

1 **CSLT 2Q21 Earnings Script**

2 **Operator:**

3 Good afternoon and welcome to the Castlight Health second 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. These statements are made as of August 3rd, 2021, reflect management's  
14 views and expectations at this time, and are subject to various risks, uncertainties and assumptions.

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

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

25  
26 With that, I'll turn the call over to Maeve O'Meara, CEO of Castlight Health. Maeve?

27  
28 **Maeve:**

29 Thank you all for joining us to review our second quarter 2021 results. Today, I'll start by sharing an  
30 update on the continued progress in our **business**, including our view of this years' **direct to employer**  
31 **and health plan** selling season. I'll then comment on some **exciting updates to the Castlight team**, and  
32 finally, I'll share perspective on our **longer-term growth initiatives**.

33 I'll start with a brief highlight of some key numbers. We saw a slight uptick sequentially in Annualized  
34 Recurring Revenue, or **ARR**, which continued to move in the right direction for the second quarter in a  
35 row and was \$128.2 million. Q2 was another very high customer retention quarter, with strong sales  
36 activity setting us up well for Q3.

37

38 Our total revenue for the second quarter of \$35.6 million landed at the top-end of our guidance range;  
39 our non-GAAP gross margin was 69%; and Castlight achieved a fifth straight quarter of non-GAAP  
40 profitability and positive cash flow.

41

42 Turning to the **progress in our business**, I'll begin with **direct to employer**. This was an incredibly active  
43 pipeline generation and RFP season, which benefitted from our our new Care Guides offering. In total,  
44 our RFP volume is up from the pre-COVID levels of 2019, meaningfully higher than 2020, and we enter  
45 Q3 with our largest late-stage pipeline in 4 years, and we see multiple pathways to achieving our targets  
46 for the **year**. By way of example, we were pleased to sign a Castlight Complete deal worth approximately  
47 \$1m of ARR in the first two weeks of Q3. Further, in addition to our pipeline activity, we announced a  
48 new channel partnership with Businessolver, where we are a preferred navigation vendor, and were  
49 selected by a brokerage house in a competitive process to support a portion of their business as the  
50 navigation vendor.

51

52 On the **health plan** side, our initiatives progressed as planned in the first half of the year. We have  
53 developed a strong pipeline with a mix of expansion opportunities and potential new clients. As of  
54 today, we have one late-stage opportunity and several promising mid-stage opportunities. Our BCBS  
55 Alabama implementations of the digital navigation and Care Guides offerings are progressing on  
56 schedule, and we are working closely with BCBSAL to meet market demand and to enable their team's  
57 efforts.

58

59 In both the employer and health plan market, we continue to see potential tailwinds from Transparency  
60 in Coverage regulations, as a best-in-class Care Guidance and healthcare navigation vendor. Importantly,  
61 we are starting these conversations with transparency but they are quickly evolving into broader  
62 opportunities.

63

64 From a **retention** standpoint, we continued to demonstrate meaningful progress. Q2 represents one of  
65 our best quarters in the past five years in terms of churn. I'm confident we are on track to show a  
66 meaningful improvement in retention compared to last year, even though we do still have important  
67 second half renewals to complete. As evidence of our continued improvement in the health of our book  
68 of business, our **customer NPS in Q2 rose to 46 from negative territory when I stepped into the CEO role**  
69 **two years ago**. I'm very proud of this progress, which I know has taken tremendous work from the entire  
70 organization.

71

72 Importantly, supporting our progress with our clients, we were pleased with the results of a third-party  
73 actuarial study released in May by Santa Barbara Actuaries, a highly respected firm led by Ian Duncan  
74 that is trusted and heavily utilized by the large self insured employer market. The results demonstrated  
75 a 9.1% year-over-year reduction in medical spend among those who use Castlight compared to a  
76 matched control group and validate the clear ROI from utilizing Castlight's navigation technology. The  
77 study found lower medical spend across members at every clinical risk level, including those with and  
78 without a chronic condition. This reinforces a key value proposition we bring to market, as the only  
79 navigation vendor able to demonstrate impact across a broad portion of a client's population.

80

81 We have an exciting announcement from a **team perspective**. In the quarter, we brought on our India-  
82 based development team as FTEs. This talented and experienced team, many with tenures of 4+ years,  
83 had previously been working with us as part of a 3<sup>rd</sup> party since 2014, and has been responsible for  
84 meaningful innovation in our platform. During the transition, we were able to retain 100 out of 104  
85 members of our team, which is a reflection of engineering and product leadership, our operational  
86 muscle in the people and finance functions, and Castlight's strong R&D culture. Importantly, bringing  
87 our India R&D operations into Castlight directly will allow us to scale and grow our team in India.

