infection. You're concerned about asthma exacerbation. That -- closing that loop between having the concern and being able to address it is another core part of how we believe we're driving significant value across independent of the actual type of commercial and payer mix we have. Thanks.

Allen Lutz

That's great. Thank you.

Operator

We'll take our next question from Daniel Grosslight with Citi. Sir, the floor is yours.

Daniel Grosslight

Hi, guys. Thanks for taking my question. As you made pretty clear throughout the call, Medicare is becoming a greater proportion of your business, yet sequentially, at least this quarter, pmpm are relatively flat. You know, given that Medicare typically has pmpms that are 2 to 3 times higher than Medicaid. Why don't you think you're seeing more pmpm uplifts this quarter? And how should we think about the cadence of pmpms for the remainder of the year?

Charlie Steel

Thank you for that. So I think the main thing to note is that quarter on quarter, we haven't seen a massive change in that, but the additional 10,000 Medicaid -- Medicare members starts in July 1st. So you'll see that impact coming through in Q3 pmpm. And as we take on more of these contracts, again, you should expect to see an uptick in the pmpm going forward as well.

I think the other thing that's actually important to note is and I alluded to this in my earlier script, is that we also have embedded inflation protection within our contracts. So you should expect to see some uptick in the pmpm on that basis as well, because our contracts are MLR based rather than absolute dollar based.

Daniel Grosslight

Got it. Okay. That's helpful. And, you know, if you -- listen to all of the managed care and provider earnings reports this quarter, it's pretty clear that non-COVID utilization has yet to normalize. How much of the -- MLR uplift this quarter do you think is due to lower than normal utilization? And how much -- how should we think about MLRs going forward as utilization -- non-COVID utilization normalizes?

Charlie Steel

Yeah. So if I'm understanding the question you're asking, how do we untangle the impact of our care model and the Babylon approach to care from just sort of the broader effects just of lack of COVID utilization? And how can we predict that moving forward? And I think -- what I'll just say broadly at a high level is that that is -- it's quite difficult to be able to untangle those at this point in time. All we know is that our overall hospitalization rates and utilization rates like the rest of the industry, are -- still at -- have not fully become up to the levels of utilization we've seen during the pandemic. And we think that this actually gives our care model an even greater opportunity to lead to the engagement and the impact on their health during this time. So as that care normalizes in other organizations where they don't have a digital first model, our hope is that as they onboard and we now have this significant reservoir of individuals that have been introduced to a digital first model, when they reengage in care, they'll do it in a digital first manner where we believe we have higher value. And that's sort of the approach that we're going to take.

Daniel Lutz

Understood. All right. Thank you.

Operator

Our next question comes from Dev Weerasuriya with Berenberg. Please go ahead.

Dev Weerasuriya

Hey, good evening. Thank you for taking my question. And nice quarter here. I just want to touch base on the discontinued relationships with the NHS trust and compare that to kind of the US model. Obviously, I think there's a pricing difference in these models, but from kind of an OpEx leverage and a care margin leverage standpoint, could you provide some puts and takes on how that differs? I think it was noted that the UK models were economically kind of unviable. And how we can kind of think about the differences here in the US that are more beneficial to the business profile? Thank you.

Ali Parsa

This is Ali. I'll take this question. When we announced our cost cutting, exercise, one of the things that we did say is that with the higher costs of capital on us, we will be much more careful on where we are spending our money. And as a result, we will be focused on the profitability of all of our contracts, on every single one of our contracts. And the contracts that we do not see a path to significant profitability, we will terminate. Those two or three small NHS contracts that you refer to and those are not our significant primary care contracts, those are marginal contracts for us, more in that category of contracts where we could not see a significant contribution to our profit margin. And they also had a rather small contribution to our revenue. And therefore we saw them as a distraction and terminated those contracts.

I think, going forward, what you will see is our focus on contracts that are more in line with our goal of accelerating our profitability. And we will try to avoid contracts that do not get us at the speed that we require them to.

Dev Weerasuriya

Okay. Great. That's helpful. And I just want to follow up on that question on gross margin, just trying to think through the cadence of that over the next couple of quarters kind of expecting uplift from the Medicare. But could you -- is there any seasonality to this? How much line of sight is there from -- year end, again, with kind of normalization in regards to procedure, volume and mix? Just any color on how we can think of -- think about the gross margin cadence would be helpful. Thank you.

