Unifying the care experience.

Transcript of 2019 Half Year Results

29th August 2019

Edited Transcript of Oneview Healthcare PLC earnings conference call and presentation

Friday, August 30, 2019 at 9.00 am (AEST)

Presentation

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [1]

Good morning. It's James Fitter. We're about to get started. It's 9:00 here. We're in Melbourne. With me is John Kelly. I am sharing -- for those of you who are on the phone line, we are sharing the deck that has been shared with you by e-mail this morning. So thank you, firstly, very much for your interest in the company. Thank you for joining us here today. We've also got Mark McCloskey on the phone. Apologize, he can't be in Australia, but he is currently in Chicago. And welcome, Mark, this morning as well.

I just wanted to start, for those of you who might be new to the company, and just a reminder of what our vision is. We have been through, I think as everyone knows, a very significant strategic review this time last October where we really chose to focus our business on 2 key pillars. One is our health care business, which is our hospital business where we're currently contracted with 55 hospitals globally. And our second one is our Senior Living business, which we are in the final throes of delivering the first phase of that product, which we're talking about today.

Since that strategic reorganization -- thank you. Since that reorganization, we have spent a lot of time talking to all of our stakeholders and just reiterating our vision, which is to power personalized, exemplary care experiences across both our health care business and our Senior Living business. So what does that mean? It means we're addressing a person's unique biopsychosocial needs, restoring a sense of control over their care and environment and providing comfort and timely access to virtual care.

We've really begun our journey focusing on patients, but increasingly, we understand that caregivers are a really important audience for the company. We're helping caregivers spend less time on nonclinical tasks, more time delivering high-quality, personalized care. And having a situationally-aware platform that allows caregivers to make real-time care decisions is an increasingly important focus in the world we live in.

And from a technology point of view, we have a secure, flexible platform as an open ecosystem that provides opportunities for our partners to build and deliver applications on standard-based integrations to create new value for themselves and really leverage other IT investments we've already made as an organization. So our platform really is the foundation for innovation for those partners both now and in the future as we move forward.

So just turning to the first half results and highlights. The key metric, recurring revenue, is up 48% year-over-year to EUR 2.12 million. Our total revenue is down slightly, down 4% versus the previous corresponding period, which is really to do with the vagaries of hardware deliveries which is something that we continue to have to deal with particularly around quarter and half year-end. We'll talk a bit further about that.

Importantly, our operating expenses are down 19% from a year ago, which is a very important trend that we're really focusing on narrowing the gap between revenues and expenses and very pleased with that progress. Our live beds are 33% higher than they were a year ago, which is under 7,000 beds. And importantly, in the first half of this year, we had record receipts from customers of EUR 5.8 million, which is up 52% from the prior corresponding period.

In terms of the 2020 outlook, in the United States, we have the strongest U.S. health care pipeline we've had in recent years. We'll talk a little bit more about that shortly. We're looking forward to the go-live of our first U.S. customer on our Senior Living resident experience, which is Christian Living, which is scheduled for delivery in the first half of 2020. We're also expecting the delivery of our first enterprise customer here in Australia for our Care Management Solution, which we'll be talking about shortly. And we have strong sales pipelines for both of our Senior Living products in both of our core markets.

We're also expecting, as we flagged at our Annual General Meeting in August, that operating expenses will trend significantly lower in 2020. We expect it to be down a further 10% to 15% to EUR 16 million, and that's really a function of the cessation of the Senior Living contract engineering, which has been having an impact on our cost base in the last sort of while.

So in terms of rightsizing our cost base, we've made very substantial progress here. Our operating expenses are now 31% below the peak level in 2017. And as I mentioned earlier, we expect to see further material reductions in 2020 as those engineering costs on the Senior Living side abate.

So turning to the health care update. This is a slide you've all been familiar with. It just shows our live versus our contracted book of business. Currently, contracted beds stand at 10,751, of which just under 7,000 are live at the end of the half year. Obviously, that number has picked up a little since the end of the half year. We still expect that all of these beds will be live, the vast majority, by April 2020. And that alone, we'll see a further growth of nearly 50% in our recurring revenue basis.

