
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): February 27, 2020

HEALTH CATALYST, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

001-38993

(Commission File Number)

45-3337483

(IRS Employer
Identification No.)

3165 Millrock Drive #400

Salt Lake City, UT 84121

(Address of principal executive offices, including zip code)

(801) 708-6800

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of exchange on which registered |
|--|-------------------|--|
| Common Stock, par value \$0.001 per share | HCAT | The Nasdaq Global Select Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



Health Catalyst Reports Fourth Quarter and Year End 2019 Results

SALT LAKE CITY, UT, February 27, 2020 — Health Catalyst, Inc. (Nasdaq: HCAT), a leading provider of data and analytics technology and services to healthcare organizations, today reported financial results for the quarter and year ended December 31, 2019.

“We concluded an exceptional year for Health Catalyst on a high note in the fourth quarter of 2019, achieving strong results across all areas of our business and exceeded the midpoint of our guidance for the quarter,” said Dan Burton, CEO of Health Catalyst. “In addition to this financial and operational execution, I was particularly pleased to see that our team member engagement scores, as measured by Gallup, were well in to the 99th percentile and marked the highest achievement in the history of our company. We feel confident that our momentum from 2019 will continue into 2020 and enable us to achieve strong financial and operational results in a manner that is consistent with our mission.”

Financial Highlights for the Three Months and Year Ended December 31, 2019

Key Financial Metrics

| | Three Months Ended December 31, | | Year over Year Change | Year Ended December 31, | | Year over Year Change |
|---|------------------------------------|-------------|--------------------------|----------------------------|-------------|--------------------------|
| | 2019 | 2018 | | 2019 | 2018 | |
| GAAP Financial Data: | | | | | | |
| (in thousands, except percentages) | | | | | | |
| Technology revenue | \$ 22,582 | \$ 18,765 | 20% | \$ 83,975 | \$ 57,224 | 47% |
| Professional services revenue | \$ 20,919 | \$ 17,319 | 21% | \$ 70,966 | \$ 55,350 | 28% |
| Total revenue | \$ 43,501 | \$ 36,084 | 21% | \$ 154,941 | \$ 112,574 | 38% |
| Loss from operations | \$ (13,672) | \$ (12,933) | 6% | \$ (54,865) | \$ (60,095) | (9)% |
| Net loss | \$ (14,266) | \$ (13,575) | 5% | \$ (60,096) | \$ (61,984) | (3)% |
| Other Non-GAAP Financial Data:⁽¹⁾ | | | | | | |
| Adjusted Technology Gross Profit | \$ 15,393 | \$ 12,147 | 27% | \$ 56,378 | \$ 37,901 | 49% |
| Adjusted Technology Gross Margin | 68 % | 65 % | | 67 % | 66 % | |
| Adjusted Professional Services Gross Profit | \$ 6,877 | \$ 5,399 | 27% | \$ 24,494 | \$ 16,028 | 53% |
| Adjusted Professional Services Gross Margin | 33 % | 31 % | | 35 % | 29 % | |
| Total Adjusted Gross Profit | \$ 22,270 | \$ 17,546 | 27% | \$ 80,872 | \$ 53,929 | 50% |
| Total Adjusted Gross Margin | 51 % | 49 % | | 52 % | 48 % | |
| Adjusted EBITDA | \$ (6,488) | \$ (9,426) | (31)% | \$ (27,363) | \$ (38,053) | (28)% |

(1) These measures are not calculated in accordance with generally accepted accounting principles in the United States (“GAAP”). See the accompanying “Non-GAAP Financial Measures” section for more information about these financial measures, including the limitations of such measures, and for a reconciliation of each measure to the most directly comparable measure calculated in accordance with GAAP.

Other Key Metrics

| | As of December 31, | | |
|----------------------------|--------------------|------|------|
| | 2019 | 2018 | 2017 |
| DOS Subscription Customers | 65 | 50 | 34 |

| | Year Ended December 31, | | |
|-----------------------------|-------------------------|-------|-------|
| | 2019 | 2018 | 2017 |
| Dollar-based Retention Rate | 109 % | 107 % | 108 % |

Financial Outlook

Health Catalyst provides forward-looking guidance on total revenue, a GAAP measure, and Adjusted EBITDA, a non-GAAP measure.

