Think Research Corporation

Think Research Corporation Fiscal Year-End 2021 Conference Call

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the Think Research Corporation Fiscal Year-End 2021 Conference Call.

Today's call is being recorded.

At this time, I would like to turn the conference over to Sachin Aggarwal. Please go ahead.

Sachin Aggarwal — Chief Executive Officer, Think Research Corporation

All right. Thank you, Operator, and good day to everyone on the call. Joining me is John Hayes, our new Interim Chief Financial Officer, and he will review the financial results in more detail, after I discuss some of the operational achievements during the fourth quarter and the full year 2021.

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

As a reminder, Think Research is an industry leader in delivering knowledge-based digital health software solutions. The Company's focused mission is to become, for clinicians, an essential data service that organizes the world's health knowledge so everyone gets the best care. We're building for health care what Bloomberg is to finance.

Our evidence-based health care technology solutions support the clinical decision-making process and standardized care in order to facilitate better health care outcomes. The Company gathers, develops, and delivers these knowledge-based solutions globally to customers, which include—which is enterprise clients, so that's hospitals, health regions, health care professionals in clinics and/or governments.

The Company has gathered, as a consequence of this, a significant amount of data by building our repository of knowledge through our network and our group of companies, including the companies that we've acquired.

In all, Think licenses our solutions to more than 13,000 facilities for over 300,000 primary care, acute care, and long-term care doctors, nurses, and pharmacists who rely on the content and data provided by Think to support their practices. Millions of patients annually receive better care due to the essential data that Think produces, manages, and delivers.

In addition, the Company collects and manages pharmaceutical and clinical trial data via the BioPharma Services entity that we acquired on September 13th of 2021. As a reminder, BioPharma is a leading provider of bioequivalence and Phase 1 clinical research services to pharmaceutical companies globally.

We also have a network of digital-first primary care clinics and a medical clinic that provides elective surgery.

The Company's financial performance during 2021 reflects the impact of four acquisitions that transformed the business such that revenue in the three months ended December 31, 2021, of $19.1 million was 438 percent higher than in the same period a year ago.

The reported financial performance of the Company includes $5.7 million of one-time costs incurred during the year associated with these transactions.

And to lay the foundation for profitable growth of the consolidated operations, the Company has embarked on a plan to realize cost and operational synergies during the year.

In addition, and very importantly, we signed several multiyear, multimillion-dollar contracts, both internationally and domestically, throughout the year, and I'll highlight a couple.

For example, in November, we announced a five-year, $5.2 million contract with our partners at the Better Access Alliance to provide patients with better access to health care information and providers across the province of Ontario.

This SaaS contract is an expansion to the Company's digital referral network and will connect patients to health care providers, get them information and guidance throughout their health care journey in what is referred to as a digital front door. It's the digital first point of entry for when patients are looking for care.

I am particularly pleased to say that this solution went live across the province just last week, and we have already seen thousands of daily accesses by providers and patients.

During the year, we also signed international multiyear contracts, which increases our geographic footprint to eight countries, including, in March, we signed up eight facilities in Iceland, with an option to expand to other Nordic countries such as Sweden, Denmark, and Norway.

In addition to this notable deal, we also expanded multiple licences across our solution set. For digital referrals alone, we doubled our scale from half the province of Ontario to the entire province and doubled usage in the same time period to over 300,000 digital referrals processed for the year.

All of these contract awards and expansions give us enormous confidence that we are building an essential data service for clinicians everywhere that Think has a presence.

We've worked very hard to exit the year with approximately $6 million of acquisition synergies and our operations optimized for profitable growth.

With the recently announced injection of up to $25 million of new capital, of which we will access $10 million in the short term, we have the capabilities and capacity to turn Think into an essential data service for our clients. We are just embarking on that journey now. We feel like we're still—just 15, 16 months into being a public company—we feel like we're just very early in this journey, and we are very excited about the future.

Now I'd like to invite John Hayes, our Interim Chief Financial Officer, to review the financial results in detail for the quarter and for the year. After he reviews the financials, I will conclude with a bit of an outlook, which offers some thoughts on how we plan to become an essential data service for clinicians.

Over to you, John.

John Hayes — Interim Chief Financial Officer, Think Research Corporation

Hey. Thanks, Sachin.

