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Think Research Corporation

First Quarter 2022 Financial Results

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Corporate participants

Sachin Aggarwal
Think Research — Chief Executive Officer

John Hayes
Think Research — interim Chief Financial Officer

Conference Call Participants

Rob Goff
Echelon — Analyst

Doug Taylor
Canaccord Genuity — Analyst

Jérôme Dubreuil
Desjardins — Analyst

Kris Thompson
PI Financial — Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Think Research Corporation First Quarter 2022 Financial Results Conference Call. At this time, note that all phone lines are in a listen-only mode. But following the presentation, we will conduct a question-and-answer session.

Also note that the call is being recorded on Monday May 30, 2022. I would like to turn the conference over to Sachin. Please go ahead.

Sachin Aggarwal — Chief Executive Officer

Thank you, Operator, and good day to everyone joining us this morning. Joining also is our interim Chief Financial Officer John Hayes, who will review the financial results in more detail, after I discuss some operational achievements during the first quarter of 2022.

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

Think Research is an industry leader in delivering knowledge-based digital health software solutions. Our 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 are building for healthcare what Bloomberg is to finance.

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

The Company has gathered a significant amount of data by building its repository of knowledge through its network and group of companies, including acquired companies.

Today we license 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 confident 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 13, 2021. BioPharma is a leading provider of bio-equivalence and Phase 1 clinical research services to pharmaceutical companies globally.

Think's other services include a network of digital first primary care clinics and a medical clinic providing elective surgery.

The Company's financial performance in the first quarter of 2022 continued many of the trends evident through 2021, with our subsidiaries all performing well and to plan.

In 2021, we made four acquisitions and transformed the business such that revenue in the three months ended March 31, 2022, of $20.2 million was 142% higher than in the same period a year ago.

In 2021, we signed a series of major contract awards and expansions, as we build an essential data service for clinicians everywhere that Think has presence.

We exited the year with approximately $6 million of acquisition synergies and our operations optimized for profitable growth. We are pleased to report that we have now realized practically all of these synergies and have more planned for Fiscal 2022.

With the recently-announced injection of up to $25 million of new capital and with $10 million now drawn upon, we have the capabilities and capacity to continue with our objective to turn Think into an essential data service for healthcare practitioners everywhere. We are just embarking on this journey now, and we are very excited about the future.

Now, I just want to invite John Hayes, our interim Chief Financial Officer, to review the financial results in detail for the first quarter and the year. After he reviews the financials, I will conclude with an outlook and concluding comments. Over to you, John.

John Hayes — interim Chief Financial Officer

Thanks, Sachin. Good morning everyone. I will now provide some colour to our Q1 2022 results.

Starting with revenue, we are pleased to report that revenue for the quarter ended March 31 was $20.2 million. That's an increase of $11.8 million or 142% compared to revenue

of $8.4 million for Q1 of 2021. Sequentially, revenue in Q1 2022 grew by 6% compared to $19.1 million in Q4. The strong quarter-over-quarter growth was due to revenue from Pharmapod in November, supplemented by organic growth in contracted revenue.

If we were to annualize our revenue for the first quarter of the year, that would equate to a run rate of over $80 million, up from a run rate of $76 million to $77 million in the fourth quarter of 2021.

For the first quarter of this year, the revenue in our software and data segment grew by $2.5 million or 31.5% to $8.5 million, which is up from $6 million in Q4 of 2021. That was due primarily to recent contract wins.

Now the combined revenue from our other segments declined by $1.4 million quarter over quarter, caused primarily by clinical research and clinical services delays associated with closures in January due to the Omicron outbreak.

Cash generated by operating activities was $3.1 million for the three months ended March 31, 2022. That's an improvement of $10.9 million, compared to cash used in operating activities of $7.8 million for the same period in the prior year. The reasons for the improvement in operating cash flow included improved operating performance, as shown by our improvement in Adjusted EBITDA, along with better management of working capital in general, especially on our collection from accounts receivable.

During the first quarter of 2022, the Company generated gross profit of $9.1 million, compared to $5.3 million for the same period in the prior year, an increase of 71%.

For the three months ended March 31, the Company generated gross margin of 45%, compared to 64% for the same period in the prior year. The gross margin, when comparing year-over-year figures, was affected by the change in revenue mix as a result of acquisitions in general and BioPharma in particular.

Turning now to our expenses.

