Veradigm Inc.

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Stephanie Davis: Thank you so much for joining our next session. We have the Veradigm Team, and we have the whole team here today. They're going to go through and tell us more here at the Barclays Global Healthcare Conference. We have Dr. Yin Ho, she is the interim CEO. We have Lee Westerfield who's going to give a very brief disclosure statement, and we have Will Manidis who is brand new, and he is the Co-Founder and CEO of ScienceIO, the acquisition they just made. Lee, take it away with the disclosures.

Lee Westerfield: Thank you, Stephanie. Thank you all for joining. I'm Lee Westerfield, Interim CFO. Shortly, we'll start with a fireside chat with Dr. Yin Ho and Will Manidis. Then in about 15 minutes, I'll return to the podium to make remarks about our financials. First our disclaimer. We'll be making forward-looking statements during the presentation and the Q&A. These statements are based on current expectations and involve a number of risks and uncertainties that could cause our actual performance to vary materially.

We undertake no obligation to revise these forward statements in light of new information or future events, please refer to our press release and SEC filings for more information regarding risk factors that may affect our performance. Thank you.

Stephanie Davis: Thank you much, Lee. Let's level set the backdrop. It's been a weird year.

Dr. Yin Ho: It has been.

Stephanie Davis: But you're in the seat now and you have seen some pickups in the financial restatements process. You have a delisting. Could you give us just some quick color about the progress that's been made, what's left to go? And if a relisting is the goal?

Dr. Yin Ho: That is our goal, is to go toward a relisting. Yes, we did delist a few weeks ago. But that's because we missed the deadline on our restatements. It's a process we don't have full control over because they have an audit process going on. But we fully are working very hard to get toward -- back to a relist. I don't know if Lee has anything he'd like to add.

Lee Westerfield: I'll make some remarks in a few minutes on the relistening effort, but it's constructive and underway.

Stephanie Davis: All right. Will, you're new to the stage. I don’t think the audience has had any opportunity to hear from you before. Can you tell us a little bit more about your path here?

Will Manidis: Sure, totally. I started my career in healthcare at Foundation Medicine. We were a cancer diagnostics company that was commercializing the data asset that Flatiron Health originated through their ongoing [EMR] products. We took genomics information, we took clinical information, we merged those together and sold them to Pharma. That was an incredible business. I am so grateful to have learned there. And we scaled that from zero to hundreds of millions of revenue in a very short amount of time.

The fundamental flaw in that business was the huge amount of human labor it took to go from the messy unstructured notes the doctors generate to high-quality real-world information that's ready to for pharma analysis. When we sold to Roche in 2018, 2019, I made the decision to walk away alongside my co-founder to start a company focused on building safe large language models that can take on structured health care information, structure it and get it ready for real-world evidence analysis.

We were deep on that journey when Veradigm approached us, and we found the mutual opportunity of working on the Veradigm data set too much to not -- like we couldn't turn it down.

Stephanie Davis: When I look at your history, I see someone who's founded a few different companies. Can you tell me -- pitch to us why you think you're a Veradigm person longer term?

Will Manidis: I mean, Veradigm's at a refounding moment, right? It's a fundamental reorientation of the company around its data asset, right? This is an old company. We have been in market with mature products across payer, provider, and life sciences, but we've never oriented around products before, right? The ability to come into Veradigm, start this new business unit in our AI Center of Excellence, build high-quality data assets that can be sold to pharma, touching markets we've never touched before, it's very much a 0 to 1 motion, and that's what attracted me to it.

Stephanie Davis: And to be transparent, the market has been a little bit more mixed on the reviews of the acquisition, right? So, I'd be curious on your take because you guys have been so enthusiastic about the deal. I mean you talk about how the boards on board, and all three of you are very jazzed about it. Tell me what we're missing?

Dr. Yin Ho: This is actually a really great moment. This is a really pivotal moment if you think about it. We are sitting on the largest, richest data set, clinical data set, representing over 209 million patients. We have data rights that go far back that allow us to be able to do work on this data. And more importantly, we're actually the only organization that owns our own large language model, our own [LLM] because of this acquisition, giving us full control over the way we teach that model and because of how we can teach the model, train the model and on our own data, we have the ability to create much more accurate information, much more research ready information. And from our perspective, it actually creates a competitive advantage for us.

