



# Castlight Health

Q2 2019 Financial & Business Update  
July 30, 2019

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Maeve O'Meara, Chief Executive Officer and Director  
Siobhan Nolan Mangini, President and Chief Financial Officer

**Gary J. Fuges, CFA, Head of Investor Relations**

Good afternoon and welcome to the Castlight Health second quarter 2019 conference call. Joining me on the call today are Maeve O'Meara, chief executive officer, and Siobhan Nolan Mangini, president and chief financial officer. Maeve and Siobhan will offer their prepared remarks and then we will open the call to take your questions. Our press release, webcast link and other related materials are available on our website.

This call contains forward-looking statements regarding our trends, strategies and the anticipated performance of our business, including – but not limited to – our guidance for full year 2019, new sales, retention of existing customers, gross margin and operating expense trends, future cash position, and the impact of management changes on the Company's performance. These statements were made as of July 30, 2019, and reflect management's views and expectations at that time, and are subject to various risks, uncertainties and assumptions. If this call is replayed after July 30, 2019, the information in the call may no longer be current or accurate. We disclaim any obligation to update or revise any forward-looking statements.

We provide guidance in this call, but we will not provide any further guidance or updates on our performance during the quarter unless we do so in a public forum. Please refer to today's press release and the risk factors included in the company's filings with the Securities and Exchange Commission for discussion of important factors that may cause actual events or results to differ materially from those contained in our forward-looking statements.

Today's presentation also includes certain non-GAAP metrics, such as non-GAAP gross margin, operating expenses, operating loss, and net loss per diluted share that we believe aid in the understanding of our financial results. A reconciliation to comparable GAAP metrics, on a historical basis, can be found in the appendix section of our earnings release filed before the call.

With that, I'll turn the call over to Siobhan Nolan Mangini, Castlight's president and CFO.

**Siobhan Nolan Mangini, President & CFO:**

Thank you, Gary, and thank you everyone for joining us on today's call. Today we made a series of important announcements regarding new leadership, expansion of our strategy and adjusted guidance.

Over the last two years, the Castlight team has made significant progress on building a differentiated health navigation platform that delivers on the triple aim of reducing healthcare costs, improving outcomes, and engaging users. First, we delivered our Engage and Complete products which have scaled to support over six million lives in aggregate since January 2018 and are now nearly 60% of ARR. Second, we improved our operational capabilities significantly. As a key example, we are successfully migrating customers from our legacy wellbeing platform all while exceeding customer expectations. In parallel, we have delivered operating leverage while also investing in key areas: our products and our customers which speaks to our financial discipline.

However, we have not converted our product and operating strengths into consistent growth, and the board of directors has responded with management changes. The board believes these will enable us to take better advantage of our clear leadership in healthcare technology and increase accountability to our fellow employees, customers and partners, and shareholders.

Today, Maeve O'Meara, previously EVP of product and customer experience, has been promoted to CEO. Maeve is an excellent choice to lead the Company, given her deep product expertise and leadership in developing our transparency, personalization and health navigation offerings. Additionally, Maeve is a thought-leader in our industry and well-respected by our partners and customers and has led our relationship with Anthem.

I've worked with Maeve since 2012 and I have many words to describe her. She is a builder; she's tenacious; and she's passionate about improving healthcare through technology. Maeve brings an incredible understanding of our product, a track record of building teams and hitting deliverables, and a clear vision of how we can leverage our products to transform healthcare. Maeve is an innovator and I believe in her strategic vision. In my new role as president and CFO, I'll partner with her to execute against our go-forward strategy.

Maeve will share her vision for Castlight and our go-forward plans, but first I'll review our Q2 financial results and revised outlook in more detail. After that, we'll take your questions.

Second quarter financial results were roughly in-line with our plan across revenue, gross margin and operating expense. However, we fell short of our growth goals. Annualized recurring revenue, or ARR, at the end of the quarter was \$142 million, down approximately \$12 million sequentially. This was primarily due to two factors:

First, sales were behind plan as we did not generate meaningful sales from new customers in the quarter. The pipeline continued to track our expectations, but conversions continued to lag. We have opportunities to improve.

