



“IKS Health Q1 FY-26 Earnings Conference Call”

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 MS. NITHYA BALASUBRAMANIAN – WHOLE-TIME DIRECTOR &
 CHIEF FINANCIAL OFFICER
 MR. SARANSH MUNDRA – VP, INVESTOR RELATIONS

MODERATORS: **MS. RUCHI MUKHIJA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to IKS Health Q1 FY26 Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Ruchi Mukhija from ICICI Securities. Thank you and over to you, ma'am.

Ruchi Makhija: Good morning, ladies and gentlemen. Thank you for joining us today on Q1 FY26 Earnings Call of IKS Health.

On behalf of ICICI Securities, I would like to thank Management of IKS Health for giving us the opportunity to host this Earnings Call.

Today, we have with us Mr. Sachin Gupta – Founder and Global CEO, Ms. Nithya Balasubramanian – Whole Time Director & CFO and Mr. Saransh Mundra – VP, Investor Relations.

I turn it over to Saransh for the safe harbour statement and to take the proceedings forward. Thank you and over to you, Saransh.

Saransh Mundra: Thank you, Ruchi. Welcome, everyone. Thanks for joining the call early in the morning. We will start with a disclaimer and then I will hand it over to Sachin. As part of our prepared remarks, we may make certain statements that are forward-looking and may involve uncertainty. We don't take any responsibility to update those statements, and your discretion is warranted while making any investment decisions. Over to you, Sachin.

Sachin Gupta: Great. Thank you, Saransh. Thank you, Ruchi. Just a minor correction, it's Nithya Balasubramanian, not Subramanian. Anyway, good morning, everyone and welcome to our earnings call for the 1st Quarter of Fiscal '26. This is our third earnings call since it went public in December last year. So excited to talk to everybody again.

On the call today, I will do probably three things:

One, just because there is always some participants that are relatively new, I will start off with giving a very quick high-level overview of the business, talk specifically about our execution this past quarter as it relates to those five strategic vectors along which we want to measure our progress and along which I think our discourse is most relevant because I think those vectors drive the financial outcomes that all of us are interested in. And then, of course, we will dive into our points of high-level commentary on our financial performance for the fiscal Q1, after

which I will turn it over to Nithya to talk through some of the details, and then we will open it up for questions.

But before I dive into the high-level overview, let me kick the call off:

Obviously, all of you have seen the release that came out last night. Hopefully, you have studied the numbers. One of the things that I think some of you saw in the release that perhaps might have caused some confusion, and I want to just clarify it up front, was the change in director status in the Indian listed entity. And I just want to clarify; there's nothing really that's changing fundamentally. This is barely a technical change associated with the fact that I live in the US and hence my employment pretty much needs to reflect with the US entity and as a result of which I can't really be employed by the Indian mothership. And so, as a result of that, I am no longer a full-time director and because the company obviously needs a whole-time director, Nithya is being made the whole-time director. I continue to be the group global CEO and continue to be at the helm and at your service for as long as you guys desire. So I just wanted to clarify that up front, because it felt like it was causing concerns or ripples. We can certainly take any other questions around this when we get to the questions.

Now to just jump into the business:

Obviously, you have seen the numbers, a solid quarter of performance. But before I go into the quarter, just a quick high-level recap of the business model. So, we are perhaps the most comprehensive care enablement platform that delegates chore tasks from large physician groups in the US so that they can focus on their core of patient care and patient experience. We do so in a manner where we have built proprietary technology to eliminate as much of these tasks as possible. And because technology often doesn't entirely eliminate the task, our technology is coupled with our global human capital, which becomes a very important human in the loop, also from a safety perspective, to deliver these tasks. We do so in a manner where not only is it quickly transformative for the patient experience and the quality of care, but also, it's financially transformative for the practice, which as you know, US healthcare is under tremendous financial stress. And so, through these 16-odd tasks or actions that we delegate for these physician groups in the US, we are often able to, at the full manifest of the platform, deliver between 800 to 1,000 bps of additional economic value for them after paying for the platform. So, it's financially transformative in addition to being clinically accretive for them as well. We have over the last 18 years grown our business to about 150,000 physicians across the US. Remember, there's about 900,000 odd in total. So, 150,000 physicians in the US use some manifest of our platform or the other. And those 150,000 are spread across now about 650 organizations that these physicians are a part of. So 150,000 physicians, 650 organizations. Remember, this number was close to 800 in October of 2023 when we completed the AQuity acquisition. We have then said that our strategic business model is always to have the consolidators as our clients, which are the large groups that are buying the other groups. And so, with AQuity, we got a lot of good stuff. But one of the things we got was a long tail of small physician groups. And strategically, intentionally, we are continuing to prune that tail.

We are now down from a combined customer base of (+800) in October '23 to about 650. And as I have stated in the past, a sort of steady state will probably end up closer to 500. So that's just one thing to keep in mind, (+650) customers, 150,000 providers.

Our business model, because of its unique nature by which we actually delegate all of these tasks that are chores but are very important for the sustenance of their practice. By that very nature, business model becomes annuity also. So, 95% of our revenue is repeat revenue from the same customers. And in addition to that, it becomes really, really sticky. So, it's a very sticky annuity business model. And the human element of what we do now comprises about 12,368 FTEs across the US and India. Again, remember this number in Q1 of FY25 was actually 13,277. So, on a year-on-year basis, our global headcount is down about 7%, which is again something that we will talk a little bit more about when we discuss our strategic vectors of execution. Obviously, because we are very intentional about working with consolidators, our top 10 and top 5 clients drive a large part of our revenue and our growth. That is very intentional. The good news is that our top 10 and top 5 clients have great vintage and are actually growing. So that always is a good sign of the progress in the business.

