

1 **CSLT – 1Q'21 Earnings Script**

2 **Operator:**

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

5  
6 **Safe Harbor**

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

11  
12 This call contains forward-looking statements regarding trends, strategies and anticipated performance  
13 of the Castlight business, including – but not limited to – guidance for 2021, new sales, our ability to  
14 bring new innovation, the opportunities and impact of COVID on our own operations, our ability to sell  
15 and our operating results, opportunities and the impact of COVID on our customer's businesses and  
16 their decisions to buy certain benefits or institute workforce reductions, retention of existing customers,  
17 gross margin and operating expense trends, cash use, future cash position, and the changes in the  
18 growth strategy on the Company's performance. These statements are made as of April 29<sup>th</sup>, 2021, and  
19 reflect management's views and expectations at this time, and are subject to various risks, uncertainties  
20 and assumptions. If any of these risks or uncertainties develop or if any of the assumptions prove  
21 incorrect, actual results could differ materially from those expressed or implied by our forward-looking  
22 statements. The company disclaims any obligation to update or revise any forward-looking statements.

23  
24 This call contains financial guidance, but the company will not provide any further guidance or updates  
25 on performance during the quarter unless in a Regulation FD compliant forum. Please refer to today's  
26 press release and the risk factors included in the company's filings with the Securities and Exchange  
27 Commission for discussion of important factors that may cause actual events or results to differ  
28 materially from those contained in Castlight's forward-looking statements.

29  
30 Today's call and presentation also include certain non-GAAP financial metrics, such as non-GAAP gross  
31 margin, operating expenses, operating income (loss), and net income (loss) per share. These non-GAAP  
32 financial measures should be considered in addition to, not as a substitute for or in isolation from,

33 measures prepared in accordance with GAAP. However, Castlight believes these non-GAAP metrics aid  
34 in the understanding of Castlight’s financial results. Disclosures regarding non-GAAP metrics and  
35 reconciliation to comparable GAAP metrics, on a historical basis, can be found under the heading  
36 “Reconciliation of GAAP to Non-GAAP Financial Measures” of the earnings release that was filed before  
37 the call.

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

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41 **CEO COMMENTS: Maeve O’Meara**

42 Thank you all for joining us. On the call today, I’ll discuss our achievements in the first quarter, including  
43 progress against the three goals we shared on our last call: growth, innovation, and operating discipline.  
44 After that, I’ll turn the call over to Will for a more detailed review of the first quarter financials.

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46 Our total revenue for the first quarter of \$35.1 million exceeded our guidance; our non-GAAP gross  
47 margin of 66.8% was 170 basis points higher than the same period last year; and Castlight achieved a  
48 fourth straight quarter of non-GAAP profitability and positive cash flow, reflecting our efforts to exercise  
49 operating discipline to support continued financial sustainability.

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51 Before I discuss each goal, I am pleased to share we agreed to expand our partnership with Boston  
52 Children’s Hospital (BCH) and the CDC in support of the national COVID-19 vaccination effort. It has been  
53 a privilege to leverage our expertise in health navigation and complex healthcare data to support the  
54 country in this critical phase of pandemic response. The expansion will allow us to continue to serve BCH  
55 and the CDC through the duration of the vaccination effort this year. Will will share more details on the  
56 financial impact of this expansion.

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58 In addition, the team delivered several meaningful achievements against our goals for 2021 in the first  
59 quarter.

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61 **Starting with our goal of ARR growth**, our Annualized Recurring Revenue or ARR increased \$1.3 million  
62 from last quarter to \$128 million. While the first quarter is typically a seasonally light sales & renewals  
63 quarter, we were pleased BCBS Alabama chose to add Care Guides in February and proud that our  
64 Customer Experience teams delivered our lowest churn quarter since 2016.

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Looking forward, I'll comment on the three core factors to deliver on our goal of ARR Growth: Employer Sales, Health Plan Sales, and Renewals.

