



Augmedix Inc.

2021 Second Quarter Earnings Conference Call

August 10, 2021

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

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Manny Krakaris, *Chief Executive Officer*

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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

Andrew D'Silva, *B. Riley Financial*

Bill Sutherland, *Benchmark Company*

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

Operator

Greetings, and welcome to Augmedix Incorporated 2021 Second Quarter Earnings Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host today, Caroline Paul, Investor Relations. Thank you. You may begin.

Caroline Paul

Thank you, and thank you, all, for participating in today's call. Joining me are Manny Krakaris, Chief Executive Officer, and Paul Ginocchio, Chief Financial Officer.

Earlier today, Augmedix released financial results for the quarter ended June 30, 2021. A copy of the press release is available on the Company's website.

Before we begin, I would like to remind you that Management will make statements during this call that include forward-looking statements within the meaning of federal securities laws, which are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Any statements contained in this call that relate to expectations or predictions of future events, results or performance are forward-looking statements. These forward-looking statements are based upon current estimates and various assumptions, and involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated or implied by these forward-looking statements. Accordingly, you should not place undue reliance on these statements. For a list of description of the risks and uncertainties associated with our business, please refer to the "Risk Factors" section of our Form 10-K with the Securities and Exchange Commission filed on March 31, 2021.

This conference call contains time-sensitive information and is accurate only as of the live broadcast today, August 10, 2021. Augmedix disclaims any intention or obligation, except as required by law, to

update or revise any financial projections or forward-looking statements, whether because of new information, future events, or otherwise.

With that, I will turn the call over to Manny.

Manny Krakaris

Thanks, Caroline. Good afternoon, everyone, and thank you for joining us.

We are pleased with our ability to deliver a strong second quarter performance as we build upon on bookings momentum in the prior period. As a reminder, our service model is centered around the Augmedix platform, which leverages a combination of proprietary speech recognition and machine learning technologies within our Notebuilder tool, that along with medical data specialists, generates accurate and timely delivered medical documentation. Physicians have a choice of our real time service, which we call “Live”, or our non-real time service, which we call “Notes”. Both of our solutions focus on reducing the burden of medical note documentation, which results in higher clinician productivity and helps generate additional revenue for healthcare enterprises. Our service has also been proven to increase clinician and patient satisfaction. Our unique approach to clinical documentation enables not only natural physician/patient conversation, but also physician mobility, given the mobile devices through which physicians access the service.

Turning to our recent financial performance, revenue for the second quarter of 2021 is \$5.2 million, representing a 39% year-over-year increase. Quarter-on-quarter revenue growth accelerated up to 8% versus 5% last quarter. Importantly, the impact of COVID-19 on our business was less compared to the first quarter.

As we discussed on our previous call, we believe that our business can continue to grow at the historical revenue growth rate of 30% to 45% that we experienced in 2018 and 2019. We anticipate significant revenue growth will continue to come from our existing customers’ increased adoption of our Notes and Live offerings.

During the second quarter, we again made meaningful progress on our growth initiative by building on a robust sales pipeline and expanding relationships with our existing Enterprise customers. You recall that when we land within one of these Enterprise accounts, we implement our solution among an initial cohort of physicians, who we believe will be prime beneficiaries of our service, based on their individual productivity metrics, and we gradually expand our footprint once we demonstrate the targeted ROI.

We remain enthusiastic about the significant opportunity ahead to further penetrate the clinical documentation market where healthcare organizations already under contract of Augmedix represent an aggregate annual revenue opportunity of about \$1 billion. Given the health of our backlog and recent increase in customer adoption, we expect our bookings momentum to continue over the course of the second half of the year, and we remain focused on further market penetration and gradually capturing additional market share. While it is still early, we would note that third quarter bookings are off to a promising start.

In addition to the impact we have been able to make with our existing customers, we are very excited share some updates to initiatives that are expected to fuel incremental revenue growth and gross margin improvements during the remainder of this year and beyond.

First, as it relates to our Notes offering, we are pleased to announce new agreements with a number of mid-sized healthcare enterprises. Since its launch in mid-2020, our Notes service demonstrated an outstanding ROI for our existing and new enterprise customers, and has gradually become integrated into

daily physician workflows. Our highly data driven approach has enabled Augmedix to successfully compete with other non-real time documentation solutions on the market.

Second, as it relates to our Live offering, we have signed our first emergency room agreement with a veterinarian account to begin using our real time service. Since it launched just a month ago, they have already expanded their use of our offering by adding a fourth shift. Our Live service provides real time clinical support and optimizes clinician workloads, specifically for busy emergency department environments. We continue to expect that the national rollout of our Live service to the emergency room setting, which was announced earlier this year, to serve as a catalyst for expanding our total addressable market.

