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Q2 2022 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Daniel Barton Forian Inc. - Chief Executive Officer

Mike Vesey Forian Inc - Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Eric Martinuzzi Lake Street - Analyst

Scott Fortune Roth - Analyst

Don Engel - Investor

Eric Kraus - Investor

PRESENTATION

Operator

Greetings. Welcome to Forian Inc.'s Second 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'd 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.

In particular management reaffirms its estimates of the company's full year 2022 revenue outlook as of today. Estimating financial performance accurately for future performance is difficult as it involves assumptions and internal estimates that may include 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 view 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, may, will, should, future, propose, and variations of the word 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 are 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'm now pleased to introduce the company's Executive Chairman, Max Wygod. Please go ahead.

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

Good afternoon, everyone, and thank you for joining us today to review Forian's second quarter results. I am pleased to share that we had another fiscal quarter of strong results, which demonstrate that our differentiated products continue to resonate in the market generating healthy demand.

We are well underway in our plan to reach positive adjusted EBITDA in 2023 through our organic revenue growth and our focus on expense controls to improve incremental margins. We believe that we have now passed the inflection point where our revenue growth, particularly the growth in our healthcare information business will outpace our total expenditures resulting in attractive and growing incremental margins.

We have several key drivers that provide us with confidence in achieving our full year growth outlook and our trajectory into future years. First, we ended the quarter seeing continued strong market demand for our solutions. We have many large recurring contracts that provide a strong backlog. We continue to penetrate into the life science market with new contracts and are starting to get meaningful renewals, expanding the way we work with our clients to help them deliver improved operating and business performance.

Secondly, we have implemented more financial controls and discipline that we will continue to execute upon to make sure we are receiving long-term value from all investments. We believe we can achieve these results and grow our incremental margins, evidencing the scalability of our business and the strength of our team. We expect the benefits of these actions to start being seen more meaningfully in our third and fourth quarter results.

Finally, we do not feel like the recent macro inflationary trends will have an immediate negative trend on our business. We have multi-year contracts and mission-critical solutions that typically are not discretionary expenditures for our clients.

Now for some key highlights from the quarter. First, overall second quarter revenue grew by 44% year-over-year, including healthcare information growth of 161% year-over-year. The company generated revenue of \$6.5 million and a net loss and adjusted EBITDA loss of \$5.4 million and \$3.2 million, respectively. Now, I will hand it over to our CEO, Dan, for his remarks. Dan?

Daniel Barton Forian Inc. - Chief Executive Officer

Thanks Max. Good afternoon, everyone. I'm very pleased with the results in the second quarter. We delivered strong financial results in line with our expectations for the quarter and at the midpoint in the year are on track to achieve our full year 2022 top line revenue guidance of \$25.5 million to \$27 million. Max just shared with you our top line financial results, and I will provide some additional color.

Our subscription based revenue continues to grow and drives contracted backlog. Most of the subscription revenue was driven by our higher margin healthcare information products, which also improves our margin profile. Many of the new clients in the second quarter came from emerging biotech and emerging pharma markets.

We now have the opportunity to expand our business into new markets that depend on first party data, which will further strengthen our contracted backlog resulting in continued sequential quarterly revenue growth. This is largely due to the fact that our differentiated data assets and analytic capabilities are designed such that they have multipurpose utility across industries.

As discussed in previous quarters, our product investment peaked in the second quarter. Our R&D investments have strengthened our data factory, our healthcare information products and our analytics capabilities. At the end of the quarter, we implemented the reduction of our R&D spend and our improving operational efficiencies going forward. The benefit of these reductions will be seen in the second half of 2022.

Our plans in the coming quarters call for select, focused investments that will strengthen our product portfolio even further. As examples, we will continue to expand our Chronos healthcare information product with additional data to expand coverage and depth. We have plans to leverage our artificial intelligence and machine learning based segmentation and targeting capabilities to power new services in adjacent markets. More to come on both of these efforts in the coming quarters.

