

Third Quarter 2017: Financial Results

February 24, 2017

TSX-V: SYN

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Q3 FY 2017 Financial Highlights



Third Quarter 2017 Compared to Third Quarter 2016

- Revenue decreased \$277 or 8%, \$1,216 of which is attributable to REACH Air Medical Holdings and affiliated entities as we wind down the provision of billing services to this customer group as well as other payor mix changes at HSI, offset by \$1,428 which was attributable to the acquisition of Billing Solutions.
- Gross margin decreased from 73% to 59% of revenue primarily reflecting a lower portion of our revenue from higher margin air transports.
- Adjusted EBITDA before Platform Syncordia and Corporate costs decreased \$831 or 50% primarily reflecting lower revenues at HSI.
- Adjusted EBITDA was \$130, before accounting for non-controlling interests.

Third Quarter 2017 Financial Highlights

- Revenue was \$3,401 and is segmented by RCM business as follows - \$1,543 HSI, \$430 Paragon and \$1,428 Billing Solutions
- Adjusted EBITDA was negative \$3, reflecting our 80% interest in Billing Solutions.
- Cash and cash equivalents of \$1,121.

Note: All dollar figures are in thousands of US Dollars.



Q3 FY 2017 Business Highlights



Business Highlights

- Obtained a waiver from senior lending consortium, resulting in reduced principal payment of \$1.35 million in November 2016 instead of \$2.22 million in order to maintain adequate flexibility and liquidity for working capital needs. The shortfall of \$0.88 million will be added to the May 2017 principal repayment.
- Management is exploring strategies to achieve sufficient liquidity to meet obligations under our debt arrangement. Strategic alternatives include, but are not limited to, the sale of portfolio RCM company or companies and refinancing existing the senior debt.
- Syncordia maintains 3 operating businesses that could be sold at favorable multiples and would maximize value as Platform Syncordia and Corporate costs would not be required by the new owners in the event of a sale.



Business Highlights

- HSI is implementing several operational initiatives anticipate to add over \$1.0 million to the bottom line on an annualized basis, which will be fully realized by first quarter fiscal 2018. In addition, HSI is onboarding new contracts over the coming months and quarters while continuing to convert additional pipeline opportunities.
- Syncordia is introducing Claim Editor and additional staff in its lower cost Maryland billing center to further reduce cost per claim at HSI.
- Paragon signed a customer contract with expected volume of 50,000 annual encounters. This contract commenced in February 2017
- Announced NECTAR version 2.0, a client analytics portal for our behavioural health customers, consisting of a business intelligence dashboard showing key medical practice performance indicators. Syncordia continues to focus on building out its full service software suite for Billing Solutions.





Q3 2017 Financial Results



Q3 2017 Results



(in thousands of US Dollars)

	Three months ended			Three months ended			Nine months ended		
	Dec 31 2016	Dec 31 2015	Change %	Dec 31 2016	Sep 30 2016	Change %	Dec 31 2016	Dec 31 2015	Change %
Revenue	3,401	3,678	-8%	3,401	3,624	-6%	11,135	10,970	2%
Gross Margin	2,010	2,683	-25%	2,010	2,105	-5%	6,544	7,882	-17%
<i>Percentage of Revenue</i>	59%	73%		59%	58%		59%	72%	
Operating Expenses									
General and administrative	1,699	1,605	6%	1,699	1,888	-10%	5,539	4,902	13%
Sales and marketing	115	150	-23%	115	152	-24%	653	461	42%
Research and development	66	224	-71%	66	241	-73%	534	488	9%
Total Operating Expenses	1,880	1,979		1,880	2,281		6,726	5,851	
Adjusted EBITDA	130	704	-82%	130	(176)	-174%	(183)	2,031	-109%
<i>Percentage of Revenue</i>	4%	19%		4%	-5%		-2%	19%	

Note: Adjusted EBITDA attributed to Billing Solutions for the three and nine months ended December 31, 2016 was \$660 and \$1,540 respectively.