I will start my comments with the fourth quarter of fiscal 2021 and compare that to the prior quarter Q3 of 2021 and to the comparable quarter of 2020. Due to the transformation of our business resulting from the four acquisitions in 2021, I'm going to suggest that quarterly comparisons are the most relevant indicators of our baseline operations going forward. After that, I'll briefly review the full year 2021 performance.

We are pleased to report that revenue for the quarter ended December 31, 2021 was $19.1 million, an increase of $15.6 million or 438 percent, compared to revenue of $3.6 million for Q4 of 2020.

Sequentially, revenue in Q4 2021 grew by 90 percent, compared to $10.1 million in Q3. The strong growth quarter over quarter was due to the impact of a full quarter of operations from the BioPharma acquisition, along with new revenue from the acquisition of Pharmapod in November, supplemented by the organic growth and contracted revenue that Sachin referenced earlier.

For the fourth quarter, our software and technology segment delivered $6 million or 31.5 percent of total revenue. Clinical research represented $9.2 million or 48.3 percent of total revenue. And clinical services generated $3.9 million, which is 20 percent of our total revenue.

Our cost of sales increased to $10 million in the quarter, up 398 percent compared to $2 million reported in the same quarter of the prior year. The increase in cost of sales generally track the increase in revenue, as well as an impact from revenue associated with the acquired clinics and BioPharma, which have a lower gross profit margin than the software and technology business line.

Turning to gross profit. During the last three months of 2021, the Company generated gross profit of $9.1 million, compared to $1.5 million for the same period in the prior year. That's an increase of 489 percent.

The increase in gross profit was primarily related to the increase in revenue that I just mentioned. And in Q4, that 2021 gross profit represents an increase of $4.9 million or 115 percent, compared to Q3 of fiscal year 2021.

For the last quarter of 2021, the Company generated gross margin of 48 percent, compared to 44 percent for the same period in the prior year. The change in gross margin was due to a change in revenue mix, due to acquisitions and also due to synergies gained from integration.

The gross margin in Q4 is also up from 42 percent, when compared to Q3, primarily as a result of operational synergies being realized during the quarter that reduced cost of sales.

Our general and administration expenses increased by 87 percent to $7.3 million in the fourth quarter of 2021, compared to $3.9 million for the comparable period in 2020. The increase was primarily due to personnel costs associated with acquisitions completed during the past 12 months, higher salaries and wages to support the continued growth of the business, and higher stock-based compensation.

Other expenses that increased year over year and quarter over quarter due to acquisitions, includes depreciation and amortization and sales and marketing costs.

Sales and marketing expenses also increased due to our strategic emphasis on driving scale through elevated branding and securing and retaining revenue-generating talent through higher salaries and wages.

Acquisition, restructuring, and other costs for the quarter ended December 31 decreased by 78 percent to $1.3 million, compared to $5.8 million in Q4 of 2020, due to significant one-time costs incurred in 2020 in connection with the listing of Think's shares at the end of that year.

As part of the HCP acquisition on December 23, 2020, the Company acquired 100 percent of the shares of ArionTech, a noncore business unrelated to the health care sector. In Q4 of 2021, the Company divested Arion to focus on its core business, resulting in an impairment loss of $677,000 on intangible assets.

Turning to adjusted EBITDA, it's a non-IFRS measure that we believe helps explain the cash-generating potential of operations after adjusting for non-cash and one-time items.

For the fourth quarter, adjusted EBITDA loss was $200,000 or 1 percent of revenue. That represents a thirteenfold improvement compared to an adjusted EBITDA loss of $2.7 million in the fourth quarter of the previous year. Sequentially, compared to

Q3 2021, adjusted EBITDA improved seventeenfold from a loss of $3.4 million in that quarter.

Although there's more work to do, we believe that operations are trending positively toward future cash generation as the Company concentrates on organic growth and scale.

The Company's cash balance during the fourth quarter increased by $340,000, from $6 million at September 30th to $6.3 million at the end of 2021.

Cash used in operating activities was $158,000 for the three months ended December 31, 2021, compared to $5.2 million in the third quarter of last year and $3.4 million for the same period in the prior year. The primary reason for the decrease in cash used was more favourable changes in net working capital and the reduction of listing-related costs in Q4 of fiscal 2021.

Think's net loss for the fourth quarter was $7.6 million, down by $5.5 million when compared to a loss of $13.1 million for the same period in the prior year. This reduction in net loss is due to decreases in expenses relating to the acquisitions and RTO in Q4 2020 and the recovery of income tax expenses.