In Q1 of this year, Think recorded an expense of $288,000 from stock options that were cancelled in the quarter. That $288,000 was recorded in total stock-based compensation expense of $1 million. This amount is allocated to each category of operating expenses. In case you were wondering how cancelled stock options can lead to reporting an additional expense, IFRS requires the Company to report the expenses as though they had not been cancelled. In effect, this results in Think reporting the expense for all currently active stock-based compensation plans plus the cost of the stock options that no longer exist because they were cancelled. To help users of our financial statements identify this amount, we've shown it as a separate line in Note 9 of our financial statement.

In total, Think's operating expenses grew by 51% from $9.3 million in Q1 of 2021 to $14.1 million in Q1 of this year, reflecting the overall growth of the business in the past year.

Think's cash operating expenses, which we calculated by removing stock-based compensation and depreciation and amortization, grew by $2.4 million from $7 million in Q1 of last year to $9.4 million in the first quarter of this year. That's an increase of 35%. We believe this increase in cash OPEX demonstrates the operating leverage in Think's business, as we extract cost synergies from our acquired businesses. The result is that, when comparing the first

quarter of last year to the first quarter of this year, revenue grew by 142%, gross profit grew by 71%, but cash operating expenses grew by only half as much as gross profit, coming in at a 35% growth rate.

Part of the reason for this improvement in operating leverage is Think's cost optimization program that streamlines the operations of our acquired companies. To date, we have reported $6.9 million in annualized cost synergies.

Implementing this program did lead to an increase in acquisition restructuring and other costs, which increased by 31%, to $1.1 million for the first quarter of 2022, compared to the same period a year ago, due primarily to higher costs associated with staff reduction.

Adjusted EBITDA for the first quarter of 2022 is close to breakeven. The Company posted a loss of $0.3 million, compared to an Adjusted EBITDA loss of $1.6 million reported in the previous year. When expressed as a percentage of revenue, Adjusted EBITDA margin improved to negative 1.4% compared to negative 19.7% in Q1 2021. We believe we are well positioned to achieve positive Adjusted EBITDA this fiscal year.

Think's net loss increased by $1.2 million from $5 million in the first quarter of 2021 to $6.2 million in the first three months of this year, reflecting higher costs associated with the growth in Think's business.

Earnings per share loss for the first quarter was $0.11 compared to an EPS loss of $0.12 for Q1 in the prior year.

Subsequent to quarter end, we announced signing a $25 million convertible debt agreement with Beedie Capital. On May 10, we received the initial $10 million advance from

this facility. The undrawn $15 million of the convertible facility will be available for subsequent advances to be used to finance Think's acquisition of complementary businesses or as otherwise approved by Beedie. 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.

I'll now pass the call back to Sachin. Sachin?

Sachin Aggarwal — Chief Executive Officer

Thank you, John.

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

I do want to highlight one recent contract that occurred subsequent to quarter end, that I'm particularly pleased with. On May 19, we announced a $4.1 million contract with a global pharma giant to deliver high-quality content to our user base of 300,000 healthcare practitioners and allied health professionals regarding its drug and vaccine therapies, including mRNA vaccine therapies. This agreement also includes our learning management system to enable us to support the training of these health practitioners about best practice treatments, therapies, and pharmaceuticals to deliver optimal outcomes for patients.

This contract win is an example of the value of our legacy content combined with the solutions of one of our recent acquisitions, MD BriefCase. The new contract was sold to a pharmaceutical client that we gained through our BioPharma acquisition. This is an excellent example of the synergies that we envisioned as we executed our acquisition plan during 2021. It also aligns to our objective to become an essential data service to healthcare practitioners that use our solutions.

There are similar opportunities to this emerging in our pipeline, which we believe we can continue to convert, which should reveal the synergistic value of our suite of products and services and the essential nature of our solutions.

I want to turn now to our three core operational growth KPIs that we are allocating resources and attention towards.

So first, we are adding more users to current licenses, 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 with the Province of Ontario, adding thousands of new user licenses. The resulting network effect is dramatically increased usage and stickiness through the year, from less than 150,000 processed in 2020 to more than 300,000 in 2021. 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. Product development along with the recent acquisitions such as MD BriefCase and Pharmapod give us an opportunity to cross-sell these solutions to existing licensees to increase revenue per user.

Finally, with a user base now exceeding 300,000, we have an ability to sell new solutions and content developed internally and with strategic partners that monetize licensed users directly, over the top of facility licenses. We believe that direct user licensing could generate entirely new revenue streams. In a simple example, we are adding pharmacist education 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 MD BriefCase.