Our software products had a successful quarter in terms of new sales. The results were driven by strong sales in geographies that are expanding their medical programs into recreational. These gains were mostly offset by normal churn in this business line. As more states launch or expand their cannabis programs, this provides additional areas of opportunity for us.

The U.S. cannabis regulatory landscape has been active recently. While we see the likelihood of Schumer's current bill passing as low, the momentum behind it provides potential improvements in incremental reform around other bills, like SAFE Banking, that would benefit the industry. In addition, some of the more challenging aspects impacting the taxation of clients, like 280E, are starting to be addressed.

While our business does not rely on regulatory change, we believe the legislative reforms will positively impact our business. Our focus for the remainder of 2022 is on strong high margin revenue growth, driven by healthcare information products and capitalizing on newly issued licenses in several states.

We do not see a slowdown in client purchasing based on the economy, as our products are mission-critical to our customers and the industries in which they operate.

For the balance of 2022, we will continue to actively manage operating expenses to drive margin improvements. As such, we continue to expect to reach positive adjusted EBITDA in the second half of 2023, as discussed on previous calls.

We continue to drive market penetration and offer customers value, unique offerings, and support to solve their complex needs. As a result, I am very proud of our team's work, and I continue to feel very confident in our opportunities. I will now turn the call over to Mike who will review our financial performance for the quarter.

Mike Vesey Forian Inc - Chief Financial Officer

Thanks Dan. Today, I will provide an overview of Forian's financial results for the quarter ended June 30, 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 second 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 include a detailed reconciliation of adjusted EBITDA to net loss.

Our consolidated revenues of \$6.5 million for the quarter were up \$2 million compared to the same quarter last 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 customer over a multi-year period, providing a predictable revenue stream. As a result, we have seen sequential increases in our healthcare revenue in each quarter since we began reporting as a public company.

Net loss for the second quarter decreased \$1.5 million over the same quarter last year, to \$5.4 million primarily due to a \$1 million of lower stock compensation expenses, resulting from the Q1 2022 departure of the former CEO and CFO of Helix who were acting as advisors to the company, and lower general and administrative costs resulting from efficiencies implemented earlier in the year.

Cost of revenues, research and development, and sales and marketing expenses increased \$2.3 million in aggregate over the same quarter last year, which is slightly more than the \$2 million in sales growth previously discussed, reflecting the ramp up of our product development, customer support, and sales and marketing functions over the past year. As Max and Dan mentioned, we expect to be able to leverage our existing resources to drive revenue growth with a lower level of incremental expense growth going forward.

As you'll note in our earnings release, operating expenses for the second quarter included \$1.8 million of total stock-based compensation expense, and \$600,000 of depreciation and amortization resulting from the Helix acquisition.

AUGUST 11, 2022 / 8:30PM GMT, Q2 2022 Forian Inc Earnings Call

Adjusted EBITDA, which excludes the stock compensation, depreciation, amortization, and certain other items for the second quarter, was negative \$3.2 million, reflecting continued investment in our software offerings, development resources, and delivery and customer support teams.

As discussed on our last earnings call, we plan to continue to invest in these areas through the first half of 2022, as we optimize our information and software offerings and build sales and support capabilities to support our growth. However, we also expect to begin to reap the benefits of operating leverage on these specific investments during the second half of 2022 and 2023, as we realize continued sequential revenue growth with a lower level of incremental expense growth going forward.

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 and mark-to-market adjustments related to outstanding warrants, as well as severance expenses related to the aforementioned transfer of development activities and to gain on sale of assets related to our non-core security business.

Now turning to our balance sheet. We ended the quarter with \$23.9 million of cash and marketable securities, with no maturities of our convertible notes prior to September, 2025.

Regarding our financial outlook for 2022, we continue to expect revenue growth in 2022 of 51% to 60% over 2021, resulting in total revenues of \$25.5 million to \$27 million and expect to be able to leverage the investments we are making to get our data factory and software platform running to scale, and to begin to realize the benefits of our revenue growth in the form of improved adjusted EBITDA loss during the second half of 2022, while achieving positive adjusted EBITDA contribution in the second half of 2023. We ended the quarter with \$23.9 million in cash and marketable securities and plan to prudently manage our capital to achieve this goal. And with that, I will 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 Eric Martinuzzi with Lake Street.

