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Q1 2023 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

Max C. Wygod *Forian Inc. - Co-Founder, CEO, President & Executive Chairman of the Board*
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. First Quarter 2023 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 would 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 for the year ended December 31, 2022 as filed with the SEC on March 30, 2023.

Estimating financial performance accurately for future performance is difficult as it involves assumptions and internal estimates that may prove to be incorrect and is based on plans and circumstances that may change. There is, therefore, a significant risk that actual results could differ materially from the outlook provided today.

Any forward-looking statements made on the call today represents the company's views as of this date, and the company undertakes no obligation to update them, except as required by law. Words such as 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 30, 2023.

Today's call and webcast is being recorded. A copy of the recording webcast as well as the full transcript and copies of today's press release and SEC filings will be available at forian.com/investors.

I am now pleased to introduce the company's Executive Chairman and Interim Chief Executive Officer, Max Wygod. Sir, you may begin.

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

Thank you. Good afternoon, everyone, and thank you for joining us on a Friday afternoon. After the close today, Forian reported fiscal 2023 first quarter results and reconfirmed our fiscal 2023 guidance. It has only been approximately 45 days since our year-end call, and we are nearing the end of our transition into a pure-play health care information company. Our first quarter results reflect success in executing against our long-term strategy.

We are now operating as a health care-focused enterprise that has been able to navigate the headwinds of a challenging macroeconomic environment while driving growth and product innovation, resulting in increased brand awareness in the market, increased customer acquisition and improvements in cross-selling to existing customers. Today, I'll share some highlights from our first quarter and speak to

our operational results, and then Mike will provide details on our financial results.

As a mission-oriented company, we are driven to improve health outcomes of patients and the performance of our health care customers through differentiated information and analytical solutions. As our customers continue to steer through the current environment, the importance of leveraging analytics to be more efficient and effective in the commercialization and delivery of their products and services is even more critical. We continue to win clients due to our ability to help customers improve their performance with superior data assets, domain expertise in how to best leverage those data to deliver valuable information solutions to customers and our unparalleled client service.

Our expertise in mastering large clinical data assets with sophisticated data management and data science capabilities provides our customers with highly accurate and timely customer, product and market insights that optimize operational, clinical and financial performance. In doing so, we are building a new, reliable leading edge and scalable brand in the health care information space.

In the first quarter, Forian delivered strong financial results, and it is our first fiscal quarter with the BioTrack divestiture treated as a discontinued operation. Forian's total first quarter revenue was \$4.9 million, which represented 38% year-over-year growth.

Our net income for the quarter of \$6.8 million reflects the net gain on the sale of BioTrack of \$8.8 million and a net loss from continuing operations of \$2.3 million. Our adjusted EBITDA loss from continuing operations was \$0.3 million, reflecting continued improvement from our previous quarters.

I am proud of our team's work in delivering these strong results as we executed on our growth plan in a challenging macroeconomic environment. As previously reported in the first quarter, while we saw some tightening budgets and discretionary spending, longer sales cycles and delayed deals, we continue to win new customers as well as expand upsells with existing customers.

We do not expect the market to bounce back overnight, but I think we can successfully compete and win scalable business in this large market by illustrating our differentiated and growing set of superior offerings. Our solutions and analytics have been uniquely built from one of the largest integrated HIPAA-compliant, longitudinal de-identified patient level data lakes in the market. This foundational technology, which we call the Forian Data Factory uses advanced methodologies to integrate, normalize, master and transform complex, large clinical and social determinant of health (SDoH) datasets.

We believe we can continue to cost-effectively integrate incremental data assets, improving accuracy and transparency that will further drive our ability to separate ourselves from competition, enable the health care industry and, in particular, the life science industry to better market, deliver and enhance patient care to improve outcomes. Most of our offerings are sold on a subscription basis, offering a strong predictable recurring revenue base. Our consultative selling approach engenders greater client trust and retention and our quality of delivery ensures exceptional customer satisfaction.

