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Q4 2022 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

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Michael Vesey *Forian Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Eric Martinuzzi *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Greetings, and welcome to Forian Inc.'s Fourth Quarter and Full Year 2022 Financial Results Conference Call and Webcast. (Operator Instructions) Participating today from Forian are Max Wygod, Executive Chairman and 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 27, 2023.

In particular, management will discuss an estimate of its full year 2023 revenue outlook as of today. 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 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 estimate, projected, expect, anticipate, forecast, plan, 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 as 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 and webcast, both of which are available on the company's website. Those numbers are unaudited, and any statements regarding the company's anticipated performance may be subject to change, including as a result of risks discussed in the Risk Factors section of the company's annual report on Form 10-K filed with the SEC on March 27, 2023.

Today's call and webcast is being recorded. A copy of the recording, webcast as well as the forward 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 and Interim Chief Executive Officer, Max Wygod. Sir, you may begin.

Max C. Wygod *Forian Inc. - Interim CEO, Co-Founder & Executive Chairman of the Board*

Good afternoon, and welcome. I thank all of you for joining us today to review Forian's 2022 Fourth Quarter and Fiscal Year Financial and Business Performance. I am pleased to share that we had another strong fiscal quarter with improvements in all key metrics. On today's call, I will review our fourth quarter and full year results, offer some perspective on Forian's business as we look forward as a healthcare information-focused company following the recent divestiture of our cannabis industry software assets, and then Mike will discuss our financial performance.

In 2022, Forian provided innovative software solutions and predictive analytics to optimize the operational, clinical and financial performance of our healthcare, cannabis and government customers. We are pleased to have delivered strong fourth quarter results on both the top and bottom lines.

Our total fourth quarter revenue was \$7.9 million, which represents 37% year-over-year growth. Our net loss for the quarter was \$3.6 million, and our adjusted EBITDA loss was \$0.9 million, which translates into a 56% and 94% improvement year-over-year, respectively. For the full year 2022, our revenue of \$28 million exceeded the high end of our guidance range of \$27 million, representing 66% year-over-year growth driven by our healthcare information offerings. Our net loss for the year was \$26 million and our adjusted EBITDA loss was \$9.7 million, which translates into 2% and 36% improvements year-over-year, respectively.

Before diving into the fourth quarter in more detail, I want to first acknowledge, despite facing challenging macroeconomic conditions, the notable accomplishments we worked on throughout 2022. First, as previously announced in February of this year, we completed the strategic divestiture of our cannabis software, operating subsidiary, BioTrack, on February 10 for \$30 million in cash proceeds, which has enabled us to streamline our operations and dedicate more resources to our core healthcare business. Additionally, we executed expense reductions in anticipation of challenging macroeconomic conditions. We take great pride in our ability to adapt in changing market conditions, and our success in these endeavors is a testament to our team's resilience and commitment to excellence.

I want to spend a couple of minutes going through the divestiture. As we discussed on previous calls, the U.S. cannabis landscape faces regulatory challenges, increasing capital constraints, budget-limiting taxation from the states and unique hurdles that have slowed the growth rate from the purchase of new and innovative technologies. The lack of more rapid expansion of the legal cannabis market further exacerbated the challenge by reducing the growth in customers for our software tools.

Forian continues to believe that cannabinoids are part of the patient journey across a wide array of disease states and should be evaluated clinically and studied as valuable emerging therapeutics. When the opportunity for a strategic divestiture that enabled us to maintain data use rights for cannabinoids as part of the patient journey and to focus our business purely in healthcare, while at the same time, strengthening our balance sheet, we acted decisively. This is a significant change for us as Forian today is a highly focused company with under 40 employees and a much improved financial profile. We have retained the business lines that are growing faster and have a much greater margin profile at scale.

I want to thank all of the BioTrack and Forian team members who made it possible for a smooth transition.

Furthermore, simultaneous with the transaction, Dan Barton stepped down as CEO and President of Forian, and we thank Dan for his contributions. I assumed the role of Interim Chief Executive Officer and President effective February 10. Forian's sole focus now is on our healthcare information business, which has been a key driver of our growth and success to date.

Excluding our divested BioTrack business, our total healthcare information revenue increased from \$7.1 million to \$16.4 million in 2022. Throughout 2022, we partnered with a number of new clients, expanded our business with existing clients and launched additional information offerings. Our talented team with deep domain expertise remains committed to partnering with our clients from the initial sale to ongoing support, delivering exceptional value in driving growth for Forian.

We believe our differentiated information products, data management services and analytics are a competitive advantage in the market. Our unique data factory technology applied against comprehensive data assets, coupled with industry experienced employees and flexible delivery capabilities, provide high-quality, accurate, insightful and timely offerings that set us apart from the competition.

Our innovative information products relating to commercial and clinical solutions are built on our blue-chip integrated database, which we refer to as CHRONOS. Our experience in healthcare data, data science and data management enable us to conduct real-world evidence studies and develop comprehensive patient registries. Our subscription-based offerings are mission-critical for our clients, providing commercial, clinical, operational and market access solutions that drive sales and marketing initiatives, track product and service outcomes, inform research and development and optimize operations. As a result, we are well positioned to continue expanding

our healthcare business across the life sciences payer and provider landscape.

