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Q3 2021 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Daniel Barton *Forian Inc. - CEO*

Michael Vesey *Forian Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Gerard Heymann *RBC - Analyst*

Stuart Ackerman *- Private Investor*

PRESENTATION

Operator

Greetings and welcome to Forian Inc.'s Third 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 and Co-Founder; Daniel Barton, Chief Executive Officer; Michael Vesey, Chief Financial Officer; 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 10-K 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, project, expect, anticipate, forecast, plans, intend, believes, seeks, may, will, should, future, propose and variations of those words or similar expressions or versions of such word 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 maybe 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 our 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 risk related to the impact of 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 florian.com/investors.

I'm now pleased to introduce the company's Executive Chairman, Max Wygod.

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

Thanks and good afternoon to all that have joined us. We are excited to share our third quarter 2021 financial performance, as well as select operating highlights from the quarter.

Forian serves clients primarily in the healthcare and U.S. legal cannabis markets. We develop sophisticated databases relating to traditional and emergent therapeutics that support life science companies from the drug discovery phase through commercial operations.

Additionally, to companies across the cannabis industry, we offer a leading point-of-sale solution and are beginning to offer data-driven

technologies that enable our clients to grow their businesses in a compliant, efficient, and profitable manner, as well as allowing regulators to track the distribution and utilization of cannabis in a highly dynamic market. We continue to see strong revenue growth of our newer offerings, which indicates how eager clients are for new technologies to help drive accurate insights and sophisticated data-driven approaches to business and clinical performance improvement.

In the quarter, we have been focusing on talent acquisition to support a rapidly growing business and have recently hired several new key managers into the company across our sales, data science, engineering, and client success teams.

In addition, Michael Vesey joined Forian as our Chief Financial Officer in September. Michael brings over 30 years of experience in building out and leading high growth, publicly traded software companies. He will be responsible for the company's finance and the core accounting functions and build the infrastructure to enable long-term growth. His leadership and expertise will be invaluable as we continue to implement our strategic initiatives and expand our suite of product offerings.

Mike has worked with both high growth and development stage companies on acquisitions, financial and strategic planning, and SEC accounting and reporting requirements. We are happy to have him as part of the Forian family.

In September, we announced that Forian raised an additional \$24 million to strengthen its balance sheet through the issuance of convertible notes. There has been a substantial influx of private growth capital invested in both cannabis software and healthcare informatics. As a leader in these industries, it is imperative that we have the capital to invest in market leading products and to be positioned to capitalize on opportunities to improve our scale, breadth of offering, and competitive positioning.

We intend to use the funds for the continued investment in product development, sales, marketing, data acquisitions, and potential strategic partnerships or investments to drive incremental value to our existing clients, as well as attract new clients, leveraging our comprehensive portfolio of products across both the healthcare and cannabis markets.

While we are investing for growth, we are also focused on responsibly managing the near-term burn rate and operating the company as efficiently as possible.

We are beginning to see interest in our information offerings from adjacent industries, which highlight the large growth potential across a variety of verticals, such as hospitals, media companies, and the emerging psilocybin markets as we continue to build out our architecture to serve industry-agnostic needs.

I will now turn the call over to our CEO, Dan Barton.

Daniel Barton *Forian Inc.* - CEO

Thanks, Max. I would like to cover two areas today before I turn the call over to Mike Vesey, who will provide the details of our third quarter results.

First, I will briefly cover our top line financial performance, which showed continued revenue growth consistent with our second quarter, and then, I will provide an update on our current product development initiatives to highlight our momentum going into the end of the year and into 2022.

First, the results. Earlier today, we reported strong Q3 revenue growth, with total revenue growth of 62% year-over-year on a pro forma basis. The majority of the revenue growth was derived from information and software products, which represented 90% of the total revenue during the quarter and grew 75% year-over-year on a pro forma basis.

The majority of this growth is coming from our life science clients, where we added eight new clients in the past quarter. Our client count, pipeline, and contracted bookings have grown significantly in the quarter. We are winning business due to the scale of our data products and our customer-centric approach that allows us to be more nimble and deliver faster than our competition.

The opportunity for long-term growth in healthcare is based upon our proprietary information products, data science talent, and knowledgeable go-to-market teams that help our clients leverage insights based on their unique use cases and needs. Growth will also be driven by the unique, disruptive, and proprietary linked data assets, which are the combination of healthcare information assets and alternative therapeutic utilization, which I will touch on in a minute.

Last, there has been investment in our production and quality control engineering talent as we scale these operations to meet the growing demand. We expect to grow with strong incremental margins typical in data and analytic products.

