

1 **CSLT 3Q21 Earnings**

2 **Operator:**

3 Good afternoon and welcome to the Castlight Health third quarter 2021 conference call. *[Operator instructions on*
4 *mute, etc.]*

5
6 **Safe Harbor**

7 Leading today's call are Maeve O'Meara, Chief Executive Officer, and Will Bondurant, Chief Financial Officer.
8 Maeve and Will will offer prepared remarks and then they will take questions. The Castlight press release, webcast
9 link and other related materials are available on the Investor Relations section of Castlight's website.

10 This call contains forward-looking statements regarding trends, strategies, and anticipated performance of the
11 Castlight business. These statements are made as of November 2nd, 2021, reflect management's views and
12 expectations at this time, and are subject to various risks, uncertainties, and assumptions.

13 Please refer to today's press release and the risk factors included in the company's filings with the Securities and
14 Exchange Commission for a discussion of important factors that may cause actual events or results to differ
15 materially from those contained in Castlight's forward-looking statements. Castlight disclaims any obligation to
16 update or revise any forward-looking statements, except as required by law.

17 Today's call and presentation also include certain non-GAAP financial metrics. These non-GAAP financial measures
18 should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance
19 with GAAP. Disclosures regarding non-GAAP metrics and reconciliation to comparable GAAP metrics, on a historical
20 basis, can be found under the heading "Reconciliation of GAAP to Non-GAAP Financial Measures" of the earnings
21 release that was filed with the SEC before the call and in this quarter's presentation slides available on the Investor
22 Relations section of Castlight's website.

23 With that, I'll turn the call over to Maeve O'Meara, CEO of Castlight Health. Maeve?

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25 **CEO Remarks**

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27 **Maeve:**

28 Thank you all for joining us to review our third quarter 2021 results. Today, I'll start by sharing an update on the
29 continued progress in our **business**, including our meaningful traction in **direct to employer** sales and **strong**
30 **pipeline of health plan opportunities**, and **then provide** further perspective on the **longer-term growth initiatives**
31 I discussed in August.

32
33 I'll start with a brief review of the key metrics. We delivered another quarterly increase in Annualized Recurring
34 Revenue, or ARR, to \$130.2M, up \$2M sequentially from Q2. The increase was driven primarily by our strong
35 execution on Direct-to-Employer sales, netted against the churn we forecast and realized in the quarter. Direct-to-

36 employer quarterly bookings were the highest in over 3 years. I'll speak more about our sales pipeline and forward
37 view for employers and health plans in a moment.

38

39 Our total revenue for the third quarter of \$34.8 million was at the top-end of our guidance range and was ahead of
40 our expectations. Our non-GAAP gross margin was again 69%, and Castlight achieved a sixth straight quarter of
41 non-GAAP profitability and positive cash flow, ending the quarter with \$66 million in cash and no outstanding debt.

42

43 **Employer Sales**

44 I will begin with employer sales. As I mentioned in my opening comments, our Q3 bookings were the highest we
45 have achieved since Q4 of 2017. The bookings build on the active pipeline generation and RFP season I mentioned
46 in our Q2 earnings call as well as improved sales execution. We are very pleased to welcome our new customers,
47 such as Elbit Systems of North America and Baptist Health, among others, to the Castlight family.

48

49 Nearly three-quarters of our Q3 bookings were from new customers, including multiple competitive navigation
50 RFPs where our combination of high tech and high touch were a critical factor in winning the business.

51 Importantly, approximately two thirds of our new customers added our **Care Guides** offering, validating our
52 decision to add expert, human support and solidifying our navigation market position.

53

54 We also saw benefit from prior relationships, such as a large university that was forced to terminate its contract
55 last year due to COVID-19 cost reductions, even while seeing meaningful value with Castlight, who re-signed in the
56 quarter and also will now expand from *Care Guidance* to *Castlight Complete* as of January 1st, 2022. Similarly, one
57 of our new wins followed the acquisition of an existing wellbeing customer; the acquiring organization and its
58 brokers learned about Castlight through the acquisition process, and ultimately decided to expand the relationship
59 to include *Castlight Complete*, as well as *Care Guides*, across the full organization.

