



CareCloud, Inc.

Third Quarter 2021 Results Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Kim Blanche, *General Counsel*

Hadi Chaudhry, *Chief Executive Officer*

Stephen Snyder, *Chief Strategy Officer*

Bill Korn, *Chief Financial Officer*

Mahmud Haq, *Executive Chairman*

Karl Johnson, *President of CareCloud Force*

Jerry Howell, *Chief Executive Officer, medSR*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Jeffrey Cohen, *Ladenburg Thalmann*

Allen Klee, *Maxim Group*

Mark Wiesenburger, *B. Riley*

Richard Baldry, *Roth Capital*

Joseph Downing, *Cantor Fitzgerald*

Kevin Dede, *H.C. Wainwright*

Michael Galantino, *Chapin Davis*

P R E S E N T A T I O N

Operator

Welcome to the CareCloud Third Quarter 2021 Results Conference Call.

Please note this event is being recorded.

I would now like to hand the conference call over to Kim Blanche, CareCloud's General Counsel. Ms. Blanche, the floor is yours.

Kim Blanche

Thank you. Good morning, everyone. Welcome to the CareCloud Third Quarter 2021 Conference Call.

On today's call are Mahmud Haq, our Founder and Executive Chairman; A. Hadi Chaudhry, our Chief Executive Officer, President, and a Director; Stephen Snyder, our Chief Strategy Officer and a Director; and Bill Korn, our Chief Financial Officer.

Before we begin, I would like to remind you that certain statements made during this conference call are forward-looking statements within the meaning of Section 27(A) of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. All statements, other than statements of historical fact, made during this conference call, are forward-looking statements, including, without limitation, statements regarding our expectations and guidance for future financial and operational performance, expected growth, business outlook, and potential organic growth and acquisitions.

Forward-looking statements may sometimes be identified with words such as will, may, expect, plan, anticipate, upcoming, believe, estimate, or similar terminology, and the negative of these terms. Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements.

These statements reflect our opinions only as of the date of this presentation, and we undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our press release and our reports filed with the Securities and Exchange Commission, where you will find a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

For anyone who dialed into the call by telephone, you may want to download our third quarter 2021 earnings presentation. Please visit our Investor Relations site, ir.carecloud.com. Click on Events and download the Earnings Presentation.

Finally, on today's call, we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our third quarter 2021 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

With that said, I will now turn the call over to our CEO, Hadi Chaudhry.

Hadi Chaudhry

Thank you, Kim. Good morning and welcome to our Third Quarter 2021 Earnings Call.

I am delighted to be here this morning, and I'm excited to share with you how CareCloud continues to thrive in this large and dynamic healthcare marketplace. 2021 is certainly turning out to be another breakout year for us, and we remain incredibly excited and optimistic for what the future holds for us.

In terms of the third quarter 2021, I am pleased to report that we had another record-breaking quarter. As we stepped into this year, we set out to accomplish a variety of important initiatives and execute against some lofty goals.

1. We set out to continue to achieve record revenue and profitability while maintaining our historically disciplined fiscal approach.

2. We committed to expanding our addressable market and the types of customers we could ultimately serve.
3. We set out to launch new and innovative products, and
4. It was important for us to reinforce our position as a tech company in healthcare while also crystallizing our brand and market position.

I'm excited to say that we have already accomplished many of these and are on track to execute against all four of them by the end of this year. This is an exceptional accomplishment, and I would like to take a moment to thank our customers and our employees worldwide for your incredible work in helping us achieve what we have thus far.

I would like to take a few minutes to provide some additional color and insights into some of these for you. In terms of revenue growth, we have achieved another record quarter with \$38 million in revenue. We continue to accelerate our growth and have been able to add revenue through a variety of means. It is important that we maintain the fiscally disciplined approach that has allowed us to drive adjusted EBITDA growth quarter-over-quarter. I'm happy to report that we once again achieved record-breaking adjusted EBITDA, \$6.7 million for the third quarter 2021.

Our approach of constantly evaluating different revenue levers and seeking ways to expand our addressable market is key to our strategy. Whether through the addition of new innovative software products, the ability for us to pursue additional markets through partnerships, or through our proven competence to source and execute on acquisitions. This combination continues to place us in a great position to succeed as an organization.

This year, we had the opportunity to complete an acquisition that has done just that. It has expanded our addressable market by allowing us to provide healthcare consulting and on-demand technical and revenue cycle staffing services and given us a far better position in the health system and hospital space. We continue to be encouraged by the great progress our medSR team is making, the manner in which our integration efforts are progressing and the leadership they continue to exhibit.

In terms of leadership, we recently announced executive leadership appointments at medSR, as well as the addition of dedicated resources in support of the changing and growing needs of our health system clients in this new normal they find themselves in. medSR has appointed additional seasoned leaders that round out the executive team and helps us all execute across every aspect of the business. We have appointed a seasoned CareCloud veteran as Chief Operating Officer and a new Chief Revenue Officer for medSR, who bring a vast amount of knowledge in the healthcare industry, as seasoned executives having worked at organizations like athenahealth, Cerner, Santa Rosa Consulting, and Deloitte Consulting.

These new appointments are important as we continue to integrate, help bring additional capabilities, promote the cross-pollination of ideas and should prove transformational for our combined businesses, while bringing additional depth and breadth as we look to further scale.

Our Company's combined integrated offerings are beginning to gain traction with clients and prospects alike in both the small hospital setting to large multi-region health systems. These organizations are turning to CareCloud to extend their workforce and integrate their EHR and RCM platforms, to optimize performance as they strive to improve access to care and the patient experience while facing an industry-wide workforce shortage and increased pressure on revenue. As I have mentioned in the past, these deals take time, but we believe that our combined strength, leadership position and robust value proposition position us to execute well against our strategy.