Q3 2017 RCM Segment



(in thousands of US Dollars)

	Three months ended			Three months ended			Nine months ended		
	Dec 31 2016	Dec 31 2015	Change %	Dec 31 2016	Sep 30 2016	Change %	Dec 31 2016	Dec 31 2015	Change %
Revenue									
HSI	1,543	3,173	-51%	1,543	1,652	-7%	5,108	9,642	-47%
Paragon	430	505	-15%	430	459	-6%	1,438	1,328	8%
Billing Solutions	1,428	-	NM	1,428	1,513	-6%	4,589	-	NM
Total Revenue	3,401	3,678	-8%	3,401	3,624	-6%	11,135	10,970	2%
Gross Margin	2,010	2,683	-25%	2,010	2,105	-5%	6,544	7,882	-17%
<i>Percentage of Revenue</i>	59%	73%		59%	58%		59%	72%	
Operating Expenses									
General and administrative	1,052	859	22%	1,052	1,190	-12%	3,449	2,472	40%
Sales and marketing	115	150	-23%	115	152	-24%	653	461	42%
Research and development	-	-	NM	-	-	NM	-	-	NM
Total Operating Expenses	1,167	1,009	16%	1,167	1,342	-13%	4,102	2,933	40%
Adjusted EBITDA	843	1,674	-50%	843	763	10%	2,442	4,949	-51%
<i>Percentage of Revenue</i>	25%	46%		25%	21%		22%	45%	

Note: Operating Expenses and Adjusted EBITDA attributable to Billing Solutions for the three and nine month period ended December 31, 2016 were \$287 and \$1,262, respectively.



Key Performance Indicator: Encounters



We present Encounters as a key performance indicator to assist readers in better evaluating our performance. We have defined an Encounter as a discrete business activity for which we would submit a claim. We believe this metric provides investors with a better proxy for measuring the level of business activity than revenue as encounters measure the number of distinct services provided in the period whereas revenue reflects the amount of services recognized for accounting purposes and is typically a lagging indicator of business activity.

	FY2017	FY2017	FY2017	FY2017	Sequential Quarterly Change	
	Q1	Q2	Q3	YTD	#	%
Air/SCT	2,744	3,903	3,125	9,772	(778)	-20%
Ground	7,202	12,231	15,708	35,141	3,477	28%
HSI	9,946	16,134	18,833	44,913	2,699	17%
Paragon	82,430	63,809	65,737	211,976	1,928	3%
Billing Solutions	46,697	48,052	45,697	140,446	(2,355)	-5%

Notes:

- HSI encounters increased 17% reflecting the on-boarding of new ground customers. SCT encounters were 462 and 1,608 in the third quarter and year-to-date, respectively.
- Paragon encounters increased 1,328 or 3% due to seasonality and customer churn.
- Billing Solutions encounters decreased 5% primarily as a result of seasonality.



Projected Net Revenue



We assess the performance of our RCM segment by estimating the eventual cash collections as a result of Encounter activity in the current period. Management determines Projected Net Revenue by utilizing the billed Encounter activity by customer, multiplied by the customer-specific historical collections per Encounter over an 8-12 month look-back period. Management believes this is a valuable measure since it aligns revenues to the period expenses incurred to generate that revenue.

(in thousands of US Dollars)

	Three months ended	Three months ended	Nine months ended
	Dec 31 2016	Sep 30 2016	Dec 31 2016
Projected Net Revenue			
HSI	1,588	1,845	5,039
Paragon	406	422	1,354
Billing Solutions	1,779	2,091	6,028
Projected Net Revenue	3,773	4,358	12,421
Cost of Sales	1,391	1,519	4,592
Gross Margin	2,382	2,839	7,829
<i>Percentage of Revenue</i>	63%	65%	63%
Total Operating Expenses	1,167	1,342	4,102
Projected Net Revenue Adjusted EBITDA	1,215	1,497	3,727
<i>Percentage of Revenue</i>	32%	34%	30%
RCM Adjusted EBITDA as reported	843	763	2,442
Difference	372	734	1,285

Headcount Summary



	<u>As at December 31, 2016</u>	<u>As at March 31, 2016</u>	<u>Change</u>
RCM	109	143	(34)
Platform Syncordia	5	8	(3)
Corporate	8	9	(1)
	<u>122</u>	<u>160</u>	<u>(38)</u>

Q3 2017 Platform Syncordia Segment



(in thousands of US Dollars)

	Three months ended			Three months ended			Nine months ended		
	Dec 31 2016	Dec 31 2015	Change %	Dec 31 2016	Sep 30 2016	Change %	Dec 31 2016	Dec 31 2015	Change %
Operating Expenses									
General and administrative	178	196	-9%	178	152	17%	590	626	-6%
Sales and marketing	-	-	-	-	-	-	-	-	-
Research and development	66	224	-71%	66	241	-73%	534	488	9%
Total Operating Expenses	244	420	-42%	244	393	-38%	1,124	1,114	1%
<i>Percentage of Revenue</i>	7%	11%		7%	11%		10%	10%	