Also, as you probably already know, we operate in a very large TAM. Our TAM traditionally was about \$225 billion just in the physician market in the US. Starting about a couple of quarters ago, as I have mentioned, we have also pivoted our business model based on the pool that we saw in the market into the acute or hospital RCM space. And that has expanded the TAM to more than \$260 billion, of which really only about \$34-\$35 billion has been delegated. So, it's still largely, automatically, an insourced market. And yet, I think with the pressures that the US healthcare system is facing, cost-quality access, it's becoming imminent that this outsourced TAM of \$34-\$35 billion, is actually going to grow faster than the overall market. So, the market's growing at 8%, but the outsourced market is growing at 12%. And this is important, again, because I keep saying, if we are growing faster than 12% on a constant currency basis, we are gaining market share. If we are growing slower than 12%, we are losing market share. So that's an important indicator and something to always watch out for. Now, if that 12% further accelerates because of the pressure in US healthcare, we will certainly keep you updated and that should also reflect in our growth. And our idea, obviously, is to grow significantly faster than the outsourced TAM over a period of time.

One of the other dynamics that it creates, because there's such a large TAM, which also then leads to our competitive positioning, is that because these 16-odd tasks have a TAM of about \$260 billion, the reality is that the TAMs of several of these tasks individually is quite large. For example, clinical documentation, which is reflected in our scribble product, could be a \$30 billion TAM. The four or five features that comprise RCM is a \$100+ billion TAM. And so, as a result, there are several genres of competition that we have to deal with. One of those is actually what I call these point solution companies that are focused on one or two or five of these 16 tasks because the relative TAMs of each of these tasks itself is so large that you can build a very large company just focused on them. Now, our thesis always was that as the market matures and buying behavior matures, buyers will realize that they can't be in the

business of buying many point solutions and integrating them, carrying the burden of managing tens of vendors across these point solutions. And so, over a period of time, they realize that the value of the whole is much greater than the sum of the individual parts. And that is a better strategy. And we see that the buying behavior will slowly but surely migrate towards the platform buying behavior. And so, what that means is, and we have set our strategic competitor advantage to that, which is we are the only company that has the full breadth of the platform for those buyers that are willing to buy the platform thesis today. But because there are several buyers, especially in the large health system market, that are still interested in a point solution best of breed approach, the reality is for those who still need to be one of the top two or three vendor partners in each of these point solutions. And that creates a very important strategic predicament for me where we have to execute as a leading point solution vendor across 16 point solutions, even as there are perhaps one of the very few companies that are building out the entire platform. But that really continues to be a competitive position.

So, with that, let's just quickly touch upon the five strategic vectors of execution that we are consistently focused on, I think should shape the discourse that we should have on a continued basis, unless something changes, in which case I will let you. So, the first of the five is the fact that we are moving rapidly to this AI-native, agentic platform manifest for doing all these tasks. And I am happy to report that there's been a lot of progress on this strategic vector over this last couple of quarters, but specifically last quarter. We launched Scribble Now, which is our fully ambient, autonomous clinical documentation solution. And with that, I think IKS now has the most comprehensive set of variants that meet physicians wherever they are in their journey of choosing the right clinical documentation solution for their needs. We are also in the process of actually launching a very unique multi-variant Scribble option, which will allow each physician user to choose different variants of Scribble for different type of visits. So, there will be some easy patient visits where the fully autonomous ambient listening solution without supervision from the human produced instantly on a synchronous basis is best for them. And then there will be other situations where there will be more complex encounters, where there is a need for more comprehensive documentation, where the human in the loop or the physician in the loop becomes very relevant. And the ability to pick and choose different variants of clinical documentation solutions for various parts of their patient panels, we suspect could be a very exciting differentiator over a period of time. Just based on the utilization trends that we have seen across the country from ambient, autonomous-only AI-driven solutions where a lot of doctors perhaps have bought them, but the utilization of those solutions as a percentage of their overall visits is still in the 50s and 60% odd out there. So, I think that should be very exciting.

Also, happy to report that we have actually been able to build out our autonomous medical coding technology, Gen AI-led for two medical specialties, which we now continue to optimize. And now, of course, we are expanding to several other medical specialties. Again, remember, just like clinical documentation, there are companies out there that all they do is medical coding. So, this is to my point of wanting to be number one or two or three in each of

the point solutions, even as we are trying to build the full platform out. And then, of course, we have done significant progress in the denial prediction and prevention space using our AI technologies that we have built. And we have also launched an AI-led patient engagement hub that actually drives behavioural economic inputs-driven patient engagement to help shape various aspects of patient behavior, including reducing no-shows for visits that help improve access to care, including nudging patients differentially around adoption of our adherence to various clinical protocols, etc. So significant progress in dramatically moving from sort of that human-led tech in the loop to not only tech-led human-in-the-loop, but with AI now moving towards a fully autonomous set of features which don't need a human-in-the-loop at all over a period of time. That's the first vector of our execution this quarter.