As we outlined at the AGM, deployment activity during the half was negatively impacted by certain events beyond our control, and they were access to beds, where we had higher-than-expected occupancy levels at one of our major Australian customer sites, and we had some regulatory approvals and construction delays at 2 U.S. customer sites. But as I mentioned, we continue to expect the vast majority of those contracted beds will be live by April 2020.

Turning to the key operating metrics. Again, this will be a slide those of you who follow the company will be familiar with. I would emphasize that it has been a frustratingly slow conversion of our contract negotiations during the half year. But I just want to assure everyone that those negotiations are progressing very positively, albeit slightly slower than anticipated. And I should also stress that we've never had a situation where we've been in contract negotiations that we haven't ultimately proceeded to contract.

And encouragingly, you'll see here a very significant growth again in the RFPs. So just to remind everyone that this is a formal RFP process where we are -- this is not the extent of our pipeline. It is where the health care organization has taken the trouble to go out and engage in a formal process. So good to see we have over 13,000 beds in that category.

In terms of the deployment of our Gen 3 solution, we've seen the Gen 3 Android platform now deployed at multiple customer sites at NYU Langone in Manhattan, at BJC HealthCare in St. Louis, at the Mater in Brisbane, Randwick Children's in Sydney and at UCSF's Precision Cancer Center in California. And the customer feedback has been incredibly positive. These are a couple of quotes here from NYU Langone. "Oneview is a game-changer in the patient experience in an actual hospital setting. The empowerment of the patient is huge." "Oneview is a platform where we can start out with X and then move to Y and Z and whatever else we want to add on, which is pretty amazing." So really great to see that feedback, and we're looking forward to continuing to migrate our Gen 2 customers across to Gen 3.

Just a reminder of the business drivers to get to breakeven. As I mentioned, we had a very strong pipeline of large-scale opportunities in the U.S. market. We have 3 major U.S. systems that have indicated that they will be announcing vendor selections in Q4. We believe we're very well placed with those opportunities and look forward to those decisions.

Our Senior Living product is on track to be delivered to our first customers in Australia and the U.S. in the first half of 2020. And as I mentioned, we have a strong pipeline of business in both of those markets. We've gone ahead and hired a dedicated senior living sales lead here in Australia, and he is certainly enjoying a very strong level of inquiry as we move to delivery of that product in the next month or 2.

We continue to have material expansion opportunities with existing customers and are being asked to price opportunities for those customers. We obviously see that as a low-hanging fruit. We have nearly 5,000 beds with existing customers that are ripe for conversion. We had a significant momentum in the Senior Living business and obviously, the tailwind from the Aged Care reform that we expect to come out of the Royal Commission. And as we've talked about, significant reductions in the cost base, which is going to continue to narrow gaps.

In terms of patient experience, adoption in the United States, we -- worth reminding ourselves that nearly 85% of U.S. hospitals do not yet have a patient experience solution. This is data from HIMMS Analytics, which shows the yellow -- the chart on this slide that we are very much in our infancy, and we're starting to see some very significant pickup in inquiries in that U.S. market.

Just to touch a little bit on the product road map. I think most of you will be familiar with our product focus in inpatients. But clearly, consumerism and consolidation are having a huge impact on the business in the United States. Pretty much every time we meet with major health cares in the U.S., they are struggling with how do they promote their brand, how do they push their brand. And obviously, the Oneview platform is an incredibly valuable piece of real estate. Typically, we have 4 days average length of stay in the United States where we have the opportunity to provide convenience and control. We have distracting and calming tools. We can measure and manage the patient experience. We can optimize discharge. And all of these things are incredibly impactful as you start to think about the desire to retain customers as the consumerism wave is really [finally at the] health care market.

We'd invested very heavily, as I think you know, in flexible hardware configurations with our Android-based hardware. As we called out in the 4C, we will have a first and only Google-certified -- GMS-certified 22-inch tablet in the market. I think that's going to be a very important driver of business in 2020.