1. **Employer Sales.** Given the seasonality of our sales cycle, Q1 and early Q2 are our critical pipeline building period. The combination of a growing navigation market; our competitive high tech, high touch offering; and strong team execution on pipeline generation activities have allowed us to make meaningful progress against our pipeline targets. Our Q1 Stage 1 pipeline generation was more than 130% of our target, and we have multiple active sales opportunities with very large employers that we view as winnable. We don't think 2021 will represent a full return to a "normal" buying year, but we do see faster progression through the early stages of the pipeline, and expect a significant improvement from last year's COVID-colored dynamic.
2. **Health Plan Sales.** As we see progress with employers, our health plan business is robust and accelerating. Since February, several health plan prospects progressed from the early to mid-stage, including several digital navigation opportunities. In addition, we saw multiple net-new opportunities related to the transparency in coverage regulations. Turning to our existing health plan partnerships, we believe there is potential for expansion across Anthem, Cigna, and Blue Cross Blue Shield of Alabama. As a point of validation, BCBS of Alabama signed an expansion in February to add Care Guides ,and Cigna is in the process of adding additional groups in the Taft-Hartley business segment. These additional Cigna groups are covered under our existing contract and thus will not have an immediate financial impact, but both expansions demonstrate our health plan customers' confidence in our solutions and highlight the opportunity to expand existing plan partnerships.
3. **Renewals.** As I mentioned above, Q1 represented our lowest churn quarter for Castlight since 2016. This is partly due to a smaller 2021 renewal cohort, but it also reflects strong execution. As an example, we were pleased to renew one of our larger and more complex customer relationships, with a meaningful, 7-figure contract size. As we work to continue our improvement in retention, we transitioned our customer success managers to a variable compensation plan that aligns customer goals and renewal outcomes with the team's compensation. In addition, we will soon release a 3<sup>rd</sup>-party study demonstrating Castlight's impact on medical claims costs. As I've said before, we believe 3<sup>rd</sup> party validation of our

96 meaningful savings will support renewal conversations. I look forward to sharing more progress  
97 in coming quarters, as our main renewal season is really in Q2 and Q3.

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99 Next, I'll turn to our goal of **pioneering next generation navigation**.

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101 As I noted in February, our differentiated high-tech, high-touch approach to navigation drives strong  
102 outcomes for our customers through an affordable combination of self-service and clinical expertise. To  
103 that end, we continued to make progress with our Care Guides solution in the quarter. As I mentioned in  
104 Q1, we are committed to raising awareness and now see Care Guides in more than 30% of our pipeline  
105 discussions and we were pleased to see the number of RFPs we received for Care Guides increase nearly  
106 5-fold over last year. In addition, we launched American Eagle on Care Guides, which is an exciting  
107 milestone, as they are a net new customer who went to market for high touch navigation and chose  
108 Castlight because of our Care Guides offering.

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110 Our national leadership role supporting the CDC and Boston Children's Hospital with COVID-19  
111 vaccinations positioned us to support our customers with a truly best in market solution for vaccine  
112 navigation. We launched a comprehensive, in-app and Care Guides supported solution for all of our  
113 clients in mid-February, which provides educational content, addresses vaccine hesitancy, and guides  
114 users through an interactive experience to help them determine their eligibility and identify nearby  
115 locations with vaccine inventory. Our customers are also able to tailor their program around vaccination,  
116 including messaging, incentives, or education on related programs. Since the launch, one third of our  
117 users have accessed & utilized vaccine navigation. Importantly, the solution also has helped drive new  
118 registrations, as up to 65% of the newly registered users in the past 60 days accessed vaccine navigation  
119 for customers that promoted the solution. While bringing innovation is a core tenet of our customer  
120 relationships, I believe vaccine navigation has been among the best-received features we've delivered to  
121 clients in my time at Castlight, and is a great example of how navigation solutions should be able to flex  
122 to serve as critical infrastructure to support a customer's strategy or high priority needs at any time.

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124 While Will will provide detail on our progress against our goal of **continued operating discipline**, I am  
125 pleased to be able to raise our 2021 outlook, as a result of our expansion with BCH and the progress we  
126 have made on renewals.

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128 Finally, as you've heard me say in the past, one of my top priorities has been building a world class  
129 leadership team that can lead Castlight in its next chapter. I'm excited to announce that we have hired a  
130 new SVP and Chief Sales Officer, Frank Jennings, to lead our direct employer sales organization. I had the  
131 opportunity to work closely with Frank when he was one of Castlight's most successful sales leaders  
132 seven years ago. Since then, he's led the commercial organizations at several other digital health  
133 companies, including Covera most recently and Doctor on Demand for 5 years. I'm thrilled he is  
134 returning to Castlight. He brings deep industry experience, strong field sales leadership, Castlight  
135 knowledge and a commitment to the culture of our organization. I'm excited to have Frank on board and  
136 pleased with the immediate and visible impact he is already making on the organization.

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138 To close, I'm happy to report 2021 is off to such a strong start and feel confident in our ability to execute  
139 against our three priorities for the year: returning to ARR growth; pioneering Next Generation  
140 Navigation; and continuing to demonstrate operating discipline while investing in growth. As always, I  
141 want to express my deep appreciation to the Castlight team for their unwavering dedication to our  
142 mission and the way they show up for our customers every single day.