We experienced typical seasonality within life sciences in our results, with the fourth quarter typically being our strongest quarter. We expect growth to continue, but do acknowledge current macroeconomic challenges with the customers being more cautious at capital expenditures, profitability and market uncertainty. We are well positioned coming into 2023 as evidenced by our \$38.8 million of committed contracted backlog, which is defined as remaining performance obligations as contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. The majority of the company's noncurrent remaining performance obligations will be recognized over the next 36 months.

In summary, we are a small, focused, emerging growth company serving a fragmented, ever-growing multibillion healthcare information market with a nimble team, scalable technology and highly competitive information product offerings. We have improved our balance sheet with the BioTrack sale proceeds to take advantage of external opportunities, drive innovation and further differentiate ourselves from our competitors.

We are dedicated to improving our net loss and achieving positive adjusted EBITDA as soon as possible, driven primarily by revenue growth. To ensure maximum returns on investment, we will prioritize our spending in achieving our long-term priorities.

I will now turn it over to Mike to run through the financials in detail.

Michael Vesey Forian Inc. - CFO

Thanks, Max. Today, I will provide an overview of Forian's financial results for the quarter ended December 31, 2022. As previously disclosed in our SEC filings, Forian completed the business combination of Helix Technologies and MOR Analytics on March 2, 2021. As a result, the operations of Helix are included in our financial results beginning March 2, 2021. The press release issued today presents Forian's fourth quarter 2021 and 2022 financial results on a GAAP basis.

As in prior quarters, we have 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 \$7.9 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, which increased \$1.9 million or 64% over the same quarter last year to \$5 million. 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 have 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.

Net loss for the fourth quarter decreased \$5.4 million from the same quarter last year to \$3.6 million. The decrease in net loss was primarily driven by a decrease in loss from operations of \$4.5 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 revenue growth discussed above and a \$2.4 million reduction in operating expenses, primarily resulting from lower G&A expenses when compared to the same quarter last year.

As you will note in our earnings release, operating expenses for the fourth quarter included \$1.7 million of total stock-based compensation expense and \$800,000 of depreciation and amortization. Adjusted EBITDA, which excludes the stock-based compensation, depreciation, amortization and certain other nonrecurring costs for the fourth quarter, was negative \$900,000 compared to negative \$4.5 million in the same quarter last year and negative \$2.1 million in the previous quarter this year.

We expect the streamlining of our business, with the divestiture of BioTrack, to allow us to continue to leverage the investments we made in our infrastructure with a lower level of incremental expense growth relative to revenue 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.

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The primary adjustments reconciling net loss to adjusted EBITDA are stock-based compensation, depreciation and amortization, nonrecurring transaction expenses, mark-to-market adjustments related to outstanding warrants, foreign currency-related impacts and certain other nonrecurring transactions.

Turning to our balance sheet. We ended the year with \$20.7 million of cash and marketable securities and \$25.1 million in convertible notes, with no maturities prior to September 2025. It should be noted that these amounts exclude proceeds from sale of BioTrack in February 2023 for \$30 million, consisting of \$20 million payable at closing and \$10 million in unconditional monthly payments thereafter prior to any income tax impacts. These proceeds will provide further liquidity to grow our business on a going-forward basis.

Regarding our financial outlook for 2023, we finished 2022 with \$28 million of revenues, exceeding our previously issued guidance by \$1 million. With the divestiture of BioTrack in February 2023, our business will be solely focused on our healthcare information business in 2023, and we expect BioTrack will be treated as a discontinued operation effective with our first quarter 2023 results. Our healthcare information revenues were \$16.4 million in 2022.

We expect 2023 revenues to be in the range of \$20.5 million to \$22.5 million, reflecting an increase of 25% to 37% over the prior year healthcare information revenues. We expect continued improvements in our net loss and adjusted EBITDA as we continue to leverage our infrastructure, achieving a positive adjusted EBITDA contribution in the second half of 2023.

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) I will turn the call back to Max to see if there are any questions from the web.

Max C. Wygod *Forian Inc. - Interim CEO, Co-Founder & Executive Chairman of the Board*

Yes, thank you. Seems to be 2 questions coming in. The first is what key differences do you see post the BioTrack divestiture?

Well, there are a few points. First, we are now solely focused in healthcare information. Secondly, our overall size is reduced to less than 40 employees. And lastly, our opportunity to partner with certain health care and life science customers and vendors is no longer limited by our prior cannabis software business. I would say those are the key immediate differences we see so far.

The second question is, what visibility do you have into reaching your adjusted EBITDA positivity?

As we said, we are a subscription-based revenue model business, and we are coming into 2023 with a large amount of our contracted revenue. Based off of our current estimates, we have a projected -- we had projected achieving positive adjusted EBITDA in the second half of 2023. As an emerging growth company, our goal is to build long-term value. We believe we can do that organically. However, if we are in a position to take advantage of any new opportunities or investments that further differentiate and drive share value, we will prudently evaluate those opportunities and their respective effects on our future P&L. Again, our priority remains on the long-term business of our company.