The second one is obviously the big AQuity acquisition that we did in October 2023. Within that vector, there were three dimensions of execution that we had to accomplish to be successful with the acquisition. The first was actually the people-process technology and the cultural integration. And I am happy to report that about nearly 18 months out, we feel like that effort feels complete. We feel like one company. And a lot of synergies associated with that are now evident in our performance. The second big piece was the margin expansion. As you know, when we acquired AQuity, the proforma blended margins of IKS that were traditionally in the high 30s EBITDA had dropped to about 24% proforma. And we had said at the time that as we transform AQuity's delivery model from a sort of human-led model to an IKS technology-led global human-in-the-loop model, we will bring our EBITDA numbers back towards sort of the early to mid-30s. I would like to say that I think a large part of that work is moving faster than we had anticipated, which is obviously being reflected in the numbers that we talk about for Q1. So I would say that that sort of part of the work is maybe two-thirds done.

And last but not the least, and perhaps the most exciting part of the pieces, really was the cross-sell motion of our platform into AQuity's large customer base. And happy to note that I think we have now figured out how that motion is going to work. We are starting to see some wins in that space. Now, obviously, those wins and the revenue impact of those wins is slightly offset by the intentionality by which we are cutting the tail of AQuity's small customers, number one. And second, the revenue in terms of sort of revenue per unit of physician coming down because now we are replacing the sort of AQuity human execution model with an IKS technology-led model. So important to note that even as we are starting to feel early tailwinds of the cross-sell motion, some of them are offset by the intentionality of the pruning of the tail, as well as the revenue per unit coming down even as margins improve in the AQuity customer base. So overall, I think a solid quarter of execution on the AQuity vector.

Third, this predicament of establishing leadership in each of the point solutions, even as we continue to build the platform, I think it's great to receive some recognition from Black Book as the number one partner in AI-driven RCM and in medical coding and then as it relates to clinical documentation, both by KLAS and Black Book. So, continued progress in that dimension and of course, the biggest validation of progress there is customer wins, customer

expansions, which we continue to talk about every quarter and that we continue to make some exciting progress in. We have now figured out our go-to-market strategy and have established our go-to-market teams in line with that go-to-market strategy. So, we have four segments of the market - large single specialty group, large primary care and multi-specialty groups, large and medium-sized health systems, and then last but not the least, absolutely, a whole market segment is UnitedHealth care, which is the largest employer of physicians in the world, (+50,000) physicians.

And happy to note that I think we have now dedicated teams across all of these market segments that are really starting to hum and drive some energy. And along the lines of the buying trend, I want to clarify, we continue to see more platform-based buying behavior across the large single specialty and the large multi-specialty group market segment. The large health system market segment is still more point solution oriented, so we have to drive the land and expand motion there. And then the mid-sized health systems actually are starting to show more and more proclivity towards the platform pieces. So, we continue to drive along those lines. And then last but not the least, here is a very important vector for our future, especially those of you that are not only interested in our next 1-2-3 years, but our next 5-7-10 years. We feel like we are in the process of building a very important long-term moat by becoming more and more of an outcome-oriented company. So, what do I mean by that? Our pricing model was always percentage of customers, revenue based. It was never FTE-based pricing, which has obviously been an advantage for us. But when I talk about being outcome-oriented, we are now actually talking about these constructs that fundamentally align us upstream with our customers in a manner where we achieve three things by doing this alignment of outcomes. First, we actually, while aligning ourselves with the outcomes, we are only in those constructs like we did in Palomar. We will talk about Western Washington Medical Group again. We are actually only bringing the full manifest of the platform to those customers. So, as a byproduct, we are creating more and more examples of the platform pieces and the value of the whole being greater than much of some of the individual parts. Second, these deals are typically much longer-term deals. So, for example, Palomar was a 15-year deal, Western Washington is a 30-year deal, for all practical purposes perpetually. So, they bring a different level of long-term stickiness to our core business model of the platform. And third, they actually create a second set of economics if we can do them right. Because now, not only are we getting our economics for the deployment of the platform, but we also get to participate in the outcomes that we generate through the platform on the client's P&L. So, those three key criteria are the ones that we will continue to use to drive this outcome-oriented company thesis. And the biggest execution challenge that it presents is that now, not only are we responsible for the deployment of the platform, but we are also responsible for driving change in the customer's organization so that they actually produce the outcomes relative to what the platform can do. This has been a big challenge for customers, so we are solving for that challenge, but it is a unique capability that we have to build over a period of time. And I am happy to note again that in these dimensions, we have made some really good progress. You are all aware of the Western Washington deal, which we will just recap here in a second. Also, the Palomar deal seems to be progressing tremendously ahead of plan. And then the one concern that some of

you had about Palomar in terms of their financial health, which I mentioned at the time that likely that one of the three big systems in the area eventually buys Palomar, it looks like they are getting closer and closer to an alignment with UC San Diego, which could also have other positive effects for us if we actually end up delivering the value prop that we have for Palomar.

So, across each of the five strategic vectors, solid execution, happy to note. And all of that, I think, has resulted into a fairly strong quarter for the fiscal Q1 of fiscal year '26. Happy to note that we have been able to drive 16% year-on-year growth for the quarter, coming to a revenue of about 740 crores. On a constant currency basis, that's 13%. So, as I was saying, we are gaining market share, not losing market share. Also important to note that this is in spite of the continued headwind of pruning the sort of AQuity tail, if you would, and the transformation that we continue to do with the AQuity install base as it relates to that affects their unit price realization as we get to the physician, but improves our margin significantly. And that margin improvement is actually reflected in our very strong EBITDA performance for the quarter, coming in at 32% or 238 crores, which really is a year-on-year growth of 36% in EBITDA margins, which then translated to an even stronger PAT growth of nearly 59% with our PAT coming in at 151 crores for the quarter. Obviously, the PAT growth is even faster than the EBITDA growth, primarily because our interest costs are coming down as we are continuing to pay down the debts, which is something I am sure that Nithya will drive into.

