

1 **CSLT – 4Q'20 Earnings Script**

2 **Operator:**

3 Good afternoon and welcome to the Castlight Health fourth quarter 2020 conference call. [Operator
4 instructions on mute, etc.]

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

10
11 This call contains forward-looking statements regarding trends, strategies and anticipated performance
12 of the Castlight business, including – but not limited to – guidance for 2021, new sales, our ability to
13 bring new innovation, the opportunities and impact of COVID on our own operations, our ability to sell
14 and our operating results, opportunities and the impact of COVID on our customer's businesses and
15 their decisions to buy certain benefits or institute workforce reductions, retention of existing customers,
16 gross margin and operating expense trends, cash use, future cash position, and the changes in the
17 growth strategy on the Company's performance. These statements are made as of February 23, 2021,
18 and reflect management's views and expectations at this time, and are subject to various risks,
19 uncertainties and assumptions. If any of these risks or uncertainties develop or if any of the assumptions
20 prove incorrect, actual results could differ materially from those expressed or implied by our forward-
21 looking statements. The company disclaims any obligation to update or revise any forward-looking
22 statements.

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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.

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

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

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

39

40 **CEO COMMENTS: Maeve O’Meara**

41 Thank you all for joining us today. On the call, I’ll provide an update on the fourth quarter, a look back at
42 the progress we made over the past 18 months, and then turn towards our goals for 2021. After that I
43 will hand the call to Will to provide a more detailed review of the financials.

44

45 For the full year, our total revenue of nearly \$147 million exceeded our guidance; our full year non-
46 GAAP gross margin of 68% was the highest since 2017; and Castlight achieved full year non-GAAP
47 profitability for the first time. While COVID introduced many unforeseen challenges, our experienced
48 management team and Will and I’s deep understanding of the business allowed us to make swift, sound
49 decisions that strengthened our financial footing, while still enabling us to respond to COVID and the
50 rapid market evolution in a way that has positioned us well to grow ARR in 2021.

51

52 The team delivered a very strong 4th quarter and I would like to take a minute to recognize some of
53 those achievements:

54

- 55 1. First, we exceeded our goal of adding one new health plan customer in 2020, signing a
56 second new health plan in December. I am thrilled to announce Blue Cross Blue Shield of
57 Alabama as our newest health plan customer. They purchased our full navigation solution,
58 with the first rollout to commercial accounts planned for late this year. Their selection of
59 Castlight’s navigation solution in a highly competitive process is continued evidence of our
60 strong product/ market fit with health plans. The relationship builds our strength in the
61 Blues, and multiple leaders at Anthem served as customer references in the evaluation
62 process. BCBS Alabama is a particularly notable win, as Alabama is a respected leader
63 among the Blues, as both a larger regional plan, but also an established innovator.

64

- 65 2. Second, we entered a partnership with Boston Children’s Hospital (BCH) to support the
66 national vaccination effort, under their existing agreement with the CDC. Specifically, we are
67 enabling providers, pharmacies, and jurisdictions to report vaccine inventory on a daily basis
68 to the CDC. This data set will be made available to the public through BCH’s consumer facing
69 site, vaccinefinder.org. We were selected to do this work because of the national leadership
70 role we played in COVID testing navigation and, more significantly, our established expertise
71 in health navigation. Will will share the financial details of this agreement, but as an
72 organization we are honored to support the country in this critical work that so closely
73 aligns with our mission.
74
- 75 3. And finally, our teams executed flawlessly during the heaviest operational time in health
76 benefits. We exceeded our service level for all clients in December and January, with overall
77 customer satisfaction scores of 8.1 for our customer service organization. Our Care Guides
78 also excelled, with an average customer satisfaction score of 9.0. We maintained our mobile
79 NPS of 65+ throughout the full year. We have stronger process, people and technology to
80 thank for our best operational year in Castlight’s history.

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82 As we close out 2020 and focus on 2021, I think it’s important to take a step back and reflect on the
83 massive organizational transformation that we have driven over the last 18 months.