Earnings per share loss for the year was $0.62. For the fourth quarter, it was $0.13, compared to an EPS loss of $0.49 for the same period in the prior year and a $0.34 loss in the third quarter of 2021.

Now I'll review full year performance for fiscal 2021 compared to the full year performance for 2020, which includes periods when the Company operated prior to its public listing.

Revenue for fiscal 2021 was $47.8 million. That's an increase of 178 percent compared to $17.2 million for the comparable calendar year 2020. The revenue growth was driven from our organic sales and the four acquisitions completed during the year.

The impact of this revenue growth cascades down the income statement. So rather than pointing out specific items, it's accurate to say that the acquisitions and organic growth impacted all margins, costs, and expenses.

The Company's adjusted EBITDA loss was $6.6 million, compared to an adjusted EBITDA loss of $4.6 in the calendar year 2020.

When expressed as a percentage of revenue, adjusted EBITDA loss margin for 2021 was 13.8 percent, down from a 26.5 percent adjusted EBITDA margin loss reported for the calendar year 2020.

Net loss for the full year 2021 was $29 million, compared to a loss of $18.1 million for the calendar year 2020.

The Company's cash balance at the end of 2021 was $6.3 million, down from $10.9 million on December 31, 2020.

This decrease in cash reflects the net impact of cash outlook flows from operations during the year of $11.5 million and from investing activities of $27.4 million, offset by debt and equity financings of $34.3 million.

Subsequent to quarter-end, we announced signing a $25 million convertible debt agreement. We expect to receive the first tranche of $10 million in the coming days, once we complete the customary closing conditions, including approval from the TSXV.

That first $10 million will be convertible into common shares of Think at a conversion price of $1.44 per share. We intend to use this capital to fund organic growth, potential acquisitions, and for general working capital.

Sachin will now give you an update on our plans to make Think an increasingly important provider of solutions to the health care industry.

Sachin Aggarwal

All right. Thank you, John. Very nice to have you on board. And that's a great job for your first call with us.

Suffice it to say, I think we're very pleased with our progress and our results in Q4 of 2021. I think you can—I think everyone can see the very significant progress, quarter over quarter.

Our objective is to grow revenue with improving margins by becoming an increasingly essential data solutions provider for health care clinicians everywhere, so they can deliver the best outcomes for patients. And we have effectively optimized most of our operations to deliver on this objective, although there is a little more to accomplish there.

That being said, we are measuring three operational growth KPIs that we are allocating resources and attention towards.

First, we are adding more users to current licences by promoting adoption and usage. There's a lot of room for us to increase users and usage of already-deployed solutions. As we add more users, our solutions become more essential to licensees, which gives us pricing power and switching barriers.

Again, I'll use the example of digital referrals here. In 2021, we doubled the size of this long-term agreement—it's a total of a 10-year agreement—with the Province of Ontario, adding thousands of new user licences. The resulting network effect has dramatically increased usage and stickiness through the year, from less than 100,000—from less than 150,000 processed in 2020, to more than 300,000 processed in 2021. And I'm very pleased to say that, that trend continues.

Second, we aim to increase revenue per user by increasing the number of services and solutions that a licensed user adopts and uses regularly. Our product development, along with recent acquisitions, such as MDBriefCase and Pharmapod, give us an opportunity to cross-sell these solutions to existing licensees to increase revenue per user. Okay?

And finally, with a user base that now exceeds 300,000 doctors, nurses, and pharmacists, we have an ability to sell solutions and content developed internally and with strategic partners that monetize licensed users directly, over the top of their enterprise or facility licence.

We believe that direct user licensing could generate entirely new revenue streams. And a very simple example, we are adding pharmacist education through MDBriefCase to the Pharmapod product, so that tens of thousands of our existing pharmacist clients will be able to access the industry-leading continuing medical education provided by MDBriefCase.

So number one, add more users to existing licences; number two, increase our revenue per user by selling in additional services and licences; and number three, sell new solutions and content to users in our facilities, directly over the top of facility licences. Okay?

And in support of these strategies, our product teams and business development teams are focused on strengthening the utility of our data and data solutions, such as digital referrals, through ongoing product development, platform integration, and content development. We plan to add new third-party solutions to our data services and solution set via supplier partnerships and integrations. We're expanding our solutions footprint via new facility licences and over-the-top direct user licences in eight countries where Think has a market presence.

In the immediate time frame, in order to effectively execute on these strategies, the Company is undertaking the following now.