As we have expanded our universe of solutions through the medSR acquisition, we made a conscious and strategic effort to focus on these non-recurring revenue deals as we believe they provide significant upside downstream. We're excited about these deals as we believe they set the foundation we need to have our foot in the door, so to speak, and allow us to later convert a portion of these new clients into long-term recurring revenue contracts. This gives us great confidence that it is incredibly cost-effective to bring on these types of customers onboard and then focus on expanding the relationship through upsells and cross-selling opportunities.

Selling into this market takes time and is incredibly difficult, but never in our history have we had such a prominent "seat at the table." These types of "expansion" deals currently in our pipeline are transformative in nature and could represent significant ACV contracts in due time. Our sales teams are hard at work in making this a reality. In fact, our sales team across all of our segments and business units continue to push hard and win in the field. In terms of overall spend, in 2019 we spent about \$1.5 million in sales and marketing, compared to \$6.6 million in 2020, and \$6.5 million in first nine months of 2021. As we have said, we will continue to spend in sales and marketing so long as we can maintain a healthy client acquisition cost.

Let's now focus on some additional exciting news. I've mentioned before that addressable market expansion and continuing to launch new and innovative products remain an important focus of ours. To that end, I'm excited to announce today that later this quarter we will be rolling out a new technology platform that does just that. It expands our market reach and adds significant technology assets to our portfolio. This new and innovative platform we will soon release give us even more capabilities in our enterprise market segment, but also as significant, it expands the types of customers we can serve.

With this new product suite, we will be able to provide technology solutions and service capabilities to healthcare IT vendors, large system integrators, and other healthcare and digital health ecosystem partners, potentially even including those in the payer space.

Earlier this year, we discussed how we had been working on a new technology solution we call Conductor. We talked about how our R&D teams had been working on the problem of unifying healthcare data across multiple systems, partners, and platforms, not only across our internal systems but across our vast network of partners and integrations. This technology would help us as we continue to scale our current business while also assisting us when we acquire companies as it relates to our integration needs. As we continue to develop this new solution and think about its real-world usage, our thinking and strategy evolved. We now see CareCloud Conductor as a family of technologies, or, in other words, a product suite of tools for interoperability, data exchange, transformation and connectivity, rather than as a single product. It is a suite of solutions that are designed to work well together or as stand-alone solutions.

Later this quarter, we will be bringing to market the first of these solutions within the CareCloud Conductor Suite. We call this new product CareCloud Connector. CareCloud Connector is a platform that connects organizations to a ready-to-use integration library for healthcare IT systems, improving data management, increasing visibility and control of these interfaces, and providing more robust vendor libraries for clients and partners to manage on their own.

For example, today an enterprise client or healthcare IT vendor may be required to host or manage dozens of interfaces with third-party systems, labs, proprietary software, connectivity partners and the like, using several software tools and making centralized management incredibly cumbersome and expensive. With CareCloud Connector, there is one centralized management console and hundreds of interface libraries to choose from, making it significantly easier for these new customers to manage and scale. We know this to be true as this solution was built for our own needs internally in order to effectively manage the multitude of complex systems we need to integrate with our own business.

We have the advantage versus some other competitors, in that, we have lived these problems and have needed to look for ways to solve it ourselves. This work is the culmination of decades of knowledge and investment, and we now have an opportunity to package these offerings and bring it to market.

As part of the CareCloud Conductor Suite, we will be incorporating the new and improved CareCloud CollectiveIQ Rules Engine. CollectiveIQ is our stand-alone rules engine that brings an advanced collection of automated billing rules and our proprietary algorithms that help healthcare organizations improve collections and cash flow, reduce administrative costs, and stay ahead of changing healthcare regulations.

Later next year, we will introduce other products within the CareCloud Conductor product suite, including a powerful one-of-a-kind semantic translation engine and schema builder and a stand-alone EDI transaction transmission solution.

CareCloud Conductor sets the stage for our foray into a new market. We are very excited about these new capabilities as it relates to interoperability, data exchange and transformation, and the boundless opportunities we see as we believe it could unlock new markets for us to pursue and the revenue opportunities they represent while giving us an advantage during our systems integration phase with companies we may acquire.

Lastly, as I have continued to meet with investors, analysts, employees, and customers across the country. I'm truly humbled by the incredible opportunity we have as a company and the real impact we are making for our clients nationwide and see our mission come to life.

Most recently, I had the opportunity to see firsthand how our RPA bots, a proprietary workflow technology solution and our team of RCM specialists has been able to significantly improve a sizeable customer's experience with us, post a recent transition, and drive better metrics towards their bottom line. It is always great for me when I receive communications from clients, in this case, a large enterprise customer's CEO thanking our team on the hard work they perform on a daily basis.

It's interactions like the one I just mentioned that energizes us to continue to deliver leading technology-enabled solutions to the more than 40,000 providers in medical practices and health systems focused on delivering quality patient care nationwide.

Our mission remains to deliver comprehensive end-to-end solutions needed in order for our customers and prospects to thrive in today's highly complex, changing healthcare environment. Of course, we accomplish this purpose through our vast array of software platforms and services we have as part of our product portfolio as well as our additional capability to design and build customized solutions required to meet the unique needs of our customers.

In terms of crystallizing our market position, I will continue to ensure that we strive to emphasize and press our leading market presence, our truly distinct position as a leading technology company in the healthcare and work hard to discourage the notions that lump us together with other companies that may look like us on the surface but are vastly different upon taking a deeper look. We are fortunate to be amongst just a small few leading technology companies in the healthcare IT market entrusted with deploying proprietary software solutions, including certified electronic health records and practice management products, patient experience management platforms, and a host of other software and services to a host of healthcare organizations of all sizes. We do not take this for granted and will continue to forge ahead, break new bounds, and continue our legacy of making bold moves.