Third, we are thrilled to announce a partnership agreement with a large physician-owned practice management business that covers thousands of physicians. Our technology platform will be offered to their network of current physicians as a solution that can maximize clinician productivity. We are excited about the opportunity for us to share our value proposition and further expand our reach through this partnership. We remain focused on identifying other potential partnerships that are complimentary to our core documentation solutions to help us further accelerate our growth.

Finally, we continue to invest in technology to enable increasing levels of automation and the addition of new features, which we expect will result in higher gross margins in the future.

In summary, we are enthusiastic about the progress we made in the second quarter. We are executing well in our strategic plan to expand our total addressable market and will continue to invest in our platform to drive future growth.

With that, I will now turn the call over to Paul Ginocchio, our Chief Financial Officer, then will return with closing comments. Paul?

Paul Ginocchio

Thank you, Manny.

Revenue for the three months ended June 30, 2021, was \$5.2 million, a 39% increase from the \$3.7 million in the same period from a year ago. Growth was driven by accelerating existing client expansion, new clients, and strong growth in our Notes offering. Dollar-based net revenue retention improved to 129% for our health enterprise customers, compared to 113% in the first quarter of 2021.

As many of you know, net revenue retention measures what a dollar of revenue at our existing clients a year ago grew into in this most recent quarter. It includes upsells, expansion and churn, but excludes revenue from any new logos.

Gross margin for the second quarter of 2021 was 47%, as compared to 41% in the corresponding prior year period, and compares to 44% in the first quarter of 2021. One hundred and sixty basis points of the expansion was due to the write-off of a provision related to a previous office lease. The rest of the 60 basis point gross margin improvement from the first quarter of 2021 is driven by operation efficiencies in our Cloud platform, plus higher exposure to our Bangladesh service engine.

Total operating expenses for the second quarter of 2021 were \$6.4 million, a 58% increase from the \$4.1 million in the second quarter of 2020.

R&D expenses for the second quarter of 2021 were \$1.5 million compared to \$1 million in the second quarter of 2020. The increase was driven by higher head count in engineering to further accelerate our AI N and L efforts, partially offset by efficiency in our training expenses.

Sales, general and administrative expenses for the second quarter of 2021 were \$4.9 million, compared to \$2.1 million in the second quarter of 2020. The increase was primarily attributable to an increase in personnel-related expenses as we continue to expand our commercial effort, higher commissions from higher bookings, as well as expenses related to being a public company. Within Opex as a whole, we did have \$0.4 million of benefits in the second quarter from the write-off of transaction-related legal expenses and provisions related to our previous office lease.

Adjusted EBITDA, which we calculate by adding back depreciation, amortization, taxes, interest, transaction expenses, the previously-mentioned one-time items, and stock-based compensation, to net loss, was a loss of \$4 million in the second quarter of 2021, compared to a loss of \$2 million in the second quarter of 2020.

We ended the second quarter of 2021 with \$16.7 million of cash in restricted cash.

Now, turning to our outlook for 2021. Based on the bookings we experienced in the second quarter, we anticipate our quarter-over-quarter revenue growth rate will be similar to the prior quarter-over-quarter revenue growth rate of 8%.

Regarding gross margins, we expect similar gross margins in 3Q to 2Q 2021, removing the impact of the lease provision. Remember, over the long-term, we have indicated that we expect Live gross margins to be in the range from 50% to 55% at scale, and Notes gross margins to be in the range from 55% to 60% at scale.

Manny?

Manny Krakaris

Thank you, Paul.

In summary, I am encouraged by our strong financial and operational performance in the second quarter. We remain enthusiastic about her vision for Augmedix to transform the clinical documentation process by enabling doctors to do what they were trained to do, which is focus on patient care.

It is an exciting time for us and we are so grateful to all our investors for their continued support on our journey. We are committed to continuing to execute on our strategic priorities and making the necessary investments to achieve our growth initiatives.

We look forward to updating you on our business as we progress forward.

With that, we will now open it up to questions. Operator?

Operator

Our first question comes from Andrew D'Silva with B. Riley. Please proceed.

Andrew D'Silva

Hey, good afternoon. Thanks for taking my questions.

Just a couple of quick ones for me. I am really curious about how things are progressing in Bangladesh from a move back to the office standpoint; and with that, how should we model changes to cost of goods as that transition happens?

Manny Krakaris

Hi Andy. Good question. I am in touch with the head of our Bangladesh operation every day, in fact several times a day, and the pandemic situation there is pretty bad, relative to what it's like here. They have had a significant surge from the Delta variant and what we have had to do is implement a return to work from home policy in Bangladesh. We still have between 60 and 80 people coming into the office, out of about a total of about 475, every day. They come in because they are essential in doing certain functions for the Company. The government's lockdown ends tomorrow, which means that businesses are allowed to have people come back into the office at a level of 50%; however, we are going to continue to keep our work from home policy in effect until we feel comfortable that we are not compromising on the health and safety of our employees.

