Think Research Corporation

First Quarter 2021 Financial Results Conference Call

Event Date/Time: May 13, 2021 — 9:00 a.m. E.T.

Length: 31 minutes

Corporate Participants

Sachin Aggarwal
Think Research Corporation — Chief Executive Officer

Jae Cornelssen
Think Research Corporation — Chief Financial Officer

Conference Call Participants

Rob Goff
Echelon — Analyst

Neil Bakshi
Canaccord Genuity — Analyst

Gavin Fairweather
Cormark — Analyst

Anthony Schifano
Caldwell Securities — Analyst

Presentation

Operator

Good day. And thank you for standing by. Welcome to the Think Research First Quarter 2021 Financial Results Conference Call. At this time, all participants are in a listen-only mode.

After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press *, 1 on your telephone.

Please be advised that today's conference is being recorded. If you require any further assistance, please press *, 0.

I would now like to hand the conference over to your speaker today, Sachin Aggarwal, CEO. Please go ahead, sir.

Sachin Aggarwal — Chief Executive Officer, Think Research Corporation

Thank you. And good morning, everyone. I really appreciate you joining us today for our first investor call as a publicly listed company. As it is our first conference call, we would, of course, appreciate any feedback that you have so that we can improve on future calls.

With me on the call is our new CFO, Jae Cornelssen, who will review our financial performance for the quarter. Jae's been with us for only a few weeks, and he's done a really tremendous job with shaping our reporting thus far. Jae is already on top of key initiatives like integration, and as he gets further up to speed and continues to upgrade our financial reporting, I think you can expect more financial KPIs to come in future quarters.

Today, I'd just like to start by giving you some perspective on our market, on our operational KPIs, and on the quarter. After Jae reviews our financial results, I'm going to give you some perspective on our outlook as well.

Considering this is our first conference call, again, please, any feedback that you have would be appreciated.

I want to remind everyone that some statements made on today's call are forward-looking in nature and therefore are subject to certain risks and uncertainties, which we outline in detail in our regulatory filings which can be found on SEDAR.com.

Think Research is a global Software-as-a-Service company that provides actionable clinical knowledge in real time at the point of care for health care networks in eight countries. Our software is deployed in more than 2,800 facilities, and more than 300,000 clinicians use our solutions to keep their practices up to date.

We also operate a number of clinics which act as a profitable test bed for our solutions and provide a critical feedback loop so we can continuously expand and improve both our knowledge base and workflow solutions to customers around the world.

Our solutions solve a large and expanding problem for clinicians everywhere, which is an explosion of unstructured evidence and data from emails to faxes to Google searches and paper manuals at the point of care. Clinicians are wading through all this information to determine the best treatments, and it can take anywhere from 10 to 15 to 20 years for a new best practice to become common practice at the point of care for a single treatment.

Our mission is to organize the world's health knowledge so everyone gets the best care.

We started trading on the TSX Venture Exchange on December 30th, so this is our first quarter of 2021, and it's our first quarter reporting operations as a public company. And I'm happy to report that it was a very successful quarter by all measures.

On January 29th, we closed two key acquisitions. First, we announced the acquisition of MDBriefCase, a highly strategic acquisition that adds to our knowledge base and extends our software capabilities to include online clinician education through CME or continuing medical education. Once fully integrated, MDBriefCase strengthens our offerings to new prospects and allows us to capture more share of budget from existing clients, including pharmaceutical companies. We're already winning new MDBriefCase deals from existing clients, and as our integration continues over the next few quarters, we anticipate leveraging more value from this transaction.

Second, we announced the acquisition of Clinic 360, a private elective surgery clinic in Toronto. This profitable operation is a live test bed for our knowledge in connectivity software solutions. It also gives prospects a primary example of how our software and solutions can be used to dramatically improve patient outcomes, patient flow, and cost effectiveness.

On a combined pro forma basis, these two acquisitions add about $14 million to our trailing-12-month base of revenue.

In addition to the acquisitions of MDBriefCase and Clinic 360, we also attained some key commercial milestones during the quarter, which give us confidence for the remainder of the year.

THINK hit a milestone of 250,000 digital referrals during the quarter. Digital referrals are an increasingly valuable set of workflows that allow us to connect health care professionals together in real time to streamline patient care. The adoption of this solution continues to gain traction in key markets, and we're confident that it will become an increasingly important feature for clinicians to use. This solution has also been highlighted in an Ontario health care campaign called axe the fax.