Eric Martinuzzi *Lake Street - Analyst*

Congrats on the second quarter results. So, it's good to see the progress. I wanted to start with your kind of the macro environment. You talked about your customers being relatively insulated, curious to know if you're seeing anything in the order flow as to clients maybe -- and this is on the healthcare informatics side? Shorter terms of contracts people are willing to sign up for, or maybe shifting to a smaller trial of the data products.

Daniel Barton *Forian Inc. - Chief Executive Officer*

Yes. Hi, Eric. This is Dan. As Max mentioned, when it comes to the healthcare industry, the demand flow -- we're not seeing any decrease in the length or the size of the contracts. And we're also starting to see a pickup of one-time usage of the data as well, which is a nice addition on top of the multi-year, multi-million subscription based information products type of contracts that we have. And also on the -- with the BioTrack software, we're not seeing any slowdown there as well.

I think when you think about these two industries and the fact that the medical use of prescriptions and alternative therapeutics, they're critical to individual wellness. And for those reasons and others -- we didn't see a slow down in the quarter and we don't anticipate one moving forward.

Eric Martinuzzi *Lake Street - Analyst*

Okay. And then I saw the -- I was pleased to see the reiteration of the revenue expectation for the year. Just wondering if we take a look at your pipeline, how does the pipeline of projects that your sales reps are working on compare to say 90 days ago?

Daniel Barton Forian Inc. - Chief Executive Officer

Yes. We actually -- we take a look at the pipeline closely, as you would imagine. And the sales activity in the second quarter, not only from the revenue wins, but from the increase in our coverage from a pipeline perspective, I think sets us up very well for the balance of the year and why we're confident that we were -- will achieve the guidance that we put out at the beginning of the year.

Eric Martinuzzi Lake Street - Analyst

Okay. And then looking at the -- you talked about the business -- I think, you characterized it as quite confident with sequential growth in Q3 versus Q2, and then better leverage there. So, should we anticipate the EBITDA loss of \$3.2 million in Q2, is that to say then we should anticipate a smaller loss in Q3?

Mike Vesey Forian Inc - Chief Financial Officer

Hi, Eric. It's Mike. And yes, I think that's right. We had mentioned on the last call that we had ramped up our investment in R&D in the -- really the fourth quarter of last year and the first two quarters of this year, and the lion's share of that is done or is being finished in July. So, we expect to be able to see those expenses come down. And then we -- as Dan had mentioned, our pipeline is strong to continue the sequential growth in revs. We expect a larger percentage of that to drop to the EBITDA line each of the quarters as we go forward.

We -- you and I have talked, I think, on the last call that our G&A expenses are probably -- mostly flat, right? Our sales costs go up a little bit because they're -- and the cost of sales because they're incremental with the revenue, but our R&D spend should start coming down incrementally, G&A flat and then drop through to EBITDA.

Eric Martinuzzi Lake Street - Analyst

Okay. Let's shift over to the BioTrack side of the business. You talked about some incremental sales, but also some churn. We've been looking forward to BioTrack 2.0, the impact of that on the back half of the year. Any chance that we get something other than flat for the business based on traction with the new offering.

Daniel Barton Forian Inc. - Chief Executive Officer

Yes. No, we had really good sales, as I said, in geographies that are expanding such as New Mexico. We anticipate as New York, Florida, New Jersey expand the license count and Illinois, recently got through the litigation and released a number of POS and craft grow licenses, that we'll see the same type of good market share gains in those select geographies where we're seeing expansion.

The reality of this marketplace is, it's a highly fragmented, highly competitive market in the point-of-sale. There's new players coming to market. So, we see the churn continuing in line with what we see historically, which is going to offset some of the wins that we're going to have in those select geographies. So, we do see flat revenue for those reasons. The new wins offset by the expected churn.

