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Q4 2023 Forian Inc Earnings Call

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CORPORATE PARTICIPANTS

Martin Wygod *Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder*
Michael Vesey *Forian Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Eric Martinuzzi *Lake Street Capital Markets, LLC - Analyst*

PRESENTATION

Operator

Greetings, and welcome to Forian's Inc fourth quarter and full year 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 filed with the SEC on March 30, 2023.

In particular, management will discuss an estimate of its full year 2024 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 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, planned, 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 risk 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.

Martin Wygod *Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder*

Good afternoon, and thank all of you for joining us today to review Forian's 2023 fourth quarter and full year business performance.

We also look forward to sharing our larger perspective and outlook on 2024. I am pleased to see the progression of Forian's evolution as

we transitioned in 2023 to a health care and life sciences focused company. We have built a business that supports solving some of health care's most difficult challenges. We work with our partners in a fragmented data-driven ecosystem, with the ultimate goal of improving health outcomes and operating efficiency through providing analytics-ready, enriched, and highly accurate information products.

The Forian Data Factory and its linked products are the foundation of our business that supports our anticipated long-term growth. On today's call I will provide a summary of our fourth quarter and fiscal 2023 financial results, and we'll share remarks as to how we are positioning Forian to capitalize on the opportunities in front of us. Afterwards, I will hand the call over to Mike to go through the financials in more detail.

I am pleased to start by sharing that the full year 2023 was a strong fiscal year. For the full year 2023, our revenue of \$20.5 million met our guidance range, representing 25% year-over-year growth, driven by our health care information offerings. Our net income from continuing operations for the year was \$1.7 million, and our adjusted EBITDA was \$2.3 million, which compares to losses of \$19.2 million and \$6.7 million year-over-year, respectively.

Our total fourth quarter revenue was \$5.4 million, which represents 8% year-over-year growth. In the fourth quarter, we saw the financial impact of some customer attrition that we expect to continue into early 2024.

Our net loss from continuing operations for the quarter was \$0.4 million, and our adjusted EBITDA was \$1.0 million, which compares to a loss of \$1.9 million and \$0.4 million year-over-year, respectively.

Before going into the fourth quarter in more detail, I first want to acknowledge a few of the noteworthy accomplishments we recognized in 2023 despite facing challenging macroeconomic conditions.

First, as previously announced, we successfully completed a strategic divestiture of our operating subsidiary, BioTrack on February 10 for \$30 million in cash proceeds. The divestiture transformed Forian, seeing headcount reduced from approximately 150 employees to approximately 40, and enabling us to streamline operations and support transitional services while investing in the key areas to grow our health care business.

Throughout 2023, we continued to invest in incremental strategic data assets and in our life science sales team. Additionally, we executed our plan to show the operating leverage of our business model and achieve adjusted EBITDA earlier than initially anticipated. In the fourth quarter, we took advantage of the opportunities to acquire new data assets, including lab, close and open claims data as well as some strategic long-term extensions.

We believe that by continuously adding valuable sources to our proprietary data factory, we can build and differentiate industry-leading information products and analytics that serve a wide breadth of customer needs. For example, we provide analytics-ready subscription information products that power our clients across a wide range of commercial analytics and real-world evidence.

From accurate targeting and segmentation of their customer bases to measuring marketing ROI to pricing and market sizing. We assist customers in both bringing new products to market and acquiring and expanding customer bases for existing products.

Our analytics-ready information products support health economics and outcomes research studies to track actual product usage, outcomes, safety, and clinical benefit post market launch as well as generative advanced patient journey studies to fundamentally understand how products and services are being used in the patient journey.

Throughout 2023, we brought on new clients across the health care and life science ecosystem. We work closely with our clients to make sure that they have the right data-driven approach to solve their respective needs. This could range from pharma service providers developing state-of-the-art commercial analytics to health care platform and media companies that want to better understand prescribing behavior to life science companies that want to target providers with commercial and/or educational messaging.

Historically, our largest clients generally have been health care companies that serve the life sciences that need our clean, analytics-ready information products to support their business. Many of our other clients outside of life sciences are enterprise engagements, not specifically focused on a single brand or a product.

Increasingly, our life science clients have been multiple smaller engagements, featuring longer initial sale cycles. This has led to an effective land and expand strategy as our information products are recognized as superior to alternatives, backed by our customer support, and engagement teams who solidify expansion opportunities across our client base. We now have several strong life science clients with multiple ongoing expanding and reoccurring engagements.

As I mentioned, we expanded our life science sales team in 2023, and expect to see increased revenue opportunities as a result in the back half of 2024. From a product perspective, our innovative information products in commercial and clinical solutions are anchored by our robust integrated database known as Chronos.

We believe our competitive advantage is strengthened by our data management capabilities, which incorporate additional data sources to address complex challenges with analytics-ready outputs. Our unique data factory technology, supported by comprehensive data assets, industry experienced personnel, and flexible delivery options, enables us to offer high-quality, accurate, insightful, and timely solutions that distinguish us in the market. We expect to come to market with new products in 2024 that will allow us to better capitalize on our existing and tangential markets.

