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Q3 2022 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

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Daniel Barton *Forian Inc. - CEO*

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Don Engel *Lake Street Capital Markets - Analyst*

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PRESENTATION

Operator

Greetings, and welcome to Forian Inc. Third Quarter 2022 Financial Results Conference Call and Webcast. (Operator Instructions) Participating today from Forian are Max Wygod, Executive Chairman and Co-Founder, Daniel Barton, Chief Executive Officer, and Michael Vesey, Chief Financial Officer.

Before we begin, I like to remind you that management's remarks today may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by those forward-looking statements due to a variety of important factors including those discussed in the risk factors section of the company's annual report on Form 10-K filed with the SEC on March 31, 2022.

Estimating financial performance accurately for future performance is difficult as it involves assumptions and internal estimates that may prove to be incorrect and is based on plans and circumstances that may change. There is, therefore, a significant risk that actual results could differ materially from the outlook provided today. Any forward-looking statements made on the call today represents the company's views as of this date and the company undertakes no obligation to update them except as required by law.

Words such as estimates, projected, expect, anticipate, forecast, planned, intend, believe, seek, may, will, should, future, propose, and variations of these words or similar expressions or versions of such words or expressions are intended to identify forward-looking statements. These statements include, but are not limited to, statements regarding future growth, anticipated performance and prospects.

Today's presenters will also refer to certain non-GAAP financial measures on our call, such as adjusted EBITDA, which the company believes may be important to investors to assess its operating performance and should be considered a supplement to and not a substitute for financial measures prepared in accordance with GAAP.

A reconciliation of the comparable GAAP metrics can be found in today's press release and webcast, both of which are available on the company's website. Those numbers are unaudited and any statement regarding the company's anticipated performance may be subject to change including as a result of risks related to changes in the cannabis and healthcare market and risks related to the impact of the COVID-19 pandemic and the events in Ukraine.

Today's call and webcast is being recorded. A copy of the recording webcast as well as the full transcript and copies of today's press release and SEC filings will be available at forian.com/investors. I am now pleased to introduce the company's Executive Chairman, Max Wygod. Please go ahead.

Max Wygod *Forian Inc. - Executive Chairman*

Good afternoon and thank you all for joining us today to review Forian's 2022 third quarter financial and business performance. Forian provides innovative software solutions, proprietary data, and predictive analytics to optimize the operational, clinical and financial performance of our healthcare, cannabis, and government customers.

I am pleased to share that we had a strong fiscal quarter with improvements in all key metrics. Strong demand continues for innovative and business critical products in the markets we serve, and as a result, we are delivering an attractive combination of organic growth and

improved profitability. We are still on course in our plan to reach a positive adjusted EBITDA in 2023.

Our healthcare information business continues to be our key growth driver as we sign more important wins with new customers and expanded existing customer revenue through cross-sales of additional offerings. Our team has industry leading deep domain expertise, and we take a customer focus approach in partnering with our clients from the initial sale to support, ensuring we create value for our customers and drive growth for foreign through upsell and cross-sell successes.

These qualities combine to position us to continue to grow our healthcare base. With the multitude of data assets, we have the size, scope, and coverage of data to compete for increasingly large contracts and our unique technology and delivery capabilities enable us to provide accurate and timely offerings.

Our BioTrack business competes in a very different and competitive market, but its scale offerings in the number of government contracts identify it as a leader in this space. As additional states award new contracts, the entire legal US cannabis market can continue to grow responsibly. We believe as new states come online, we are well positioned to maintain and grow BioTrack as a leading software provider to the legal cannabis industry.

Now for some key highlights from the quarter. First, overall third quarter revenue grew by 45% year-over-year, including healthcare information growth of 101%. In the third quarter, the company generated revenue of \$7.2 million and net loss of \$5.1 million, and adjusted EBITDA loss of \$2.1 million, respectively. I will hand it over now to our CEO, Dan, for his remarks. Dan?

Daniel Barton Forian Inc. - CEO

Thanks Max. I am very pleased with our third quarter 2022 results. We had strong revenue growth driven primarily by our healthcare information business. As Max mentioned, topline revenue grew by 45% year-over-year to \$7.2 million.

As we had discussed on last quarter's call, we continued to execute against our cost optimization efforts, which netted improvement in net loss and adjusted EBITDA of \$1.9 million and \$2 million this quarter, respectively. We're on track to exceed the high end of our revenue guidance for the year of \$27 million. Additionally, we expect both strong revenue growth and improved operational cost to continue, setting the foundation to be adjusted EBITDA positive in the second half of 2023.