Those are the only 2 questions I see coming in.

Operator

One moment for our Q&A from the phones for our next question, please. And it comes from the line of Eric Martinuzzi with Lake Street Capital Markets. Please proceed.

Eric Martinuzzi *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Congratulations on Q4 as well as getting the BioTrack transaction done. I know that was -- the effort there was substantial, and it looks like you got a good price for it with the \$30 million in cash.

I wanted to ask you about the stub period that we're dealing with here. You said it's going to be treated as a -- BioTrack will be treated as a discontinued operation. Do you have the 2022 adjusted EBITDA kind of ex BioTrack? Or are you just -- really just got the revenue number there for 2022 on the health information side?

Michael Vesey Forian Inc. - CFO

Eric, it's Mike. The short answer is we don't have a 2022 adjusted EBITDA number. But I think there's 2 places to -- that I can guide you to get the information you need. First one is on the revenue. We added a supplemental schedule in the press release, which separates the BioTrack revenue from the healthcare business revenue for the fourth quarter and for the year. So I think you could pretty much pick up the run rate revenues of close to \$5 million for healthcare in Q4, and then do your projections on how you think that will behave in the next year.

In terms of operating expenses, the best thing to do there is we had about \$11.3 million of operating expenses for Q4. And as we have discussed in the past, the BioTrack business is kind of a steady-state business. So if you just take the numbers from our 9-month pro formas and take essentially 1 quarter's worth of the run rate expenses, that was \$4.4 million. So we have \$11.3 million of run rate expenses in Q4 2022. You back out the \$4.4 million, which is attributable to BioTrack, that leaves about \$6.9 million for the remaining business.

We also gave you the stock-based compensation in that number, which is now \$1.6 million. If you add that back, you'll get about \$5.3 million run rate expenses attributable to the rest of the business. So you decipher all that, what it leaves you with is a business that has about \$5 million run rate revenues, call it between \$5 million and a \$5.5 million run rate expenses, once we get through the Q1 cleanup, okay? As you know, Q1 will be a transitionary period, and I think that's the best thing to work with going forward.

The reason the direct pro formas, I don't think, would give you the right value is that, as you know, we made some other changes to our business structurally and the cost structure in addition to the divestiture of BioTrack itself. So I think by just putting the pro forma number out there, I'm not sure it will give you a better indicator than just going through that math.

Eric Martinuzzi Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

Okay. I appreciate the 9-month analysis. As I look at the -- just the overall macro demand, you talk about there's headwinds in the kind of the customer or your installed base of customers as well as prospects, and yet you're putting up terrific numbers here, and you've given an outlook for 25% to 37% growth. Just kind of walk me through the different areas of the market that you serve, Biopharm, Med Device, CRO. Can you address demand from each of those?

Max C. Wygod Forian Inc. - Interim CEO, Co-Founder & Executive Chairman of the Board

Sure. This is Max again, Eric. I think the easiest way to look at it when what's affected by the kind of macroeconomic condition, is really the size of the companies. So where we have channel partners and other types of companies that serve eventual life science companies that are generally smaller, they have been affected more by what's been happening than the larger medtech or pharma industries. We haven't seen a slowdown in the CRO industry, particularly, but it's really around either technical companies or other healthcare companies that are serving the bigger market. Kind of similar to how that technical -- tech companies are getting impacted by kind of the trends outside of healthcare.

Eric Martinuzzi Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

Okay. And then I think in your agreement with the BioTrack purchaser, you do continue to have access to the BioTrack data. Is that correct?

Max C. Wygod Forian Inc. - Interim CEO, Co-Founder & Executive Chairman of the Board

That's correct. We have access to the cannabinoid-based data to continue on our initial thesis of using it to evaluate outcomes on across the patient journey.

Eric Martinuzzi Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

Okay. And then one of the numbers that I pay attention to in your financials is this contractually committed kind of backlog that you talked about. I think you said in the -- for Q4, that committed contracted backlog was \$38.8 million. Can you compare that to what it was a year ago for me?

Michael Vesey Forian Inc. - CFO

Yes, Eric. It was about \$20 million a year ago, so...

Eric Martinuzzi Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

Okay. And then the portion that's less than 12 months versus over 12 months of that -- the \$38.8 million, can you put that in the 2 buckets?

Michael Vesey Forian Inc. - CFO

Yes, sure can. So the -- of the \$38.8 million, about \$16.6 million, we'll be recognizing in the next 12 months.

Eric Martinuzzi Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

Okay. All right. Okay. And that covers my questions. Congrats on the quarter and good luck on the new more focused business.

Max C. Wygod Forian Inc. - Interim CEO, Co-Founder & Executive Chairman of the Board

Thank you, Eric.

Michael Vesey Forian Inc. - CFO

Thanks, Eric.

Operator

(Operator Instructions) I don't see any further questions in the queue.

Ladies and gentlemen, with that, we conclude our program and Q&A session for today. Thank you for participating, and you may now disconnect.

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