Second, we experienced elevated out-of-period churn in Q2, driven primarily by customers of Care Guidance, our product that combines transparency and data-driven personalization. Despite the measurable ROI Care Guidance delivers, a set of customers are defaulting to free, "check-the-box" offerings, particularly from large payors.

That said, we continue to see demand from a core set of customers who understand the value of our robust health navigation offering. We had several existing customers expand into our full health navigation suite, which now accounts for nearly 60% of our total book of business. As we've launched Complete, we have prioritized how we measure and understand value for our users and our customers. With high engagement and user satisfaction for Complete, we have demonstrated continued value post-launch to our Complete customers across key pillars, including program utilization and cost of care reduction indicators.

Due to the combination of lower direct sales, customer-driven launch timelines and lower expected revenue from Anthem as a customer, we are lowering our 2019 guidance ranges as outlined in today's second quarter press release. We now expect:

- Revenue between \$140 and \$145 million;
- Non-GAAP operating loss between \$8 million and \$13 million;
- And non-GAAP loss per share between \$0.06 and \$0.09, based on 145 to 146 million shares.

Based on this updated guidance, we now expect 2019 cash used in operations to be in the range of around \$10 million.

We've successfully scaled our health navigation offering, improved our operational capabilities and instilled financial discipline, but there is a disconnect between these gains and our financial performance. We believe we have a go-to-market challenge, not a product challenge, and we are taking decisive actions to address this.

We remain committed to serving large employers and we are making changes to improve our execution to address their needs. Further, we can do more with the technology that we've already built. We can both serve large employers and address the larger healthcare market opportunity, and the best person to lead us in this expanded strategic direction is Maeve. For a deeper discussion of these changes and our expanded strategy, I'd like to turn the call over to Maeve O'Meara, CEO of Castlight Health.

**Maeve O'Meara, CEO & Director**

Thank you all for joining us today. I want to thank Siobhan for her partnership over the years and her pivotal role in bringing operational excellence and financial discipline to Castlight. Siobhan has proven herself as both a capable and inspirational cross-functional leader. I couldn't choose a better person to serve as president of Castlight; she will be a great partner as I focus on leading the commercial, technology and product aspects of the business.

Siobhan and I agree on the Company's key strengths and differentiators and believe we can execute better to leverage our assets and improve growth. Since this is my first call, I'd like to take a minute to introduce myself and share my point of view on Castlight's current state, including a review of the lessons we've learned and our plans to improve the business. I'll then discuss our broader strategic vision for the Company and our priorities going forward.

Since joining the Company in 2010, I've been deeply passionate about our mission to use technology to empower consumers to make better health decisions, leading to better outcomes, lower cost, and a better overall experience. I've had the opportunity to learn at every stage of Castlight's growth, from our first customer launch to the scale we've achieved today. I've led the strategy, design, and development of our products and am thrilled to have approximately 20 million lives with access to our technology.

In June 2018 I took leadership of our customer experience teams, which helped me further deepen relationships with our customers and channel partners. I'm excited to lead Castlight, as I believe we have a massive opportunity to help address the fact that people are still struggling with how to navigate healthcare.

We believe Castlight is well positioned to succeed and re-ignite growth due to a set of key assets:

First and foremost, it starts with **our people**. We've assembled a tenacious, resilient team with a deep understanding of the complex US healthcare landscape and a commitment to Castlight's mission.

Second, Castlight is highly differentiated in **data, technology, and product**. Our team has spent a decade developing the data foundation that includes one of the

most comprehensive sets of cross carrier data pipelines in the industry, an incredibly robust set of engagement data across digital health ecosystem partners, and unique proprietary data on user search and engagement around healthcare consumerism. We have used our data foundation to create products that have demonstrated market leading behavior change and cost of care impact. As we evaluate how we're doing against the triple aim, we see a product that has clearly improved experience, as evidenced by high utilization and high NPS scores, a product that has improved outcomes, for example. by doubling the use of appropriate preventive care, and ultimately a product that has consistently lowered hard medical spend by 1.5-2% across 200+ customers. In addition, the underlying technology and proprietary data assets have enormous opportunity to create value outside our own app in new markets.

The third asset is our **innovator customer base**. The employers we serve are more than customers, but partners with a long track record of incubating innovation and catalyzing systemic change. Many of our customers are the vanguard of change agents and critical partners for future innovation.