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

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 as an example, through ongoing product development, platform integration, and content development.

We plan to add new third party solutions to our data services and solutions set, via supplier partnerships and integrations.

We are expanding our solutions footprint via new facilities licenses and over-the-top direct user licenses in the eight countries where Think has market presence.

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

First, we are completing the integration of recent acquisitions BioPharma and Pharmapod. The Company has gained $6.9 million of cost synergies to date, 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 earning potential as we add more licenses and users to these acquired businesses.

As we optimize operations through integration, we're continuing to evolve from a product-focused enterprise 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 sets 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 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 fulfil 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. More than 300,000 clinicians use at least one of our solutions, and we have a presence in research facilities, pharmacies, hospitals, clinics, and long-term health facilities in eight countries, and our avenue revenue run rate this year exceeds $80 million, up from a $16 million revenue base prior to our public listing 16 months ago. We've worked very hard to get close to breakeven Adjusted EBITDA, and we are confident that we should be 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, we conclude our prepared remarks, and I would ask the Operator to open the line for questions please.

Q & A

Operator

Thank you sir. Your first question will be from Rob Goff at Echelon. Please go ahead.

Rob Goff — Echelon

Thank you and good morning.

Sachin Aggarwal — Chief Executive Officer

Morning.

Rob Goff — Echelon

Congratulations on the results. Very strong. Solid.

First question would be very easy. Could you perhaps frame the financial impact of the COVID restrictions, and now the bounce-back at your clinics and BioPharma?

Sachin Aggarwal — Chief Executive Officer

Yes. Broadly speaking, we can. So, think of the impact as affecting mostly two business lines, the clinical services and in particular Clinic 360, for which we were closed for the entire month of January minus three days. Okay. So, that business is seeing no impact to its operations in Q2, at present. Right?

For BioPharma, what it did was it had an impact on scheduled studies. So, studies were moved from Q1 to Q2 and Q3. Okay. Frankly, due to the uncertainty, that also affected some studies in Q2, which are moved to Q3 and Q4. Right? So, we are seeing certainly Clinic 360 having no impact in current quarter; we are still seeing some impact, though diminished, from BioPharma.

Rob Goff — Echelon

Okay, thank you. As a follow-up, could you perhaps discuss your M&A priorities and your pipeline there?

Sachin Aggarwal — Chief Executive Officer

Sure, very happy to. I think it's probably clear from our share price that acquisitions get more expensive as a consequence of that, especially if you're using any share consideration. We are always keeping our ear to the ground with respect to high-value tuck-in acquisitions that may be accretive to our story, but of course that does get very challenging at these kind of share prices.

We do have some that are in our pipeline, but again, as valuations change and the markets change, I think you should think of us as being in watch mode for the right timing and the right valuations, as opposed to being immediately active or expecting any immediate transactions.

Rob Goff – Echelon

Great. Thank you. I'll jump back in queue.

Operator

Thank you. Next question is from Doug Taylor at Canaccord Genuity. Please go ahead.

Doug Taylor – Canaccord Genuity

Thank you, good morning.

A pretty substantial uptick in the revenue from your technology line or segment. I know that digital front door contract was a big driver of that. Can you maybe talk through the mechanics of that contract, how much of that was recognized in the quarter? Is there anything in there that's one time that should follow off from some initial licenses or deployment? Can you speak to that, and the directionality of that segment in the quarters ahead?

Sachin Aggarwal – Chief Executive Officer

Maybe I'll speak at a high level and then John, if you want to speak about some specifics.

So Doug, it's not just the one contract, there's sort of three contracts that are having a more material impact. Three, four contracts that are having more material impact on us simultaneously.

So, one is the expansion of digital referrals; that occurred mid last year. While there was some impact to Fiscal 2021, most of the impact actually hits us in 2022. So, there's growth there.

Number two is of course the healthcare navigation system contract, which you're referring to. There are some one-time costs, but even those are expected to be largely reoccurring. It's sort of like, as we continue, they've got continuous services as we deploy that particular contract. However, licensees are now starting to be recognized into Q2 and beyond.

John may—but I don't think we're giving a lot more detail on the specifics of that revenue recognition just yet.

The third contract is the One Stop Talk, which is similar to the healthcare navigation system RFP, and that's a digital front door, children and mental health.