We also announced a partnership with CareRx to deploy VirtualCare telemedicine solutions in retirement homes across Ontario and eventually the country that serve up to 50,000 residents in hundreds of facilities. CareRx recently completed an acquisition that adds even more facilities to this opportunity. We anticipate solid uptake of our solutions over the next few quarters through this partnership.

THINK also entered the Iceland market through a partnership with a local EMR partner, Origo, to provide solutions to the four acute-care hospitals and dozens of clinics and long-term care facilities across the country. With this announcement, we expanded our global footprint to eight countries.

I'm also pleased to say that we reported a record $8.4 million of revenue for the quarter, which was ahead of our expectations, as well as published guidance provided earlier. The majority of our revenue is derived from software, and the remaining comes from our clinics. In essence, the quality of our revenue streams was excellent as we exited the quarter.

And with that, I'm very pleased to introduce Jae Cornelssen, and he's going to review our financial performance for Q1 in greater detail with you. Jae?

Jae Cornelssen — Chief Financial Officer, Think Research Corporation

Yeah. Thank you very much, Sachin, and good morning, everyone. This morning, I will review our financials based on some key line items in the financial statements. For more details, please refer to our MD&A and financials posted earlier to SEDAR. All figures are reported in Canadian dollars.

For Q1 2021, we report the following. Revenue for the quarter was $8.4 million, a 44 percent increase over $5.8 million reported in Q1 2020. When compared to the $3.6 million for Q4 2020, revenue increased by 135 percent.

During the quarter, we recognized two months' worth of revenue from both MDBriefCase and Clinic 360. As mentioned by Sachin, total revenue came in ahead of our published guidance of $8 million to $8.3 million. This is due to increased uptake of our solutions across all lines of business during the quarter.

Gross margin for the quarter was $5.3 million, a 29 percent increase compared to $4.1 million reported for Q1 2020. Gross margin increased primarily due to additional contributions from the recent acquisitions.

Gross margin as a percent of revenue for the quarter was 64 percent compared to 71 percent reported for Q1 of the prior year. The variance in margin is due to a change in product and revenue mix due to acquisitions completed in the intervening period since Q1 2020.

Specifically, the acquired clinics operate at a lower gross margin than the software business. We anticipate gross margin to expand over time as our global software footprint grows at an expected pace faster than our clinical operations.

Total operating expenses excluding non-cash share-based compensation and depreciation and amortization was $7 million, a 50 percent increase over $4.7 million for Q1 2020. The increase in expenses is due primarily to the additional operating expenses from the recent acquisitions and incremental reporting and compliance costs related to being a listed public company.

Adjusted EBITDA loss, a non-IFRS measure, was $1.5 million compared to a loss of $0.5 million for the equivalent period in the prior year. Adjusted EBITDA increased by $1.3 million compared to Q4 2020, primarily due to the acquisitions in addition to synergies realized during the period. Adjustments to EBITDA include stock-based compensation, one-time transaction-related expenses, premium paid on the redemption of Class A preferred shares, and foreign exchange adjustments.

Net loss was $5 million for the three months ended March 31, 2021 compared to a loss of $1.6 million for the equivalent period in the prior year. The decrease in net income was primarily due to stock-based compensation of $1.3 million and costs related to the acquisitions completed during the period. The net loss per share for the quarter was $0.12 compared to $0.06 for Q1 of 2020. As at March 31, 2021, we had $6.7 million of balance sheet cash.

I will now hand it back to Sachin for closing remarks ahead of Q&A.

Sachin Aggarwal

Thank you, Jae.

I think there's a few fundamental themes to consider when investors think about our outlook. First, we are a transformed company from where we were at the end of last year. The acquisitions that we've made strengthen and diversify our offerings to health networks in all of our markets. The firsthand applications of our solutions in our own clinics help us to inform the future.

The intellectual property and the online education capacity gained through our acquisition of MDBriefCase diversifies our software revenue streams. It also gives us solutions to strengthen our bonds with our clients and the clinicians who use the software. The expanded product suite helps strengthen our value prop to make us unique and essential to both new prospects and to our partners.

We're also seeing exceptional cross-sell opportunities emerging amongst our solution set. Already we've seen early cross-sell success between THINK and MDBriefCase.

But we are not stopping there. COVID-19 has helped to clarify the urgent need for health care systems all over the world to provide clinicians with the tools in real time, at their fingertips, to deliver better health outcomes to patients, regardless of where they are. We see this as a once-in-a-lifetime opportunity to redefine the limitations of care. For example, we're ramping up efforts to deliver recently launched VirtualCare telemedicine software. VirtualCare is a digital health communications platform that connects patients to physicians through video, phone, and secure messaging, allowing patients to book and consult with doctors remotely.