We will prioritize new solutions and applications that sit on top of our data factory and can be directly marketed and licensed to clients that prioritize purchasing bundled information products. With continued investment into our data factory and commercialization capabilities, we expect to increase the diversity and volume of our data sources as well as to provide product launches and provider affiliations, provider segmentations, and media collaborations.

We typically see seasonal trends in our results, with the fourth quarter usually being our strongest. While we anticipate growth, we understand and we'll continue to navigate the broader market challenges. We still see our potential customers being more cautious about capital expenditures and profitability, and, as a result, have increased the length and oversight of our sales cycles. That said, we are optimistic about 2024.

We have approximately \$38 million of committed contracted backlog, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods.

As discussed earlier, the impact of the few non-renewals primarily due to acquisitions will be reflected in our early 2024 results. For 2024, we expect year-over-year revenue growth of 5% to 15%, and adjusted EBITDA margins of 8% to 12% as we continue to invest in our information assets and products.

In the long term, we believe our fixed cost-based model will reap the benefits of attractive incremental margin with revenue growth.

Finally, we continuously look for corporate development opportunities to increase value to our shareholders. These efforts may come in various forms and also may include the opportunistic repurchase of outstanding shares or convertible notes.

In conclusion, 2023 marked a transformational period for us, setting the stage for our next phase of growth. We have rapidly expanded our portfolio and breadth of data assets to effectively compete against larger, more established competitors, offering unique value through our offerings derived from our expertise in data management, technology, and automation.

Forian has established a foundational data factory, that is crucial to a wide range of health care and life science clients. Serving as a cornerstone upon which we can strategically introduce additional products, services, and analytics.

We have achieved our revenue and profit objectives in a short period of time relative to our competitors in our space and have a robust balance sheet. The rarity of our accomplishments distinguishes us from others in the industry.

Our positioning is further solidified by our unwavering focus and commitment to make a significant impact as the trusted and innovative information provider in the expansive health care and life sciences market. I want to express my gratitude to our exceptional team whose hard work and dedication have been instrumental in developing and delivering top-tier products throughout a demanding year.

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

Michael Vesey Forian Inc - Chief Financial Officer

Thanks, Max. Today I will provide an overview of Forian's financial results for the quarter ended December 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 had 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 December 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 our 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 \$5.4 million for the quarter were up \$0.4 million or 8% 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 in past quarters, 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.

Loss from continuing operations for the quarter decreased \$1.5 million from the same quarter last year to \$0.4 million. Decrease in net loss was primarily driven by the previously mentioned revenue growth, decreased operating expenses of \$0.5 million resulting from the streamlining of our organization to focus on analytics products serving the health care and life sciences market. And higher interest income resulting from investment of proceeds from the disposition of BioTrack.

Adjusted EBITDA from continuing operations, which excludes stock-based compensation, depreciation, amortization, costs related to litigation, and certain other nonrecurring items, was \$1 million compared to negative \$0.4 million in the same quarter last year, demonstrating the operating leverage in our streamlined business.

While we intend to continue 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 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. You will note in the reconciliation that we included in an adjustment for litigation-related expenses this quarter. This adjustment is comprised of expenses incurred to defend against two legacy lawsuits resulting from premerger activity at Helix Technology.

As previously discussed, we disposed of the operating subsidiaries of Helix Technologies and have classified them as discontinued operations in our financial statements. Further information regarding the litigation can be found in our 10-K filing with the SEC.

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Turning to our balance sheet. We ended the period with \$48.3 million of cash and marketable securities and \$24.9 million in convertible notes and accrued interest with no maturities prior to September 2025. We repurchased approximately \$3.6 million of our common stock in a private transaction with an investor in October '23, leaving us with approximately 30.9 million shares outstanding at December 31, 2023.

Additionally, we redeemed an additional \$1 million of our notes at a discounted face value in March of 2024. With the improvements in our operating cash flow achieved in 2023, and cash proceeds received from the sale of BioTrack, we feel we are well positioned to capitalize on incremental growth opportunities as they arise.

Now, our review of our outlook for 2024. Our revenues for 2023 increased \$4.1 million or 25% over the prior year. Adjusted EBITDA increased to \$2.4 million compared to an EBITDA loss of \$6.7 million in the prior year. Adjusted EBITDA as a percent of revenues was 11.4% for the full year 2023.

We expect 2024 revenues to increase between 5% and 15% over the prior year after overcoming some headwinds in the early part of the year. We expect adjusted EBITDA as a percentage of revenue to be in the range of 8% to 12% as we continue to invest in our information products and assets while achieving profitable growth.

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) Eric Martinuzzi, Lake Street Capital Markets.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Yeah. Looks like a good finish to the year there. But I did have some questions regarding the customer attrition that you mentioned. As I recall I want to say it was around the Q2 2023 timeframe you had some customer attrition due to acquisitions. What was the customer attrition in Q4 of 2023 due to?

Martin Wygod Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder

Hey, Eric, it's Max here. The customer attrition we mentioned earlier was related to the ones that impacted the revenue in Q4 and going into early 2024. We were just notified at an earlier time. So that's why we announced it publicly.