As I mentioned, healthcare information revenue continues to demonstrate strong growth. Market demand has not slowed showing the value our clients see in and derived from Forian information and analytics products.

We offer our clients the optionality of open, closed and hybrid information products and analytics on a subscription basis or one time sale. Almost all of our business is subscription based. Clients use our information products for commercial, clinical, operational, and payer based analytics to help drive and measure their sales and marketing initiatives, inform R&D, track product outcomes and optimize operations.

Our healthcare information pipeline continues to grow. We saw the highest revenue in a quarter to date at \$4.3 million, which represented 101% year-on-year growth. We expect the growth to continue due to the fact that sales are strong and we signed the highest amount of total deal, total contract value in any quarter to date. This brings our contracted backlog to \$29.3 million, covering 2023 and beyond. If you were to include contracted backlog with termination rights, the total backlog amount is substantially greater than the \$29.3 million.

We continue to diversify client portfolio in the third quarter and in Q3, we nearly surpassed our entire annual net new number of contracts. New client penetration in life sciences continues with another significant win in the quarter, and we are now upselling and cross-selling to existing customers. As our platform is industry agnostic, we have the opportunity to offer products and services in other healthcare verticals, further enhancing our ability to grow this business.

Our brand continues to expand across life sciences as well. Clients have powered their RWE research efforts, leveraging Forian products and our expertise in hybrid data and analytics and power our Chronos offering.

Research into the rare disease, Spinal Muscular Atrophy in infants informed by Chronos will be presented at the ISPOR Europe Conference in November. The Chronos hybrid healthcare information product is a best-in-class solution when it comes to studying patient longitudinal disease burden in all disease states, and particularly in the rare disease arena, offering substantial growth opportunity for our business.

BioTrack commercial software new sales were positive in the quarter, building on the momentum of second quarter. These sales were driven in states that have expanded the number of available licenses, which demonstrates our ability to generate new sales as states launch their medical marijuana programs or expand into adult use.

I have mentioned before the nature of this marketplace being competitive and fragmented. We are experiencing our share of anticipated churn with our commercial software. New sales are covering the churn, leading to flat growth in the business.

One important thing to note is that our cultivator and manufacturer customer base for BioTrack has a strong footprint as we deliver high value software to these non-retail customers in addition to our retail customers.

This strong footprint provides additional opportunity as new geographies start to open their recreational programs like New York. We also have opportunities for expanding incremental business in key growth markets such as Illinois, Florida, Mississippi, and Georgia, to name a few.

We do not expect any federal regulation changes in the near-term, although we continue to hear along with everyone else some form of banking legislation is on the horizon. While we are not impacted either way based on federal regulation, any movement on passing banking or other cannabis legislation would be good for everyone in the cannabis industry.

As I spoke about last quarter, we are implementing our cost improvement initiatives and prioritizing our investment spending to capitalize on near-term growth opportunities such as healthcare information products, BioTrack commercial and state government business.

In summary, we are well-positioned based on the foundation we have put in place this year. Subscription revenue is growing nicely, driving very good year-on-year and sequential quarterly revenue growth.

Our cost management initiatives are well underway, and we are focused on supporting near-term revenue opportunities. We are confident in hitting the high end of our guidance range for revenue this year and being cash flow positive in the second half of 2023. It has been a great effort by the entire team. I'll turn it over to Mike to run through the financials in detail.

Michael Vesey Forian Inc. - CFO

Thanks Dan. Today I will provide an overview of Forian's financial results for the quarter ended September 30th, 2022. As previously disclosed in our SEC filings, Forian completed the business combination of Helix Technologies and MOR Analytics on March 2nd, 2021. As a result, the operations of Helix are included in our financial results beginning March 2nd, 2021.

The press release issued today presents Forian's third quarter 2021 and 2022 financial results on a GAAP basis. As in prior quarters, we've also reported adjusted EBITDA, which management uses as a measure to track the performance of the business. As noted, the press release and these presentation materials included detailed reconciliation of adjusted EBITDA to net loss.

Our consolidated revenues of \$7.2 million for the quarter were up \$2.2 million compared to the prior year. As in prior quarters, our year-over-year growth was driven by healthcare information products. In many cases, our information contracts provide for continuing information deliverables to our customers over a multiyear period, providing a predictable recurring revenue stream.

As a result, we've seen sequential increases in our healthcare revenue in each quarter since we began reporting as a public company, resulting from both new customers and sales of new products to our existing customer base.

The net loss for the third quarter decreased \$1.9 million from the same quarter last year to \$5.1 million. The decrease in net loss was primarily driven by a decrease in loss from operations of \$2.4 million, partially offset by changes in other income items such as interest, foreign currency related impacts, and mark-to-market adjustments for warrants.