And scalable infrastructure is incredibly important for these major health systems. We continue to invest very heavily in coax solution, which is going to open the market much more significantly for us. We're working, on the scalability side, on some HL7 processing improvements and a Product as a Service cloud deployment.

In terms of optimization, some of the key things on the road map are real-time patient sentiment, some education enhancements, some meal ordering enhancements. And unsurprisingly, we are being challenged by all of our customers to think further about innovation. And I would emphasize that voice is an area that we are very interested in doing some interesting work with, and we see virtual care and sensors as being important parts of [the smart move into the] future.

Onto the Senior Living side of the business. Just a reminder that the Senior Living product suite really comprises 3 products. The first is our Care Management Solution. This is the digital source of truth for all resident wellness. It provides a holistic overview of the resident's wellness, real-time information, online and offline capabilities. It's a cloud-hosted solution, and it's really optimizing care workflows to maximize efficiencies. And this is something that we see as being an incredibly important topic on the back of the Royal Commission that's currently underway, and this product is designed specifically for the Australian market. And as mentioned at the AGM, it will be delivered to our first customer in October.

The resident-centric solution is a global solution which is currently contracted with Christian Living in Denver, Colorado, where we're providing a fully digitized experience for residents, promoting wellness, ability and enablement, allowing them to communicate with friends and family, to access concierge services and order meals and entertainment. So this is very much a derivative of what we're doing in the health care space and a space that I think is increasingly being seen as a marketing differentiator in the United States. And Mark was recently at the Senior Living Innovation Forum in Santa Barbara in California, and I think he was really blown away by the response of the group there. We have some very interesting pipeline opportunities based on that forum.

And then finally, our Circle of Care app is a community-branded mobile application, which is providing the reassurance and the transparency for family members to understand the level of care that is being delivered to their loved ones and also provide them the ability to access premium service options. And we see that as an increasingly important part of the future of the solution.

So the Care Management System is deployed on Microsoft's Azure cloud. It's, as I said, fully cloud-hosted. This is going to allow us to bring this product to market much faster. The time line between signing of contracts and revenue generation is going to be much shorter. And I think as we've touched on before, we found that the conversations with the senior living operators are [proving] much more entrepreneurial in terms of speed to market and sales cycle. So very excited about getting this product into the market, and we really think it is the right time, right place to provide the level of transparency and accountability that is sadly lacking in the senior living industry today. And I don't need to labour that point. I think it's fairly well documented from the findings of the Royal Commission.

So now I'm going to pass across to John just to talk through a little bit more detail the highlights of the financial results.

John Kelly, Oneview Healthcare PLC - CFO [2]

Thanks, James. Recurring revenue for the half year, we reported EUR 2.12 million, which as noted by James is a 48% increase over the prior corresponding period. Total revenues of EUR 3.55 million for the half year are down 4% due, as noted by James, due to non-recurring revenue particularly the vagaries and challenges around timing of hardware deliveries.

Gross margin, we reported EUR 1.9 million for the half year. Period end headcount decreases from 153 at June 2018 to 127 at the end of the current half year, a reduction of 17%, giving rise to employee costs reduction to EUR 6.7 million in the half year, down from EUR 8.2 million, a reduction of 19%. Salaries and travel costs within our business continue to represent in excess of 75% of our total overhead in the business, slightly down from prior year's 78%. Total overheads across the business decreased by 19% on prior comparative periods.

Within the half year, our numbers include a small foreign exchange loss of EUR 58,000 predominantly from realized foreign exchange, which compares to the foreign exchange gain in the prior half year of EUR 167,000. IFRS 16 was introduced in January of this year. The new standard accounts for treatment of financial leases. There's no significant impact on our current financial statements.

Moving to the next slide on the balance sheet. Cash on hand at the end of June was EUR 18.08 million with cash currently held in the business, primarily held in euros, U.S. dollars, Australian dollars, proportionate to forecasted underlying spend by currency across the business. Underpinned in that cash was the recent successful equity raise during the period.