First, we're completing the integration of recent acquisitions BioPharma and Pharmapod. The Company has gained $6 million of cost synergies to date—that's to the end of December 2021—and there is more to recognize in the coming quarters.

In addition, Think is improving operations and sales potential at both in order to maximize adoption scale and earnings potential as we add more licences and users to these acquired businesses.

As we optimize operations through integration, we are continuing to evolve from a product-focused conglomeration into a cohesive data solutions company with a focus on clinician data and knowledge needs. Our product and R&D teams are constantly reviewing our user needs, our solution set, and sales and marketing strategies, with an effort to become more essential to users and licensees alike.

As we optimize operations, we are realigning resources to increase sales and marketing capacity and revenue-generating support functions in key areas.

With the recently announced $25 million convertible debenture with Beedie Capital and the access to senior secured debt from Scotiabank, Think has more than enough capital to fulfill our strategic objectives.

I want to conclude by summarizing our major achievements over the past year. Think has begun to transform into an essential data service for doctors, nurses, and pharmacists. This is a journey that will continue as we scale. Over 300,000 clinicians use at least one of our solutions, and we have a presence in research facilities, pharmacies, hospitals, clinics, and long-term care health facilities in 8 countries. And our annual revenue run rate this year exceeds $80 million, up from $16 million revenue base prior to our public listing 16 months ago.

We have worked hard to get close to breakeven adjusted EBITDA, and we are confident that we should begin delivering long-lasting profitability soon. We have optimized our operations, strengthened our balance sheet, and are gaining more strategic focus. At our current share price levels, we are absolutely convinced that investors can benefit from our profitable growth plans and earn excellent shareholder returns.

With that, this concludes our preprepared remarks, and I would ask the Operator to open up the line for questions. Thank you.

Q&A

Operator

Thank you. If you would like to ask a question, please signal by pressing *, 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *, 1 to ask a question.

And we'll take our first question from Rob Goff with Echelon. Please go ahead.

Rob Goff — Echelon

Thank you and good morning. Congratulations on solid results coming on here.

As we look forward, how should we look at operating savings—like we realize that your team did $5.8 million of savings in 2021. Could you talk about those realized versus an exit-rate run-rate savings going into 2022? And to what extent might those be somewhat offset, or more than offset, by increased sales and marketing expenses?

Sachin Aggarwal

Thank you, Rob. Thanks for the question and appreciate the highlighting of that very important point. So we did, of course, see some of those efficiencies within Q4, because many of them were executed within Q3. And even those executed in Q4, we see some of that impact in quarter. You see the full run rate of those savings heading into Q1. But you're correct. We have invested significantly in sales and marketing heading into 2022. So there is an offset of those savings relating to our reinvesting in sales and marketing.

Overall, while I don't have the numbers at my fingertips, I can tell you that the sales and marketing overall budgets are more than 4 times what they were before we went public. Right? So it's a significant increase and that, of course, has some impact. But it's the right place to put our investment, particularly with the significant opportunities for cross-sell and upsell that we now have between our solutions. And so we are pretty excited about that.

I will, however, highlight that the $5.8 million achieved last year is not the end of the story. There are more synergies to be had, and we can talk about that further when we talk about our Q1 results in a few weeks. And we'll talk about that further still when we talk about our Q2 results just a couple of months away.

Rob Goff

And if I may, could you talk to the impact of COVID on Q4? And perhaps a bit of a preview in terms of how that may have impacted Q1?

Or looking ahead, presumably, hopefully, we won't see the impact in Q2 this year?

Sachin Aggarwal

Again, thanks for that question, Rob.

Q4 had some impact from COVID, particularly in the month of December, as we started to see Omicron really have an impact on the health care system. But its impact overall in Q4 was mild. In Q1, however, Omicron did have a modestly significant impact because the government issued another order, as it's done previously through the pandemic, to close clinical operations. So for the entire month of January, our largest clinic, the elective surgery clinic, was closed to all patients. So that, of course, has an impact on our Q1.

It also has an impact on the BioPharma entity. When you close clinical operations, studies get moved. So we don't lose those studies, but they get rescheduled. So there was some shifting of studies out of Q1 into Q2 and Q3 but, overall, pipeline remains healthy.

So those two items do have a bit of an impact on the Q1. The good news is you don't lose those clients. It's a shifting of some of that revenue into later months and later quarters.

Operator

And we'll take our next question from Chris Thompson with PI Financial.

Please go ahead.

Chris Thompson — PI Financial

Great. Thanks, guys.