Once again, it is my pleasure to report that CareCloud is in its strongest position ever, and I'm excited for what the future holds for us.

I will now turn over the floor to Steve Snyder, our Chief Strategy Officer. Steve.

Stephen Snyder

Great, thanks, Hadi. Thank you, everyone, again for joining us on today's call.

During the third quarter, we were very excited to celebrate our company's 20-year anniversary. With two decades behind us, it's truly a privilege to still have a growing universe of people who are new to our story and interested in learning more about us. With that in mind, we'd like to take a few short minutes to step back and provide some background regarding three areas that often generate questions amongst new investors and individuals interested in our story: namely, our founding purpose, our heritage of technological innovation, and our entry into the public markets. After that we'll turn to do a deeper dive into our financial performance for the third quarter.

First, let's discuss our origin story for a moment. For those who are new to our company, we were founded in September 2001 as a direct outgrowth of our founder, Mahmud Haq's, exhaustive search for a healthcare IT and revenue cycle management partner for his wife's new medical practice. This search revealed an unmet need in the market and Mahmud's wife became our first customer.

Our mission from day one has been to empower healthcare providers to achieve their full potential by equipping them with innovative, clinical, financial, and patient experience software, together with integrated, powerful business solutions. Over the last 20 years, this approach has enabled us to grow from serving one internal medicine provider in New Jersey to serving more than 40,000 healthcare providers, across 50 states, practicing in more than 70 unique specialties and sub-specialties. For our entire team it's been an exciting journey, and we're even more enthusiastic about the path that lies ahead.

Next, let's talk for a moment regarding our history of innovation as a company. From the start, technological innovation has been our core focus. In fact, within our first three years in business, we had already launched the earliest versions of our integrated electronic health records application, practice management, and revenue cycle management platforms. Over the last 17 years, this integrated product and service portfolio evolved to include industry-leading cloud-based tools that support providers across the entire spectrum of care delivery, together with software tools that optimize the patient experience and solutions that enable health systems to gain actionable insights and drive growth.

As Hadi explained, we believe that we're still in the early innings with our sights set squarely on continuing to lead with innovation in the years to come. We have been a leading-edge innovator for two decades and we will continue to launch new tech-enabled solutions that are designed to empower our users to achieve their full potential and this, in turn, we believe will drive continued growth.

Finally, for the benefit of those who are new to our story, let's briefly discuss our entry into the public markets and also explain the history of our preferred stock. We completed our IPO in 2014 and were listed on Nasdaq under the symbol MTBC. It may not be readily apparent as you view our current five-year common stock returns which handily outperformed the major indexes, but as a young nano cap company at the time, new to the public markets, it took some time to find our footing. As we sought growth capital in 2015, our stock lingered below our IPO price so we sought a less dilutive alternative to raising capital through our common stock.

This gave birth to our 11% Series A Cumulative Redeemable Perpetual Preferred Stock which was first issued in November 2015, trades under the symbol "MTBCP," and is presently redeemable at a par value of \$25 per share. The initial and other follow-on issuances of this Series A Preferred Stock were key elements that enabled us to continue to invest in growth at what we consider to be a very attractive cost of

capital in relative terms. The Series A Preferred Stock has played a critical role in supporting our historic and rapid growth.

However, our current intention, which of course is subject to change, is to pivot over time toward a capital structure that reduces the role of our Series A Preferred Stock through exercising our redemption rights when and as appropriate. While the timing and the manner of achieving redemption is obviously still to be determined, this will remain one of our key areas of focus as we continue to move forward.

Returning to where we started the conversation, this has been quite a journey, and we're privileged to have had an amazing 20 years of innovation and growth as a company. Moreover, we believe that we are very well-positioned to continue to be a disruptive innovator and market leader for many decades to come. We are absolutely convinced that our best days lie ahead.

Let's now turn our attention to our financial performance for the third quarter of 2021 and turn the floor over to our CFO, Bill Korn. Bill?

Bill Korn

Thank you, Steve.

As Hadi mentioned, the third quarter of 2021 was CareCloud's best quarter ever with record revenue, record adjusted EBITDA, record adjusted net income, record GAAP net income, and even record cash flow from operations.

Revenue for the third quarter of 2021 was \$38.3 million, an increase of \$6.7 million or 21% from the third quarter of 2020. Revenue was 12% above our previous all-time high set last quarter. Our annualized revenue run rate is now \$150 million, which is 43% above our 2020 revenue, and 133% above our 2019 revenue. This is proof that our strategy of growing through a combination of organic and strategic growth continues to allow us to grow revenue significantly faster than the industry.

Third quarter 2021 GAAP net income was \$1.5 million as compared to a net loss of \$1.7 million in the same period last year, and a net loss of \$227,000 in second quarter 2021. While we as a management team look at adjusted EBITDA and cash flow from operations as the primary indicators of whether our business is growing in a sustainable way, achieving positive GAAP profitability of well over \$1 million this quarter, even after including over \$3.5 million of non-cash depreciation and amortization expenses, is a great milestone showing our progress.

Our GAAP net loss was \$0.15 per share based on the net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the quarter. Non-GAAP adjusted net income for third quarter 2021 was a record \$6.1 million or \$0.41 per share and is calculated using the end of period common shares outstanding. Our non-GAAP adjusted net income exceeds the quarterly dividend we pay to preferred shareholders, which is a metric many investors often pay attention to. Since non-GAAP adjusted net income excludes non-cash expenses like depreciation and amortization, it is a good indicator that our steady-state operating cash flow exceeds our dividend payments.

