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Q2 2021 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

Max Wygod *Co-Founder and Executive Chairman - Forian Inc.*
Daniel Barton *Chief Executive Officer and Director - Forian Inc.*
Clifford Farren *Chief Financial Officer - Forian Inc.*

CONFERENCE CALL PARTICIPANTS

Gerard Heymann *RBC Wealth Management*
Eric Kraus *Smith & Kraus*

PRESENTATION

Operator

Greetings and welcome to Forian Inc.'s Second Quarter 2021 Financial Results Conference Call. At this time all participants are in a listen only mode. A question and answer session will follow the formal comments.

Participating on the call today from Forian are Max Wygod, Executive Chairman, Co-founder; Daniel Barton, Chief Executive Officer; Clifford Farren, Chief Financial Officer; Adam Dublin, Chief Strategy Officer, Co-founder; Edward Spaniel, Executive Vice President and General Counsel.

Before we begin, I would like to remind you that management's remarks on this call 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 these 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 10k filed with the SEC on March 31, 2021.

Any forward looking statements made on this call today represent 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, plan, intent, 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 metric can be found in today's press release, which is available on the company's website. These numbers are unaudited and any statements 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 markets, and risks related to the impact of the COVID-19 pandemic.

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

Max Wygod Co-Founder and Executive Chairman - Forian Inc.

Hello, everyone, and thank you for joining us today. Welcome to Forian's Second Quarter 2021 Earnings Call. It is an exciting time at Forian as we report the results of our first quarter post closing of the business combination transactions with MOR Analytics and Helix Technologies. The integration of the two organizations into Forian is progressing rapidly and we are pleased with the progress to date. We are seeing growing interest in our unique combination of data and analytics driven technologies at the intersection of healthcare and emerging therapies, particularly those that involve products from the cannabis industry.

Forian's proprietary technology, and SaaS solutions coupled with our large scale, de-identified data assets are built on a foundation of strict privacy and security standards, and offer best in class actionable insights that drive our customers' business and clinical

performance.

For those new to Forian's history, Forian is a B2B solutions provider to organizations of all sizes across multiple market segments, initially focused on the healthcare and cannabis industries. Our underlying technology, data and analytic platforms serve a broad range of healthcare clients, including pharmaceutical, medical device, and biotechnology manufacturers, as well as payers and providers.

Forian's product portfolio also serves most of the major constituents in the emerging cannabis segment, including regulators, dispensaries, cultivators and manufacturers. Since the launch of Forian in March, we are seeing strong demand for our products and services, as evidenced in our increased pipeline and backlog, particularly within the healthcare sector.

We are investing in existing and new products and evaluating unique data assets and analytical capabilities that we believe will yield incremental growth opportunities for Forian and our customers. In addition, as an early stage growth company, we are very proud to have been added to the Russell 3000 Index. I will now turn the call over to our CEO, Dan Barton.

Daniel Barton *Chief Executive Officer and Director - Forian Inc.*

Thanks Max. I would like to cover three areas today before I turn the call over to Cliff Farren, our CFO, to provide the details on our second quarter results. First, I'll provide brief commentary on our second quarter top line results, which show impressive growth this quarter. Second, I'll give additional color on our priority markets, healthcare and cannabis.

And third, I'll provide an update on the key business priorities we discussed last quarter. First the results. Earlier today we reported strong Q2 revenue growth. Reported revenue for the second quarter was 4.5 million, which represents pro forma growth of 54% versus the same quarter last year, and 25% sequentially over the first quarter this year.

The growth was driven by the information and software segment where we added several new healthcare clients during the quarter. Most of our information agreements with customers are multi year and involve business critical information for our healthcare customers, leading to recurring revenue for Forian.

The majority of the growth in our second quarter increased backlog was driven by these multi year healthcare customer information contracts. We also grew the software revenue slightly within the cannabis vertical in the last quarter.

However, the market for software solutions in the cannabis industry is highly competitive and fragmented. And as a result, we expect the majority of our growth this year to continue to come from the healthcare segment until the anticipated rollout of our new differentiated cannabis offerings, beginning at the end of this year.

In our services segment, Forian's state government offerings within the cannabis industry saw solid performance where we renewed 100% of our state contracts that were up for renewal so far this year, and also delivered new incremental solutions to existing government clients.

Further to Max's earlier comments, I'd like to share some additional insight into our growing target markets. U.S. cannabis retail sales continue to see strong growth within the expansion of legalization of medical and recreational marijuana at the state level, increased consumer and professional understanding of the value of cannabinoid based therapeutics, continued acceptance of recreational marijuana use in society, and an ever increasing focus on federal and banking legislative changes that will normalize the cannabis industry. Eight states recently adopted adult use of cannabis including New York, New Jersey, Arizona, Virginia, New Mexico, Montana, Vermont and Connecticut.