84
85 First, we made the strategic decision to enter the **health plan market**, where we saw opportunity to
86 expand our addressable market for navigation. We set a goal of one new health plan customer in 2020;
87 we exceeded that goal in signing both a national plan and a large, well respected Blue plan within the
88 year. We continue to see significant potential in this market and have built a strong pipeline of
89 opportunities for further growth in 2021. We are also fortunate to announce the addition of Scott
90 Serota as an executive advisor. Scott just recently retired from his role as CEO and President of the Blue
91 Cross Blue Shield Association, which he oversaw for nearly 20 years. During his tenure, Blues
92 membership increased substantially and the Association played a key role in driving deeper
93 collaboration across the 36 Blue plans. Scott is a true expert and respected leader in the space, and the
94 time and energy he provides Castlight are invaluable, but also validation of the opportunity we have in
95 front of us in the health plan market.

96
97 Second, we made the strategic decision to expand our offering to include a high touch services offering
98 almost 18 months ago. We built and launched our **Care Guides** solution to meet the market demand for
99 a high-touch/high-tech navigation offering, leveraging our technology backbone to enable scalable, next

100 generation navigation. We continue to hear from employers and benefit consultants alike that there is a
101 hole in the market, and a clear need for a solution that is not services-first. Looking back at the first full
102 year live for one of our initial customers, Care Guides drove a 32% increase in engagement compared to
103 our full book of business, and this engagement was seen in all user risk segments. We also saw that
104 higher risk cohorts were 43% more likely to engage in high-touch channels versus digital. We were also
105 pleased to see a 24% increase in enrollment in 3rd party point solutions post a Care Guides encounter, a
106 direct result of our integrated technology that enables Guides to seamlessly connect users with these
107 solutions.

108
109 We are confident that these two key decisions, GTM expansion with health plans, and the addition of
110 Care Guides, will enable us to return to growth in 2021. As one additional point of validation, I am
111 excited to share that our newest health plan customer, BCBS of Alabama, just signed an expansion with
112 us earlier this month to add Care Guides as part of the initial launch scope, alongside the digital
113 navigation solution I discussed earlier in our Q4 highlights.

114
115 In addition to establishing clear strategic imperatives, we are proud of the decisions we made during
116 COVID. First, our thoughtful, proactive changes to cost structure allowed us to end the year with a 68%
117 non-GAAP gross margin, achieve our first year of non-GAAP profitability, and invest cash prudently.
118 Throughout 2020 we demonstrated operational discipline and chose to make high impact investments,
119 such as our health plan team and Care Guides. COVID also showcased our ability to innovate and
120 execute quickly to support our customers. We established ourselves as clear thought leaders in COVID
121 navigation for employers, as the national leader in testing navigation, and leveraged our data and
122 analytics expertise to publish key insights in leading academic journals. Most recently, we launched our
123 COVID-19 vaccine navigation solution which is helping our employers educate, engage, and enable
124 access to vaccines in a personalized, interactive way using the core capabilities of the Castlight platform.
125 Some of our largest customers have deployed this functionality, and will be speaking about it in a
126 webinar this week. We are confident that the work we did to establish ourselves as the most innovative,
127 nimble player in the navigation space will increase retention and drive pipeline in 2021.

128
129 Looking back over the past 18 months, we have made an enormous amount of progress, but I am most
130 proud of the leadership team we built, a team for the future. We have hired A-level talent from a mix of
131 tech and healthcare and coupled that new expertise with leaders who have grown up inside the

132 company. We have created a culture of debate and accountability and built a cohesive team despite a
133 pandemic keeping us physically apart. This is a team I am confident can lead Castlight through its next
134 chapter of growth.

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136 **As we look to 2021**, we are confident that we have put in place the right strategy and team, and that
137 our focus needs to be on execution. We have 3 clear priorities:

138

139 **First, we will return to ARR growth in 2021.** We expect this growth will be driven by continued traction
140 in the health plan market, as well as a return to growth in our employer business.

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142 In the health plan market, we have a strong pipeline, and fully expect to build on the momentum we
143 created in 2020. Our health plan customer base now includes Anthem, Cigna, and Blue Cross Blue Shield
144 of Alabama, so we are optimistic that we will have expansion opportunities like our recent BCBSAL Care
145 Guides win, in addition to new health plan partners. We have built out our health plan sales team and
146 are better positioned to convert on pipeline opportunities as an organization. We continue to see that
147 our full product portfolio is resonating, with the greatest demand around digital navigation, but also see
148 acceleration from external factors like the finalized CMS Transparency Rules. We have been the
149 undisputed leader in transparency for a decade and thus are well-positioned to support existing and
150 future customers as they seek to comply with these rules.