Our adjusted EBITDA for the third quarter 2021 was \$6.7 million or 17% of revenue compared to \$4.2 million in the same period last year. Our adjusted EBITDA increased by approximately \$2.5 million from Q3 2020, in large part due to cost savings resulting from integrating the businesses we acquired during 2020. Adjusted EBITDA set a new record, growing by 58% from third quarter last year, 18% from our last quarter, and 17% from our previous record.

Revenue for the first nine months of 2021 was \$102.1 million, an increase of 40% compared to the first nine months of 2020. Revenue for the nine months of 2021 was just \$3.0 million less than full-year revenue for all of 2020 and was \$37.7 million greater than full-year revenue for 2019.

For the first nine months of 2021, our GAAP net loss was \$686,000 compared to a GAAP net loss of \$9.0 million in the first nine months of 2020. GAAP net loss per share was \$0.77, based on the net loss attributable to common shareholders. Non-GAAP adjusted net income for the first nine months of 2021 was \$13.5 million or \$0.91 per share.

During this period, our adjusted EBITDA was \$16.0 million, an increase of \$10.8 million or 210% from \$5.2 million in the same period last year. Adjusted EBITDA for nine months of 2021 is \$5.1 million greater than full-year 2020 and \$7.9 million greater than full-year 2019, reflecting the cost savings from previous acquisitions.

With our first full quarter of revenue from medSR, the fraction of clients directly utilizing our technology continues to grow. The vast majority of our revenue, approximately 82% for the first nine months of 2021, was directly driven by the use of our technology assets, including 50% of our revenue which comes from clients using our electronic health record and practice management software, which is our core technology suite. 22% of our year-to-date revenue is from clients using one component of our technology, such as our business intelligence software or our robotic process automation, and 10% of our year-to-date revenue came from clients where we are providing professional IT services, utilizing our technology processes and know-how.

Another 7% of our year-to-date revenue came from clients where we are providing just revenue cycle management services, where we are using our technology ourselves, but our clients are not. Nine percent of our year-to-date revenue is from clients where we're managing their entire medical practice, and approximately 2% of our year-to-date revenue comes from other services. You will see this revenue breakdown when you read our 10-Q, and we believe this will better assist the market in understanding who we actually are: a technology company in the healthcare space that serves a diverse group of clients in an incredibly large addressable market.

As of September 30, 2021, the Company had approximately \$9.3 million of cash, including restricted cash. During the third quarter of 2021, cash flow from operations was approximately \$5.1 million. Our net working capital on September 30, 2021 was approximately \$9.9 million.

We are proud of the way we have consistently grown our revenue year after year, achieving a 44% compound annual growth rate over the last four years. Our preferred stock was a great vehicle to finance this growth without restrictive covenants, achieving a track record few public companies can achieve.

On September 30, 2021, we had approximately 5.3 million shares of non-convertible Series A Preferred Stock outstanding. These shares pay a monthly cash dividend of approximately \$0.23 per share, but now that it is redeemable, we are evaluating several options to start redeeming the Preferred Stock in ways that are accretive to common stockholders and prepare us for the next stage of our growth.

Finally, no matter how impressive our track record of growing revenues appears, our track record of consistently growing profitability is the real metric investors should pay attention to. We have grown our adjusted EBITDA at a 79% compound annual growth rate over the last four years. As the market begins to reflect this growing level of profitability, we are confident we will have opportunities to start redeeming our preferred stock, which will reduce our dividends and increase the earnings available to our common stockholders. We appreciate your patience while we wait for the right time.

I will now turn the floor over to our chairman Mahmud for his concluding comments.

Mahmud Haq

Thank you, Bill. It truly is a pleasure to see how we continue to evolve and provide leading technology-enabled business solutions to healthcare organizations across the country. We are fortunate to continue to be poised for record-breaking growth and profitability. I would like to thank our investors, customers, and employees for their continued support.

We will now open the call to questions. Operator.

Operator

Our first question comes from Jeffrey Cohen at Ladenburg Thalmann. Please go ahead.

Jeffrey Cohen

Hello, Mahmud, Hadi, Stephen, Bill, and Kim, how are you?

Mahmud Haq

Good morning, Jeff.

Hadi Chaudhry

Morning, Jeff, and same to you.

Jeffrey Cohen

Firstly, for Hadi, could you talk a little bit about this Conductor suite and some of its elements and talk specifically about the new markets and new TAM [Total Addressable Market] that you were discussing earlier in the call, please? It's unclear to us exactly what new market and TAM that's incremental or separate from current market and TAM.

Hadi Chaudhry

Thank you, Jeff. Thank you for the question. Just, first of all, to summarize this, CareCloud Conductor, you can consider this to be a family of technologies for interoperability, data exchange and transformation, and connectivity. Think about it like the Google workspace or Microsoft Office, there is a whole suite of products and there are small other elements such as Microsoft Word, Microsoft Excel, you can even buy the entire suite or can buy one piece of it. This is the same, the whole suite of technology for the Conductor and then we'll keep on launching the product. The first one is the Connector.

Then, from the go-to-market perspective, we are still working on some of the details to finalize the strategy in terms of the pricing and the website launch and the communication, and we'll be doing later in this quarter. But what it does is—and I can share a simple example with you, maybe that can help you to understand how this will work. Let's say there is a vendor, an EHR Company, they need to create an interface with lab on one side with, for example, LabCorp, with Quest; at the same time, have to connect and create another interface with another billing system or another different vendor.

