Second Quarter 2020 Financial Results Conference Call Transcript

Date: Tuesday, September 1, 2020

Time: 9:00 AM ET

Speakers:

Prad Sekar
Chief Executive Officer

Raheel Lalani
Vice President, Finance

Operator

Thank you, everyone, for standing by. This is the conference Operator.

We would like to welcome you to the CB2 Insights Second Quarter 2020 Financial Results Conference Call. The results are for the period ending June 30, 2020.

As a reminder, all participants are in listen-only mode. After today's speakers conclude the presentation portion of the call, should time permit, they will move to a question-and-answer period. If you wish to ask a question, you may queue at any time by pressing star, then one on your telephone keypad. You will hear a tone acknowledging your request. To withdraw your question, please press star, then two. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

As always, I would like to remind you that listeners are cautioned that today's call and the responses to any questions may contain forward-looking statements, including certain statements which concern long-term earnings objectives. These should be considered in conjunction with the cautionary statement contained in the CB2 Insights earnings release and in the Company's MD&A and other filings. Forward-looking statements are subject to risks and uncertainties and assumptions. Accordingly, actual performance could differ materially, and undue reliance should not be placed on such statements. CB2 Insights does not undertake to update any forward-looking statements except as required. All currencies discussed on this call will be in Canadian dollars unless otherwise stated.

This conference call is being recorded today, Tuesday, September 1, 2020 at 9:00 a.m., and will be posted to the CB2 Insights website within 24 hours after the conclusion of the call.

I would now like to turn the meeting over to CB2 Insights' Chief Executive Officer, Mr. Pradyum Sekar. Please go ahead.

Prad Sekar

Thank you, Anastasia, and a good morning to everyone, and thank you for joining us today for our Second Quarter 2020 Conference Call for the period ending June 30, 2020.

With me this morning is Raheel Lalani, VP Finance with CB2 Insights. He will provide you with a more detailed overview of our financial performance in a moment.

After the close of markets yesterday, we released our second quarter 2020 results for the three-month period ending June 30, 2020. The news release for these results, financial statements, and Management Discussion and Analysis for this period are available on our website, cb2insights.com, and have been filed on SEDAR.

I will begin with a brief description of our business. I will then cover the highlights from the second quarter. Our VP Finance will then review the financials, then, finally, I will discuss subsequent events, updates to ongoing initiatives, and opportunities that lie ahead for the Company.

CB2 Insights is a healthcare services and technology Company working to positively impact patient health outcomes. Our mission is to improve the lives of patients through the prevention and treatment of health conditions, and using proprietary technology to monitor, assess, and generate insights to help improve patient outcomes. The Company owns and operates a proprietary virtual Telehealth platform, and a network of over 30 medical clinics across 12 states in the U.S., providing integrative, primary, and urgent care services to over 100,000 patients annually.

Application to Insights' technology and research services are deployed in other international markets, including Canada, the United Kingdom, and Colombia. The Company differentiates itself by being one of the largest integrative medical practices in the U.S. that owns its own proprietary technology, data analytical assets, and clinical research expertise to support new market expansion, market access, data collection and analysis, and drug discovery.

Q2 2020 was another very busy period for us. We remain committed to our plan to both execute on the growth of the business, and ensure doing so with sustainability through profitability in mind. Changes throughout 2019, which continued into the first quarter 2020, were realized through each consecutive month, with top line growth leading the way to achieving EBITDA profitability for the first time in Q2 this year. This is an important financial inflection point for the Company. This goal is only possible thanks to the tireless efforts of our team, who recognize and understand that strong business fundamentals will create a long-term sustainable business that aims to help improve health outcomes for millions of patients.

With that, I would like to turn over the call to Raheel Lalani who will review our financial results in more detail. Then I will be back to discuss what you can expect in the coming quarters.

Raheel Lalani

Thanks, Prad, and thanks to all of you for joining us today.