151

152 With employers, in order to drive sales in the growing navigation market, it is critical that we increase
153 awareness of our high-touch capabilities. Our solution has now been live for over a year and is
154 generating great proof points, so we are in a much stronger position to educate the market and take
155 share. Key to increasing market awareness is our consultant and broker strategy. They are particularly
156 aware of the need for an alternative within navigation that isn't just "less expensive" services. We are
157 negotiating new agreements with the top firms and have kicked off a "top 100" local producer strategy
158 to ensure we are getting our full high-tech/high-touch navigation message into the hands of these key
159 influencers who ultimately determine inclusion in RFPs.

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161 We also expect to significantly improve performance on renewals. This is a function of both customer
162 health and a significantly smaller renewal cohort than in the past two years. We are moving aggressively
163 to pull renewals forward within the year and are confident in our plan.

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Second, we will pioneer Next Generation Navigation. With our high-tech, high-touch approach, we are creating the next generation of navigation. Over the last year, we clearly established the ability of a combination of self-service + clinical expertise to drive the same or better outcomes as expensive services-first solutions. Adding Care Guides has amplified a strength of Castlight, which is engaging the middle of the risk spectrum, people with rising risk or chronic conditions. This is a gap we commonly hear from customers and consultants as they have evaluated point solutions and other navigation platforms. We will measure our success through further demonstrated impact on ROI, as seen in 3rd party validated studies and customer case studies. We have a robust roadmap on both the technology and services side, and we will also continue to expand our ecosystem as a vector to drive greater impact. As a digital health pioneer that also demonstrated rapid innovation during COVID, our ability to both innovate and execute quickly will matter in a competitive, growing market.

Third, we will continue to demonstrate operating discipline, investing in growth while maintaining our attractive high-margin business model. As I said in the introduction, I'm proud of our work to deliver Castlight's best financial performance in our 10+ year history. We operate with attractive gross margins and have proven we can do so profitably. We have built a technology platform that allows us to deliver high-tech/high-touch navigation with strong gross margins. In 2021, we plan to make intentional investments that will deliver a return to growth, but we will apply operational discipline to ensure very low cash burn and sustained gross margins.

To close my comments today, I want to thank the Castlight team for everything they accomplished in 2020. We were able to deliver against our goals despite COVID and revealed a fast twitch innovation muscle that allowed us to deepen our relationships with customers, and support our communities and country. We have done the hard work to set the foundation, which will enable ARR growth in 2021. We are excited to build on the past 18 months of transformation and remain committed to our mission to change healthcare and are grateful to do this important work every day.

I'll now turn the call to Will.

196 **CFO Comments: Will Bondurant**

197 Thanks, Maeve. I'll spend a bit of time touching on full year highlights, review our fourth quarter results
198 in detail, and provide our initial outlook for the year ahead.

199

200 **2020 Full Year Financial Highlights**

201 For the full year 2020, we reported **revenue** of \$146.7 million, an increase of 2%. While 2020 certainly
202 was a challenging environment, specifically for our employer business, our revenue increase
203 demonstrates our resilient revenue model and the team's innovation Maeve mentioned, which led to
204 new engagements and the year over year increase in revenue.

205

206 **Non-GAAP gross margins** of 68% increased nearly 600 basis point compared to 2019. The improvement
207 was a direct result of our commitment to financial sustainability. As Maeve said, our proactive cost
208 structure decisions in early May allowed us to position the business for a strong year, even in the midst
209 of unprecedented economic times.

210

211 We are also pleased to report that Castlight achieved our first full year of positive non-GAAP **operating**
212 **income**, with 2020 non-GAAP Operating Income of \$6.3 million, compared to a loss of (\$21.7) million in
213 2019.

214

215 Finally, as it relates to cash, we delivered positive **cash flow from operations** for the second half of the
216 year, bringing the full year operating cash flow use to just (\$5.6) million. Our full year total cash used
217 included one-time cash to build our Utah Customer Center of Excellence, which represented more than
218 \$3m of non-operating cash outlay in the first half of 2020.

