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Q3 2023 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

Max Wygod *Forian Inc. - CEO, Co-founder & Executive Chair*

Mike Vesey *Forian Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Mark Hagen *Lake Street Capital Markets, LLC - Analyst*

PRESENTATION

Operator

Greetings, and welcome to Forian Inc.'s third 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 statement 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](https://forian.com/investors). I am now pleased to introduce the company's Executive Chairman and Chief Executive Officer, Max Wygod. Sir, you may begin.

Max Wygod *Forian Inc. - CEO, Co-founder & Executive Chair*

Thank you for joining us for Forian's third quarter earnings call. This afternoon, we're pleased to report strong third-quarter performance. Our results reflect the operating scalability and strength of our young business and our success in improving our positive contribution to our clients as the healthcare landscape continues to evolve towards greater dependence on timely healthcare information solutions, stakeholders' access to comprehensive longitudinal health care information to drive insights built to improve health outcomes and business performance is more imperative than ever.

In my prepared comments this afternoon, I have focused on two key themes that reflect the value we're delivering today and are poised to

deliver in the years ahead. First, our third-quarter results strengthen an already solid balance sheet that distinguishes us across the industry and especially from other earlier stage companies.

Second, Forian is becoming synonymous with a trusted health care information partner, we are taking additional concrete steps to further differentiate our business and offerings by onboarding complementary and unique new data assets, while developing analytics that deliver mission critical value to our clients.

Let's begin with third-quarter results. On the top line our consolidated revenue grew 24% on a year-over-year basis in the third quarter to \$5.3 million and as a result of our continued efforts to drive margin improvements, our net income and consolidated adjusted EBITDA of \$4.3 million and \$755,000 respectively, continued to improve.

The improvement in our adjusted EBITDA margins were driven by a combination of strong leverage over the cost structure, improved efficiency and a contribution from recurring contracts, which we believe demonstrates the scalability that's inherent in the business model. Additionally, and as previously reported, a customer of Forian in which we held an equity interest was acquired during the quarter.

And as a result, Forian received approximately \$5.8 million of cash proceeds in consideration for our equity interest in the customer with the potential for incremental proceeds as Mike will detail. These payments are in addition to the guaranteed payments we receive monthly from the February sale of BioTrack, as previously discussed.

The combination of positive adjusted EBITDA and the strategic exits has improved our balance sheet. We find ourselves in an advantageous position where our cash position differentiates us from other companies that are struggling to generate a profit or raise additional funds in their currently challenged growth, equity and capital markets.

Furthermore, we repurchased \$1 million of outstanding convertible notes during the quarter and repurchased 1.6 million shares of foreign common stock directly following the quarter, each pursuant to separate privately negotiated transactions that we believe to be in the best interest of our shareholders. We will continue to evaluate these types of transactions as opportunities arise. We will also evaluate other accretive and or strategic uses of capital, including M&A, as valuation expectations align with the market realities.

In the third quarter, we saw strength across key offerings in customer types. We recorded strategic new wins across a variety of different types of clients and are happy to report that we see increased momentum within the large pharmaceutical manufacturer segment. While we don't comment on specifics of our customer contracts, we expect to see that trend continue in the fourth quarter and into 2024, and to convert these opportunities into long-term partnerships across this segment.

We expect to continue to differentiate Forian from our competition through the breadth of our data science-based offerings, leading healthcare expertise and engaging customer service. We believe there is a large market opportunity for Forian to provide and enable key insights on what is really happening in the healthcare market today, and we plan to continue to disrupt certain status quos and to win business from larger competitors.

These developments tie well with my second point regarding the steps we are taking to further differentiate ourselves as a trusted partner. Forian is continuing to cost-effectively add breadth and scale to our unique integrated de-identified data factory. We have reported previously on our ever-growing HIPAA-compliant longitudinal data lake, which today includes approximately 330 million patients with history dating back to 2015.

Last week, we completed our license of a new unique closed network database containing approximately 51 million additional closed network covered lives added to the existing 85 million closed network covered lives we currently license. This combination of closed claims data is among the largest closed network claims data assets in the US, which data are fully integrated with 330 million patients within our Chronos platform.

In addition, further to a license we completed during the third quarter. In the upcoming months, we will add a large source of laboratory

results data containing lab results for tens of millions of individuals. Collectively, these new data assets further differentiate our offerings and will lead to the development of unique information solutions in the coming quarters.

The Forian data factory has been designed to ingest, normalize, anonymize and enable analytic ready information with greater quality and efficiency than our competition.