Our cannabis software continues to maintain its competitive position as a leading provider of software solutions to both commercial and government clients. BioTrack has one of the largest and most attractive client footprints in the industry, with over 1,700 locations utilizing our software solutions and 10 state government contracts.

As consolidation continues to accelerate across all aspects of the cannabis industry, we are in a strong position with the largest multi-state operators. MSOs use our interoperable BioTrack software platform, serving manufacturers, cultivators, retailers, and regulators to drive their operational and commercial success in compliance with local state compliance regulations.

BioTrack currently serves more than half of the top 20 MSOs in the U.S. Having an integrated software platform that services all functions of an MSO is a competitive advantage for BioTrack and it enables us to provide a seamless interoperable experience for the client as compared to one that consolidates disparate technologies. Despite our success as a market leader, we are expecting competition to increase and anticipate that we may see higher than average turnover in the cannabis segment in the short term.

BioTrack is working with state and commercial clients in several key emerging growth states, such as Illinois, New Mexico, and Florida, and has a longstanding presence in more mature markets, such as Colorado and Oregon. BioTrack has the ability to expand its share of wallet with existing customers and acquire new business as these markets continue to expand.

Our government solution business continues to thrive. We have maintained our relationships with all of our existing state contracts, while expanding our footprint with our patient and business licensing portals most recently winning Delaware's licensing portal work and New Mexico adopting our new Cannalytics government software solution. We have responded to numerous state solicitations and expect to be seen as very competitive as these states review our capabilities.

We have also had discussions with several states about our Real World Evidence capabilities, including patient registries, surveillance studies, and health outcome studies, which complement the great work we do in helping manage safe and compliant utilization of cannabis-based products through our track and trace software. Real World Evidence enables researchers to evaluate product safety, efficacy, and quality in real world settings by capturing clinical product and service usage, treatment and outcomes data in near real-time on millions of people across the U.S. We couple advanced analytics with large-scale data assets to uncover new insights in existing and emerging therapeutics. We believe these novel insights will inform the adoption and use of innovative therapeutics based on cannabinoids and other compounds.

I would like to provide some commentary on our product development activities, starting with our Forian Data Factory. We possess one of the largest integrated, de-identified patient data assets in the industry, covering over 300 million people in the United States. Core to Forian's strategy is our ability to link patient prescription and medical diagnosis and procedural data with patient demographic data, and, in turn, link to patients' use of cannabis and other emerging therapeutic products.

To that end, we have made significant progress building out our Forian Data Factory, which integrates our healthcare claims with point-of-sale cannabis utilization data, all under strict HIPAA compliance. We are connecting alternative therapeutic usage data into our platform in a privacy compliant way, including use of cannabinoids, psilocybin and other psychedelics, as well as other key social determinants of health information. We continue to add new and innovative data to our repositories.

In Q3, we entered into an agreement with sources of payer-based

"closed network" data covering over 60 million lives. We believe our coverage of data in the market is deeper and broader than any other player, and our proprietary third-party data enables us to produce truly differentiated insights.

We are making material investment into product improvements and innovation for our dispensary, cultivator, manufacturing, regulatory customers, improving both the overall performance, as well as the user interface of the system. Our customer base and footprint produce highly proprietary and close to real-time data for actionable decision-making. Our expertise in customer, product, and market analytics will enable us help our customers differentiate themselves in highly competitive markets. We are leveraging this near real-time data to produce analytics products and services that address key commercial and clinical business needs.

We recently showcased our SaaS analytics platform, Cannalytics, at MJBizCon, the largest cannabis convention in the U.S. Cannalytics generated a lot of excitement and conversation at the Forian booth. The feedback we received was tremendous, with one customer telling me that they had been waiting for years for this type of product to be available, and they were thrilled that it was finally a reality.

Cannalytics brings a number of key benefits to our retail customers, including actionable business intelligence retailers can use to streamline their operations and optimize financial performance, and building a loyal customer base by delivering personalized experience based on Cannalytics' unparalleled customer segmentation.

One of our most recent product investments I would like to highlight is the development of an extensive API ecosystem to facilitate revenue-generating partnerships with other service providers in marketing, payment, e-commerce, home delivery, and just-in-time inventory optimization. Our customers and potential partners have been suggesting this investment for some time, and we are happy to be able to bring this to market in the near-term to better serve our clients and their customers.