Lastly, of course, we have the contract with the global pharmaceutical giant, which is a software and data solutions contract as well.

So, all four of those are having an impact, and that's what's resulting in the increased revenue from software and data solutions, as opposed to any one contract.

Doug Taylor – Canaccord Genuity

So, as we look ahead at the quarters ahead, given that one of those contracts you mentioned was signed, I think, since quarter end, should we be expecting sequential growth in this segment as well, to complement the rebound in utilization of the clinical services and clinical research divisions?

Sachin Aggarwal – Chief Executive Officer

I think what we'll say is that our pipeline—we're not expecting any material declines in revenue from software and data solutions, and frankly our pipeline is the richest as it relates to our software growth. So, we are expecting that to continue to be very robust, and of course, given that it's delivering us fast revenues and highly reoccurring revenues, that's also where we're focusing our attention.

Doug Taylor – Canaccord Genuity

Okay. So, I believe you said in the press release that you expect your contract to meet your internal revenue growth and profitability targets. You previously, in the last quarter and some of the previous quarter, referred to a $90 million to $100 million revenue objective and a $7 million to $10 million EBITDA run rate objective for 2022. Are those targets still intact?

Sachin Aggarwal – Chief Executive Officer

Yes. We are not changing our guidance; the Adjusted EBITDA run rate, that's an end of year run rate guidance. What we would say, the only thing I would say is that we are doing a little bit of reinvestment in sales and marketing through the year, in order to generate strong pipeline for later in the year and beyond, but that's the only real adjustment that we've made. Otherwise we're not currently changing our guidance.

Doug Taylor – Canaccord Genuity

Just one point of clarification, then, on that last point. You've spoken to this reinvestment in sales and marketing. You see that as being offset by the additional cost rationalization effort that you have, so the cash OPEX should be static as you reinvest those savings? Is that the right way to think about it?

Sachin Aggarwal – Chief Executive Officer

Broadly, I think that's the right way to think about it. John, I don't know if you have anything specific to add there.

John Hayes – interim Chief Financial Officer

No, I've said. You're quite right, I mean when we announced last week our results of our cost optimization program, I mean, those numbers that we provide are net numbers, net of add-backs for other positions, so you may see some trending downwards in OPEX, but in general Sachin's comments are correct.

Doug Taylor – Canaccord Genuity

Okay thank you. I'll pass the line.

Operator

Thank you. Next question is from Jérôme Dubreuil at Desjardins. Please go ahead.

Jérôme Dubreuil – Desjardins

Hi, good morning everyone. Two quick clarifications on your comments answering Doug's question. First on the guidance run rate. So, on the run rate, are we talking about the fourth quarter run rate, or a run rate that will be reached at some point during the fourth quarter?

Sachin Aggarwal – Chief Executive Officer

Are we talking about the fourth quarter or a run rate that will be reached at some point …

Jérôme Dubreuil – Desjardins

Maybe—if I can clarify that, it wouldn't be the fourth quarter times four would be $7 million to $10 million EBITDA.

Sachin Aggarwal – Chief Executive Officer

I think that's the right way to think about it, is our end of year or our Q4 run rate. Correct.

Jérôme Dubreuil – Desjardins

Great. Another small clarification. You were talking about your important contract in the software side on healthcare navigation. You mentioned there were some one-time costs, but was this really one-time costs or one-time revenue, just clarification there.

Sachin Aggarwal – Chief Executive Officer

Is it one-time cost or one-time revenue? We give matching of costs to revenue, what I would say is, that one-time revenue is—we consider it to be more reoccurring as opposed to absolutely one time, because the government has us on continuous SOWs that will—so while

one set of projects right into that particular contract may conclude, there are subsequent ones, and that's this similar to some of our other bigger contracts, where we provide a group of or an allocation of resources to that very large enterprise client, because of course they have continuous change requests.

I don't know if that answers your question, Jerome.

Jérôme Dubreuil – Desjardins

Yes, yes, no, it answers it, thanks.

Then lastly, we saw pretty good cost control in terms of G&A in the quarter; wondering if the new level is sustainable, or is this a large part of the savings that are due to some of the restrictions that were in the beginning of the quarter?

Sachin Aggarwal – Chief Executive Officer

John, I'm going to turn that one over to you.