It's really quite exciting. And it allows us also to reorient. It's a little bit about what Will was saying, reorient the organization completely around data and by reorienting around data and data capture, we not only get to support the customers that we have, we have the ability to support our customers in even ways that maybe they maybe they may not have realized and we can also use these large language models to support their user experience while at the same time actually enriching the data that we have that we can actually generate structured products from and that are very useful for real-world evidence research and even eventually for clinical research.

Stephanie Davis: Now I'm probably the dumbest person on the stage so explain this like I'm five. You don't have a revenue model yet.

Dr. Yin Ho: We do have a revenue model.

Stephanie Davis: For ScienceIO?

Will Manidis: We'll have products in market this year.

Dr. Yin Ho: This year. We're already preselling this.

Stephanie Davis: Can you tell me about the preselling or tell me about the revenue model or the deployments in your partner clients so we can at least have some broad strokes of what this looks like.

Dr. Yin Ho: We're already beginning conversations with biopharma companies. We're already having conversations about the fact that we're sitting on the most diverse data that really represents American Health because of our footprint. We actually don't just cover sort of centers of excellence or areas where there's high concentration of people. We actually cover rural areas. We cover areas where there's a great deal of diversity, and that data is probably the most useful data that everybody wants.

The FDA has been pushing the diversity. Pharma companies have also been needing to find this information. We're about to structure it up in a way that's actually useful for -- ready for analysis, whether that is for a real-world data analysis, a real-world evidence analysis, whether an external control arm. There are many different things that they can possibly use this information for, but we can also tailor it and do it very quickly. And I think that's what makes this very exciting.

Will Manidis: I would just add, the excitement we're seeing from pharma is incredible, right? Like real-world data has really plateaued outside of oncology because of the incredible cost it takes to prepare these data sets. Oncology is a very narrow slice of the whole pie of American health. We can scalably originate data sets for any disease area that's covered in our patient population. And for pharma, that means dozens of things that would block them historically from speed of analysis to speed to enroll to increasing focus on diversity and recruitment. All that stuff fades away with a product that previously was unpurchasable.

Stephanie Davis: There are numbers of folks in the room. Is there any broad strokes you can give us on how you're pricing for this? How many initial conversations are [towards the end] for signing? Anything to size the revenue opportunity?

Dr. Yin Ho: Maybe the way I can answer that question is the fact of how do you do a data sale? So, when you do a novel data sale, they usually begin with a few pilots but what's more important is you aim to be able to provide consistency of that data like a pipe and when you do it that way, you go for long-term subscription recurring revenue type of contracts. And so, you don't go for just you go for just a year, you go for several years in a row. And again, a large part of it is because you take a research orientation around it and about what you want to track over time. And so, you use that in the way of scoping and offering into the marketplace.

Will Manidis: I would also just add, a unique differentiator here is our ability to sell multiple products into a single pharma company. It's not like we're just an oncology data provider or just a cards data provider. If you look at our vision population, it mirrors the totality of what's happening in pipelines today, which means you can imagine a world where you're selling multiple SKUs at premium pricing into a single development organization inside of pharma and that's something incredibly unique.

Stephanie Davis: Let me try asking this another way. Is there some metric you will hold yourself to, to measure success for this deal in the first year?

Dr. Yin Ho: Yes. We will be talking about pilots, about when we are out there with customers talking about what's possible, about sort of the responsibility of using large language models in the way that we have to reduce the data accuracy that they're looking for. There is a lot of interesting conferences that we will be speaking at. We will have product out this year.

Stephanie Davis: When will we start seeing more consistent revenue stream?

Dr. Yin Ho: I think you'll look into the next year, into 2025 you'll start to see it because this largely because revenue is a lagging indicator, a large part of what the excitement you'll see in the front will come from people wanting to experiment with us, with people who will -- with companies who will want to publish with us, talk about what their basically finding. I think that is really going to be more the mark of where things are going to be picking up and then you'll sort of start to see that excitement and that excitement will start to translate. It maybe also by the end of the year we can also show some bookings too. That may be another way to look at it.

Stephanie Davis: Now, Lee, I know I promised you some time for your slides when we were 10 minutes in. Go. You're up.

Lee Westerfield: Okay, as you like.

Stephanie Davis: We've made some announcement this morning. We weren't able to publish on it.

Lee Westerfield: Why don't I speak to those now?