Charlie Steel

Yes. So I think there are a couple of things on this. I think first of all, our core focus is the medical margin as the claims expenses, potentially VBC revenue. And what we're seeing -- is that quite a few of the leading indicators, such as, for example, inpatient visits, hospitalizations have been trending downwards over the last few months. And therefore, we expect that to come through when we get the data through on the claims. We're trending significantly better than we were this time last year. And indeed actually better than we were in the first quarter as well. So there's no reason to think that that trend is going to change to the adverse in any way.

Dev Weerasuriya

All right. Thank you.

Operator

As a reminder, if you would like to ask a question, you may press star, one on your telephone keypad at this time. Again, that's star, one if you'd like to join the queue.

We'll take our next question from Glen Santangelo with Jefferies. Please go ahead.

Glen Santangelo

Hi. Thanks and good evening. Thanks for taking the question. I just had a couple of financial questions. First, I want to talk about EBITDA. Charlie, you said earlier, in your prepared remarks

that you expected to be at an \$18 million loss run rate for EBITDA in December. And then in the press release, we're talking about the \$100 million in cost savings and you'd expected that that would start to show up in the fourth quarter. Could you maybe give us a little bit more color around where are these \$100 million and expenses coming from? And how quickly can you get to that \$100 million sort of savings run rate? Because I think that's obviously pretty important for how we should start to think about fiscal 2023.

Charlie Steel

Yeah, sure. So the way we think about the \$100 million splits into two main buckets. The first one is people affect. The second one is non-people affect. From the people affect side of things, we can actually pull that lever pretty quick and actually, very sadly, we have had some people depart the business as a result of that. And the reason why you see that come through during third and fourth quarter is that we need to take a charge -- one off charging third quarter. So you'll actually see the net benefit coming through in fourth quarter. Just to say that those actions have all been done now, so with the exception of the UK consultation process, which has a couple of weeks still to finish itself off, as I said, that process is basically done as of today.

The second part of it is the non-people affect side of things, which involve things like optimizing our Amazon Web Services stack is one example of that. Some of that can be done quite quickly. Things around, for example, our property portfolio take a little bit longer because of the lead time in doing that. But as I mentioned with the question earlier, the \$18 million in December is a snapshot of that run rate at that particular point in time. We expect the trajectory to continue downwards during 2023 as some of the cost reduction measures continue to take effect because we're not expecting to see all of those things take effect by the end of December.

Glen Santangelo

All right. Well, Charlie, just -- to put some math behind that, right? I mean, if you look sort of where we are now, I mean, we're kind of in the low \$20s on a EBITDA loss run rate on a -- monthly basis. So, \$18 is -- you know, it's a nice improvement, but it's not in any way meaningfully reflective of the \$100 million in cost savings.

Charlie Steel

Yeah, and that's because you're seeing some of those cost savings coming through in 2023. So, let me give you another example of that. For example, like a lot of our insurance, we're renegotiating at the moment for various reasons. Some of that comes down materially, but the way that that works from -- an accounting perspective is that we accrue that month by month that that's the premium for that's already been paid upfront. So there's also a difference in timing between cash burn and recognition of that cost. So for some of these things, you're seeing the cash burn and also the cost recognition coming through at the start of 2023, albeit the people initiatives that have already taken effect during -- 2022.

Glen Santangelo

Perfect. That's helpful. Maybe just one last one. We got a lot of questions on sort of the capital needs for the business. I mean, if you look at the cash uses in the first half of the year and sort of compare that to the cash balance at 6/30, I mean, it seems -- I mean, we've talked about this on these calls before, right, the need for additional capital. Ali, have you maybe started to think about that? And have you started to formulate a plan? And what—that could ultimately look like?

Charlie Steel

Of course, capital requirements is absolutely forefront of our minds, right, and --. But at the same time, though, as you've seen, we've delivered 4.6x revenue increase year on year for this quarter, which is a massive amount of revenue increase and well beyond the projections that we originally put out there this time last year. So I think what we want to do is show that we could deliver on those projections. And then think about exactly the right timing to raise that capital at the same time.

We have extremely supportive shareholders. They—our three largest shareholders have always been very supportive of Babylon. And of course it is front of mind for us about exactly how we do that and making sure we give some certainty to the market around that.

Glenn Santangelo

Okay. Thank you.

Operator

We'll take our next question from Richard Close with Canaccord Genuity. Please go ahead.

Richard Close

Yes, thanks for the questions. I was just curious if we could dive a little bit more into licensing and the opportunity there. And then, as -- also on the commercial business, what you're seeing in commercial, because obviously from a revenue perspective, that would be pretty beneficial. So if you could dive into either one of those or both those points, that would be great.