In the today's world they need to be developing individually with LabCorp, with Quest, different specification requirements for LabCorp, different specification requirements for Quest and so on. With Conductor, based on the last 20 years of experience, we have created lot of interfaces with different labs. We have created a

lot of interfaces with many other software vendors. All of those we have created and packaged in the library. Then we have created an application with which will give a user interface where they can go not only to monitor the interface when they get set up. All you need to do is create an interface with us, with Connector, and then just keep turning on the interfaces that you need, and then the whole time of the development will get eliminated. It already knows what specification is needed if it's an HL7, or if it's proprietary specifications that are needed, or it's a FHIR that's needed.

It cuts the time significantly to establish those interfaces. Interface is just one example. It can be as we keep on adding other pieces to it, that would be our rule base engine on collective IQ that will come with the similar context and concept.

The whole rationale and the thesis behind it, our experience, the things which we use and succeeded over time and internally have optimized the processes and helped us in acquiring and integrating companies, all those now have been converted into a library and we're going to make it available for other healthcare vendors in this industry.

Jeffrey Cohen

That's very helpful. It sounds like there's a whole lot of ancillary software TAMs associated with the offering. Would that be focused on your current customers or do you see a different set of an audience out there as far as larger facilities or more pronounced platforms?

Hadi Chaudhry

Absolutely. From the existing customer's point-of-view, it can be useful for some enterprise-level clients who have their own software or they focus on creating their own, some piece of the software internally. More focused towards the other healthcare IT vendors, which can include the EHR companies, the practice management companies, and in some cases even the RCM company. If you think about even the large system integrators, companies such as Cognizant, Infosys, and many, many others in that space, and Digital Health Ecosystem Partners, New Healthcare, or Digital Health Startup for solutions that don't want to build all this connectivity by themselves.

This is changing the addressable market for us completely and staying still in the healthcare space, but a different audience and different prospects that we'll be shooting for.

Jeffrey Cohen

Super. Thanks for taking our questions.

Hadi Chaudhry

Thank you. Thanks, Jeff.

Operator

Our next question comes from Allen Klee in Maxim Group. Please go ahead.

Allen Klee

Yes. Hi. Can you talk a little about, with your revenue growth this quarter, how to think about how much was organic and how bookings are going?

Hadi Chaudhry

Great. Thank you. Thanks for the question, Allen. Good morning. Good question, Allen. In terms of—as you know, we do not specifically disclose the number on the quarter-to-quarter basis from the sales organic from the booking perspective, but it is a combination of organic growth and the regular revenue from our clients from the CareCloud Group of Companies that we kept acquiring and integrating. Bill, would you like to give some more color?

Bill Korn

Sure, Hadi. Allen, we had a great quarter, and I think you'll see, as you read the 10-Q that comes out this afternoon, we've got a full quarter of revenue from medSR, which was certainly a contributor to the growth. But I think we saw increases in revenue throughout our service offerings. Our general perspective is that in the first quarter or two of the year we saw that practices were seeing a few less patients than usual. In third quarter we saw a lot of practices back to full strength, even achieving record volumes of patient billings. That's been an important aspect of our revenue growth in the quarter.

Hadi Chaudhry

I'll add one quick small thing. A small fraction could also potentially be a catch-up for some of those practices. Such as some of the surgeries that were on hold, now those surgeries are conducted—have been performed now. In this quarter, for number of practices we see have some additional revenue due to this part or a fraction of it is a catch-up there.

Allen Klee

Thank you. My second question is, how do you feel about your pipeline of potential M&A?

Stephen Snyder

Thanks, Allen.

Hadi Chaudhry

Go ahead, Steve, please.

Stephen Snyder

Thanks, Allen, for the question. If we step back and think about the thesis that initially drove us to begin focusing on M&A 15 to 16 years ago, we think that thesis really holds true, which is that the market, healthcare IT and also Revenue cycle management markets, are both highly fragmented. They continue to be right for consolidation today just like they were 15 years ago. Of course, we've been on the leading edge as one of the most active acquirers in this space.

From an overall positioning perspective in terms of our approach, it continues to be a very proactive approach.

As always, we review dozens of companies before we select one that we move forward with. By the same token, we continue to also be patient and disciplined in our approach. We really do our very best to avoid overpaying for acquisitions, which I think is a key reason we've been able to identify accretive acquisitions and been able to acquire at really attractive valuations. While we, of course, continue not to publicly disclose the acquisition pipeline details, and while we continue to remain focused on the tech innovation, integrating

companies we've acquired and continuing to improve overall efficiencies and profitability, nevertheless, we continue to also be focused proactively on identifying those acquisitions.

From the perspective of—as we think about the market today, we feel good about what we're seeing in the market in terms of overall opportunities, but again, we'll wait for the right opportunity. We don't have one that's at a point in time where we will disclose it today, and we'll continue to be patient but diligent as we're looking for it.

Allen Klee

Thank you.

Stephen Snyder

Our pleasure.

Hadi Chaudhry

Thank you.

Operator

Next question comes from Mark Wiesenburger with B. Riley Securities.

Mark Wienenburger

Thank you. Good morning. Can you talk about some of the dynamics of the U.S. labor market and its position and other clinical personnel burnout, and then the opportunity with your overseas workforce to address that?

Hadi Chaudhry

Great question, Mark. Good morning. We have Karl with us who works mostly with the booking when it comes to the Force, the CareCloud force deals. I will turn the floor over to him in a minute. But to your point, yes, we do see more and more opportunities in that space too, especially in the health system space. After the medSR acquisition, as we have started to work with more opportunities there, we do see, not only from the burnout perspective, even during the COVID era, and in the post COVID era, the lack of or the shortage of some of the resources has opened up more doors for us and there's Force deals where we can plug-in our right combination of onshore and offshore resources to provide the services on the FTE basis.