Stephanie Davis: Yes. Let's hear about the announcements. Tell us what's going on with the guidance.

Lee Westerfield: Thank you. Thank you very much. There were, as many of you will have read the press release and 8-K filing this morning. We released guidance for 2024. I'm going to walk you through our outlook on the coming year. But for Veradigm, we see 2024 as a year to reset, reinvest and renew our growth over the next 10 minutes. So, I'll share with you three topics of our assessment of our sales of this current state, where we're investing and the guidance. And I do want to make one further important commitment to you all. We aim to reestablish your confidence in Veradigm. It's our intention to come forward to you on a regular basis, even as we work through the audits and filing issues and return to you with regularity with business updates, financial performance reporting to the extent that it's going to be permissible. I aim to keep you informed, and we aim to keep it in front of you.

The self-assessment, the state of Veradigm? Situationally, we have been delisted. We remain public. MBRX trades OTC on the expert desk. We are on the road towards a relisting on NASDAQ, our audit is prolonged about timing. The question many will ask -- are asking by when? What I'll say on this topic is our auditor and my accounting team and professionals alongside are working cooperatively and diligently with our auditor. The activity that is in review spends multiple years. That's a significant scope to test and respond thoughtfully. We venture into the delisting healthy by most standards. We are a rare exception for delisted name with healthy fundamentals. And when I look at our profile, I want to highlight four points; we carry ample liquidity, are internally available sources of net cash stand at $114 million approximately.

We have ample cash on hand for those that are closely watching if we need to repay our convertible bonds and continue, as I say, to carry net cash of 140. We remain consistently profitable on an EBITDA and free cash basis. In EHR, we retain scale advantages that are quite stabilizing to our recurring revenue and strategically our advantageous data, which Will and Yin have been speaking about, is internally and network sourced and this crucial point. In effect, we are paid to collect and capture health data, the health data that supplies our data intelligent growth opportunities.

Reinvestment. In 2024, in future growth -- Thank you. 2024, as I mentioned, will be an investment year. Investments are focused in two primary areas in growth and foundational strength, first on growth and profitability, the initiatives planned this year canvas all three of our market pillars with new and improved products for provider. We're modernizing our EHR focused on cloud deployment, internally named Project [VNEXT] for payers. New care gap closure offerings under the brand internally of Project [Firebird] will be deployed in the second half of the year, and we will add new Veradigm payer insight, and life sciences new AI data intelligence.

The impact to potentially drive revenue and margin expansion lastingly over time. While I look at our foundational initiatives, these our the second set of initiatives for investment this year. These tend to stabilize our audits and reporting sharp and are forecasting at all levels within our business operations, enhance sales productivity and most of all simplify the complexities of our customer experience. This is under a brand of internally branded Project [ATLAS].

And what, in fact, are we doing? We're implementing new information systems company-wide centrally and most importantly, with a new centralized ERP coupled with end-to-end process change in "cash." This is important. The impact is potentially pronounced. We anticipate gains in productivity, especially in the area of simplifying contract management.

Guidance and outlook, lastly, importantly. Our guidance for 2024 and then our outlook out through 2026. About revenue, on a GAAP basis, we see 2024 in a range between $620 million and $635 million. That's up, modestly up, by 1% to 3% from the midpoint of our earlier 2023 estimates. Drilling into the business segments, our provider segment, we see that business holding flat in revenue year-on-year, while Payer and Life Sciences are rising in the upper single to low double digit range.

Drilling a little further into the provider business and its financial plan, we anticipate that the recent churn will be more than offset by ramp-up of Practice Fusion's revenue cycle services and by the recent purchase of Koha Health.

Meanwhile, the growth areas of Payer and Life Sciences arise from Payers', clinical data exchange, and from Veradigm Payer Insights. And the outlook to 2026, acceleration in revenue growth, approximately a 10% CAGR. That's an acceleration from the 1% to 2% range, we've just 1% to 3% range we've just discussed. And the three drivers behind that are all infused by AI, AI data intelligence driving real-world data in life sciences, AI improving further modernization in EHR for providers and also value-based care elements for payers.