88

89 Taking a step back from the quarter, I want to close by speaking to the **next evolution of our growth**  
90 **strategy**. When I stepped into the role of CEO two years ago, Castlight was viewed as a purely digital  
91 navigation company, and honestly, often known only for its role in creating the category of  
92 transparency. On my first earnings call in July 2019, I spoke about the immediate strategic shifts needed,  
93 namely expanding the go-to-market through health plans, and the addition of high touch navigation.  
94 Following that call, we stood up a health plan sales team and announced our Care Guides offering.

95

96 In July 2019, though, I also shared, and I quote, that *“The shift to value-based care, the introduction of*  
97 *alternative delivery models, and payer/ provider consolidation has created demand for healthcare data*  
98 *infrastructure that provides information on the consumer’s health and enables steerage to higher*  
99 *quality, lower cost providers. This is the core of what we do. Our architecture is services-oriented, so we*  
100 *can expose the technology services that support our current offerings and power user experiences in new*  
101 *buyer categories, such as retail pharmacies, labs, telehealth providers, and more.”*

102

103 Given our progress against the key growth levers, we can now begin utilizing our data & technology  
104 capabilities to support the demand for healthcare data infrastructure that provides information on the  
105 consumer’s health and enables steerage to higher quality, lower cost providers. As we laid out two  
106 years ago, we have seen interest in this capability from new buyer categories, like telehealth providers  
107 offering virtual primary care, onsite/nearsite clinics, retail pharmacies, and more.

108

109 While this commercial development is still early stage, we believe it will meaningfully expand our  
110 market opportunity and enable long term growth. We will keep you updated on our progress.

111

112 To conclude, I am pleased with the progress we’ve made in the first half of 2021. We continue to deliver  
113 against our financial goals and we’re poised to re-accelerate our growth in the second half of the year.

114 As always, I want to thank the team for their commitment to our mission, as we serve our customers  
115 with the focus that comes from the privilege of purpose.

116

117 I’ll now turn the call to Will for a review of the second quarter financial results and our outlook for the  
118 remainder of the year. Will?

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#### CSLT CFO Earnings Script

121 Will:

122 Thanks, Maeve. I’ll start by reviewing our second quarter results and then will discuss our outlook for  
123 the third quarter and full year.

124

125 Beginning with **annualized recurring revenue**, or ARR, our **ARR** of \$128.2 million increased slightly  
126 sequentially. While we signed some new busines in the second quarter, our pipeline is back half  
127 weighted this year for both the employer and health plan markets, as Maeve mentioned. We are

128 confident that our team will be able to implement the new business signed in the third quarter and be  
129 ready to launch on January 1<sup>st</sup>.

130 **Total revenue** in the second quarter of \$35.6 million increased 2% sequentially and was essentially flat  
131 compared to a year ago. Subscription revenue of \$31.1 million represented 87% of our total revenue  
132 and professional service revenue accounted for the remainder; our PS revenue reflects continued  
133 contribution from the Boston Children's Hospital / CDC VaccineFinder work.

134 Total **gross margins** of 68.7% increased 190 bps sequentially and 40 bps compared to a year ago. The  
135 increase was driven by top-line contribution from the Vaccine Finder work and continued operational  
136 efficiencies. Subscription gross margins remain over 77% for the fifth straight quarter.

137 **Operating expense as a percentage of total revenue** of 63.5% was relatively flat year over year, as we  
138 hit the anniversary of our cost management measures implemented last year, and started to see the  
139 return of some expense associated with COVID-19 savings.

140 As Maeve mentioned, in the quarter, we established an Indian entity and hired approximately 100  
141 individuals as FTEs who previously worked with Castlight at a third party as part of our development  
142 teams. Given this, our total headcount increased to approximately 550, from approximately 450 at the  
143 prior quarter. We don't expect material change in our 2021 expense from this transition, excited about  
144 welcoming these talented individuals fully into the Castlight family, and look forward to continued R&D  
145 scale through our Hyderabad location.

146 Non-GAAP **operating income** of \$1.9 million is our fifth consecutive positive quarter of non-GAAP profit.  
147 Similarly, we reported positive **cash flow** from operations of \$4.6 million and drove our **cash balance** to  
148 \$60.7 million at the end of the quarter.

149 Turning to our 2021 outlook, we are reiterating the 2021 outlook provided in Q1, including:

- 150 ○ Full year
  - 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, based on
  - 154 approximately 160 to 161 million shares outstanding
  - 155 ▪ Gross margins in the mid-60%
  - 156 ▪ CFFO between \$2 and \$7 million
  - 157 ▪ Cash balance at year end to be more than \$50 million
- 158 ○ 3Q 2021
  - 159 ▪ Revenue in the range of \$33 - \$35 million

160

161 In conclusion, we are pleased with another quarter of strong financial results and excited for the  
162 strength of our pipeline entering Q3. We look forward to sharing our progress through this quarter as  
163 we look ahead toward 2022.

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165 With that, we'd be pleased to take questions.