Additionally, we have great people in the organization. We continue to invest in talent to improve our operating performance. We have expanded and enhanced our customer support functions to become best-in-class and are seeing immediate results from that investment. We also continue to invest in experienced engineering talent to improve our products and processes, all with the goal of ensuring we are partnering with our clients and other partners to drive industry forward.

Finally, we expect the revenue growth, especially driven from our information and software products, to outpace expenditures, driving us to approach cash flow positive in late 2022 or early 2023.

I will now turn it over to our CFO, Mike Vesey, to provide more detail on our third quarter performance.

Michael Vesey *Forian Inc.* - CFO

Thanks, Dan. Today, I will provide an overview of Forian's financial results and key business metrics for the quarter ended September 30th, 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 third quarter 2020 and 2021 financial results on a GAAP basis, as well as on a pro forma basis as if the Helix results were included for the entire quarter in both periods.

As in prior quarters, we have also reported adjusted EBITDA, which management uses as a measure to track performance of the business. The press release includes a detailed reconciliation of these measures.

Our consolidated revenues of \$5 million in the quarter were up \$4.8 million compared to the prior year. On a pro forma basis, revenue increased \$1.9 million or 62% year-over-year. This growth was driven by our information and software segment, which grew 75% year-over-year.

The loss from operations in the third quarter widened by \$6.2 million year-over-year to \$7.4 million due to increased operating expenses related to the previously mentioned investments in product development, customer service, sales, and operational improvements, as well as increased administrative expenses to support our growth as a public company.

Note that operating expenses for the third quarter included \$2.6 million of stock-based compensation expense, and \$600,000 of depreciation and amortization resulting from the Helix acquisition.

Pro forma adjusted EBITDA, which excludes stock compensation, depreciation, amortization, and certain other non-cash costs and other items for the quarter, was negative \$4.1 million, reflecting continued investment in our software offerings, reference data assets, development resources, as well as delivering 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.

Turning to the balance sheet, we ended the quarter with \$35.9 million of cash and marketable securities with no maturities of our convertible notes due prior to September 2025.

We are maintaining our top line guidance of total revenue of \$5.4 million to \$5.7 million for the fourth quarter of this year.

And with that, I will turn the call over to the operator who will open up the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Our first question comes from Gerard Heymann with RBC. You may proceed with your question.

Gerard Heymann RBC - Analyst

Thank you, gentlemen. I appreciate the insight and the update on the growth in the business and the revenues. I have a quick question regarding the work with the states. You mentioned an increased competition and also additional new states coming in as customers. Could you give some insight as to the strategic relationship that these businesses will do, and what is the importance in the future of our business? Thank you very much.

Daniel Barton Forian Inc. - CEO

Sure. This is Dan. I'm happy to answer that for you. The states, I would first say, are very important customers for us. We help the state customers ensure the compliant and safe use of cannabis products, which is very important to drive the industry forward. And we've recently expanded our business with Connecticut. We've won the track and trace business in Delaware; we've added business licensing portal capabilities, on top of our patient portal and track and trace capabilities. And then in Virginia, we've added the patient portal.

So, we're seeing some good partnership and relationships with the states, expanding our core business. We're also talking with several states, and what we think is strategically important, is to add additional services on top of the ones I just mentioned, primarily Real World Evidence solutions. So, we have the capabilities to develop patient registries with the states and having those patient registries, we're able to do things like surveillance studies so that we can track adverse events in real-time. We also can do health outcomes studies and show the safety and efficacy of products with the state constituent.

The state relationships also benefit our commercial partners. When we have the state business, the commercial operators could also use our BioTrack point-of-sales system, which provides a seamless experience as the traceability track and trace and point-of-sale are interoperable. And we have seen in states where we have a partnership, our commercial share is higher historically, and that's one of the reasons that it is strategically important, as well, for us to maintain and grow our relationships with the states. So, at the end of the day, it's a win-win for both the states and for Forian.

Operator

Thank you. (Operator Instructions)

And our next question comes from Stuart Ackerman, private investor. You may proceed with your question.

Stuart Ackerman - Private Investor

I have a two-part question, if you don't mind. What the said (inaudible) business is going to be in the cannabis business of our total business in the future?

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

Thanks, Stuart. We don't break out in the future. Right now, the segments we report, are the information services -- sorry, information and software, services, and other. Right now, you can see the majority of our growth is in the information services that are really serviced the healthcare and data offerings right now.

Stuart Ackerman - Private Investor

Okay. I had [this] on that. And my other question, I don't know if it's a proper question or not. I would like to know if Max's dad is involved at all, Marty.

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

Yes. Marty is on the Board of Directors.

Operator

Thank you. And I'm not showing any further questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.

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