Management is exceptionally pleased with the Company's performance for Q2, especially as it came against the backdrop of the challenges presented by the pandemic. Revenue was $3.7 million, an increase of 13.6% over last year. The growth in revenue was primarily driven by organic growth from our existing Medical Services business, along with the revenue acquired from Relaxed Clarity, MedEval, and New Jersey Alternative Medicine.

Gross profit was $2.6 million in Q2, compared to $2.1 million from last year, an increase of 22.8%, driven by process improvements and the deployment of technology to improve the delivery cost of services. For the first time, we are pleased to report a positive operating profit, and an Adjusted EBITDA gain of $0.37 million in Q2, versus an Adjusted EBITDA loss of $0.79 million from the prior year. This is due to continued improvements to the operating model and top line growth. As Prad mentioned, this is an important milestone for our Company's history.

Over the second quarter, we also strengthened our balance sheet. In June 2020, the Company amended its promissory note held by our financing partner, Merida Capital, extending it to December 2022, reducing its interest rate also from 12% to 8%, and payable in shares or cash, and the Company's option and a forced conversion at a premium to the current market price. The Company ended the quarter with a strong cash balance, of $1.3 million.

With that, I'll turn it back to Prad.

Prad Sekar

Thanks, Raheel.

Prior to discussing future growth, I'd like to take a few minutes to highlight why this is one of the most exciting times in the Company's history. For the past year, it can be said that we have been on the defensive. We have had to continue to fight an uphill battle, protecting cash reserves and focusing on establishing ourselves as a sustainable healthcare Company. We made a commitment that by Q2, we would become profitable, and that we would not need to rely on external financing for operations. As such, it was our mission to focus on optimizing costs, improving work flows, and creating measurable change.

While aggressive top line growth was not a focus during this time, we were still able to see continuous year-over-year growth. Thanks to the tireless efforts of our team, and the patience of our shareholders, we have finally done just that. Further, we are now armed with a strengthened balance sheet, $1.3 million for growth, a cash-generating business, and primed for the next step. Ladies and gentlemen, it's time to go on the offensive.

Our focus moving forward will be our three-pronged growth model that combines both organic and acquisition-based strategies. It will bolster our position in the U.S. market, not just from a market share perspective, but a fundamental growth to top line revenues and profitability. After being involved in clinical practice management in Canada and the U.S. for over 15 years, five of which in the U.S. market, we have an in-depth knowledge to lead this initiative.

The U.S. Clinical business presents an opportunity that is far superior to what we are accustomed to in countries like Canada. Firstly, they are profitable. It is not uncommon to see margins of 20% to 30% compared to Canadian clinics where highly-functioning primary care clinics generate less than 10% at best. This can be seen from our strong gross margins of 70%, compared to Canada's clinics which derive gross margins of 40% to 50%.

Secondly, they provide the opportunity for both private, membership-based revenue, and insurable billing, where the opportunity to maximize member spend, at limited to no cost to the patient, is possible.

Lastly, the high cost of healthcare in the U.S. presents a massive addressable market, more than the population size of Canada, resulting in a highly unaddressed market for CB2 Insights. This is one of the strongest reasons we believe our Company will be met with success in this vertical.

The three-pronged growth model includes growth in current services, growth from new services, and growth through acquisitions. Let me begin with growth from current services. In April 2020, we launched Skylight Health as the umbrella brand for our medical services in the U.S. market. Skylight Health operates under a hybrid model to provide patients in the U.S. with access to integrative care, including primary and urgent care medicine. The business model includes a fixed membership service termed direct primary care, or DPC, at $199 a year, for unlimited access to our telemedicine platform for patients seeking primary and urgent healthcare providers. This disruptive model will aim to provide access to over 40 million Americans who cannot access healthcare services due to the high cost of insurance.

Secondly, Skylight Health provides additional fee-for-service care, under an insurable billing model for patients with adequate health insurance plans, more notably Medicare and Medicaid, among other commercial carriers. According to a report on national health expenditures by the Centers of Medicare and Medicaid Services, or CMS, CMS expenses are expected to reach $6 trillion by 2027, only further accelerated by the ongoing COVID-19 pandemic.