Karl, would you like to add some more detail here please?

Karl Johnson

Thank you, Hadi. Happy to add a little more color here. Certainly what we've seen in large integrated delivery systems is people are looking for employees to return back to the office physically, hospitals are requiring, across the board, vaccinations. Many people are choosing not to be vaccinated and thus not returning to work.

The second thing that's played into it is just the increased opportunity for people to work remotely, where hospitals, large organizations, are looking for people to be onsite, has created a big interest in Force. We've already been picking up a number of opportunities, where we're able to come in and back fill. We're able

to, number one, work on people's host systems, and that can be everything from Epic on the high-end to e-clinical works on the lower end to our own systems.

On top of that, we can provide that workforce that can start in 30 days. The last deal we did started in less than 10 days. We're able to provide FTEs that are already trained, already working in their system and enable to provide that. We think that that has been a big plus for Force, but I would also take it a step further and say that it's a similar problem in smaller and medium-sized practices who are unable to find revenue cycle people, medical billers, and that's created an increased interest in our RCM back-office services, both in the CareCloud product lines and in other people's systems. Thank you, hope that helps.

Mark Wiesenburger

Very helpful. Thank you. Then, Bill, I didn't hear any commentary on an updated revenue guide to think about for the back or for the fourth quarter. With the real strong performance in the third quarter, how should we think about the fourth quarter relative to what you previously provided as the top-line range? Thank you.

Bill Korn

Good question. We've decided, at this point, not to specifically talk about the updated revenue guidance. I'd say we feel really strong, we had a great set of results for the quarter. We're confident we're going to have a blowout year. But we felt like, this close to the end of the year, we didn't really need to adjust specific numbers.

Mark Wiensenburger

Got it. Thank you. Congrats on a good quarter.

Hadi Chaudhry

Thanks, Mark.

Bill Korn

Thank you.

Operator

Next question from Richard Baldry with Roth Capital.

Richard Baldry

I'm curious, I'm not sure if I mistyped in my model or not, but it looks like R&D spending was dramatically lower than it had been, I'm curious the driver behind that, if there's some reversal accruals, or if this is a new sustainable level with certain projects completed or something like that. Thanks.

Bill Korn

Sure, Rich. The R&D spending, as we continue to integrate CareCloud and Meridian, as you know, we picked up a great talented team of developers who continue to be putting a lot of work into new products. Now, you probably know the GAAP accounting rules for what gets counted as capitalized R&D expense versus numbers that hit the P&L. We had some things that crossed that boundary which changed the

accounting definition. There was also some hosting of systems that have now gone into production. Some of that cost actually moved from the R&D line into the direct operating cost line.

I think that as you're forecasting going forward, I would say that you could probably look at third quarter and assume that in future quarters, the R&D expense is going to be more in line with third quarter than it was with first and second. The opposite side of that is, with some of that hosting cost moved into direct operating costs, you'll see some of that additional expense in the cost line as opposed to the R&D line. Good observation there.

Richard Baldry

Okay. A broader question. How will your sales motion alter or how are you fine tuning it, given you've got a much broader set of products and services now, really, a tech versus services sides with RCM and your ProServices outsourced abilities. Do you have to revamp how you go to market? Which products for which target customers? Is there any meaningful changes to that, that could spark faster growth as we go forward on an organic basis? Thanks.

Hadi Chaudhry

Great. Thank you for the question, Richard. If you think about it, and that's a very good question, and a point. We started, for the first time, aggressively focusing towards our organic sales initiatives and market inginitatives sometime in the last year. We keep on revolving and readjusting and making changes to the overall strategy. If you think about it more recently, when we acquired medSR, that was also the rationale or the thesis behind that acquisition while, yes, one is that it was non-recurring revenue that we will be able to add, but more importantly, as I alluded to earlier, that's giving us a seat at the table in these health system where neither medSR was in the position before to go after those opportunities for recurring revenue RCM deals, nor we were in the position to be reaching out to those opportunity and fight for it.

I think now with that acquisition, with the team there and with the recent promotions as we made earlier this year, whether it's the new head of the sales on the medSR side, this new addition of our Chief Operating Officer, this new team together, those moves are exactly, to your point, keeping in view the new addressable market and the more opportunities that we have now that we want to capture.

In addition to that, we have a number of our internal promotions and the changes we keep on making. New team members that have been—they have been working in this healthcare IT space for 15, 20 years, they have been moved into the more senior positions. The team has been distributed between focusing on each area or different areas of product and the services we have to offer now. We're really excited especially with this health system opportunities, the possible opportunities coming, we're already fighting for—participating in a number of the RFPs, multi-million-dollar deals, and we're very optimistic about it.

Richard Baldry

Thanks.

Hadi Chaudhry

Thank you.

Operator

Thank you. Our next question comes from Joseph Downing of Cantor. Please go ahead.

Joseph Downing

Hey guys. Good morning. Thanks for taking my question. I'm just sitting in for Steve Halpern (phon) today. Broadly speaking, I was wondering if you can give an update on how normalized the operating environment is with regard to COVID, anything on patient volumes, and how normal everyday business is for these practices? Then ultimately, how this comes around and affects the M&A environment? Are people more willing to sell? Any color there would be helpful. Thanks.

Hadi Chaudhry

Great. Thank you, Joseph, for the question and good morning. In terms of the COVID, the volumes are pretty much back to the pre-COVID levels, even that as Bill mentioned earlier, too, we see some uptake in this third quarter, which was the catch-up, and I mentioned that earlier as well, catch-up from the some of the previous visits that were on-hold. It's back to the almost at the pre-COVID levels, it can keep moving up and down slightly on the month-to-month basis. But we see that to be back to a normal situation.