Our technology and expertise in data management enables us to deliver on an efficient basis, solutions that are flexible enough to meet the customer needs and don't force them into a one-size-fits-all box. As such, Forian, even as a young company is beginning to be recognized as a thought leader in this space. Each quarter, we have been presenting more examples of how our solutions deliver superior insights at leading clinical conferences. And for example, we spoke in the second quarter at the Professional Society for Health Economics and Outcomes Research, better known as ISPOR.

We believe that the events like these will increase our brand's awareness in the market and fuel our growth beyond our current customer base of emerging biotechs, mid-sized life science companies and CROs and to larger complex pharmaceutical companies and other health care organizations. Additionally, we have a strong balance sheet to take advantage of any opportunities that can accelerate our growth or long-term value. We are confident in our long-term organic growth but are also poised to take advantage of synergistic and growth opportunities if the situation arises. As some private valuations are starting to come down, nearing the reduction in public company multiples, we have seen increased discussions and opportunities to evaluate potential M&A.

Overall, Forian delivered another solid financial and operating quarter, along with the milestone event of divesting its cannabis business.

Our revenue growth, improved margins and cash flow resulted from a committed team executing at a high level, and we look forward to the further growth in quarters to come.

I will now hand it over to Mike to go over our financial results in more detail. Mike?

Michael Vesey Forian Inc. - CFO

Thanks, Max. Today, I will provide an overview of Forian's financial results for the quarter ended March 31, 2023. As previously disclosed in our SEC filings, Forian completed the disposition of BioTrack on February 10, 2023. Through this transaction and the previous dispositions of our Engeni and security-grade businesses, Forian no longer provides software solutions to the cannabis industry, representing a strategic shift, which has a significant impact on operations. Accordingly, we have accounted for the operations of the disposed of businesses as a discontinued operation effective with our first quarter 2023 and have reclassified previously reported operating results on a consistent basis.

My discussion today will reference comparative results for our continuing operations for the quarter ended March 31, 2023, unless noted otherwise. The press release issued today presents Forian's 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 \$4.9 million for the quarter were up \$1.3 million or 38% compared to the same quarter last year.

The growth in revenue over the first quarter of last year was driven by both new customers and increased revenues from our existing relationships. The majority of our information contracts provide for continuing information deliverables to our customers over a multiyear period, providing a predictable recurring revenue stream on a going-forward basis.

Net loss from continuing operations for the quarter decreased \$8.1 million from the same quarter last year to \$2.2 million. The decrease in net loss was primarily driven by a decrease in loss from continuing operations of \$7.9 million, partially offset by changes in other income items such as interest and income taxes. The improvement in loss from continuing operations resulted from the \$1.3 million of revenue growth discussed above, a \$4.8 million reduction in separation expenses and a \$1.8 million reduction in G&A and research and development expenses, which were partially offset by increased sales costs when compared to the same quarter last year.

Income from discontinued operations, net of tax, was \$8.7 million for the first quarter of 2023, primarily resulting from the gain on sale of BioTrack net of taxes. Loss from discontinued operations during the same period last year was \$1.5 million. Adjusted EBITDA from continuing operations, which excludes the stock-based compensation, depreciation, amortization and certain other nonrecurring costs was negative \$0.3 million compared to negative \$2.7 million in the same quarter last 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.

Now turning to our balance sheet. We ended the year with \$40 million of cash and marketable securities and \$25.3 million in convertible notes with no maturities prior to September 2025. It should be noted that these amounts exclude additional proceeds due from the sale of BioTrack of \$8.8 million, which will be collected prior to February 10, 2024, providing additional liquidity to grow our business going forward.

Our health care 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's health care 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)

And our first question comes from the line of Eric Martinuzzi with Lake Street Capital Markets.

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

Congrats on the solid Q1. It's good to see the year starting off on a good execution there, both top line and bottom line. I did have a question, just sequentially, we finished out Q4 at, I want to say, it was \$4.97 million and it was only a small amount, but it did decline sequentially. Was there a onetime business in Q4 that did not recur in Q1? Or was there -- what's the explanation for sequentially down?