On 2022, I didn't see any update on guidance. Are you still thinking, top line, $90 million to $100 million? And EBITDA in the $7 million to $10 million range?

Sachin Aggarwal

We are not changing guidance at this time, Chris. So you can stick with what you've got at this time. If we decide to change guidance or update you on guidance, we will do so.

Chris Thompson

Roger. And just in the MD&A, Sachin, you mentioned improving margins as a focus going forward. And is that a function of gross margin? Or are you planning to scale revenue a little bit faster than OpEx? Or a combination of both?

Sachin Aggarwal

It's a combination of both. We do expect good organic growth heading into this year. Our pipelines are very healthy. As you get scale, of course, you should expect that your cost of goods sold relative—particularly for the SaaS components of the business—you should expect that your cost of sales, relative to the whole, should decline as a percentage, so we expect to see some of that.

And we still have synergies to achieve, so it'll be threefold. It'll be top-line growth, just a benefit from our size overall and then, of course, some synergies yet to be realized. And that's across the business, by the way, so we still have—while we've achieved our first line of synergies at BioPharma, just by way of example, there's still more to do in digitizing that entity. So there is room yet.

Operator

And as a reminder, to ask a question, please signal by pressing *, 1.

And we'll take our next question from Jérome Dubreuil with Desjardins. Please go ahead.

Jérome Dubreuil — Desjardins

Hi. Good morning, everyone. Congrats for the results.

Maybe a broader perspective question for me. Just given, I think, we are anticipating a change to potentially turning EBITDA-positive, either next or in the next few quarters, and also with the convert being completed now, I kind of feel there's a bit of a change in tone in terms of (unintelligible) rating certain initiatives.

So the turning EBITDA-positive and converts, were these milestones that could possibly change the way you operate or allocate capital to your capital priorities going forward?

Sachin Aggarwal

If I can read between the lines of your question, I think what you're asking is are we shifting our focus as between M&A and operations? Is that kind of what you're getting at, Jérome?

Jérome Dubreuil

Well, maybe there were some initiatives that you weren't full-throttle on, just given your situation in terms of profitability, that now you'll be able to go forward with.

Sachin Aggarwal

Well, let me say a few things. So our focus will be those items that I spoke about in the later part of my script, which is: increasing our licensed users within existing contracts; upselling those licensees for new user licences or new solutions, essentially cross-selling/upselling; and then selling directly into our userbase, through over-the-top licences, so that we're getting multiple sources of revenue from a single user. That will be our focus.

And so you're right in the sense that becoming EBITDA-positive, as will occur in the coming quarters, will allow us the flexibility to double down and triple down on sales and marketing for those purposes. And so, yeah. I definitely think, Jérome, that you're going to see a bit of a change in focus as we shift towards that.

Maybe I'll just address the question on M&A. We will always keep our ear to the ground here in terms of M&A, and we will be opportunistic, as it relates to really remarkable, good opportunities for tuck-in acquisitions.

And I'll highlight the Pharmapod acquisition because we—it was just a stellar, stellar, stellar acquisition that is delivering such remarkable results for us already, so. And we'll always keep our ear to the ground for those kinds of opportunities but the focus, for the near term, remains on the operations and those key items that I spoke about earlier.

Jérome Dubreuil

Great. No. Definitely great to have flexibility there.

And I know you mentioned you're not changing your EBITDA guidance for 2022 but, at the same time, you're seeing more potential for additional synergies. What's baked in, in terms of synergies, in relation to the current EBITDA guidance? Is it maybe more the $6 million that's in the guidance right now?

So would the additional synergies be on top of the guidance that's already out there?

Sachin Aggarwal

No. We've always had additional synergies that are planned into 2022. Now we're putting a finer point on them or scheduling them out for the balance of the year. So they're certainly a part of the—a part of previous plans and previous guidance. What I will say is, again, these synergies open up the opportunity for us to invest and reinvest in things like sales and marketing, which is where we're putting our precious dollars.

Operator

As a reminder, if you would like to ask a question, please signal by pressing *, 1.

It appears there are no additional questions at this time.

Sachin Aggarwal

All right. With that, genuinely appreciate you joining us this morning. We're very excited, very pleased to be approaching breakeven EBITDA, and planning for positive EBITDA in the coming quarters and for later this fiscal year.

And with that, we think it gives us significant flexibility, and we are excited about what's yet to come.

Thank you for joining us this morning.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.