60

61 We believe that Castlight's market-leading technology and combination of high-tech, and high-touch solutions are
62 squarely meeting the needs of the navigation market. In addition, we are also one of the few, if not the only,
63 providers of comprehensive Transparency in Coverage solutions. This is becoming a priority not only for health
64 plans, but also large, self-insured employers with a compliance focus and/or government contracts, and the
65 strength of our experience in transparency drove one of our most meaningful customer wins in the quarter. We
66 have a robust employer pipeline entering the last months of the year, and we look forward to updating you on our
67 progress.

68

69 **Churn/Retention**

70 From a **customer retention** perspective, I shared last quarter that we were on-track to deliver a “meaningful
71 improvement in retention compared to last year.” I shared that churn was weighted to the 2nd half of the year,
72 given the majority of renewals occurring in that time period. As expected, we did experience ARR reductions from
73 a small number of clients that we had identified as being at risk of attrition. While churn ticked up sequentially as
74 we forecasted, we are pleased that churn was less than half the level that we experienced in Q3 of 2020. The
75 attrition in the quarter was more than offset by our new bookings, and we are pleased that our team is executing
76 against meaningfully lower churn in 2021 vs. prior years.

77

78 **Health Plans**

79 Turning to our Health Plan business, I am pleased to share that our Health Plan pipeline has increased since we last
80 spoke. We experienced no losses during the quarter and all the pipeline opportunities I mentioned in August
81 remain active, although certain decisions that we’d hoped would occur in the late Q3 timeframe have pushed to
82 the fourth quarter. Right now, we have a half-dozen meaningful health plan opportunities in mid-stage or late-
83 stage and we remain optimistic in our position across the full set. The opportunities encompass full digital
84 navigation, navigation plus *Care Guides*, as well as transparency only. While we will continue to refine and improve
85 how we forecast the timing of our large health plan prospect decision-making, we are excited to have such a
86 robust health plan sales pipeline for this quarter and looking into 2022. The traction we are seeing in the market is
87 evidence that health plans view us as critical, trusted partners in delivering value to their customers.

88

89 **Growth: Intelligence-as-a-Service**

90 I’ll conclude my remarks today with additional commentary on the longer-term growth strategy I discussed on our
91 last call. As I mentioned last quarter, we believe our data & technology capabilities can support the demand for
92 healthcare data infrastructure that provides information on the consumer’s health and enables steerage to higher
93 quality, lower cost providers, both bricks and mortar and virtual. As we laid out two years ago, we have seen
94 demand for this capability from new buyer categories, like telehealth providers offering virtual primary care,
95 advanced primary care providers, retail pharmacies, and more.

96

97 We are pleased to be engaged in a rigorous evaluation process from one of the leaders in those categories to
98 bolster their offering, and we have several additional conversations underway. While I want to be clear that any
99 contribution to 2022 revenue will be nominal from these relationships, we believe there is meaningful TAM and
100 revenue potential as we expand our *intelligence-as-a-service* capabilities. Finally, we believe our discussions to-
101 date demonstrate the power, scale, and uniqueness of our core data and technology, as well as experience driving
102 healthcare outcomes.

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104

105 **Conclusion**

106 To close, I'm happy to report our meaningful progress in 2021 and I am excited for the fourth quarter of the year.
107 Our team is executing on our core goal of delivering ARR growth, we see our next generation navigation solution
108 resonating in the marketplace, and we continue to demonstrate operating discipline as we grow the business. We
109 are in a large and growing market, and the momentum across the business is real and exciting.

110
111 I want to thank the entire Castlight team for their excellent work not only this quarter, but across all of 2021. It's
112 gratifying to see your work producing outcomes for our customers, users, and shareholders. With that I will now
113 turn the call over to Will for a review of third quarter financials and our outlook for the remainder of the year.
114 Will?