Our sales pipeline is growing both directly and through partnerships in all lines of software. As demonstrated by our expansion to Iceland and recent growth in the United States, channel partners have become an increasingly important part of our organic growth. As a result, we will invest more time and effort to expand and cultivate partnerships over the coming quarters, especially internationally.

We continue to search for strategic assets that will make our data more valuable, improve connections and workflows between systems, and expand our reach globally.

Most of you will have heard me talk about the clinical knowledge life cycle and how we intend to close that feedback loop by using data to create new evidence and insights through research. Expect us to continue to assemble these pieces to meet that goal.

As we integrate our recent acquisitions, we are undertaking to clarify and simplify our branding as well. This will help all constituents that we communicate with, whether customers, users, partners, employees, or shareholders, to better understand our value proposition, our offerings, and our culture.

The quality of our revenue is extremely important to us. As we continue to scale organically, we anticipate that growth in software revenue should outpace growth in clinical services revenue over the coming quarters, resulting in a higher proportion of recurring and software-driven revenue in the future.

THINK is in the middle of a revolution of data for health care, and we believe that we're uniquely positioned right now, especially as a public company, to seize the opportunity ahead of us.

Our mission, again, is to organize the world's health knowledge so everyone gets the best care. Speaking for all of us at THINK, we really could not be more excited about the future. And with that, Operator, if you don't mind, please, opening the line for analyst questions.

Q&A

Operator

As a reminder, to ask a question, you will need to press *, 1 on your telephone. To withdraw your question, press the # key. Please stand by while we compile the Q&A roster.

Our first question comes from the line of Rob Goff with Echelon.

Rob Goff — Echelon

Good morning and congratulations on the strength of the quarter. My first question would be on Clinic 360 and the momentum within the quarter, in that, if we're correct, the trailing-12-month revenues at time of acquisition was sub-$4 million. But in looking into the quarter, it would suggest something pushing towards $8 million. Can you talk to that directly?

Sachin Aggarwal

Thanks, Rob, for the question. That's well-noted, and yes, we're seeing significant momentum in respect of Clinic 360. I'd note a few things. As a consequence of COVID, the elective surgery backlog in the public health system is, depending on the procedure, can be many years at this point, right? So, combining that with our capabilities in respect of digital referral here in Ontario, we are able to really maximize on the reach in capabilities and revenue from Clinic 360. And so this really is a demonstration of how you can marry your software with the capabilities of bricks-and-mortar to drive better revenue, better top line, and ultimately better bottom line.

Rob Goff

And if I could use that as a segue into the momentum within your digital referral platform. Could you talk to what you see in the quarter? What your expectations might be?

Sachin Aggarwal

Yeah. Thanks again for that, Rob. I think it's clear in the era of COVID that fax is no longer an effective or a justifiable method of communicating between clinicians. Right? And so, we have seen month-over-month growth in our e-referrals utilization and the number of users continuously over the last few years, right? And that has not stopped in Q1. It continues apace. And we are expecting material significant growth in that over the coming quarters as well. I'm not going to give any specific usage or user numbers at this point, but we're very, very pleased with the results of that particular program and software.

Rob Goff

Okay. Thank you. I will jump back in queue.

Sachin Aggarwal

Thanks, Rob.

Rob Goff

Cheers.

Operator

Our next question comes from the line of Neil Bakshi with Canaccord Genuity.

Neil Bakshi — Canaccord Genuity

Hi there. Good morning, Sachin and Jae. And thanks for taking the questions and congratulations on the inaugural earnings call. So my first question. I was wondering about the recent momentum in BC and Ireland. I'm just wondering how that fits into this trailing $36 million run rate and the organic growth outlook. Do you see it as additive to it? Or does that fit in with that trailing run rate as it was in the last update?

Sachin Aggarwal

Yeah. At this time—and I'm sorry, I didn't hear part of the question. Did you say BC and Ireland?

Neil Bakshi

That's right.

Sachin Aggarwal

British Columbia and Ireland? Yeah. So at this time, we would say that those are part of our trailing run rate. And while we expect more in the future, at this point I think you should consider it part of our trailing run rate.

I would say sort of relatedly, that we do have now, on a combined basis, we've got feet on the street or salespeople in multiple international jurisdictions. We have a dedicated sales staff on the ground in the US, in Ireland in the UK, in the Middle East, where we now have quite a significant group of sales folks focusing on Saudi Arabia and the Emirates. And also a really significant, I'd say, team for a company of our size focused on Australia and New Zealand. So thanks for that, Neil.