219

220 **4Q Results**

221 Turning to our fourth quarter results, our **annualized recurring revenue**, or ARR, at the end of the
222 quarter was \$126.7 million, down approximately \$4.7 million sequentially. As we discussed in Q3, we
223 saw limited employer sales that did not offset client renewal decisions. Importantly, we continued to
224 pull-forward 2021 renewals into 2020 and I will speak further about our renewal book as I address our
225 2021 outlook shortly.

226

227 Total **revenue** in the fourth quarter was \$37.1 million, an increase of 2% compared to a year ago. Q4
228 revenue benefitted from the recognition of initial revenue against our Boston Children’s Hospital / CDC
229 agreement, which is reflected in our professional services revenue. As we referenced in the initial
230 disclosure, the agreement provides for BCH to pay Castlight \$8.5 million for work that began in Q4 2020
231 and is expected to conclude in mid-2021.

232
233 Subscription revenue of \$34.4 million accounted for 93% of total revenue and services revenue
234 represented the remaining \$2.7 million. Subscription revenue in the quarter continued to benefit from
235 membership levels that exceeded our conservative forecasts around potential COVID-related layoffs or
236 user count decreases for our employer clients.

237
238 Turning to non-GAAP measures, our **gross margin** in the quarter of 68% compared favorably to 58% a
239 year ago. Subscription gross margin of 79% was in line with our expectations for the quarter.

240
241 Non-GAAP **operating expenses** as a percentage of revenue were 61% in the quarter compared to 80% in
242 the fourth quarter of last year. Like previous quarters, the year-over-year improvement reflects our
243 2020 priority around financial sustainability specifically as we realized savings following our platform
244 migrations that completed on January 1st of 2020, as well as the impact of our proactive cost
245 management measures implemented in Q2 of this year.

246
247 Non-GAAP **operating income** of \$2.7 million represents the third straight quarter of positive non-GAAP
248 operating income. The same can be said for **cash flow from operations** at \$3.0 million in the fourth
249 quarter. We ended the fourth quarter with \$49.2 million in cash on the balance sheet.

250
251 **2021 Guidance**

252 With that, I’ll now provide our 2021 outlook. In 2020, we made significant progress against our goals of
253 financial sustainability and believe that we are now in a position to manage profitability and cash flow
254 against investment opportunities that will drive growth in the business. As we look forward into 2021,
255 we have chosen to make a set of investments we believe will allow us to capture market share and
256 power the return to ARR growth Maeve mentioned, notably in our Sales & Marketing organization,
257 where we are under-spending our competitors and comparable firms, and our Care Guides capabilities.

258 As we make these investments, though, we remain committed to financial sustainability and will
259 continue to steward our cash to limit our outlay.

260

261 As we look forward into 2021, we expect:

- 262 • Revenue in the range of \$130 million to \$135 million
- 263 • Non-GAAP operating loss between \$4 million and \$9 million
- 264 • Non-GAAP loss per share between \$0.02 and \$0.06 based on approximately 160 - 161 million
265 shares
- 266 • Full year gross margins in the mid-to-high 60% range
- 267 • Cash flow from operations to be between \$2 million of cash generated and \$3 million of cash
268 used. We expect to end the year with cash and cash equivalents of greater than \$45 million

269

270 Beginning this year, we will also provide a forward quarterly expectation for revenue. We expect
271 revenue for the first quarter ending March 31, 2021 in the range of \$32 - \$34 million.

272

273 Finally, as Maeve mentioned, we are committed to ARR growth in 2021. While Maeve described in
274 depth our sales motion & progress in both health plan and employer markets, I also wanted to share
275 context on our renewal book of business. In total, our 2021 renewal book is half the size of our 2020
276 renewal cohort. We are already engaged with each major renewal and believe we can manage our
277 churn to a meaningfully lower ARR reduction and higher net dollar retention than 2020 and 2019.

278

279 We made significant progress in 2020 while meeting the needs of our customers and users during
280 challenging times and that couldn't have happened without hard work, creativity and commitment from
281 the entire team. I echo Maeve's sentiment that we believe we are well positioned to deliver ARR growth
282 in 2021 and I look forward to updating you on our progress throughout the year. We are confident in
283 our team, the investments we are making to return to growth, and appreciate each of our employees,
284 customers, users, and shareholders as participants in our transformation.

285

286 Now, I'd like to open the call to questions. Operator?