Notes:

- In the three months ended December 31, 2016, \$245 in development costs were capitalized in relation to Claim Editor, a proprietary workflow automation tool designed to minimize errors while maximizing payment rates in submitting medical billing claims and decreasing the time to input claims by 2.5 times.
- We continue to invest in various product development initiatives to advance the commercialization of Platform Syncordia, a collection of billing software modules, for the Revenue Cycle Management (RCM) industry.



Q3 2017 Corporate Segment



(in thousands of US Dollars)

	Three months ended			Three months ended			Nine months ended		
	Dec 31 2016	Dec 31 2015	Change %	Dec 31 2016	Sep 30 2016	Change %	Dec 31 2016	Dec 31 2015	Change %
Operating Expenses									
General and administrative	469	550	-15%	469	546	-14%	1,500	1,804	-17%
Sales and marketing	-	-	-	-	-	-	-	-	-
Research and development	-	-	-	-	-	-	-	-	-
Total Operating Expenses	469	550	-15%	469	546	-14%	1,500	1,804	-17%
<i>Percentage of Revenue</i>	14%	15%		14%	15%		13%	16%	



Summary Consolidated Balance Sheet Highlights



(in thousands of US Dollars)

	As at Dec 31, 2016	As at Mar 31, 2016	Change	Change %
Cash and cash equivalents	1,121	4,437	(3,316)	-75%
Current assets	3,577	7,041	(3,464)	-49%
Total Assets	35,163	40,856	(5,693)	-14%
Trade accounts payable and accrued liabilities	1,755	1,585	170	11%
Notes payable	13,676	14,573	(897)	-6%
Total Equity	17,714	22,383	(4,669)	-21%



Liquidity Reconciliation



(in thousands of US Dollars)

	Three months ended		Nine months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Adjusted EBITDA	130	704	(183)	2,031
Changes in non-cash working capital items	158	(92)	36	(58)
Cash Interest	(296)	(308)	(915)	(900)
Cash Transaction costs	(19)	(17)	(20)	(718)
Cash Incomes taxes	(1)	-	(39)	-
Foreign exchange gains and (losses)	(6)	(12)	(9)	(146)
Cash provided by (used in) operating activities	(34)	275	(1,130)	209
Cash provided by (used in) investing activities	(312)	(35)	(643)	(5,097)
Cash provided by (used in) financing activities	(1,507)	-	(1,543)	12,331
Increase/(decrease) in cash and cash equivalents during the period	(1,853)	240	(3,316)	7,443
Cash and cash equivalents - Beginning of period	2,974	10,045	4,437	2,842
Cash and cash equivalents - End of period	1,121	10,285	1,121	10,285





Appendix



Reconciliation of Non-IFRS Measures – EBITDA



(in thousands of US Dollars)

	Three months ended		Nine months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Net loss and comprehensive loss	(1,345)	(601)	(4,514)	(1,929)
Amortization of operating and other assets	989	774	2,858	2,275
Interest expense	510	478	1,563	1,397
Income tax expense (recovery)	(59)	-	(147)	-
EBITDA	95	651	(241)	1,743



Reconciliation of Non-IFRS Measures – Adjusted EBITDA before Syncordia Cloud and Corporate costs



(in thousands of US Dollars)

	Three months ended		Nine months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Net loss and comprehensive loss	(1,345)	(601)	(4,514)	(1,929)
Amortization of operating and other assets	989	774	2,858	2,275
Interest expense	510	478	1,563	1,397
Income tax expense (recovery)	(59)	0	(147)	0
Transaction costs	19	17	20	1,786
Foreign exchange (gains) and losses	6	12	9	146
Unrealized (gains) and losses on derivative financial liability	0	(1)	0	(608)
Realized gain on contingent consideration	0	0	0	(1,111)
Stock based compensation	10	25	30	75
Adjusted EBITDA	130	704	(183)	2,031
Platform Syncordia costs	244	420	1,124	1,114
Corporate costs	469	550	1,500	1,804
Adjusted EBITDA before Platform Syncordia and Corporate costs	843	1,674	2,442	4,949