And then very important to note that all of this has been achieved, like I was saying, with 12,368 employees compared to the 13,277 that we had in Q1 of last fiscal. And that's, as I said, really important because this is the true reflection that for 16% growth or 13% constant currency growth, we have actually reduced the workforce net by 7%. So, the gross reduction, as you can imagine, is pretty significant. And that shows the continued non-linearity in the business and a true demonstration of moving from human-led to tech-led while driving industry-leading growth. So that's been a high-level summary of how we have done in the quarter.

And I am going to invite Nithya shortly to talk a little bit about more details about this, but also just wanted to highlight a few key customer wins. Like I was saying, last quarter, we had announced a very significant customer win in Sky Lakes Health System in the Pacific Northwest, where they had signed up for the full adoption of our platform, not only in the ambulatory side, but also had taken on our acute RCM solution end-to-end. Happy to note that we now have our second end-to-end—we have other acute RCM customers that are also ramping that are not end-to-end, but Mission Community is our second end-to-end—acute RCM customer. So obviously, that segment, that mid-size health system segment of the market is continuing to show promise. Behavioral health is one of the most important and fastest-growing specialties in healthcare today, given the ramifications it has on chronic disease. And so happy to note that we have announced a relationship with Bicycle Health, which is a private equity-owned leading platform, already emerging as a leading platform for behavioural health. And then we have expanded our relationship with OrthoNY to now include our virtual clinical assistant program, which then moves that relationship to a full-platform

thesis. And then, we have seen some continued growth in our top health system customers. This one is an example of our top health system where we have been able to drive tremendous cross-sell and are now expanding the coding relationship. So, remember, like I said, large health system market, it's still a sort of land and expand motion, whereas in the other segments of the market, we are seeing more and more proclivity to the platform.

So, an exciting quarter of client success and then last but not the least, actually two other points. Western Washington, we had a specific call dedicated to it, but just to recap, this is a monumental opportunity for us for several reasons. One, here we actually get to go all the way upstream and participate in the value creation with a significant sized primary care and multi-specialty group. As you know, invested \$17 million to get a 48% stake in the MSO that has a perpetual contract to manage all of the non-clinical operations. Except in fact, all of the operations other than the actual delivery of care by the doctors is managed by the MSO. And we have a 48% stake in the MSO for our investment. And that MSO is now contracted with IKS back-to-back to leverage our entire care enablement platform to help doctors in delivering better, safer, more efficient care. And so, this also becomes, if you would, our live lab to demonstrate the full value of our platform in deep integration with the EPIC system, which is, as you know, one of the most significant health record systems or systems of record pervading in the provider community in the US. And again, I think for us, it checks all the three boxes of long-term stickiness, full platform adoption in integration with EPIC, and then the second set of economics where our 48% stake in the MSO would actually create that second set of economics in addition to the traditional economics that the platform creates on our P&L. So super excited about this deal and its success will be defined by, we anticipate at the deployment of our platform, likely upside of (+15%) in revenue for the same patient mix and the same payer mix. Now, that could be so transformative in terms of value creation, both for the medical group and then our stake in the MSO, but if they are able to do this, it creates a whole different model for the sustainability of physician-led transformation of healthcare in the US and creates a fundamentally different set of growth vectors for us. So, we will continue to drive such opportunities thoughtfully and in a disciplined manner over a period of time and continue to report against them.

And then again, last but not the least, I want to report out some recognition from the industry. Happy to note that our CFO Nithya, has been awarded the best woman CFO by Business World and also, we were recognized for significant success in the emerging acquisitions organizational category for our AQuity deal. And then this one is a very important vector where we have been working very hard on making our employee experience unique and happy to note that not only do we have recognition, but we are actually at a point where I think our employee turnover is at an all-time low in the history of IKS. So, with that, all in all, a strong quarter, continued progress along the dimensions that we had set, and I will now turn it over to Nithya to talk us through some financial details of the quarter after which we will open up for questions.

Nithya Balasubramanian: Thank you, Sachin. Good morning, everyone. We have already covered the highlights on this slide, so why don't we dive straight into our cash flow metrics, Saransh if we can go to the next slide. In terms of operating cash flow, we ended the quarter at Rs. 165 crores and free cash flow came in at Rs. 137 crores. These numbers are net of an upfront performance guarantee we have extended to the tune of \$5 million to a multi-specialty primary care organization, one of the market segments that Sachin had highlighted earlier in the call today. With our continued strong cash generation, our net debt position continues to improve. As you can see by the end of the quarter, our net debt position stood at Rs. 448 crores and the continued cash generation in the future quarters is where you will continue to see this number improve.