Neil Bakshi

Okay. And just a question, then, about operating expenses. You touched on the level of investment growth to be elevated in the US and international markets, as you just mentioned. I'm wondering, then, looking at OpEx in Q1 uptick from Q4, should we be seeing this kind of OpEx as the new level setting for future quarters? IJust wondering if we can get more colour on how to look at the Q1 number in the context of synergies and investment for driving organic growth.

Jae Cornelssen

Yeah. Thanks. And we continue to focus on realizing synergies in the quarter. And after approximately six months, we want to be at a full run rate, having achieved synergies. We did achieve some synergies in the quarter, but still have some work to do.

As far as OpEx goes, as Sachin mentioned, largely, our OpEx is fixed. We do have some variable costs and continue to invest in organic growth as far as the sales go. But largely, our operating expenses are fixed, and as we continue to grow and expand, should become a smaller percentage of revenue.

Neil Bakshi

Excellent. I'll pass the line. Thank you.

Operator

Our next question comes from the line of Gavin Fairweather with Cormark.

Gavin Fairweather — Cormark

Hey there. Good morning.

Neil Bakshi

Hey, Gavin.

Jae Cornelssen

Morning.

Gavin Fairweather

Maybe I just, I thought I'd start out on MDBriefCase. Maybe you could provide us with an update on how the integration of that acquisition is moving along, and then also kind of some of the moves that you're making to kind of shift or enhance the commercial model of that platform.

Sachin Aggarwal

That's great. Thanks, Gavin. So, first level of synergy, so cost synergies, are well underway. We still have more work to do. We're building a number of shared services that will service not only Think Research and MDBriefCase, but all of the acquisitions and future acquisitions. And so, as Jae says, we're making some mashed potatoes here, so expect it to take a little bit of time, but we've made very good progress in Q1.

In terms of new product offerings on a combined basis, we are also making very good headway on that. So, as I think I've mentioned previously, layering in an enterprise software model for MDBriefCase is a top, top priority for us. And bringing in-house the learning management system so that we're generating new intellectual property on it is also a top, top priority for us.

So expect those things to continue and for us to have more to say on that in short order.

Gavin Fairweather

That's great. And then just secondly on the CareRx partnership. Can you help us understand how the sales process works? And then also, how the pipeline is building of opportunities within their base?

Sachin Aggarwal

Yeah. So for Care, we're super-excited about this particular partnership. And just before I answer your questions, just a reminder that this partnership is enabled by the integration of the various assets that we've acquired already, right? So Think Research, we've got a telemedicine platform, our VirtualCare platform, and. But without the clinicians from HealthCare Plus and 360, we would not have been able to offer this particular product, right? And it will be enhanced over time also with our digital referrals product, right? So it is a good demonstration of how you can bring these assets together to enable something that's greater than the sum of its parts.

In respect of the specific questions, Care, we're in the early stages of deployment of this particular product and offering in combination with CareRx. So we've got a number of homes that are live and we're getting rapid feedback from those homes on how to tweak the program, maximize the program, make it the most efficient for the residents of those retirement facilities so that they really value it, they enjoy it, and it improves their quality of care. So we're really focused on that in the first stage.

The sales process in terms of adding new homes—and we do have a lineup of new homes that are ready to go live—the sales process involves CareRx communicating with their client base. Suffice it to say there's a lot of excitement from the homes. And so it's a pretty easy sales process, I have to say. And then, of course, we work with them in order to be able to communicate the offering to those retirement homes and most often retirement chains. And then we're building an onboarding package and tweaking an onboarding package to make sure that the deployment is smooth as we bring on those additional homes. So again, on that one, expect us to have more to say in the coming quarters.

Gavin Fairweather

Great. Appreciate that. And then maybe just lastly from me for Jae. Can you remind us on the deferred revenue timing, just in terms of how the billing cycle works with government and how to think about that from a seasonal perspective?

Jae Cornelssen

Yeah. I mean, as far as the deferred revenue, typically Q1 is a bit slower. In Q2 and Q3 and subsequent quarters, we should have larger receipts and then more deferred revenue, but it's just kind of the timing with the government. So that's kind of—there is a bit of seasonality in the business. But as we continue to grow and expand, you should see that start to decrease as becoming a factor in our business, just because we have been transformed and have had record revenue in quarter.