Eric Martinuzzi Lake Street - Analyst

Okay. And then, lastly on the added capabilities in Chronos, could you speak to what they are? And then if the pipeline includes any of the new off, any of the expanded capabilities?

Daniel Barton Forian Inc. - Chief Executive Officer

We're excited about the Chronos offering, Eric. So the -- we've seen existing clients buy at a higher level. We've seen new clients, especially in the emerging biopharma marketplace, start to buy. As I talked about last time, our client list is growing more broadly with, especially pharmacy distributors, medtech, providers. So the Chronos offering is doing very, very well.

One example of a feature improvement is the addition of social determinants of health, which is a really good addition for folks that are trying to understand not only what's happening in the marketplace, but why it might be happening based upon the lifestyle and wellness activities of certain cohorts of patients. So, we continue to see good things coming from the Chronos product line and the marketplace and our clients are reacting appropriately.

Eric Martinuzzi Lake Street - Analyst

Okay. I know I said that was the last one, but I do want to slide one more in. Your services revenue down year-on-year. And I think that's probably driven by the BioTrack side of the house, but just what should we expect for the back half of the year for services in comparison to the front half?

Mike Vesey Forian Inc - Chief Financial Officer

Hi, Eric. The services revenue is mostly our contract revenue for governments. So, I think the way to look at it is, it's lumpy, right? So, we expect it to average out for the year, similar to what we've had in the first half. But from quarter-to-quarter, it could swing \$50,000, \$75,000 in either direction, just on the timing of the billings to the different government agencies.

Eric Martinuzzi Lake Street - Analyst

Got it. Thanks for taking my questions and congrats.

Operator

Our next question comes from Scott Fortune with Roth.

Scott Fortune Roth - Analyst

Good afternoon and thank you for taking the questions. Congratulations on the quarter. And you mentioned very stickiness on the healthcare side and obviously the BioTrack side. But just kind of an update on the cannabis industry side. You're seeing lots of headwinds these quarters here, but wanted to get a sense of demand and offerings of the Cannalytics side of things and kind of second half outlook are you looking from that the cannabis customers on the Cannalytics side of things, that would be helpful.

Daniel Barton Forian Inc. - Chief Executive Officer

Yes. Thanks. We are expecting Cannalytics to continue to grow in the back half of the year. We've recently launched and have seen a decent uptake in these initial months, as we have brought this product to market. What we're seeing is, our BioTrack client footprint very interested in adding in the Cannalytics offering along with the operational software, the point-of-sale software.

So, if you take a look at the Cannalytics offering, it provides really good insights into what's going on from a sales perspective, an inventory perspective, who's buying, when they're buying, what they're buying. And so, we continue to go to market with this product and are seeing good results so far.

Scott Fortune Roth - Analyst

Okay. I appreciate the color. And then, you mentioned you're seeing upselling side on the one-time data purchases, kind seeing growth in this environment. Can you expand or kind unpack on that continue to see that the driver going forward here?

Daniel Barton Forian Inc. - Chief Executive Officer

Yes. I think that -- as I talked about the larger multi-year, multi-million subscription based projects continue to grow. The question on the one timers, what we're seeing is, is especially in the emerging biopharma, they tend to buy on a one-time basis. But what happens after that is, is they get -- they start to see the value in their use cases and start to embed the information products into their workflows.

Those one timers often turn into larger multi-year subscription. So, it's really nice benefit to have the core of the foundation of the large subscription based contracts supplemented by the one timers. Then as I said, often turn into larger contracts with those customers.

Scott Fortune Roth - Analyst

Appreciate that. Good to hear, obviously, in this environment stuff. And last one, if I could sneak one more in. Just you you're investing in the R&D initiative and you've built that out. But how do you kind of weigh that going forward on the operating side and continuing to add internal data improvements and the optimizing or improving the data sets you currently work with versus kind of newer incremental spin from that standpoint.

Daniel Barton Forian Inc. - Chief Executive Officer

We -- we're always working with our clients to make sure that the data products that we have and the information products and services that we offer are meeting their needs. And right now, we're getting very good leverage in the short-term from the various different data assets that we have and the information products that we turn them into.