On average, traditional clinics can expect to see insurable revenue between $500 to $1,000 in patient spend per year, largely at limited to no cost to the patient. Companies like One Medical who went public this year, and Oak Street Health, who just filed their initial public offering, are seeing tremendous success in the space, generating over a billion dollars a year in revenue collectively in the U.S. market.

After a limited launch of Skylight DPC in select states, we have already seen strong traction and demand from patients. In less than 30 days, we have seen over 600 patient registrations, and growing. As we continue to expand DPC in our other remaining states by the end of this year, we expect to see stronger growth in the net new patient base.

We are also underway with several investments in digital and traditional marketing channels through a variety of leading industry marketing firms, working to establish new patient acquisition strategies. We expect that over the next 30 to 60 days, we will see metrics that will allow us to scale up efforts in marketing in these areas, leading to higher organic growth in patient counts and revenues.

Through telemedicine, we are expanding our reach in existing markets through new partnerships with leading healthcare partners, including our most recently announced partnership with the Freas Medical Associates Group in Maryland. This is an important agreement for CB2 investors for two reasons. First, it provides access to CB2 for a significant number of patients through partnership rather than acquisition, allowing for significantly accretive economics. Secondly, the agreement uses Maryland as a test bed, but is aimed at expansion throughout the Freas' national network.

We also recently announced the latest addition to our Leadership team, Pam Galassini, a Senior VP, Business Development. Pam brings more than 20 years of pharmacy benefit management, payer insights, and pharmaceutical manufacturer strategies and solution experience. Throughout the nearly two decades she spent at Medco Health, which was acquired for $29 billion by Express Scripts in 2011, Pam will now support CB2 Insights' initiatives to drive engagement in sales in the U.S. for our DPC model to small to medium-sized businesses.

The majority of healthcare coverage in the U.S. is employer-led. This initiative is part of establishing a foundation to drive large patient acquisition rates by complementing a B2C marketing channel with a strong B2B sales platform. Discussions are now ongoing with SMB insurance companies, including union groups.

I will now touch briefly on the growth from these services. As we expand the launch of DPC and Skylight in our current markets, we will be paying close attention to its application in new states, especially as unemployment rates in other U.S. states continue to climb due to the impacts from the COVID-19 pandemic. With job loss comes loss of healthcare coverage for Americans, requiring continued access to healthcare services. CB2's DPC services are uniquely positioned to provide affordable healthcare for these patients.

Additionally, we will be looking to expand services within DPC and the insurable model. Adding to primary and urgent care, we will look to expand into other subspecialties that complement our patient's needs, providing a more holistic, multidisciplinary practice under one roof, and telemedicine offering, and increase the billable insurance revenue per patient. We look forward to updating shareholders on this leg of growth as we continue to expand on its efforts.

Finally, our last leg of growth will be driven from new acquisitions. Last year, we made three highly accretive acquisitions: Relaxed Clarity, MedEval Clinics, and New Jersey Alternative Medicine. As a result of these acquisitions, we added to the total number of patients served in the U.S., growth in top line revenue, and improvements to our overall operating margins and EBITDA. Going forward, we believe that acquisitions represent a significant source of growth for the Company. We currently have a pipeline of over a dozen acquisition targets, representing revenue of over $10 million and EBITDA of over $2 million. The pricing currently being discussed is in the range of 0.3 to 0.75 times revenue, attractive by any measure. We have the current resources, both financial and Management's, to execute on a good number of these, but we will only do so once the exhaustive due diligence process confirms their accretive potential to CB2.

Our acquisition strategy will continue to focus on the fragmented healthcare sector. We will be focusing on traditional practices, including family medical, urgent care, and in some cases, subspecialties. The focus will be on services that will complement each other, enabling growth and accretive revenue and where we can bring significant economies of scale. Acquisition targets are primarily built on insurable services revenue, with over 90% of their revenues from commercial payers, and also including Medicare and Medicaid. These acquisitions fit well within our business model, and enable the Company to translate these services to our existing base of patients. Further, with DPC, this offers a unique opportunity for these acquired clinics to expand on their service offerings to a net new patient base that they were not able to previously attract, thus expanding on new revenue opportunities in a very short period of time.