Trade and other receivables at the end of June include hospital debtors of EUR 1.69 million, of which over EUR 1.4 million has been received since June. And as well as the new IFRS 16 accounting standard, which was implemented in January this year is an obligation to record both a lease liability within our liabilities and a corresponding increase in our assets that, in this case, is EUR 1.216 million.

Moving to the cash flow. Net cash, as noted, is EUR 18.08 million. Our net monthly cash burn at June 2019 is EUR 1.35 million, down from EUR 1.45 million in the prior comparison period. Cash receipts, as noted by James, from customers in the half year were EUR 5.8 million, which is 52% higher than the corresponding period. EUR 15.9 million was raised in May in the recent equity raise before transaction costs. And I previously noted that management continue to exercise tight controls over costs in the business, resulting in lower payments to suppliers and employees within the half year.

Thank you. Handing back to James.

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [3]

All right. Well, that concludes the formal part of the presentation. We'd be delighted to take any questions, if anyone has any.

Questions and Answers

Unidentified Analyst, [1]

This Mitch Taylor from Samuel Terry]. Can you hear me?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [2]

Mitch, how are you?

Unidentified Analyst, [3]

Just a question on the Australian customer, those lives in Senior Living. How many beds? And what sort of recurring revenues and transaction revenues [are you] anticipating for that first customer?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [4]

So we -- obviously, we haven't announced the details of the first customers yet, but we are in a position where we hope to be able to share that information very shortly. And at that time, we're not really in a position to do so just yet.

Unidentified Analyst, [5]

James, are you able to talk about the conversions, what you're expecting for the rest of the year or going into next year, the conversions, the contract [you utilized]?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [6]

Yes, look, I think as with all these things, we can continue to be surprised at how health care organizations, large health care organizations, find a way to slow things down. But as I mentioned, we've never had a scenario where we haven't converted some of these in negotiation to contract, and I think we would fully expect that trend to continue. So we expect to see a very material change in that number in the next half.

John Kelly, Oneview Healthcare PLC - CFO [7]

James, (inaudible)

Unidentified Analyst, [8]

It's Chris here. Can you hear me?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [9]

Chris, how are you?

Unidentified Analyst, [10]

Can you comment on the pricing? I know this is a tricky one, but what should we be thinking in Senior Living per bed, right, now that you're so much further down the track?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [11]

Yes, so based on what we know from the Christian Living contract and the negotiations that we're having around the Care Management Solution, we continue to guide that the blended price is going to be about half of the price of our [cost per] bed. So you'll recall, the average of our hospital business today is AUD 2.95. So I think if you were to work a number, around 1.40, 1.45 for the Senior Living business would be a good number.

Unidentified Analyst, [12]

[Essentially, that's] where you might see the [bed count] at the -- maybe this time next year or...

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [13]

Yes, it's a good question. It's -- what I would say is that the opportunities that we're talking to in the United States are all very significant. In fact, the 3 customers that I mentioned are giving decisions in the fourth quarter are all -- larger than our largest customer currently. So it's a very lumpy business. It's very hard to predict when these decisions are going to land. I would say we're currently in a very interesting opportunity where that institution is proving very disciplined around the time lines they provided. But that is not the norm. I think the reality is, is that procurement in health care IT in the United States is a challenging business. So I think we've learned over the last few years how to better handicap the likelihood of those conversions. And as I said, I think based on what we know today, we feel like we have the strongest pipeline we've had in the U.S. in our short history.

Unidentified Analyst, [14]

Just on receivables...

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [15]

Sorry, go ahead, Chris.

Unidentified Analyst, [16]

Just on your receivables, you mentioned you've -- the figure largely collected as at June, but you are dealing with hospitals. Is 90 days receivables quite common? What are they like?

John Kelly, Oneview Healthcare PLC - CFO [17]

They vary. They can be up to 90 days, but our [standard credit terms] are between 30 and 60 days. They tend to be close to 30 days here in Australia and tend to be close to 60 days in North America.