As you would expect New York and New Jersey will contribute greatly to market growth in the next two years. There are four additional states and the District of Columbia that could see legalization of adult use cannabis as fast followers.

The Federal Regulatory tailwinds continue to grow from Senator Schumer's Cannabis Administration and Opportunity Act, and the incremental pressure it puts on the Safe Banking Act, which would enable our cannabis clients, access to core financial services and

capital to grow their businesses.

These regulations create the potential to expand the market opportunity and greatly increase the need for accurate business intelligence and analytics.

However, it is important to note that while we continue to see additional state commercial licenses for dispensaries, cultivators and manufacturers being granted, we're expecting increased competition in the market and anticipate that we may see higher than average customer turnover in the cannabis segment in the short term, while we complete the development and launch of our new differentiated cannabis offerings.

Within our healthcare market, the need to improve patient outcomes, manage healthcare spending, and drive commercial performance has contributed to tremendous growth in the healthcare analytics market in the past few years.

We believe that stakeholders who use healthcare data to make key commercial and clinical decisions will need to incorporate the impact of growing patient use of alternative treatments such as cannabis.

We believe that this pertains to most therapeutic areas, as concomitant use of alternative therapies is starting to show an impact on the outcomes of traditional medicine. Forian's integrated cannabis and healthcare data factory provides the data, technology, and insights to understand these emerging market dynamics.

There are currently more than 100 clinical trials examining cannabinoid based products. And we expect trials involving cannabinoid based products to grow and become more mainstream, which will increase the demand and addressable market for our technology, analytics and information services.

With the backdrop of our growing markets in mind, I'd like to provide an update on our key priorities. The first of which has been to develop innovative and groundbreaking products. In looking at our roadmap for our cloud-based BioTrack 2.0 offering, we decided to invest significantly in its development.

This product upgrade provides a modern and flexible user experience, improves the reporting functionality, and expands the ability to draw insights about the products and customers our clients serve. In addition, its cloud-based architecture allows us to quickly develop and launch new features and product offerings, allowing us to better react to market demands while improving both scalability and reliability.

We recently launched a next generation version of Cannalytics, our SaaS analytics software that provides our cannabis retail customers with data and analytics that we believe is completely novel in the market.

Cannalytics is now powered by Forian's HIPAA compliant proprietary database integrating cannabis usage data with longitudinal, de-identified patient healthcare data, including diagnosis, procedures, prescriptions, and lab tests, and unique actionable consumer demographic and lifestyle data.

As marketing spend within the cannabis industry continues to increase, this highly differentiated offering provides our Cannalytics customers with a comprehensive 360 degree view of their own customers, providing them with a competitive advantage as they attract and retain customers and increase basket size.

In addition to helping optimize their interactions with customers, Cannalytics allows our customers to compare performance across their own stores, identify product trends, manage their employees, and benchmark performance against competitive norms.

We anticipate leveraging the same proprietary differentiated data and analytics to develop software that will similarly help other cannabis segments such as brand, cultivators, regulators, and fully integrated multi state operators to help them optimize their business. We have expanded our cannabis offerings to state governments by now providing an interoperable business licensing system,

and we delivered our first Cannalytics government solution in Q2.

Forian's state capabilities portfolio will help track and forecast tax revenue and ensure regulatory compliance, while assisting state government and regulators in understanding how cannabis is affecting the health and wellness of their constituents. We will continue to invest and develop our state offering portfolios as we move forward.

Additionally, Forian's Real World Evidence capability offer the ability to study health and clinical outcomes for traditional health care products and cannabinoid treatments. We continue to invest in and scale our RWE capabilities and expect to see increased adoption in our target markets by the end of 2021.

Our second priority has been to deliver exceptional client service to our cannabis customers. Upon assuming management accountability of BioTrack, we implemented a plan to immediately improve all facets of client services, including people, process and technology. We increased the number of client service position by over 40%, began investing in knowledge management for both employees and clients, and are enhancing our product training protocols for our clients.

These improvement initiatives are well underway, and we expect clients to start realizing the benefits this year. We are confident that additional service will improve the customer experience and ultimately help clients achieve superior business performance and product sales.

Our third priority has been to improve operational performance. Successfully integrating two companies require focus on well designed internal processes, and we have made significant progress in aligning HR, sales operations, financial and reporting processes. We are pleased with our integration performance to date, and will continue to optimize performance and reduce redundancies to stabilize cash burn over the next year and a half.

Our fourth priority has been to focus our company culture, and we placed a high priority in creating a culture that fosters success for our employees and clients.

We took an objective look at areas for human capital investment, and have implemented an organizational structure designed to ensure that we deliver on our priorities, provides attractive career paths for employees, and promotes overall efficiency.