As we continue to execute on our three-pronged growth strategy, we will continue to keep shareholders updated of our progress. Our focus remains on executing against our business plan, building a model that maximizes health outcome for patients, and delivering real value in the long-term for shareholders.

Finally, I want to turn to our data generation capabilities. As we continue to grow and strengthen our clinic business, so do our strengths in generating healthcare outcomes for pharma, regulatory, and insurance stakeholders. We believe the recipe for commercializing these assets will be in the U.S., where we will represent both a large data registry of aggregate and non-identifiable data, and where we see the largest growth market for spend by stakeholders in the future.

The IP developed within our technology platforms used in our clinics are starting to show their value to prospective customers. These customers include other clinical groups, research organizations, and retail outlets. While licensing technology is not a primary revenue focus in the near-term, we believe that exploring and further gaining adoption of our technology will build the infrastructure for the next phase of revenue recognition by the Company. We are extremely focused on what our core business is, medical clinics, and that expansion to new channels must be done in a revenue and profit-sensitive manner. We continue to build a strong pipeline of potential technology customers, and we look forward to working with them and announcing our progress in the space.

In closing, I would like to leave you with three key reasons why this is the most exciting time in the Company's history. First, we are positioned well for growth, as described in our three-pronged growth plan, within growth from same services, growth from new services, and growth from accretive acquisitions. Second, our experienced Management and strong balance sheet to affect our projected growth. Third, our stock has never represented such attractive valuation, both on a standalone basis, and under one times current revenue run rate, but also on a comparable basis where we trade at a significant discount to comparable healthcare companies, presenting a massive growth opportunity for shareholders.

With that, it's time to open up the call for any questions. Anastasia, please go ahead.

Operator

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Rob Goff with Echelon Wealth Partners. Please go ahead.

Robert Goff

Good morning and thank you for taking my question.

Could you discuss the potential and the timing to expand beyond Maryland with your Freas partnership?

Prad Sekar

Hi, Rob, certainly. If you're mentioning expansion into Maryland or other states?

Robert Goff

Into other states.

Prad Sekar

Yes, certainly. We've already begun discussions now as we look to other states that their network bleeds into. What we're working on currently with the Maryland market is of course, this is one of the first few times where you start to see collaboration in this type of sector between the integrative and more conventional styles of practice. The Freas Network, which obviously includes a very large network of pain centres and pain management groups, coupled with other healthcare networks, is something that we're now working towards building that alignment, especially as primary care and urgent care starts to work with those subspecialties in a more virtual, telemedicine-based platform environment.

Certainly, this year, we look forward to looking at opportunities to announcing some new states as we look to expand. I would certainly stay tuned over the next couple of quarters to be looking forward to expansion into new states outside of just Maryland with the Freas Network.

Robert Goff

Thank you.

If I may follow-up, could you dive one layer deeper into the contrasting U.S. and Canadian markets; is it a function of payout ratios or the actual fees generated?

Prad Sekar

Yes, certainly. The Canadian market, and this is of course, from our experience of running medical clinics here in both countries. One of the biggest differences between the two models is, in the Canadian model, the way that physicians are compensated is quite opposite. In Canada, typically physicians tend to earn their revenue based on a revenue share agreement, where they'll typically take between 60% to 75% of the revenues generated from the billings to the provincial government for services rendered. In the U.S., however, you tend to see less of that type of model and more of a salary-based model where physicians and practitioners are employed on a salary-based model. Therefore, you can significantly improve the scale of capacity utilization of a clinician in the U.S., which is why we tend to see gross margins of 70% compared to Canadian models where you typically won't see more than 50% because of that revenue sharing agreement.

Robert Goff

With respect to your pipeline, are these typically competitive situations, or if you can give any additional colour, that would be appreciated.

Prad Sekar

You're talking about in terms of the margins generated from these clinics?

Robert Goff

No, sorry, in terms of the pipeline of potential acquisitions; are these situations where you have sole access, or are they competitive situations? What are the dynamics there?