John Hayes – interim Chief Financial Officer

Yes, I think that you would be looking at cash OPEX expenses in the range of—I don't think—we didn't have a big adjustment for cash OPEX. A lot of the changes that you would have seen in the quarter focus around cost of sales, because a lot of the clinic and clinical research operations, those headcounts, the fixed headcounts tend to be in OPEX and the variable headcounts tend to be in cost of sales.

Jérôme Dubreuil – Desjardins

Okay. Thank you.

Operator

Thank you. Your next question will be from Kris Thompson at PI Financial. Please go ahead.

Kris Thompson – PI Financial

Great. Thanks. Morning guys.

I'm just looking at the GM, gross margin in the quarter. It didn't improve, it actually declined from last quarter, I think John just said, because you had some fixed headcount in there in BioPharma, but the cash OPEX didn't decline sequentially, so, I'm just trying to identify where this $1.1 million of synergies is coming from, in the quarter.

John Hayes – interim Chief Financial Officer

Yes. That question's pointed at me. The $1.1 million in synergies, it's an annualized number, so we've got a cost optimization synergies optimization team, and the person who heads that up keeps a fairly detailed recording of all of the costs and other synergies achieved, and reports on that quarterly. That number, before we share it, I mean we'd make sure that we're all comfortable with it, and we even have our external accountants have a look at it.

But it is an annualized number. So, you won't see it as being a $1.1 million decline from Q4 to Q1, but rather one that stretches out over quarters to come.

Kris Thompson – PI Financial

Okay, fair enough. I mean, the acquisition costs and restructuring expenses in the quarter, over a million dollars, how do we think about that going forward? At some point that's going to be zero, I would assume, in the next couple of quarters?

John Hayes – interim Chief Financial Officer

Well, Sachin also mentioned that we have continuing cost optimizations to come. As you know, as we operate in Canada, we do have restructuring costs associated with changing our workforce composition. So I can't say that it's going to—I mean, should it trend to zero over time, provided we do no more acquisitions and we get our cost optimizations exactly where we want it? I would say that is the correct way to think about it, but if we do have additional changes in quarters to come, where we see some big opportunities to improve the operations of the business overall, we will certainly do that and you would see those reflected in the "acquisitions, restructuring and other" expense line.

(Multiple speakers)

Sachin Aggarwal – Chief Executive Officer

I can just add to that a little bit. We, for example at BioPharma, we targeted the first round of our digitization program to go live in Q1 2022; that did occur. But there are two more

rounds of go-lives as it relates to our digitization program, one that is expected to be late summer, and one that's expected to be late in the year. Each of those, for example, will result in further staff optimization and synergies. So, you can see how it's expected to result in further restructuring charges.

That being said, if there's no more acquisitions, of course, that portion comes out.

Kris Thompson – PI Financial

Okay, and just my last question to follow up on all of that, I mean, there seems to be some confusion here about the EBITDA guidance. It used to be $7 million to $10 million for the entire year; has that changed, or has that not changed?

Sachin Aggarwal – Chief Executive Officer

The guidance is run rate guidance for the end of the year.

Kris Thompson – PI Financial

Was that always the guidance?

Sachin Aggarwal – Chief Executive Officer

In the original press release, I think it is, yes.

Kris Thompson – PI Financial

Okay. I'll leave it there. Thank you.

Operator

Thank you. Next question is from Rob Goff at Echelon. Please go ahead.

Rob Goff – Echelon

Thank you again. I just want to return to the MD BriefCase and your prospects of layering in additional contracts for additional services to that platform.

Sachin Aggarwal – Chief Executive Officer

I'd say it's fairly significant at this point. When we talk about our audience that we're targeting, for example, of course MD BriefCase, when we acquired them, they came with a significant audience themselves. But we have very significant audience at Think Research, through our various software solutions, that MD BriefCase was not targeting, for example. Similarly with Pharmapod. Pharmacists are some of the most valuable audience targets for MD BriefCase. So, adding the tens of thousands of pharmacists through Pharmapod to the reach of MD BriefCase significantly increases their audience, and of course results in a bigger and deeper pipeline. Right. So, we're feeling very optimistic about MD BriefCase's performance this year and into next year.

Rob Goff – Echelon

Very good. Thank you.

Operator

Thank you, and at this time we have no further questions. I would like to turn the call back over to Sachin.

Sachin Aggarwal – Chief Executive Officer

Okay. With that, we just want to thank everyone for taking time, so this for—to spend some time with us for our Q1 results, and have a wonderful day.

Operator

Thank you sir.

Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time we do ask that you please disconnect your lines.