For the first-quarter of 2020, we expect:

- Total revenue between \$42.0 million and \$45.0 million, and
- Adjusted EBITDA between \$(8.5) million and \$(6.5) million

For the full-year of 2020, we expect:

- Total revenue between \$185.0 million and \$188.0 million, and
- Adjusted EBITDA between \$(23.5) million and \$(20.5) million

We have not reconciled guidance for Adjusted EBITDA to net loss, the most directly comparable GAAP measure, and have not provided forward-looking guidance for net loss, because there are items that may impact net loss, including stock-based compensation, that are not within our control or cannot be reasonably predicted.

Quarterly Conference Call Details

The company will host a conference call to review the results today, Thursday, February 27, 2020 at 5:00 p.m. E.T. The conference call can be accessed by dialing 1-877-295-1104 for U.S. participants, or 1-470-495-9486 for international participants, and referencing participant code 7774569. A live audio webcast that will be available online at <https://ir.healthcatalyst.com/>. A replay of the call will be available via webcast for on-demand listening shortly after the completion of the call, at the same web link, and will remain available for approximately 90 days.

About Health Catalyst

Health Catalyst is a leading provider of data and analytics technology and services to healthcare organizations committed to being the catalyst for massive, measurable, data-informed healthcare improvement. Its customers leverage the cloud-based data platform—powered by data from more than 100 million patient records and encompassing trillions of facts—as well as its analytics software and professional services expertise to make data-informed decisions and realize measurable clinical, financial, and operational improvements. Health Catalyst envisions a future in which all healthcare decisions are data informed.

Available Information

Health Catalyst intends to use its Investor Relations website as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

Forward-Looking Statements

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements include statements regarding our future growth and our financial outlook for Q4 and full year 2019. Forward-looking statements are subject to risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

Important risks and uncertainties that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: (i) changes in laws and regulations applicable to our business model; (ii) changes in market or industry conditions, regulatory environment and receptivity to our technology and services; (iii) results of litigation or a security incident; (iv) the loss of one or more key customers or partners; and (v) changes to our abilities to recruit and retain qualified team members. For a detailed discussion of the risk factors that could affect our actual results, please refer to the risk factors identified in our SEC reports, including, but not limited to the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 that was filed with the SEC on November 12, 2019 and the Annual Report on Form 10-K for the year ended December 31, 2019 expected to be filed with the SEC on or about February 28, 2019. All information provided in this release and in the attachments is as of the date hereof, and we undertake no duty to update or revise this information unless required by law.

Condensed Consolidated Balance Sheets
(in thousands, except share and per share data, unaudited)

| | As of December 31, | |
|--|--------------------|------------|
| | 2019 | 2018 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,032 | \$ 28,431 |
| Short-term investments | 210,245 | 4,761 |
| Accounts receivable, net | 27,570 | 27,696 |
| Deferred costs | 937 | 649 |
| Prepaid expenses and other assets | 7,455 | 5,321 |
| Total current assets | 264,239 | 66,858 |
| Property and equipment, net | 4,295 | 4,676 |
| Intangible assets, net | 25,535 | 28,304 |
| Operating lease right-of-use assets | 3,787 | 6,344 |
| Other assets | 810 | 1,099 |
| Goodwill | 3,694 | 3,694 |
| Total assets | \$ 302,360 | \$ 110,975 |
| Liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,622 | \$ 1,812 |
| Accrued liabilities | 8,944 | 9,203 |
| Acquisition-related consideration payable | 2,192 | 2,172 |
| Deferred revenue | 30,653 | 24,755 |
| Operating lease liabilities | 2,806 | 2,577 |
| Current portion of long-term debt | — | 1,287 |
| Total current liabilities | 48,217 | 41,806 |
| Long-term debt, net of current portion | 48,200 | 18,814 |
| Acquisition-related consideration payable, net of current portion | 1,860 | 3,770 |
| Deferred revenue, net of current portion | 1,459 | 7,280 |
| Operating lease liabilities, net of current portion | 1,654 | 4,228 |
| Other liabilities | 326 | — |
| Total liabilities | 101,716 | 75,898 |
| Commitments and contingencies | | |
| Redeemable convertible preferred stock, \$0.001 par value; no shares and 22,713,694 shares issued and outstanding as of December 31, 2019 and 2018, respectively | — | 409,845 |
| Stockholders' equity (deficit): | | |
| Common stock, \$0.001 par value; 36,678,854 and 4,779,356 shares issued and outstanding as of December 31, 2019 and 2018, respectively | 37 | 5 |
| Additional paid-in capital | 811,049 | — |
| Accumulated deficit | (610,514) | (374,772) |
| Accumulated other comprehensive income (loss) | 72 | (1) |
| Total stockholders' equity (deficit) | 200,644 | (374,768) |
| Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit) | \$ 302,360 | \$ 110,975 |