Gavin Fairweather

Great. Thank you.

Sachin Aggarwal

Yeah. Maybe just to layer on an additional sentence or two there. So government fiscal year-end is March 31st, right? And their fiscal year starts April 1st, so a number of our legacy contracts and some of our larger contracts peak at that point. And so we draw down deferred revenue through the year and then it'll spike again in and around April 1st, April, May, June.

Gavin Fairweather

Makes sense. Thanks.

Operator

As a reminder, to ask a question please press *, 1.

Our next question comes from the line of Anthony Schifano with Caldwell Securities.

Anthony Schifano — Caldwell Securities

Hey, guys. Congratulations again on the quarter. Sorry if I am repeating anything, but just wanted to, I guess, get the simple answer here, and I know you don't provide any guidance. But can there be an expectation of EBITDA positivity in the next year or so?

Jae Cornelssen

Yeah. So right now, our adjusted EBITDA is trending in the right direction. As we continue to gain synergies in the coming quarters from the acquisitions, we expect significant EBITDA improvement.

Our time frame to positive adjusted EBITDA somewhat depends on our investment priorities related to growth. But the time frame should be measured in quarters not years.

Anthony Schifano

Okay. Awesome. Thanks so much.

Jae Cornelssen

Welcome.

Operator

Our next question is a follow-up from Rob Goff with Echelon.

Rob Goff

And thank you again. Could you discuss your rollout timeline in Iceland? And perhaps more broadly, would this be a steppingstone to a ninth country representation?

Sachin Aggarwal

Yeah. Thanks, Rob, for that.

We are already well-engaged with the government of Iceland. And you can imagine, with a single medical records provider across the country, our partnership with Origo was done with parallel discussions with the ministries of health in Iceland, right? So it wasn't done independent of that. So as a consequence, we have a pretty tight and aggressive timeline in terms of deployment. I would note that, as a consequence of COVID, enterprise rollouts are choppy. They're a bit sort of start and stop, right, or a hurry-up-and-wait kind of deployment. So we're not going to give a particular timeline on it because of the uncertainty as a consequence of COVID, but I will say it's underway already.

In terms of adding additional countries, Origo is a large player in some of the Nordic countries. Right? And so, yes, certainly, we are very keen to be able to enter those countries using this same partnership. And that will be our model in a lot of other countries.

So it's important to recognize that the medical records companies and hospital information systems that are dominant regionally around the world are not the names that you might be familiar with from the US market, right? They're very often the top one, two, three players are local or regional players in many of these markets. So the Origo partnership is an example of what you need to do to be able to become a material player in some of these other regional markets outside of North America.

Rob Goff

Okay. Perfect. Thank you.

Operator

This concludes the question-and-answer session. I will now turn the call back to Sachin Aggarwal for closing remarks.

Sachin Aggarwal

All right, folks. Thank you. And thank you very much to our Operator, Raquel (phon). And thank you, everyone, for joining us this morning. You've made our first conference call just a pleasure to do. And you've been kind and gentle on us, so we very much appreciate that.

We wish you safe and very healthy times. Have a great day. Thank you very much.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

Caution Regarding Forward Looking Information

Certain statements in this news release, other than statements of historical fact, contain "forward-looking information" within the meaning of Canadian securities laws and are based on certain assumptions and reflect the Company's current expectations with respect to such matters. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments and the reader is cautioned that such statements may not be appropriate for other purposes. Statements containing forward-looking information are not historical facts, but instead represent management expectations, estimates and projections regarding future events or circumstances. Such forward-looking information is necessarily based on a number of opinions, estimates and assumptions, including but not limited to those assumptions described under the heading "Caution Regarding Forward Looking Information" in the Company's Management's Discussion & Analysis for the Three months ended March 31, 2021. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies, competitive strengths and outlook of the Company, and include statements concerning accelerating growth in 2021 and beyond, expectations for continuing to build out high quality, recurring software revenues from top-tier health system clients and continuing to acquire and integrate additional companies, and the statements made in the "First Quarter Fiscal 2021 Update". Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts", "committed" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Company's control, affect the operations, performance and results of the Company, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, changes in technology, management of market liquidity and funding risks, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), reliance on third party services, the effect of applying future accounting changes, privacy and confidentiality risks, product and service defects, medical *liability claims, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, man-made disasters, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic or other public health crises (such as COVID-19), the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.*

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Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including the Company's most recently filed annual information form and any subsequently-filed interim MD&A, which are available under our profile on SEDAR at www.sedar.com

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