When it comes to, from the M&A perspective, I will turn the floor over to Steve, if you want to add some color, Steve, here, please.

Stephen Snyder

Sure. I'd be happy to. Joseph, thanks for the question. Again, from an M&A perspective, our perspective relative to COVID-driven dynamics is that there's a bit of a dichotomy in the market from our vantage point. On the one side, if you think about healthy, growing, profitable companies in the private market and also public companies at scale, they're obviously seeing historically high valuations. There's froth in that market for sure, it seems.

Now, on the other side, let's think about the companies that are really our core focus, historically and today, companies that have some element of distress, so they are good companies with good leadership teams, but nevertheless, there's something in their existing model that we believe we could enhance through an acquisition. From our vantage point, valuations of companies that would fall into that category, those valuations appear to be relatively flat, albeit deal flow relative to the distressed companies, may be temporarily a little slower.

I'll just use as a reference point, if you think about, on one end of the spectrum, new commercial bankruptcy filings for the 12 months through the end of the second quarter of this year, they hit historic lows. That might be somewhat counter-intuitive, thinking about being in the midst of COVID, but the reality is they hit lows that haven't been seen since Ronald Reagan was president. Clearly, the governmental initiatives, the forgivable PPP loans, creditors taking a more pragmatic and flexible view, debt is cheap, debt is available, all those factors have enabled companies that would have otherwise sought an exit sooner to remain in business.

What does all this mean? Obviously, COVID probably humbled all of us in terms of making real bold predictions about the future. But we really view that as being a bit transitory and believe that will lead to a buyer's market over time. Having said that, we continue to review many opportunities, continue to be very proactive in terms of reviewing those opportunities, continue to feel good about where the market is. But again, from our Company's perspective, we'll nevertheless be patient, we'll be disciplined in our approach and really wait for the right acquisition target before we pull the trigger and move forward.

Joseph Downing

Great. Thanks a lot, guys.

Hadi Chaudhry

Thank you.

Operator

Next question from Kevin Dede in HCW.

Kevin Dede

Hi, guys. Kevin Dede, HCW. Steve, may I have your two cents, please, on how to rationalize cannibalization here? You've got your core CareCloud. You've got the new products that Hadi is introducing and you've got CareCloud Force. It just seems like you've got a lot of angles in what I would consider a pretty broad market and it just seems difficult for me to rationalize how you prioritize each of them when you're looking at customer growth.

Stephen Snyder

Sure. Yes. I'd be happy to get us started and then would love to hear Hadi's thoughts from that as well. If we step back for a minute to your point, Kevin, the reality is in terms of the breadth and the depth of our overall solutions, it's pretty unique in this space. If you go to HIMSS you can walk down— when it's in person, you can walk down the aisle at HIMSS and you can find 30 companies those companies individually are just providing one individual aspect of our overall solutions. We have this rich, deep, broad solution.

But if we now think about the market for just a moment, even though, like we were talking about before, even though we couldn't be more excited to have grown from one provider 20 years ago to serving 40,000 providers today, that still means we're only working with maybe one out of every 25 healthcare providers in the U.S. There's still such significant addressable market and opportunities. Which I think leads to your question, which is really a question in some respects of excess of opportunities and how do we prioritize. Obviously fine-tuning that prioritization is something that, as a team, we're all very focused on.

If you think about now—if you think about Conductor, we think about some of these other solutions and coming back to this concept of is one cannibalizing the other, I think maybe we look at it a little bit differently. Instead, our thought is, there is an opportunity with regard to cross-selling and up-selling that's really unique as we add additional solutions. Use medSR as an example. As we're working with clients on the medSR side, providing the traditional types of IT consultation and other related solutions and services, now there's an opportunity to say, well, is there an opportunity for business intelligence? Is there an opportunity for revenue cycle management solutions? How about Conductor? How about something else that can add value to that relationship?

We really see it as an opportunity to be able to up-sell and cross-sell, and if we think about the overall sales team, a big part of the reason for that scaling and that expansion and having individual's focus on different areas of the market is really to be able to meet that need head-on, recognizing that it's important to have folks who really know Force, focus on Force like Karl, individuals who really understand selling into medSR, hence the Chief Revenue Officer focused only on the medSR opportunities, and other individuals focused on the discrete products and opportunities that we see in the market.

Maybe I'll throw the floor over—toss the ball over to Hadi's court there to fill in some of those gaps.

Hadi Chaudhry

Thank you, Steve. Just to add some more—just adding a couple of things to your point. I think, Kevin, the way we're looking at the space as—so first of all, we started from servicing the real small clients and have continue started to move towards the bigger and the larger and enterprise-level clients. You think about it, from an enterprise client standpoint, you need one product for, let's say, practice management and EMR, then you need some company to help you with interfaces, then you need another company to provide support in terms of the resources. Then enterprise or the large client probably absolutely need a business intelligence solution which can help you take the right business decisions. The products and the solution that you are looking for, you end up going to many different companies and then try to interoperate between all that data.

I think our thesis, our one thing is, let's try to be a one-stop shop for these groups as we are started to hit the larger and larger segments of the industry and because we are creating these solutions and taking most of the burden of integration, it also adds another efficiency level by providing a consolidated integrated solution versus a separate disintegrated systems solutions. That would be probably another way to look at it, and I think it's— but that to your point— your question is the right one, but we are looking at it as a good problem to have and trying to just being more creative and the teams we have, I think we are confident that we can make it work.