We have a few customers that do not renew, and mostly that was due to them being acquired. However, it's a few clients, and we expect to be fairly optimistic on 2024 with the majority of commitments for revenue locked in contractually. So we don't expect a big change outside of the ones we're mentioning now.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Yeah, thanks. Okay.

Michael Vesey Forian Inc - Chief Financial Officer

(multiple speakers) It's Mike. I'll add on to that. You have to remember that impact of a churn in Q2 or a churn that we see when we're doing our earnings call in Q2, the account may -- we may be aware of the account leaving them, but the impact could be when they finish up the tail on their particular contract because that kind of falls into the way it flows through our P&L as well.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Got you. Okay. And then given the range of revenue guidance for 2024, that 5% to 15%, it sounds like your investment in sales here in the front part of the year, you're expecting the growth rate in the back half to be greater than the growth rate in the front half. Are we still talking about, at least on a quarterly basis, maybe a mid-single digits growth rate in the front half, offset by a double digits growth rate in the back half? Is that how you're thinking of it?

Martin Wygod Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder

I think it's too early to exactly tell but that's generally correct. We see this one headwinds in Q1, maybe a little bit in Q2, but expect it to pick up based off of everything we're seeing in the marketplace on the back half to get to that full year guidance number.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Okay. And maybe just to put a finer point on it. What you had revenue of \$5.4 million in Q4. Do we take a step down to start the year?

Michael Vesey Forian Inc - Chief Financial Officer

Yeah. Eric, we want to avoid giving a quarter-by-quarter outlook because the ink is not totally dry on that. But I think we -- I think the growth will be muted in the first part of the year, and due to the having to overcome the known decline from one particular account. And then the back half will return to our normal growth rates just the way to look at it.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Okay. All right. And then the -- given the full year revenue, we'd be talking about roughly, I think, \$22.6 million or so at the midpoint, so kind of a 10% growth rate, throwing off an adjusted EBITDA amount of about, call it, \$2.3 million or so, which is kind of unchanged versus the year that you just reported. So you mentioned that you're going to be investing in the business.

So you're growing the top line, but you're not growing the adjusted EBITDA. Is this focused more on licensing of new data sets? Is it on sales investments? Is it on R&D? Where are we spending the incremental dollars?

Michael Vesey Forian Inc - Chief Financial Officer

Yeah. Hey, Eric. The biggest piece of it is increases to our data assets. So in Q4 and also incrementally in Q1, you'll see an increase in our -- basically our cost of sales. So as we talked about in the past, we have a kind of a fixed cost of sales number to a certain extent, or it's the same variable as step functions in that. So we got to profitability mid-2023. And then, we did want to reinvest in some of that to achieve this more rapid growth in the back half of the year. So we have brought on a couple of new data sources at the very end of 2023, and we'll see an increase in expense at the beginning of the year.

And then, as we have in the past, we'll leverage that as we go out through the year, and we have a stronger sales offering, puts us in a better competitive position in some of the pitches we have going on out there. And it also allows us to go back to our existing customers and sell them some value-added services on top of that.

So that's what's really driving the -- I don't know if I'd call it lack of growth in EBITDA because it's kind of discretionary. It's a reinvestment in the company to get to the next level of growth is the way we look at it.

Martin Wygod Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder

Yeah. And the only color I will add, Eric, is that when we make these investments in incremental data assets or even new products, it takes time to actually commercialize and develop them. So there is usually a lag that can be a couple of quarters before it turns into pure revenue. So as you make these investments, we believe the revenue will grow as kind of step functions, but it does take a little bit of time to develop the new assets into the products that we sell.

Eric Martinuzzi Lake Street Capital Markets, LLC - Analyst

Okay. A last question for me is just kind of a bigger picture. Assuming we bang out the midpoint of the outlook for 2024, and we're a 10% growth story for 2024, and I'm not looking for out-year guidance, but just how do you think about the growth potential of the company, say, over the next three to five years?

Martin Wygod Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder

I think if you -- if we hit what you just described and reach the midpoint, the growth actually in the quarterly sales will be picking up quite dramatically over the last couple of quarters. So I think we'd be exiting the year with a run rate that's high, pretty higher than where we're entering the year. So from an acceleration of revenue perspective, I think we'd be pretty happy and excited on that trajectory.

That being said, we have to remember, we're speaking about relatively small numbers. So winning and really getting some penetration in one of these markets or with one of our new products can really make a difference. So we expect to invest to grow from this point. I think the management and our sales team are looking how do we really make an impact versus just delivering and executing on the current sales plan.

Eric Martinuzzi *Lake Street Capital Markets, LLC - Analyst*

Got it. Thanks for taking my questions and good luck in '24.

Martin Wygod *Forian Inc - Chief Executive Officer, Executive Chairman, and Co-Founder*

Great. Thank you, Eric.

Operator

Thank you. And as I see no further questions in the queue, with that, I will conclude the Q&A session and webcast for today. And thank you all for participating. And you may now disconnect.

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