115

116 **CFO Remarks**

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118 Thanks, Maeve. I'll start by reviewing our third quarter results and then I'll discuss our outlook for the fourth
119 quarter and the full year.

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121 Beginning with **Annualized Recurring Revenue, or ARR, our ARR** of \$130.2 million increased sequentially for the
122 third quarter in a row. The increase was driven by the employer market, including meaningful new client additions
123 as well as upsells to current clients. As we mentioned previously, our 2021 renewals were weighted toward the 2nd
124 half of the year, and as Maeve shared, we had strong renewal activity in the quarter. The largest customer that
125 terminated, with ARR of more than \$2 million, was signed in Dec 2019, but never launched because of COVID-19's
126 impacts on their implementation. This is the only customer whose implementation was delayed or impacted by
127 COVID-19.

128

129 **Total revenue** in the third quarter of \$34.8 million decreased 2% sequentially and decreased 1% compared to a
130 year ago and was at the upper end of our previously shared outlook. Subscription revenue of \$31.6 million
131 represented 91% of our total revenue and professional service revenue accounted for the remainder; our
132 Professional Services revenue again principally reflected our Boston Children's Hospital / CDC Vaccines.Gov
133 support, and the expected sequential decline was in line with the expectations we laid out earlier in the year.

134

135 Turning to Non-GAAP measures, **gross margins** of 69% were essentially flat sequentially and compared to a year
136 ago. Subscription gross margins were over 77% for the sixth straight quarter. We remain pleased with our industry-
137 leading, attractive gross margin profile, which helps demonstrate the scale of our technology and the competitive
138 advantage our R&D investments has generated.

139

140 **Non-GAAP operating expense as a percentage of total revenue** of 62% was down 1% sequentially and up 4% year
141 over year as we continued to see increased business expenses from the COVID-impacted 2020 baseline.

142

143 **Our non-GAAP operating income** of \$2.5 million delivered our sixth consecutive positive quarter of non-GAAP
144 profit. Similarly, we reported positive cash flow from operations of \$5.8 million and our cash balance was \$65.8
145 million at the end of the quarter. In the quarter, we made the final payments on our term loan and the company
146 has no outstanding debt as of 9/30. After several years of intentional focus on operating with fiscal discipline, we
147 feel well positioned to invest in the areas of our business that are driving growth as we plan for 2022.

148

149 Turning now to our **outlook**, we are updating the 2021 full year outlook we originally provided in our Q1 call, and
150 now expect:

- 151 • Revenue of \$135 - \$140 million
- 152 • Non-GAAP operating loss of (\$4 million) to income of \$1 million
- 153 • Non-GAAP loss per share of (\$0.03) to income of \$0.01 per share, now based on approximately 160
154 million shares outstanding
- 155 • Gross margins in the mid-to-high 60%s compared to our previous expectation of mid-60s
- 156 • Cash Flow from Operations between \$10 and \$15 million of cash generated compared to our previous
157 expectation of between \$2 and \$7 million of cash generated from operations
- 158 • Cash balance at year end of around \$60 million, compared to our previous expectation of at least \$50M

159

160 For the fourth quarter, we expect revenue in the range of \$33 million to \$35 million.

161

162 As you can hear in today's call, we are pleased at how well Castlight's solutions are resonating with large
163 employers, health plans, and future potential customers of our data & technology. Our strength in transparency
164 means we are one of the only firms that can support employers in compliance with coming regulation, our
165 successful launch of Care Guides positions us to meet the customer demand for navigation, and we are now
166 focused on finishing strong in 2021, the 1/1 launch period and planning for 2022.

167

168 As always, I'd like to thank the Castlight team and specifically Sophia Golden, who read today's safe harbor, and
169 was the winner of the *Making Things Happen* Culture Award in Q3 as member of the team delivering our vaccine
170 navigation.

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172 With that, we'd be pleased to take questions. Operator?