Andrew D'Silva

Great, great. When it does transition, how should we think about the cost of goods? Is it just a couple hundred basis points hit to COGS, or how should we think about that?

Manny Krakaris

It depends on when it occurs, but go ahead, Paul.

Paul Ginocchio

Back when we went to work from home, now this is 18 months ago so the business has grown substantially since then, but when we went to work from home it was about 150 to 200 basis points of enhancement to our overall gross margin, so that's how I think I would think about it once we finally go back.

Andrew D'Silva

Okay, perfect, good color thank you.

Then, just my last question is just related to the non-real time documentation, Augmedix Notes. Could you just give a little color on how is that progressing and what percent of your total clinicians and service that represents now?

Manny Krakaris

Notes is still a very small part of our total revenue mix. We only launched it in the middle of last year, but it is growing and it is growing at a good rate. Up until recently, most of that was with small physician practices, but in the latter half of the first quarter and into the second quarter, larger healthcare organizations have been able to take advantages of the Notes offering.

Andrew D'Silva

Okay, perfect. Well, hey, thank you very much. Congrats on the progress and good luck going forward.

Manny Krakaris

Thank you, Andy.

Paul Ginocchio

Thanks, Andy.

Operator

Our next question comes from Bill Sutherland, with The Benchmark Company. Please proceed.

Bill Sutherland

Thanks. Hey, Paul, hey Manny.

I wanted to ask you on this ER opportunity, what that sort of adds to the adjustable market for you in terms of dollars, and are there other hospital use cases that you all are exploring?

Manny Krakaris

Sure. Overall, there are about 57,000 doctors in emergency rooms at hospitals in the U.S., so it's a significant segment of the market, and up until very recently, until we launched our service, it really was the exclusive domain of the in-person documentation specialist model. But, the pandemic has really cramped that model because many healthcare enterprises consider documentation specialists as non-essential personnel, so they have been precluded from going on premise to provide the service to their doctors.

That has opened up the opportunity for a virtual solution, and in the case of emergency rooms, it is not a straightforward, you know, extrapolation of your existing solution in the clinical environment because the workload of doctors is very different in the emergency rooms. You have to modify your workflow to accommodate how doctors see patients in the emergency rooms, which is very different from how they see them in clinical settings. We have managed to do that.

We have also been able to take advantage of Google Glass' latest offering, a True Enterprise grade device, which is very helpful in a hands-free emergency room environment, which many emergency rooms are. Physicians typically wear the Google Glass unit inside their protective shields, so they don't need to handle any device while they are engaging with the patient.

Now, the deal we signed recently that we have implemented and has already expanded, is actually with a veterinary hospital. That market is very nascent, but it is very large, and it is expanding, and it is completely underserved. We are really excited about that. We have shown the value proposition very quickly in that setting, and that is what led to the expansion.

Bill Sutherland

Interesting. Then, I was also thinking about the labor issue that is plaguing a lot of healthcare providers and I know with your people in Bangladesh, this is—you're not directly impacted by the pressures here. I am curious how it ripples through maybe the Live part of your competition scribe companies; is that impacting them? To what degree is that competitively stopping you?

Manny Krakaris

It certainly has. That is a great question, Bill. It is occurring throughout the United States. Wages are increasing and the supply of qualified candidates is contracting, even though you are seeing an increase in wages, so it has really hampered the ability of companies to recruit in the U.S. Fortunately for us, as you know, about 90% of our documentation specialists are located overseas, but we have had success, and we have hired pretty aggressively in the last three months, here in the U.S.

Now, we are recruiting throughout the country. We have a very distributed workforce in the U.S., so we have been able to take advantage of some of the pockets of opportunities in the labor supply market that we can take advantage of because we have a virtual model.

Bill Sutherland

Right. Paul, maybe just one for you. Opex growth, as you look ahead, is it reaching a scale where it doesn't exactly track as revenue, or is that going to take some time?

Paul Ginocchio

Thanks, Bill.

The second quarter, there was quite a bit in there. Some of the growth was coming off, some temporary salary reductions and furloughs we made a year ago during the height of COVID. But I think going forward, you would continue to expect on a Q-on-Q basis that sales and marketing and engineering would increase. We are doing everything we can with public company costs, to hopefully level out in G&A, but we are not there yet.

Bill Sutherland

Got it. Good progress, guys, thanks for the questions.

Manny Krakaris

Thank you, Bill.

Paul Ginocchio

Thanks, Bill.

Operator

Thank you. At this time, I would like to turn the call back over to Management for closing comments.

Manny Krakaris

Thank you, everybody, for joining us for our Q2 2021 Earnings Call. We look forward to updating you at the end of next quarter, some time in November. Until then, please stay safe.

Thank you very much.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation, and have a great day.

Manny Krakaris

Thank you.