In conclusion, it was a productive and efficient third quarter where we delivered solid results and added assets to further strengthen Forian's long-term business despite operating in the same challenging macroeconomic sales environment as previously reported. While we believe the headwinds are temporary, we expect 2023 revenues to be within the previously issued guidance range of 20.5 million to 22.5 million. I am proud of our team in achieving these results.

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

Mike Vesey Forian Inc. - CFO

Thanks, Max. Today, I will provide an overview of Forian's financial results for the quarter ended September 30, 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 discontinued operations effective with our first quarter in 2023 and have reclassified previous reported operating results on a consistent basis.

My discussion today will reference comparative results for our continuing operations for the quarter ended September 30, 2023, unless otherwise noted.

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 income or loss.

Our consolidated revenues of \$5.3 million for the quarter were up \$1 million or 24% compared to the same quarter last year. The growth in revenue over the same quarter of last year was driven by both new customers and increased revenues from our existing relationships. As a reminder, 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 income from continuing operations for the quarter increased \$8.4 million from the same quarter last year to \$5.4 million. The increase in net income was primarily driven by a \$5.8 million gain on sale of investment and a decrease in loss from continuing operations of \$2 million, which was 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 million of revenue growth discussed above and a \$1 million reduction in costs and expenses. The decrease in cost and expenses was primarily due to lower G&A and research and development expenses resulting from the streamlining of our operations after the divestiture of BioTrack.

The gain on sale of investment related to a minority interest we held to one of our customers. The investment was sold for net proceeds of \$5.8 million, which was recognized as a gain this period. We may receive up to \$3.6 million in additional earn-out payments in 2025 and 2026, if certain conditions are met.

Adjusted EBITDA from continuing operations, which excludes stock-based compensation, depreciation, amortization and certain other nonrecurring items, was positive \$800,000 compared to negative \$1.2 million in the same quarter last year. Again, demonstrating the operating leverage in our streamline business.

While we intend to make incremental investments in our information infrastructure to enhance and expand our product offerings, we also expect our capital-efficient business model to allow us to continue to leverage those investments with a lower level of expense growth relative to revenue over the long term.

As noted earlier, a reconciliation of our net income or loss to adjusted EBITDA, along with an explanation of the reconciling items, is included in today's earnings release.

Turning to our balance sheet, we ended the period with \$49 million of cash and marketable securities and \$24.7 million in convertible notes and accrued interest with no maturities prior to September 2025. As Max previously noted, we redeemed approximately \$1 million of our convertible notes during the quarter, at a discount to face value, and repurchased approximately \$3.6 million of our common stock in a private transaction with an investor in October 2023.

With the improvements in our operating cash flow achieved in 2023, and cash proceeds receipts received from the sale of BioTrack and the minority investment, we feel we are well-positioned to capitalize incremental growth opportunities as they arise.

Our healthcare information revenues were \$16.4 million in 2022. We expect 2023 revenues to be within the previously issued guidance range of \$20.5 million to \$22.5 million, reflecting an increase in excess of 25% over the prior year healthcare information revenues.

Having achieved a positive EBITDA contribution in the last two quarters, we also expect to report a positive EBITDA contribution for the year as we continue to leverage our infrastructure.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Mark Hagen, Lake Street Capital Markets.

Mark Hagen *Lake Street Capital Markets, LLC - Analyst*

Hi, thanks for taking my call. See, in June, you guys estimated you had about \$17 million of remaining performance obligations over the next 12 months. Have you given any update or is there any color around how that looked at the end of the quarter?

Mike Vesey *Forian Inc. - CFO*

Yeah, hey, this is Mike. Yeah, the performance obligations stayed about the same as they were in the previous quarter.

Mark Hagen *Lake Street Capital Markets, LLC - Analyst*

Got you. And just also, have you guys experienced any new attrition due to some customers being acquired? I know that in the past that's been something -- that's something you have to work through.

Max Wygod *Forian Inc. - CEO, Co-founder & Executive Chair*

This is Max. There hasn't been any notification of new clients, but what we were notified last quarter takes place several months later. So we see that impact starting in Q1 of '24, but there's no new meta terminations due to that.

Mark Hagen *Lake Street Capital Markets, LLC - Analyst*

Got you. That's all I had, thank you guys.

Max Wygod *Forian Inc. - CEO, Co-founder & Executive Chair*

Thank you.

Operator

Thank you. (Operator Instructions) Well, I don't see any further questions in the queue, sir.

Max Wygod Forian Inc. - CEO, Co-founder & Executive Chair

Great. Thank you, everybody. That concludes the earnings call today. Take care.

Operator

Thank you, everyone. You may now disconnect. Thank you for joining.

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