Unidentified Analyst, [18]

James, a note for you, just in terms of those 3 major U.S. systems that you've noted. Can you comment on who the competitors are that you think you're up against for those [12 centers]?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [19]

Yes, sure. Look, the competitive landscape in the United States has been pretty consistent for the last few years. So GetWellNetwork, who have been sort of pioneer in this space, have been around for over 20 years, are always in the process. SONIFI, who are spawned out of the hospitality industry, have a health care division. They've really come from the hotel side of the industry, so they have less expertise on the clinical integrations. And then thirdly would be Epic's Bedside product. I think you're aware, I think it's probably the dominant electronic health record provider in the United States. So obviously, Epic customers would certainly be looking at Bedside. Non-Epic customers would not be, obviously. But they would be the 3 and have consistently been the 3 competitors that we come up against in recent years.

Unidentified Analyst, [20]

And in terms of what the RFPs are looking at with those 3 customers, is that just an entertainment solution? Is that a complete solution? Can you just give us some insight as to kind of what they're after there?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [21]

Yes, good question. They vary. I think one of them is what I would describe as a fairly simplistic solution where they're really focused on entertainment and education only, and the others are extremely comprehensive and much more consistent with what we're doing at NYU Langone where it's full integration into the EMR, much more complex integrations than the latter 2. So they would be much higher-value opportunities as far as we're concerned.

Unidentified Analyst, [22]

And in terms of the competitive offerings in that space has much changed since the Epic product, is it competitive with what you've got? Because the other 2 have always struggled. They'd be much more entertainment-type solution.

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [23]

Yes, look, Epic have -- it's a little bit hard to gauge exactly where Epic's appetite for being in the patient room is. They have certainly been trialing Bedside in a number of facilities in the United States, and there are a number of academic papers that have been published which have shown that it hasn't been a great experience. It's -- part of the challenge is -- one of the great strengths of the Oneview platform is that when we enroll a patient on the Oneview platform, it's 0 touch [commencing]. So we are taking an admission message from the EMR and we are assigning -- customizing that experience for the patient in that particular bed. And because we have a tablet deployed at every bed, we can manage the discharge and resetting of that tablet over the year.

What Bedside requires is that they typically deploy a fleet of tablet to the nursing station and the nurses are required to bring that tablet to the room. It's not a permanent fixture in the room, and it requires nursing to be much more involved in the enrolment and discharge of the patient in that process. And what we constantly hear is there's a lot of frustration from nursing around that process. So Epic has had enormous success on the clinical side of the business. That's their strength. They haven't typically focused on the patient. What they attempted to do is provide the ability for the patient to access some of their clinical information through the tablet, but they are not providing the immersive experience that we're able to provide on the Oneview platform.

Unidentified Analyst, [24]

Okay. And has Cerner come out with anything as yet, James?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [25]

So Cerner made a very interesting announcement in their most recent second quarter results in the United States that they are partnering with GetWell, which is an interesting development. We see it more as a response to Cerner's own desires to sunset their own product. They have a product called MyStation which has been pretty unsuccessful in the market. We've never lost a tender to the Cerner product, and it's interesting to note that they're promoting GetWell. Now the irony of that is that one of the systems that we are currently in RFP for in the United States is a large Cerner customer who is very unhappy with GetWell. So it seems as though the relationship is being driven more from the Cerner side than the GetWell side as an attempt to offer their customers something more than the product that sunsetted.

Unidentified Analyst, [26]

Okay. And James, just to finalize, just trying to understand the potential scale of those 3. The increase from the 9,500 to the 13,500, is that largely representative of those 3 potential opportunities?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [27]

Yes, it is. Any further questions.

Unidentified Analyst, [28]

How long are you in Australia, James?

James Fitter, Oneview Healthcare PLC - CEO & Executive Director [29]

I'll be in Sydney until next Thursday night, Chris. So delighted to -- anyone who would like to schedule some time, please feel free to drop us an e-mail and we'll get you on the calendar.

All right. If there's no further questions, as I said, please feel free to contact us directly, but appreciate your time. Thanks for your interest in Oneview Healthcare.