If you can go back to the previous slide. Our EPS for the quarter stood at Rs. 9 which represents a 58% growth year-on-year and a 2% growth quarter-on-quarter. Our return on equity metrics again remains very healthy and very strong. For the quarter, our return on equity metrics stood at 31%. So, I call out a few highlights on this slide. In terms of FOREX impact, it was quite insignificant and minimal in the quarter. Our employee benefit expense in the quarter stood at 52.3% of revenues compared to 51.8% in the previous quarter. This increase is despite the net reduction in employee count because we do continue to invest in technology as well as increments. And despite this employee benefit expense increase, our EBITDA for the quarter came in at 32% which is a meaningful 90 bps improvement from Q4 where we reported 31.2%. Looking at PAT; PAT came in at 20.5% or Rs. 152 crores. Again, the growth in PAT is in fact even faster than EBITDA growth largely because the finance cost continues to come down. You will note that the number was actually Rs. 26 crores in Q1 of last year versus Rs. 18 crores in the current quarter. And that is reflective of our debt repayment as well as the lower interest rate. Our ETR for the quarter stood at 22%. We have lost tax breaks in one of the SEZ units that we operate out of. For the full year, it's likely to remain in the same range. Our adjusted profit for the period adjusting out amortization of intangible assets stood at 22.7%.

Saransh, if we can go and look at the next slide where we talk about our important KPIs. Our adjusted EBITDA number for employee annualized continues to improve quarter-on-quarter. As you can note, it was INR 0.8 million in the quarter. Our revenue from top 10 as well as top 5 customers continue to improve with our continued winning of client deals that you would have noted both in Q4 as well as Q1 now. Aging of top 10 and top 5 customers, again, the vintage remains very-very strong at more than 5 years in both these categories. Compared to Q4, the slight dip is in fact due to the fact that some of our newer customers have ramped up much faster than what we have historically. Thank you, Sachin. Over to you. And we continue to expect to report healthy numbers in the future quarters as well.

Sachin Gupta: Great. Thank you, Nithya. Again, excited about our performance this last quarter and what it means for the future. Also, in line with continuing to build both best-in-class governance as well as surround ourselves with some of the wisest and most contextual minds in healthcare, happy to note that we are adding Dr. Garheng Kong to our board. Garheng is quite an exceptional professional and leader with undergrad degrees from Stanford and MD, PhD, MBAs from Duke. But equally importantly, after a flourishing career in consulting, including

at McKinsey, he started his own fund, HealthQuest Capital, which now invests across the entire spectrum of deals from startups to publicly traded companies. He is a lead independent director on large publicly traded companies like LabCorp and also happens to be on the board of the Duke University Health System. So tremendous context and leadership and we will continue to see that we will do whatever we can, whatever makes sense to surround ourselves with thoughtful leaders that can keep us both grounded but continue to expand our aspirations in the marketplace. Excited to have Garheng. With that, I think that concludes our prepared remarks for the quarter. Again, very excited about our performance last quarter. The teams have worked really hard and happy to take questions from you. Over to you, operator.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Sagar Dhawan from Valuequest. Please go ahead.

Sagar Dhawan: Thank you and congratulations on a good set of numbers. My first question is on the growth that we are seeing in the top 5 client bucket. I just wanted to understand better what is driving this. Is this just sort of one client scaling up or is it more broad-based? Is it other ideas which I thought I was assuming was it due to cross-selling of AQuity into the cross-selling to a new AQuity client or is it more outsourcing by some of the clients? Just wanted to understand what is driving this and how sustainable is this in the near term? Should we assume that such kind of growth will continue in the near term as well?

Sachin Gupta: Great, thank you for the question, Sagar and thank you for joining this morning. Yes, look, I think our top 5 customer trend is healthy and I think the answer lies in all of the above in the points that you noted. There is momentum being seen on the cross-sell of AQuity in one of the customers. There are these large platform deals that we have signed that have kicked in into that top 5 and the reality is, Sagar, if you think about it, when I look at the wallet of our top 5 customers, the wallet potential for our platform, we are nowhere near 100%. So, I think one, it's a great sign that the top 5 customers are growing and sure, if we continue to execute like this, there is no reason to believe that the top 5 customer growth should be there. Now, you might not see it linearly like this in every quarter, but when you look at it over a significant time horizon, given the wallet opportunity of our top 5 customers and the strength of our platform, there is absolutely reason to believe that that growth should sustain.

Sagar Dhawan: Understood, sir. And just on the Palomar deal, if you could provide an update on how it is scaling up because it's been like 8-9 months now. Are you seeing the upsides that you had thought about?

Sachin Gupta: Sagar, thank you for asking again. Yes, I think we are ahead of plan actually. I can't go into the specifics here, but I would like to say that so far, we have been delighted. Our teams have executed tremendously on the deal, even as we are not even fully implemented on all the features of the platform. Our financial pro forma 6 months in is better than what we thought it was going to be, even though we are not fully implemented. So, we continue to be really optimistic about what the Palomar deal will produce for us and at what pace. Also, as you

know now, the one concern that some of you had about the financial future of Palomar, that continues to be looking a little bit more constructive and that creates its own additional opportunities, depending on which system eventually ends up with them. So yes, very positive on the Palomar deal.

Sagar Dhawan: Got it. Understood. And one last question from my side is on the tail cutting that we are doing on the AQuity side. Just wanted to understand how meaningful of a drag that has been on the growth in this quarter and what could have been the growth if the tail cutting was not happening?

Sachin Gupta: Sagar, I think I will refrain from providing those specifics, but I will say that it's material. I am comfortable saying that the drag is material and that is why even as we are continuing to be intentional, we are trying to manage the drag in a manner that the cutting of the tail is real, because the reality is that cutting of the tail is also helping with margin growth. But at the same time, it's not so dramatic that it offsets our organic growth, which I think is returning back very strongly. So, material drag, but managed to the best of our abilities.

Sagar Dhawan: Got it. And till when is this process going to continue? You said you want to reach about 500 clients, but just a rough timeline as to when this process could be completed?