Prad Sekar

I see what you're saying, absolutely. There always will remain some competition in the acquisitions. However, typically these types of clinical assets that are being sold are usually being sold because the previous owner might be retiring, or there's a transition happening with the business. Typically, the buyers of these types of clinics will be more localized and regionalized players, maybe a hospital network or another primary care provider within the region.

The competition exists, although typically, we see that most of these assets are looking to exit for the highest dollar possible, and normally the multiples that we're able to provide are significantly better than some of the multiples that they receive in the market. Clinics don't typically get sold for high multiples, so this provides both an excellent opportunity for the seller, but also for us as a buyer to really generate the value out of these clinics.

We also need to recognize that what these clinics have provided, while it still may be in the realm of primary and urgent care, have been relatively narrow in terms of the services provided. Certainly, our scope to take that as the base of infrastructure as we've done with the past assets we've acquired, and really bolster on new revenue opportunities, be able to bring other revenue sources to these clinics. We see these not just as an apples-to-apples acquisition, but rather, what we can do with this asset is significantly greater, built on the existing profitability of the clinic that we're buying.

Robert Goff

Okay. Thank you.

Prad Sekar

Thank you.

Operator

The next question comes from Mina Mishrikey with Merida Capital. Please go ahead.

Mina Mishrikey

Thanks, Prad, and congrats on the successful quarter.

I had a question about, what are the obstacles to increasing insured patient count, aside from acquisitions, but specifically organically? Thanks.

Prad Sekar

Thanks, Mina, for the question.

As always, there's always competition for patients in a market where there's an existing network of providers under an existing network of insurance coverage. One of the things that makes us uniquely different is the history that we have as an organization has shown that we can continue to remain open and really, patient-first when it comes to trying to help a patient get through their healthcare treatment goals. Traditionally, most clinics will tend to shy away from integrative formats of medicine, combined with conventional treatments. That's not something that we turn away from.

One of the things that make us different is that patients can walk into our doors and talk to us about research that they've found, be it that it's anecdotal or not, our providers have always had a history of wanting to work with the patient's needs and what they are looking to treat their conditions with. Ultimately, they're going to do what they want to do. It's our job to help guide them through that using the expertise that our providers have, but also managing their other conventional treatments at the same time. This is going to be one of the ways that we will continue to differentiate ourselves in these markets and attract a new patient base that are obviously looking for a more holistic form of treatment and those that are under insurance plans and do not have to face that extra cost of having to go to any out-of-pocket expenses, based on our ability to also carry coverage with the same insurance carriers.

Mina Mishrikey

Thank you.

Prad Sekar

Thanks, Mina.

Operator

Once again, if you have a question, please press star, then one.

Our next question comes from Yue Ma (phonetic 24:48) with MedQ Research Capital. Please go ahead.

Yue Ma

Hi, Prad, thanks for taking my questions. Just a couple of quick ones here.

What's the average daily number of online patient visits in Q2, and how was that compared to what we see right now in August? Thank you.

Prad Sekar

That's a great question. Thanks for that.

On average, so as of right now, predominantly most of our services are being delivered by telemedicine. We continue to see the same traction of growth into August, both into July and August as we've seen coming out of Q2, so we're still expecting strong performance in the third quarter. On average, our patient visits range anywhere from about 5,000 to 6,000 patient visits per month, but again, some of those might be dependent on different times of the season or, obviously, the concerns that are going on right now with the pandemic. But on average, those are typically the strength of the numbers and patient visits that we see, although we do expect to see growth in those patient counts as DPC is starting to take traction now in states. As we expand our services into further primary care services into new states, we will start to see a growth in those patient visit counts as well.

Yue Ma

Okay. Thank you.

Prad Sekar

Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Sekar for closing remarks.

Prad Sekar

Thank you for participating in today's call. I hope we have been able to convey some of the excitement we feel about CB2 Insights and its prospects.

As always, I invite you to visit our website, CB2insights.com, where you can find out more about our Company and also contact details should you wish to reach out to us. Thank you all.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.