Charlie Steel

Yes. So, look, we see licensing as being a massive revenue opportunity for us going forward. I think there are two parts to this. I think first of all, as we build out our technology for our own use, we can then license that successfully to other people. And we've done that in the past, as you know, with the likes of Telus and Prudential with multimillion dollar contract. At the same time, though, making this product [inaudible] is not something that you can kind of do overnight. There's an issue around what you need to containerized each element of the product. There's a significant cost in doing that. We have a prioritization for -- for doing that, which is during 2023. But at the same time, though, our ability to deliver the licensing contracts is predicated on that unless we have a very large licensing contract again in the form of something like a Prudential or Telus, which we don't want to put into our base case assumptions for obvious reasons.

So in summary, I think we're very optimistic about our ability to license our software. But at the same time, though, we don't want to be saying that there's going to be a huge licensing contract coming in the very short term.

Richard Close.

What about commercial lives?

Charles Steel

So again, on the commercial lives side of things. Look, this is a very nascent business for us. A lot of the lives that we've got at the moment have come through our IPA business. And we've got to we've got to focus on building that out. But at the same time, though, you can't get the results in overnight.

I think, again, it's just worth bearing in mind that our value based care business in the United States is literally around 20 months old. It's -- it hasn't been around for a very long time. We need a little bit of time to prove that out. I think that we have done that. Just look at the level of customer satisfaction that you're seeing around that, around our value based care business in the US. We continue to deliver amazing levels of clinical quality and customer satisfaction as we have done elsewhere in the world. And I think our clients are seeing that. And that's the reason why we've got such a massive pipeline of new potential contracts. And gives us the ability to create this shift more towards Medicare and commercial contracts as well.

Richard Close.

Thank you.

Operator

We'll take our next question from Stefan Ward with Pareto Securities. Please go ahead.

Stefan Ward

Thank you. And congratulations on -- the strong -- again, the strong quarter on the revenue line. And also, thanks for the improved accounting details in the report. Most of my questions have been answered, but I would like an update on the pipeline. As you describe Charlie, if you could just perhaps given number on the size of that if it has expanded since you last -- guided on that. And also, I'm interested in -- if there's been any changes on the sort of gross margin potential at maturity. I guess that basically is gross margin for -- the VBC business. Just start with that. Thank you.

Charlie Steel

Yeah, thanks, Stefan. So on the pipeline. Look, we disclosed the pipeline before we did the listing this time last year. And the reason for that is we are showing a revenue growth that frankly was unparalleled across the industry and we wanted to be able to show how we could support that. Our belief is that now we've actually shown that we can deliver and, by the way, exceed that revenue growth hugely. We don't really want to be disclosing pipeline in the quarter by quarter

basis just because we think that it will end up being a distraction for the overall revenue numbers which frankly is the most crucial thing here.

What I can say, though, is that pipeline continues to grow. We continue to -- have a great go to market team that is helping us deliver on that pipeline. You're seeing that with the new contracts coming through at the same time. So I think overall, I think the pipeline, as I mentioned, is very healthy. We're looking to have that -- mix moving a bit more towards Commercial and Medicare at the same time in order to be able to eke out better margins more quickly. And we can also be much more selective on the pipeline to make sure that we've got great contracts from the get-go.

In terms of your other question around how we're seeing the evolution of the margins working through, in particular the medical margin, I think what you'll see from -- the presentation that was attached to the -- results released is that A, the indicators are going in the right direction, as I mentioned earlier, but also that our engagement levels are getting much faster and continue to get faster as well. So that's been what we found a great leading indicator for us on our ability to see those margins coming through. And we expect that to continue.

Stefan Ward.

Okay. Thank you. And just to follow up, I'm not sure if you would -- if you will want to answer this, but is there any way you can help us get -- an understanding of sort of the aggregate EBITDA losses from now until -- break even in 2025? I mean, it will improve year by year, but sort of could we get the ballpark figure of how much -- how that need is versus your [inaudible] existing financing?

Charlie Steel

Sure. So as we mentioned earlier, we've put out the guidance of \$18 million EBITDA loss in December. We expect that to actually continue downward, but we'll update the guidance in the third quarter results for -- both 2023 revenues and also adjusted EBITDA loss.

Stefan Ward

Okay. Thank you very much.

Operator

There appear to be no further questions at this time. This does conclude today's conference. We thank you for your participation. You may disconnect your lines at this time and have a great day.