Just another aspect that I mentioned earlier, there're many things that we have developed and used internally which became our—one of, we believe, the differentiator over the last 20 years, such as we started working on creating the Direct Connect which government payers from the submission standpoint probably 18 years ago, 19 years ago. That's one of the very—that puts us in a very unique position when it comes to those Direct Connects with many other vendors out there. Now, since we already had that library, why not just package it and start giving it to the other and helping the other healthcare vendors out there which ultimately will also generate a good amount of revenue for us?

Kevin Dede

Yes, yes. Bill, just maybe your insight, please. I appreciated the graphic you offered on Slide 12, but I was wondering if you could dive in, from a hospital service perspective, in light of Santa Rosa, Medmatica, and medSR.

Bill Korn

Yes. I wonder whether Jerry, who is with us from medSR, can actually help and talk to you a little bit about what he's seeing, because there's lots of exciting stuff that's going on there. Jerry.

Jerry Howell

Sure. As far as medSR, we've met all of our expectations for this year and are looking forward to continued growth. We have been investing in growth. We've added salespeople, we've kicked off a new brand awareness campaign, and have also developed some enhanced service offerings, all with the idea of going to market, listening to our clients, and bringing them the services that they need. The increased revenue that we hope to see will be primarily as a result of the evolving cross-selling capabilities between medSR and traditional CareCloud services.

We've already signed two hospitals where we're providing revenue cycle management services to them. We've got a new behavioral health organization that we've done a total revenue cycle management outsource, as well as a handful of at least two or three new physician groups that are using a variety of CareCloud services. We expect to continue to evolve our service offerings, increase our revenue as a combination of organic growth with our hospital clients, but also increasing the amount of recurring revenue that we're able to put on the books through revenue cycle services that we're now offering our clients.

We've gotten very good traction, as Hadi mentioned earlier, we do have a couple of very significant proposal opportunities that we are responding to now, and hopefully we should hear by the end of the year, which is really proof that the cross-pollination between the two service areas is working. Because as Hadi said, I need to emphasize this, is that neither CareCloud nor medSR would've been at the table with some of these large deals if it wasn't for our combined synergies.

Kevin Dede

Bill, when I look at Slide 12—yes, so Bill, I'm sorry, when I look at Slide 12 then, the revenue allocation is broken down on technology and service and not client. I guess that's really where I was going.

Bill Korn

That's right. You'll see that 10% of the revenue year-to-date comes from professional services. A lot of those, by definition, are larger practices. You're not seeing a doctor in solo practice saying, "Hey, I want these technology resources." You're seeing these requests bigger practices and hospitals. Most of that 10% relates to medSR, and most of it relates to the larger enterprise clients and hospitals.

Kevin Dede

Perfect. Thank you, Steve. Thank you, Hadi, thanks, Bill, and thank you, too, Jerry.

Hadi Chaudhry

Thank you, Kevin

Operator

Thank you. We'll take our next question from Michael Galantino in Chapin Davis.

Michael Galantino

Good morning, everybody. Congratulations, all, a great quarter. I'm looking for a little more color, either from Hadi or from Steve, on the CareCloud Collective IQ and the Connector and the Conductor slide that you guys talked about. Where do you see that business headed and what kind of growth do we expect to shareholders out of that segment of your Company?

Hadi Chaudhry

It's Hadi. Good morning, Michael, and thank you for your question. As I mentioned, a couple of aspects and then if I go back again to explain the rationale, these are some of our specialty areas that we have been able to develop over the last 20 years. First of all, we proved it internally that these areas can work successfully. We have resolved those problems for us internally and then helped us in many integrations of merging and integration of the companies that we have acquired. Those libraries are the result of the 20 years of work, which is the biggest differentiator. I think now we should package that together and make this package available if we can for others. First of all, talk about the Connector product. This Connector will be available for other software vendors out there.

You understand, let's say, for a company who may have started three years back or five years back and have introduced an EHR. As an EHR vendor, they may have started creating interfaces for labs for example, but there are another 20 labs out there, and for them it will take a tremendous amount of time to be able to

develop and create interfaces over the next couple of years, probably. All that time gets shortened if they sign-up for our product, and when it comes to the pricing, when it comes to the right go-to-market strategy, as I mentioned, we're still finalizing some of those details and we will do a proper launch later in this quarter, sometime during December. Then we will be further communicating and can talk about it further on the next earnings calls as well.

But we do see from the shareholders advantage perspective, this is an area where there are other companies we are competing with, such as ELLKAY who specializes in the interfaces, the data export, import and the interoperability. We will be competing—we will start to compete with those companies as well, because of our 20 years of experience packaged together, and now the same tools will be available for other vendors to utilize. Collective IQ is our rule-based—primarily a rule-based engine, rule-based system that we have developed for the first time, probably 15 years back. That has helped us to generate industry-leading first-time pass rate and then keeping and making sure that we submit the clean claims.

Now the same database, the same library can be used and can be leveraged by other software vendors who do not have such rule-base systems available. Again, at a price point that will be different. It could be on per instance basis, it could be on per client basis; there are a number of different ways we're looking at to price the whole product together, which will be communicated.

Michael Galantino

Thank you.

Hadi Chaudhry

Thank you. Thanks for the question, Michael.

Operator

Thank you, and I'd like to hand the call back to the speaker today, Kim Blanche.

Kim Blanche

We'd like to thank everyone who joined us on today's call. We truly appreciate your participation and your interest in us as a Company, and we look forward to speaking to you again next quarter. Thank you, all, and have a great day.

Hadi Chaudhry

Thank you.

Operator

Thank you. This will conclude today's conference call. Thanks for your participation, ladies and gentlemen, you may now disconnect.