How will that flow to profitability? Our adjusted EBITDA in 2024, we again see here in a range of $104 million to $113 million at the midpoint. That's a margin of 17%. That itself is down year-on-year, so that merits explanation? I have been speaking about our investment initiatives. Inside of those investment initiatives is a temporary OpEx that collectively subtracts 2% from our margin, EBITDA margin, as estimated this year. We expect that temporary OpEx bolus to unwind during the fourth quarter, and that sets the stage for 2025 and beyond to see margin recovery and expansion. And what about that expansion out to 2026, we are anticipating potential to add 3% to 5%-percentage points to our adjusted EBITDA margin from this year's level and that strikes me as conservative in this important regard because that 3% to 5% is including the recovery of the 2% from the temporary OpEx bolus. The remainder, that is to say additional margin expansion out to the year 2026 is derived out of the collective advancements in AI data intelligence revenue models, those sorts of models are much higher margin than our base businesses.

So, in summary, where do you stand? On a solid bedrock of net cash uniquely internally sourced health data in a year, we're investing in critical areas for growth and foundational systems, set the stage for productivity and margin expansion. And we anticipate in the near future years, accelerating revenue growth, lasting margin expansion, each, again, lifted by AI, data intelligence applied in health technology markets.

Thank you.

Stephanie Davis: I have some questions on that. So, let's do that slide up. You have 2024 adjusted EBITDA, it includes 12 million of that temporary OpEx with 50 million below consensus. Can you help us bridge that?

Lee Westerfield: Well, I can't speak for the consensus, which if I've been closely observing has not really been strictly formed over the last couple of months, while we've been radio silent with investors other than speaking at JPMorgan, but I can speak to the change year on year from 2023 to 2024. The $12 million as you're referring to on the slide, constitutes the 2%, I've been referring to as temporary bolus of OpEx expenses. That is comprised of two important areas. One is the staffing augmentation in our accounting in order to be able to set the stage foundational strength, return with consistent audit and reporting performance; and secondly, the OpEx portion of Project ATLAS implementation of new systems. Additionally, we have acquired ScienceIO, and we have other areas of routine expansion in 2024.

Stephanie Davis: So even if we added that back, it gets you to -- it would still be a high-teens margin profile, right, like-for-like?

Lee Westerfield: That's accurate. Yes. We would be at 17% after all of the investment activity, 19% if you will, normalized, and anticipate margin expansion in the future.

Stephanie Davis: So, is all the margin compression, ScienceIO, plus investments that we just haven't been kept up-to-date with?

Lee Westerfield: Correct. They are offsetting cost productivity and cost savings that have been woven into our budget for this year as well.

Stephanie Davis: All right. We have time for maybe two questions left. Let me go on with that. So how are you dual tracking making these investments while also maybe shoring up your financial position and your reporting structure?

Lee Westerfield: Well, we wouldn't be able to do it for it not for carrying a strong net cash position and profitability. So, you begin with the profile of the economic model that we stand with today. Net cash is a better place than net debt and that net cash is more than ample for our needs. The second is focusing on areas where our product development and coupling with go-to-market across all three pillars. Yin and Will have been discussing that for a bit, is one track facing the customer. Meanwhile, the corporate track focuses on the remediation of the audit and implementation of centralized ERP.

Stephanie Davis: So, tell me how they're splitting up management time?

Lee Westerfield: Yin's on offense, I'm on defense.

Dr. Yin Ho: That's a good way of putting it. So, a large part of my time is spent tremendously on where are our customers, what they need and what they're looking for, also on the idea of us basically going forward and bringing a lot of our AI capabilities, infusing them into our organization. There is a bit of integration that we have to do. But more importantly, we also want to put out a set of really exciting healthy intelligence products this year. That's a large part of my time is spent in that direction growth.

Stephanie Davis: With that in mind, you're talking to a lot of new clients, you're trying to feel out what the products could be in the market. For new sales positioning, how important is it to be a stand-alone public company?

Dr. Yin Ho: I think it's actually a good thing that we're a stand-alone public company. If you think about it, our ability to reach more people is there. It's also people -- we're the only EHR vendor who is actually out there as a public company. And what's really exciting about that is we're about to transform in front of everyone, too, into something really exciting because we are not only EHR, we also cover Payers, we cover Life Sciences. We now also have our own LLM so we can produce Health Intelligence products. And now we're shifting in this direction. I should think as a public company, we can do this quite well.

Stephanie Davis: All right. That's really all the time we have. Thank you so much. I appreciate you coming out.

Dr. Yin Ho: Thank you. Thank you so much, Stephanie.

Lee Westerfield: Thank you very much.