Sachin Gupta: You know, that's a tough one, Sagar. Look, it could be as much as another two to three quarters, because like I said, there's two factors here. One, even as you want to cut the tail, we don't want to let the customers down. They have been relying on us for performance, so we can just sort of knee-jerk out of it. And second, the reality is we don't want it to have a dramatic drag in just one or two quarters. And so, I think perhaps another two to three quarters is the way to think about it. And we will let you know if that changes.

Sagar Dhawan: Understood.

Sachin Gupta: Because the question is about 150 odd customers.

Sagar Dhawan: Got it. Thank you for taking my questions and all the best. Thank you.

Sachin Gupta: Thank you, Sagar.

Moderator: Thank you. The next question is from the line of Srinath V from Bellwether. Please go ahead.

Srinath V: Hi, Sachin. Taking on the same kind of Palomar discussion, I want to understand what is the path of the full implementation of the care enablement platform? How does this whole thing work? And I want to understand, if we assume they have 100 physicians, roughly how many of their physicians have like partially taken one of the main suites of products of ours? What percentage of the physicians have actually taken the full platform? And would it be fair to assume that somewhere in this financial year, we would reach peak revenue potential in Palomar? Just want a qualitative understanding.

Sachin Gupta:

Yes. Great. Thank you, Srinath. Great question. So first of all, the commitment as a part of the deal is for 100% of the physicians to take the full manifest of the platform. So that is the definition of the full implementation. And the way we are rolling it out is there are some features that are already centralized in the way they operate. Those were the features that we implemented first, because what is already centralized is easier to drive as a part of the platform. And so those have been clearly implemented already. And the others are well on their way. It is totally fair to assume that perhaps by the end of this fiscal, which is fiscal Q2, we would be fully implemented across all the features, across nearly 100% of the physicians at Palomar. And so, yes, we would have reached our peak revenue potential at Palomar at that point. Now, again, our peak revenue potential is, as you know, driven by two aspects. One is the platform fee, but then really the kicker comes in the upside. And so those upsides will obviously be evident in our accounting numbers at the end of the year, because that's when they are calibrated. But yes, on the platform fee, the peak would have been achieved by the end of fiscal Q2. You were asking about how long does it typically take? It's a work in progress. It depends on the change management sophistication in the organization. It depends on how much is already centralized versus not centralized. How good are the physician champions in the organization that are able to drive the change? How long does it take us if it's an EHR when we already have integration versus an EHR where as a part of the deal, we have to build the integration. So, there are three or four factors that go into defining how long the full platform implementation might take. But of course, our objective is, on an overall basis, eventually to get to a point once it's more mature, where over a 120 to 150 day period, we can have the full platform implemented across the entire physician base of the customer that we are committed to.

Srinath V:

Perfect. I wanted to understand, given if Palomar does get acquired by one of the other players, this is a very IT question, bear with me on this. There's normally some sort of vendor consolidation that takes place. How have you assessed risk? Would it be fair to assume since we are so well integrated into Palomar that we are somewhat safe from vendor consolidation? Any broad views that you have on this, that would be great.

Sachin Gupta:

So given that we were potentially anticipating a change of control, even when we did the deal, Srinath, we had already built a no out in the event of change of control. So first of all, there's a very penal contractual protection that will probably be a huge deterrent. But we don't like to rely on just the contractual protection. So, the real value is the excitement that we are experiencing from the Palomar physicians. And what we are most excited about in talking to the CEO is the fact that if we are able to demonstrate the type of ROI that we are talking about, Srinath, I think it will be like, impossible to imagine that whoever the acquirer is, whether it's UC San Diego or one of the other two systems, they would not want to adopt some manifest of such an approach in their employed physician base, which are, their employed physician base is 10X the size of Palomar's employed physician base. So, you never know what exactly will happen. But one, I think we are contractually totally protected. And second, I think there is more opportunity than risk in Palomar integrating with one of the large systems in the area.

- Srinath V:** Perfect. Just the last question on AQuity, I want to understand what percentage or anything you can share on AQuity customer migration to the Ambient AI IKS product, given that it delivers significantly more value at a significant lower price, one would assume that within one year, which would be a standard contracting cycle, then a large part of customers would have migrated, but I don't think that that is the case. So, I want to understand, where are we on the migration? Is it 30%-40%-50% of the customers? And if there's a bottleneck, what would be the bottleneck? And thanks a lot for answering all my questions in great detail.
- Sachin Gupta:** Sure, Srinath. No, I think, look, the bottleneck is really organizational inertia more than anything else. And so, these are large health systems that have relatively long decision cycles. And so I would say that we are not near the completion of this transition. And like I was saying earlier, I think just like the cutting of the tail, perhaps has another two to three quarters of runway. I think the remainder of this fiscal year is probably a good way to think about when that transition might get completed. Different customers are in different stages of that transition. And remember, the transition is in two features, not just a little documentation, but we are also driving that transition in medical coding. But again, they were in medical coding in a very heavy human-led, stateside human-led model. And now with our autonomous coding across two specialties and our superior global execution coupled with that autonomous coding, we are also driving transition there. So I would say perhaps a fair way to think about it is over the rest of the fiscal, we should have largely completed that transition.
- Srinath V:** Thanks a lot, Sachin.
- Sachin Gupta:** Which is why by that time, we would have gotten our operating margins or EBITDA to a place that could perhaps be called, sort of steady state.
- Srinath V:** Perfect. Thanks a lot. I will get back in the question queue.
- Sachin Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ruchi Mukhija from ICICI Securities. Please go ahead.
- Ruchi Mukhija:** Thank you for the opportunity and congratulations, Sachin and team, for a great set of numbers. First question, we are now in 18-month journey of transitioning AQuity business. Also, the loss of large client and the start of last fiscal is in the base. So, is it fair to assume that as we transition to different quarters of current fiscal, we should see the YOY growth momentum of our business accelerate and move more closer to what we used to do prior to AQuity, more like a 20% growth mark?
- Sachin Gupta:** Hi, Ruchi. Thank you for the question. As you know, we don't give guidance on future growth, but I think the cues lie in the answers that I sort of tried to give earlier, which is, I think we still have two to three more quarters of AQuity customer tail reduction as well as AQuity margin optimization. And so perhaps fair to assume that the headwinds in revenue associated with