With that said, if there's a specific use case or need, or a complex analytic that one of our clients is trying to solve, we will work with them and add data as appropriate, especially if that data can be leveraged by -- more broadly in the industry. But for right now in the short-term, we feel like that we're really well-positioned with the data that we have.

Scott Fortune Roth - Analyst

Thanks, Dan. I will jump back in the queue. Congrats again on the quarter.

Daniel Barton Forian Inc. - Chief Executive Officer

Thank you.

Operator

Calling from the line of Investor, Don Engel .

Don Engel - Investor

Good afternoon. I'm listening to operations and operations. I hear nothing about marketing. So, investors knowing that your stock trades thinly, what you're doing on that side, because at the moment it seems like you're a private company. And I've heard nothing about how you're going to build the base of shareholders long-term? Going to you -- can't go to large institutions, but there are small boutiques and hedge funds who don't go in and out. So who would like to answer that question?

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

Sure. Don, this is Max.

Don Engel - Investor

Other question I have. Could you give me two counts, one on NASDAQ, how many real numbers do you have of people who are there as so-called market makers? And two is how many people are on this line calling in. Thank you.

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

Great. I'll answer the first. Don, this is Max Wygod. We're doing several things on getting our name in front of the capital markets and new investors. First, we're working with different investment banks and analysts to pick up coverage. The more we get in front of them and typically starting with some of the smaller funds given our market capitalization, the quicker we think we can get in front of their investor base.

I think as you could see on this call, we each sequential call, we do have more questions and are getting it out there. So, as we get more traction, we hope that that will increase investor base and increase those investing into the stock.

We are a very thinly traded stock in general. And we realize this, and we are working to get other institutions in, though it is a process for a larger institution to take a position in a low volume security. So, we are working with the hedge funds, private wealth offices, and others who are likely to take positions in smaller cap and thinner traded securities. So, there's also conferences that we're starting to go to more and more post-COVID to get in front of these type of investors. So, it's a growing process. And we are -- it's top of mind and we understand the importance of it.

And then on -- the question on the market makers and the people viewing this online presentation, I want you to know one thing, there are different lines, and people could dial in as, you know, people can dial in, or they can look virtually.

We typically have -- from like 40 to 60 different individuals who look at our earnings calls. And when you sum up the total list of those

who dial in and those who come in virtually. And then on the market makers, we have the market makers that traditionally -- I believe we have about 405, four or five, but with the Russell rebalance, typically you have additional market makers come into the stock, which we believe happens and concluded, as previously mentioned. So, I can get back to you on our final number of actual money -- market makers in a non-event based transaction, like the Russell 2000 rebalance.

Don Engel - Investor

Thank you.

Operator

(Operator Instructions) We have a question from the line of Eric Krauss, investor.

Eric Kraus - Investor

Yes. This is Eric Kraus. Your company has a surprisingly low flow of information that comes across to stockholders in terms of what's going on in the company. Can you explain that?

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

Sure. This is Max Wygod. We provide a lot of disclosure and information in our quarterly Q's. In addition, we put a lot of information out on our websites. If there's certain information that you're looking for in particular, we're happy to answer here or have a subsequent call.

Eric Kraus - Investor

Well, no, it's in between the quarterly meetings. The many companies announce this and that going on, or this and that arrangements have been made, or this contract you just signed is good one. There seems to be an absence of that kind of communication that one gets by press release and that's reported on your website.

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

All right. Duly noted. We do announce major events, like when we won the Florida contract and other events that we think are material. We can make an active attempt to raise more awareness in our press releases. However, we've been trying, especially in the last quarter, to be heads down and execute. We typically don't release client arrangements and things of that sort. However, larger events where we're attending or events that reach the threshold, we announce when they occur.

Eric Kraus - Investor

Thank you.

Operator

Thank you. And with that ladies and gentlemen, we end our Q&A and conference call and webcast for today. Thank you for participating. You may now disconnect.

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