This combination of team, technology and customer base has enabled us to deliver value for millions of users. It is also these assets that led to our deep and productive partnership with one of the largest health plans in the country, using our technology to support their customers and members.

That said, we have not done enough to leverage these assets. Over the last two years we've learned some valuable lessons across the business. I'd like to discuss those lessons and our plan to improve:

Let's start with employers. As a pioneer in health navigation, we expanded our product and feature set to sell into a broader set of employers. In adding wellbeing through the Jiff acquisition, we had to divert significant resources to build out capabilities and, more significantly, support the legacy platform. We had a diluted market message and, ultimately, we tried to be too many things to too many people.

Going forward, we are energized to support large employers on health navigation. With legacy wellbeing migrations largely behind us, we can double-down on co-innovation that drives lower cost of care, better outcomes, and an improved user

experience. From a go-to-market perspective, we will simplify and improve the price-value equation of our packages. We believe we can show immediate value to both our wellbeing customers with deeper personalization and to our care guidance customers by enabling integration with our digital health ecosystem.

Beyond employers, we've spoken in the past about driving growth through new channel relationships. Based on our Anthem partnership, we explored adding new health plan partners with a similar model. In this process, we learned there is significant health plan interest in our core technology, but a need for an embedded experience that covers the full population, including the fully-insured membership. Fortunately, this is something our technology does today, but there is an urgent need to improve our go-to-market motion in this area.

Health plans are not purely channel partners, but also customers, who seek to benefit directly from our technology. We have a clear opportunity to respond to this demand, by creating the appropriate focus and flexible packaging to ensure we meet plans where they are on their technology journey. We see signs that the technology we have been pioneering has become a "must have" for health plans, and we need to capitalize on our investment.

One of our other lessons has been around how to maintain a "heads up" approach to innovation, with a "heads down" approach to execution. We were focused on scaling and building operational muscle in the organization and had not explored ways to leverage our technology in new markets. The shift to value-based care, the introduction of alternative delivery models, and payer/ provider consolidation has created demand for healthcare data infrastructure that provides information on the consumer's health and enables steering to higher quality, lower cost providers. This is the core of what we do. Our architecture is services-oriented, so we can expose the technology services that support our current offerings and power user experiences in new buyer categories, such as retail pharmacies, labs, telehealth providers, and more.

Going forward, we are "opening the aperture" of our business to serve new markets while focusing our product footprint to capitalize on our strengths. This means we're expanding our strategic vision and focusing on the following priorities over the next twelve months:

- **Employers:** We will build on the success of our Complete launches and amplify our differentiators like steorage, data driven personalization, and our open ecosystem across all our packages to deliver measurable behavior change. Put simply, we need to create more value for our existing customers and make our value proposition much clearer to prospects.
- **Payers:** We're excited to put more focus on serving health plans. Our strategy is to leverage our existing, differentiated capabilities to power an embedded experience across all health plan segments with a robust buy-up solution for the ASO segment.
- **New Markets:** We are pursuing partnerships that validate the broader applicability of our healthcare data infrastructure and value-add capabilities. To be clear, this thesis requires further validation, but we are confident in this: healthcare decisions are being made and being influenced in many ways and in many places -- providing richer information at those moments can only drive greater value across the system.

We are acting with a sense of both urgency, and a sense of purpose. The priorities I described will allow us to better capitalize on the strengths of our technology, enabling us to better serve large employers, drive scale with health plans, and expand our addressable market. We believe this will flow through our financial performance, resulting in more consistent growth and a return to sustainability.

I'm excited about Castlight's future, but I am also acutely aware of the burden of proof needed for our stakeholders and shareholders. We understand the need to establish credibility with our stakeholders, and we know that happens one customer, one partner, one proof point, one quarter at a time. We have an incredible set of people, products and customers. The opportunity is clear.

I'd like to thank the entire Castlight team for their commitment, creativity and courage in tackling the enormous challenge of changing healthcare. I also look forward to meeting investors and analysts and updating you regularly on our progress. We have work to do, but our technology strengths align with a massive need across the healthcare ecosystem, and we're motivated to capitalize on this opportunity. Thank you. Operator, we'll now take questions.