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144 I'll now turn the call to Will for a review of the first quarter financial results and our outlook for the  
145 remainder of the year. Will?

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147 **CFO Comments: Will Bondurant**

148 Thanks, Maeve. I'll start by reviewing our first quarter results and then will discuss our outlook for the  
149 second quarter and full year.

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151 **1Q Results**

152 Beginning with **annualized recurring revenue**, or ARR, we were pleased ARR increased \$1.3 million  
153 sequentially from 12/31 and ended the quarter at \$128 million. As Maeve mentioned, the first quarter is  
154 seasonally a light sales & renewals quarter for our industry; the ARR increase was principally a result of  
155 the expanded BCBS Alabama relationship and Q1 being the lowest churn quarter we've experienced  
156 since 2016.

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158 Total **revenue** in the first quarter was \$35.1 million, which exceeded our quarterly guidance range with  
159 the upside driven by performance guarantee achievement and our Boston Children's Hospital

160 relationship. Revenue represented a decrease of 10% compared to a year ago, which was driven by the  
161 ARR decline we saw in 2020 and around \$3 million dollars of one-time revenue in the prior year quarter.  
162 Subscription revenue accounted for 92% of total revenue. Professional Services revenue accounted for  
163 8% of total revenue this quarter, including the contribution from our Boston Children's Hospital / CDC  
164 relationship.

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166 Turning to non-GAAP measures, our **gross margin** in the quarter of 66.8% compared favorably to 65.1%  
167 a year ago. Subscription gross margin was 77.5%, continuing to come in in-line with our expectations.

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169 Non-GAAP **operating expenses** as a percentage of revenue were 63.5% in the quarter compared to  
170 70.8% in the first quarter last year. This year over year improvement reflects our ongoing commitment  
171 to financial sustainability, even as we have made targeted investments to return to ARR growth this  
172 year.

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174 Non-GAAP **operating income** of \$1.2 million represented our fourth straight quarter of positive non-  
175 GAAP operating income. Similarly, our **cash flow from operations** was \$7.6 million in the first quarter,  
176 which is a record level for Castlight, though it is worth noting that cash flow benefitted from more than  
177 \$3 million of favorable payment timing in Q1. We ended the first quarter with \$56.5 million in cash on  
178 the balance sheet.

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## 180 **2021 Guidance**

181 With that, I'll speak to the impact of the Boston Children's Hospital / CDC expansion, provide our initial  
182 outlook for the second quarter and update our full year 2021 outlook.

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184 As Maeve mentioned, we were pleased to expand and extend our support for Boston Children's Hospital  
185 as it relates to their work with the CDC on COVID-19 vaccinations and VaccineFinder. Incremental to our  
186 original agreement, we added support for additional deliverables this year and extended our hosting  
187 and ongoing support through mid-2022, given the expected duration of the COVID-19 vaccination  
188 effort. Due to additional work from the amendment, we expect slightly higher revenue in Q2 and to  
189 continue to recognize revenue associated with the relationship through mid-2022.

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191 Reflecting the impact of our expanded Boston Children's Hospital relationship, for 2021 we are  
192 increasing our outlook and now expect:

- 193 • Revenue in the range of \$135 million to \$140 million
- 194 • Non-GAAP operating income between income of \$1 million and a loss of \$4 million
- 195 • Non-GAAP income per share between income of \$0.01 and a loss of \$0.03 based on  
196 approximately 160 - 161 million shares
- 197 • Full year gross margins in the mid 60% range
- 198 • Cash flow provided from operations between \$2 million and \$7 million. We expect to end the  
199 year with more than \$50 million of cash

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201 As we said on our February call, we are now in a position to provide quarterly revenue guidance. For the  
202 second quarter, we expect revenue in the range of \$33 million to \$35 million.

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204 We are pleased with the progress in the quarter, including the sequential ARR growth and improved  
205 financial outlook driven by the Boston Children's Hospital expansion, and I am confident in our team's  
206 execution against the goal of delivering ARR growth in 2021.

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208 Before we open the line to questions, I want to thank the Castlight team for showing up as One Team,  
209 On a Mission, Making Things Happen each and every day on behalf of our customers, users, and all of  
210 our stakeholders. One of those Castlighters is Tiah Davis, who read the safe harbor to open the call, and  
211 was one of our Q1 spotlighted employees. Thank you, Tiah.

212 At this time, we'd be pleased to take questions. Operator?