To this end, we have promoted internal talent and added key roles in sales, marketing operations, product management, engineering and development, HR and finance. Our team is composed of world class talent from healthcare, cannabis, software, and the information technology industries, and has a shared vision of goals that we are driving to achieve and has the resources to ensure success. I will now turn it over to our CFO, Cliff Farren to provide more detail on our second quarter performance.

Clifford Farren *Chief Financial Officer - Forian Inc.*

Thanks, Dan. Today, I would like to provide an overview of Forian's financial results and key business metrics for the quarter ended June 30, 2021. As previously disclosed in our SEC filings, Forian completed the business combination of Helix Technologies and MOR Analytics on March 2nd, 2021.

The press release issued today presents Forian's second quarter, 2020 and 2021 financial results on a GAAP basis as well as a pro forma basis, as if the Helix results were included for the entire quarter in both periods. We have also disclosed adjusted EBITDA, which management uses as a measure to track the performance of the business. The press release includes a detailed reconciliation of these measures.

We report our business in three segments. The information and software segment is comprised of the BioTrack and Cannalytics software solutions, as well as Information product offerings. The service segment includes BioTrack government, cannabis traceability, Real World Evidence, and Data as a Service capabilities. The other revenue segment is comprised of the digital marketing services and remote digital security monitoring.

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Our consolidated revenue of \$4.5 million in the quarter was up \$4.4 million versus the prior year, and up \$2.9 million sequentially over the first quarter this year. On a pro forma basis revenue, increased by \$1.6 million, or 54% year over year, and \$0.9 million or 25% on a sequential basis against the prior quarter.

The growth was driven by our information and software segment. Our information and software revenues grew 58% on a pro forma basis year over year. The loss from operations in the second quarter widened by \$6.2 million year over year to \$7 million, primarily due to planned investments in product development, customer service, operational improvements, and human resources.

Also of note, there was \$2.7 million in stock based compensation expense for the quarter as a result of bringing on new talent and grants made to key Helix contributors since listing on the NASDAQ.

In addition, there was \$0.6 million for the second quarter for other depreciation and amortization, primarily resulting from the impact of the Helix combination. Pro forma adjusted EBITDA, which excludes certain non cash costs and other items for the second quarter was minus \$3.6 million.

We continue to invest in enhancing our software offerings, improving our reference data assets, and adding resources to our development, delivery, and customer support teams. 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.

We expect to see recorded revenue on a GAAP basis in the second half of 2021 of between \$10.4 million and \$10.7 million. I will now turn the call back to Dan.

Daniel Barton *Chief Executive Officer and Director - Forian Inc.*

Thanks Cliff. In summary, we continue to build on the momentum from last quarter when we completed the Helix transaction that became a public company. With our focus on developing innovative products and services, providing superior customer support, and developing a strong corporate culture, we are well poised for long term growth. At this point, I will turn the call over to the operator who will open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from Gerard Heymann from RBC Wealth Management. Your line is open.

Gerard Heymann *RBC Wealth Management*

Gentlemen, congratulations on the increased revenues and the combination of the companies. I want to ask a question regarding Forian's statement so to speak. But with all the additions and the new parts of the businesses you're doing, what is the one catalyst that you think will be the igniting force in what you're doing now?

Daniel Barton *Chief Executive Officer and Director - Forian Inc.*

Thank you for that. And I believe that the catalyst for the combination of the business is going to be our information assets and the technology and analytics that we can put on top of those.

These information assets really are at the connection of healthcare and cannabis by taking the de-identified healthcare transactional data and integrating those data with cannabis utilization, we're in a unique position to provide insights about how these different treatment options, both traditional healthcare, as well as alternative therapeutic options, like cannabinoid based products are impacting the health and wellness of individuals. And so I believe that that is a big catalyst for the combination of the company and our growth.

Gerard Heymann *RBC Wealth Management*

Great. Also, one of the things your website, your improvements you guys just made on it. Very impressive. I like it a lot. Thank you.

Daniel Barton *Chief Executive Officer and Director - Forian Inc.*

Thank you very much. We appreciate that.

Operator

(Operator Instructions). And our next question comes from Eric Kraus from Smith & Kraus. Your line is open.

Eric Kraus *Smith & Kraus*

Congratulations on a wonderful performance. How are you arranging to finance the growth of the company in the next year or so?

Max Wygod *Co-Founder and Executive Chairman - Forian Inc.*

So right now we have enough capital on our balance sheet to execute against our plan. So we are confident that we can satisfy our growth over the next year with our current balance sheet. Anything additional, we'll evaluate at the time but we are very comfortable where we currently stand.

Unidentified Participant

Thank you.

Max Wygod *Co-Founder and Executive Chairman - Forian Inc.*

Thank you.

Operator

(Operator Instructions). And I am showing no further questions from our phone lines at this time.

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation and you may now disconnect. Everyone have a wonderful day.

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