those two endeavors should be completed by towards the end of this fiscal, let's say fiscal Q4. So, I think that probably is the timing to think about the return to pure growth versus pure organic growth being offset by some of this intentional headwind that we are driving to try that sort of balance between revenue growth and margin growth, so end of this fiscal.

Ruchi Mukhija:

Secondly, in our top 5 clients, looks like the Palomar deal has scaled up and now we have different set of top 5 clients. Also, it would be great if you could talk about the transition time for Palomar and do we expect transition time for the Western Washington Medical Group with two to three quarter transition? Should that also lead to change in our top 5 customers?

Sachin Gupta:

Good question. Palomar, like I was saying in my earlier question, I think by the end of this quarter, the current quarter that we are in, we should have completed the full implementation. On Western Washington, yes, I think it's a fair assumption that in about 120-odd days from now, we should be fully implemented. It's subject to us getting the full epic integration going, which we are working on. That's the only sort of bottleneck there and we are working through that process. So perhaps another 120-odd day, whether or not Western Washington enters our top 5, I can't tell you, Ruchi, right now because it's also a function of what happens to the current top 5 and how quickly they grow over the next 120-150 days. But obviously, it will become a substantial customer and certainly in the top 10, perhaps in 120-150 days from now.

Ruchi Mukhija:

Got it. And lastly, could you highlight to us how the cross-sale business or cross-sale activities are planned out during the quarter, selling IKS solution to AQuity customers?

Sachin Gupta:

Like I was saying earlier, I think we are still in the early innings of that journey. But the good news is that I think we have figured out how to orchestrate it, more or less, how to work in that motion that is activated by the legacy AQuity salespeople and then how they partner with the sort of overlay partner sales engine that we built that can elevate the conversation. So, I think plenty of green shoots. One, we actually announced publicly our top 5 health systems in the country where we have driven a cross-sell motion very successfully. And there are several others in the hopper. Another one of them is a top 5 health system in the country. So, I would say still early, but I feel like after a whole bunch of trial experimentation, what works, what doesn't work, how to incentivize both the sales engines appropriately, first trying to do it with a platform approach, but then learning that large health systems don't yet have the appetite for the platform approach, but have much greater proclivity for point solution. I think we have figured out the motion. And so, hopefully we will see the fruits of that. And I can do a second tick mark on that cross-sell motion in the next quarter.

Ruchi Makhija:

Got it. This one is for Nithya. You did mention that this quarter we paid \$5 million as part of one of the deals. Do we expect such payout during the current quarter besides Western Washington Medical Group in any of other deals?

Nithya Balasubramanian:

Ruchi, I will obviously not be able to talk about what might or might not pan out in the current quarter, but I think from a more philosophical perspective, Sachin and I had mentioned earlier

that in each of the market segments that we operate in, we might do one deal or two. These almost always tend to be full platform deals and these tend to be very, very long-term deals as well. This helps us establish the benchmark in terms of what a platform deal can deliver in each of these market segments.

Ruchi Mukhija:

Got it. Thank you and all the best.

Moderator:

The next question is from the line of Nilesh Jain from Astute Investment Management. Please go ahead.

Nilesh Jain:

Thank you for the opportunity and congratulations, Sachin, for a great set of numbers. My first question is on your revenue growth. Obviously, top 5 has grown very well to the north of 70%. But when I look at your other top 5 clients, apart from top 10, it has been flat more or less. How should we look at the top 10 growth apart from your top 5? Maybe you can talk about the organic side of the growth. We can understand that over time, once you cut down the tail, we can expect that at least you grow faster than the outsourcing industry, which is expected to grow at 12%.

Sachin Gupta:

I think, again, I will just sort of at the risk of being repetitive, I will say that, first of all, on a quarter-on-quarter basis, it's not easy to... I wouldn't call one quarter a trend where the top 5 are growing and the top 10, the next 5, which are the top 10, are not growing so much that now that's a trend. I wouldn't go so far as to say that. Let's play it out. Right now, I can tell you that we are seeing fairly secular growth across existing customers and the new pipeline. And as you can imagine, given that the cutting of the tail and the transformation of the AQuity book has a drag on the revenue growth, and I said it's a bit of a material drag, you can estimate what the organic growth really looks like. And that's what I would say. It's very hard for me. And I am deliberately not trying to not answer your question, but I don't want to give guidance, number one. And number two, I continue to believe passionately that if we continue executing it the way we are, we will continue to grow significantly faster than the 12% TAM growth.

Nilesh Jain:

Probably, maybe you can just help me with the organic growth, just a rough range, that will be helpful.

Sachin Gupta:

What do you mean by organic growth? All growth is organic only.