The improvement in loss from operations resulted from the \$2.2 million of recurring revenue growth discussed above, and a \$200,000 reduction in operating expenses resulting from lower G&A expenses, partially offset by increased spending on research, development and sales expenses when compared to the same quarter last year.

As you will note in our earnings release, operating expenses for the third quarter included \$2 million of stock-based compensation expense and \$800,000 of depreciation and amortization. Adjusted EBITDA, which excludes the stock compensation depreciation, amortization and certain other non-cash costs for the third quarter was negative \$2.1 million compared to negative \$4.1 million in the same quarter last year, and negative \$3.2 million in the previous quarter this year.

As discussed on our previous earning calls, we expected to begin to reap the benefits of operating leverage during the second half of 2022 and 2023 as we realized continued sequential revenue growth with a lower level of incremental expense growth going forward. Our third quarter results have provided some early validation of that thesis.

As noted earlier, a reconciliation of our net loss to adjusted EBITDA along with an explanation of the reconciling items is included in today's earnings release. As in prior periods, the primary adjustments reconciling net loss to adjusted EBITDA are stock compensation, depreciation and amortization, non-recurring transaction expenses, mark-to-market adjustments related to outstanding warrants, foreign currency related impacts, and certain other non-recurring transactions.

Turning to our balance sheet. We ended the quarter with \$20.6 million of cash and marketable securities with no maturities to our convertible notes prior to September, 2025.

Regarding our financial outlook for 2022, we are on track to exceed the high end of our previously issued guidance with revenue growth of 60% over 2021 or \$27 million, and expect to be able to realize the benefits of our revenue growth in the form of improved adjusted EBITDA loss during the second half of 2022, while achieving a positive adjusted EBITDA contribution in the second half of 2023. And with that, I'll turn the call over to the operator who will open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Don Engel with Lake Street Capital Markets. Please go ahead.

Don Engel Lake Street Capital Markets - Analyst

Yes. In the last quarter you said that this quarter is going to be an inflection point. Why is that? And what is the

Max Wygod Forian Inc. - Executive Chairman

Hi, Mr. Engel. Yes. Last quarter we said that this quarters going to be an inflection point because it's the really the first quarter where you can see that the revenue growth is really dropping down to the bottom line, as well as the increase in the incremental capital expenditures and operating expenditures. So what you're seeing is us taking -- getting the benefits of what we've been doing internally with not only cost saving strategies but highly profitable revenue growth.

Don Engel Lake Street Capital Markets - Analyst

I have a second question. Thank you. What is your market size and industries that you will be doing business within the analytical business? Because I see you mentioning the BioTrack and the cannabis of this perception versus reality, and there are people -- my intuitive feeling is they look at cannabis, which has absolutely been a train wreck so far in the marketplace. And is that the heavy on your stock, which seems not to be improving?

Max Wygod Forian Inc. - Executive Chairman

Sure. Our -- how we look at our business, the healthcare information business really serves the global informatics space. A lot of our competition, as you can see in our 10-K, comes from different divisions of IQVIA or ICON, among others where we can really serve the gambit of players that serve upon healthcare and the life sciences. It's a multibillion dollar industry.

In our 10-K we source some sources that believe it's going to be around \$70 billion in 2025. But irrespectively we're at our stage of growth where we believe we're still a kind of a small fish in a large pond and have ability to grow without restraints, which as you said, is very different from the cannabis base that is dependent on regulation change for really dramatic growth.

Don Engel Lake Street Capital Markets - Analyst

Thank you.

Operator

(Operator Instructions) It's from Eric Martinuzzi with Lake Street Capital.

Eric Martinuzzi Lake Street Capital - Analyst

Yes. Curious to know, last quarter you mentioned an uptick in one-time data purchases, especially in emerging biopharma. Did we see those translate into longer term contracts this quarter?

Daniel Barton Forian Inc. - CEO

Yes. This is Dan. We actually saw both. We did see an uptick in the one-time sales in the healthcare information side. And in some cases, those one-time sales did turn into a longer term subscription deal and in some cases, the one-time sale was sufficient for that particular use case for the client. Although, we continue to talk with those clients and would think that as their needs become greater or more longer term, we're going to be able to also support those clients with subscription based contracts.

Eric Martinuzzi Lake Street Capital - Analyst

Okay. And then obviously you guys are very confident in the current tempo of the business. You've raised your revenue range to better than the high end of the \$27 million for the year. But did you see any signs of weakness in the macro from any particular customer groups whether it be emerging biopharm or hospitals, clinical care studies?