Michael Vesey Forian Inc. - CFO

Hi Eric, it's Mike. The reason is what you pointed out, there is variability from quarter-to-quarter, particularly with our, call it, onetime revenue business. As we talked about in the past, we sell basically 2 flavors. One is the recurring revenue contract, which makes up most of our business. But also from quarter-to-quarter, we do sell some point in time business. So that does tend to fluctuate. So its not always a straight line. If you look back at our quarterly trend (inaudible)...

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

You're breaking up, Mike. Can you repeat the last couple of sentences?

Michael Vesey Forian Inc. - CFO

Yes, sure. If you take a look at our trend chart that we give with the quarterly revenues, you'll see there was a flat period last year from quarter-to-quarter that was really resulting from the same thing, which is our point-in-time revenue does have some variability from quarter-to-quarter.

So while the trend line is kind of up to the right, there is no variability when you look at each quarter sequentially.

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

Got it. Okay. And then on the expense side, it was a little bit less than I was expecting that allowed you to post a more sizable adjusted EBITDA number. If I look, given the -- I think there was \$600,000 of severance that was part of OpEx in Q1. If we kind of back that off, what should we be looking at a normalized OpEx for Q2?

Michael Vesey Forian Inc. - CFO

Yes. I think our Q1 number is kind of the reset of the trend line. So I think I mentioned in the Q last quarter, there'll be some noise in Q1. The reality is the majority of that noise is either reclassified down to discontinued operations line or we disclosed separately on the separation expense line.

So I think you could look at our Q1 expenses as the new starting point. And...

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

You're talking about if you back off the separation expense?

Michael Vesey Forian Inc. - CFO

That's right, correct. Yes. And then going forward, we expect that we will opportunistically add to our information capabilities, if you want to call it that, by bringing on step functions of more information into the datafactory, and we'll also continue to invest in sales and marketing as our revenues grow. But the rest of the business for the short term is pretty much set.

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

Okay. And good to see that reiteration of the adjusted EBITDA positive in the back half of the year, looking forward to that milestone. I wanted to ask regarding the demand environment, you talked about the tight budgets and discretionary spending in Q1.

And I don't know if Max, you want to handle it, but the larger I think you had talked about smaller versus larger customers, larger med tech and pharma being more stable source of demand, at least for your customer base and things a little bit more tentative on the smaller accounts. Is that still the case as you look kind of 6 weeks from your last commentary.

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

It is. I mean not much changes over 45 days, but we see the same short-term dynamics that the rest of the industry are seeing. We have generally made emerging-size biotech and pharma versus large pharma in general. So we do see as kind of certain budgets get pushed or they're a little bit tighter on general spending. But there hasn't been a dynamic change since we spoke last. However, we do expect to have the seasonality in our results and we do expect to (inaudible).

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

I lost you on the last sentence there. You said a little bit tighter in the?

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

Yes. It's a little bit -- we are seeing some tightness in budgets, but we're also picking up new business and do expect to see growth to hit the guidance that we presented.

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

Yes. I wanted to specifically drill down on the new business in a tough environment. It's -- really hard to bring on a new vendor. What -- is this -- was it as expected? An uphill battle, but you landed the ones you wanted to?

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

It is. Certain of the opportunities that we saw in the first quarter just closed later. Other opportunities we had to really show our differentiation in our health care information products. And as some of our clients use this for mission-critical information so they can sell and be more accurate, they want the highest quality product. And I think that's where we're winning out.

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

Gotcha. Okay. And then it's good to see that the snapshot of the balance sheet at the end of Q1 with a good solid \$40 million of cash there. And I understand you got another \$8 million due in February of 2024. What are you focused on for the uses of that cash?

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

So right now, we're being very opportunistic and waiting to see as different valuations come down if there's potential business development that we could take advantage of. But we also are very cognizant that it's great to have a strong balance sheet and be unique in the industry while most companies of our size are struggling both from a balance sheet and an earnings perspective. So if we're able to take advantage of a technology or someone that has a client base that we can upsell into we'll be proactive -- but right now, we're being very prudent as sales opportunity arises.

Operator

(Operator Instructions)

I'm not showing any further questions in the queue. All right, ladies and gentlemen, thank you for your participation, and you may now disconnect.

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