Nilesh Jain:

So last year base would have an AQuity number as well which we might not have grown as compared to, I guess, legacy clients.

Sachin Gupta:

By the same quarter last year, the integration was complete. So, all growth compared to Q1 FY25 is all absolutely organic growth. So, because there is growth in some AQuity customers as well. If you are asking me to tell you what is the reduction of revenue in AQuity and increase in IKS, that unfortunately I can't do because we are really operating like one company. Now there's no longer an AQuity account or an IKS account. There are so many accounts that where we have already activated a cross-sell motion. And so those accounts are joint

customers. So, I don't know whether to account their revenue in legacy AQuity or legacy IKS. I don't know how to strip those out together. But again, I think if you just do broad math around, we have 16% growth in spite of a material headwind associated with what we are deliberately doing on customer tail and revenue optimization, it should give you a fairly decent idea of what the growth net of that or prior to that would look like, right?

Nilesh Jain: Okay. No problem. Thank you. My second question is on; you talked about radiology partners. So just wanted to understand how is that progress going on that side and are we looking at any JV sort of transaction there?

Sachin Gupta: So that relationship is interesting in that it has not yet converted to a JV. The way we have structured that relationship was that it has to grow to a certain threshold, at which point it makes sense to JV. The relationship has not yet grown to that threshold. So, I don't see a JV conversion happening in the next couple of quarters. But we will continue to track how that goes. The key there is my whole concept on a JV here Nilesh on any of these JVs is first the customer should have fully manifested the platform in their install base. Now there are 3,000 radiologists, there's still a long-long way to go before a large part of their 3,000 radiologists have adopted this program. Also, we have already started to figure out a whole bunch of tech interventions that are changing that virtual radiology system model, even as we were implementing them. So, I think more to come, not close to JV yet.

Nilesh Jain: My last question is to Nithya. I wanted to understand on the employee side, obviously we have been reducing the employee count since last few quarters. So, I wanted to understand how do we see the general trend in terms of, are we done on more or less on the rationalization of the employee side? How do we see there's further scope there?

Nithya Balasubramanian: So, you will obviously see a balance in terms of our continued optimization of the legacy equity workforce. I think like Sachin pointed out, there is at least another two to three quarters where we will continue to optimize and we deploy our technology and achieve the right balance between on-shoring and off-shoring. However, we are of course growing, even as I say that at the same time, we are also growing significantly in other parts of the business. And therefore, we do need to support that growth with additional employees, both in terms of technologies as well as other administrative employees. So, I think overall, you will probably see that number inch up in the rest of the year as we continue to support the growth that we have been facing.

Nilesh Jain: Sure. Just on the EBITDA margin, you know, once we reach mid-30s, do we expect to see further scope of expansion there of margins over time 2 to 3 three years timeframe?

Sachin Gupta: Look, I think we have said continuously that we expect to get somewhere in the early to mid-30s. As you can see, we are already past the early 30s, almost well ahead of what we had said. And so I just still maintain that, Nilesh, that we will see ourselves getting to early to mid-30s and we think margins should stabilize at that rate. To try and say that margins could

improve beyond the early to mid-30s, I don't feel comfortable saying that. I think our target still continues to be early to mid-30s. And as you can see from our performance, we feel very confident about achieving that.

Nilesh Jain: Thank you and I wish you all the best.

Moderator: Thank you. The next question is from the line of Seema Nayak from ICICI Securities. Please go ahead.

Seema Nayak: Hi, congratulations on a good quarter. With the headcount down about 300 Q-on-Q, how far are we pushing this lever? And with new deals announced, is there going to be a hiring expected going forward? And what is your ideal annualized EBITDA per employee that you are targeting?

Sachin Gupta: So, look, I think on the headcount, yes, there will be quarter-on-quarter fluctuation based on deal ramps. But I think, which is why I constantly point everyone to please look at year-on-year trends versus quarter-on-quarter trends. The trend that you are seeing year-on-year is a real trend. The trend that you are seeing in consecutive quarter is loaded with all sorts of noise around one customer ramp related to things happening in that customer, a new customer start. So, I would suggest, if you really want to trend that, please look at it year-on-year. And that year-on-year trend is probably the most telling factor.

On the EBITDA per employee, look, the way to track this is really, like we have said, early to make EBITDA at the corporate level. Because also remember, we were traditionally 1.5%-2% R&D expenses. Today, we are close to 5% R&D expense. And we are setting up an AI centre of excellence. We are just about to announce a chief AI officer under which the centre of excellence will be built. There's a whole bunch of things happening that are factored into our sort of general thinking of early to mid-30s. And at least my humble belief is that with the type of growth that we are driving organically, with these types of early to mid-30 margins sustained and the type of ROE, I think this is probably a good place to be. And that's sort of how I would suggest we play it out. But if there is anything else specifically that you are looking for in the EBITDA per employee, we can take it offline. But I think in general, I would say, I will point you back to early to mid-30s operating EBITDA in spite of continued investment in sales and marketing, and significant continued investment in R&D.

Seema Nayak: That's helpful. Thanks.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Saransh Mundra for closing comments. Thank you and over to you, sir.

Saransh Mundra: Thank you, everyone, for joining the call. Please reach out in case you have any additional questions. We will be very happy to answer. Thank you.

Sachin Gupta: Thank you, everyone. Appreciate it.

Moderator: Thank you very much, sir. Thank you, members of the Management. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.

Please note that this transcript has been edited for readability.