Daniel Barton Forian Inc. - CEO

Right now, we aren't seeing any softness in demand from our healthcare clients. That in -- the industry continues to grow in and of itself as well as -- Max mentioned, the informatics part of the industry is also growing. Our products and services provide value to help our clients compete more effectively in a competitive marketplace, in a competitive environment, through their investment in our services.

And the types of things that our clients can do around understanding the products, understanding the consumer, understanding the marketplaces, better designing, and measuring their own sales and marketing campaigns, informing their R&D. These are the types of things that make our services extremely valuable to our clients and help them compete more effectively in this day and age.

Eric Martinuzzi Lake Street Capital - Analyst

Okay. And then on the BioTrack side of the business, you talked about improved sales there. Any change in the retention level for your installed base?

Daniel Barton Forian Inc. - CEO

No, not really. I think that we have seen, as I said, really positive momentum stemming from second quarter forward into this quarter. And we're seeing what we anticipated from the level of churn that we expected based upon the fact that this market is extremely competitive and fragmented. So, we do see our share of churn, but we also have the new sales, which allows this business to continue to be a flat business at this point.

Eric Martinuzzi Lake Street Capital - Analyst

Okay. And then your -- one of the key things I like to look at is the contracted, but unbilled, could you give me that number again?

Michael Vesey Forian Inc. - CFO

Yes. At the end -- Hi, Eric. It's Mike. At the end of the quarter, it was a little about \$29 million. And that represents the non-cancelable portion of contracts that we have in house. And most of those contracts, or a good portion of those contracts also include option years, which we don't count from a kind of a GAAP basis of contracted future obligations, but we think they provide opportunities for renewals of option years beyond the -- kind of contracted backlog.

And of course, they also offer good sales opportunities to go back and sell additional services to those customers. So, we're starting to see in some of our current period sales situations where we're going back to customers that we signed maybe a year or two ago, where we're adding additional services as well.

Eric Martinuzzi Lake Street Capital - Analyst

And is that -- I've only got three quarters worth of history on the contracted but unbilled, but that \$29 million looks like a record number for me, is that correct?

Michael Vesey Forian Inc. - CFO

Yes. It's definitely a record because we pretty much started from a standing start in end of 2020. End of December, it was around \$20 million. Okay. So it's \$29 million now and

Eric Martinuzzi Lake Street Capital - Analyst

Okay. Okay. And then lastly, the operating expense side is actually a little bit below the expectations I had modeled, and I didn't have the revenue number as high as you guys actually achieved. Was there any one-time items, benefits that were you recognized in the quarter, or is this a number that we can project forward?

Michael Vesey Forian Inc. - CFO

Yes. Nothing material. I mean, there's always some variability from quarter-to-quarter in all our lines, but in our G&A line, for example, based on some seasonality of when we have certain work done, but there's nothing material.

The things that you probably want to note, Eric, is that the R&D spending, it had been ramping up. We're probably at a point now where it's kind of flat, but in Q4 we expect that to start coming down. And you also noticed that our CapEx spend, where it was up around \$800,000 last quarter. When you get a chance to look at the Q, you'll see that's about nil this quarter.

So, the R&D spend overall is ramping down and we said we're looking to reap some of the benefits on the investments that we made over the past year or so and work ourselves towards a -- feel close to cash flow positive situation just so we have kind of the future's more in our hands to make discretionary investments at that point.

Eric Martinuzzi Lake Street Capital - Analyst

Okay. And I just -- I actually have one more question on the cash. You finished the quarter with \$20.6 million in cash, where do you expect to finish the year cash wise?

Michael Vesey Forian Inc. - CFO

Yes. I don't think we're going to give a projected cash number because the working capital tends to flip around a little bit. And you'll see our receivables are up a little bit at the end of this quarter, and we actually collected that in the beginning of October. So, if we -- what I'm saying is we have a strong December, right?

Our working capital goes up and our cash goes down. But I think if you look at our overall EBITDA burn decreasing from \$2 million where we have today in the long run, we won't require a lot of cash beyond that. So, I think when you're trending it out over a number of quarters, we simply take our EBITDA burn and say that's going to be the reduction in cash until we get it to breakeven.

Eric Martinuzzi *Lake Street Capital - Analyst*

Got it. Well, congrats on the strong quarter and the healthy outlook.

Michael Vesey *Forian Inc. - CFO*

Thank you.

Operator

Thank you. And with that ladies and gentlemen, we conclude our third quarter call. Thank you for participating. You may now disconnect.

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