Condensed Consolidated Statements of Operations
(in thousands, except per share data, unaudited)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|-------------|-------------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue: | | | | |
| Technology | \$ 22,582 | \$ 18,765 | \$ 83,975 | \$ 57,224 |
| Professional services | 20,919 | 17,319 | 70,966 | 55,350 |
| Total revenue | 43,501 | 36,084 | 154,941 | 112,574 |
| Cost of revenue, excluding depreciation and amortization: | | | | |
| Technology ⁽¹⁾⁽²⁾ | 7,261 | 6,647 | 27,797 | 19,429 |
| Professional services ⁽¹⁾⁽²⁾⁽³⁾ | 14,416 | 12,080 | 47,548 | 40,423 |
| Total cost of revenue, excluding depreciation and amortization | 21,677 | 18,727 | 75,345 | 59,852 |
| Operating expenses: | | | | |
| Sales and marketing ⁽¹⁾⁽²⁾⁽³⁾ | 11,705 | 11,627 | 47,284 | 44,123 |
| Research and development ⁽¹⁾⁽²⁾⁽³⁾ | 13,043 | 10,561 | 46,252 | 38,592 |
| General and administrative ⁽¹⁾⁽²⁾⁽³⁾ | 8,380 | 5,942 | 31,713 | 22,690 |
| Depreciation and amortization | 2,368 | 2,160 | 9,212 | 7,412 |
| Total operating expenses | 35,496 | 30,290 | 134,461 | 112,817 |
| Loss from operations | (13,672) | (12,933) | (54,865) | (60,095) |
| Loss on extinguishment of debt | — | — | (1,670) | — |
| Interest and other expense, net | (495) | (635) | (3,419) | (2,024) |
| Loss before income taxes | (14,167) | (13,568) | (59,954) | (62,119) |
| Income tax provision (benefit) | 99 | 7 | 142 | (135) |
| Net loss | \$ (14,266) | \$ (13,575) | \$ (60,096) | \$ (61,984) |
| Less: accretion of redeemable convertible preferred stock | — | 64,082 | 180,826 | 52,037 |
| Net loss attributable to common stockholders | \$ (14,266) | \$ (77,657) | \$ (240,922) | \$ (114,021) |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.39) | \$ (16.33) | \$ (12.86) | \$ (23.76) |
| Weighted-average shares outstanding used in calculating net loss per share attributable to common stockholders, basic and diluted | 36,519 | 4,755 | 18,741 | 4,798 |
| Pro forma adjusted net loss per share, basic and diluted ⁽⁴⁾ | \$ (0.21) | | \$ (0.93) | |
| Pro forma as adjusted weighted-average number of shares outstanding used in calculating Adjusted Net Loss per share, basic and diluted ⁽⁴⁾ | 36,519 | | 36,268 | |

(1) Includes stock-based compensation expense as follows:

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|----------|-------------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock-Based Compensation Expense: | (in thousands) | | | |
| Cost of revenue, excluding depreciation and amortization: | | | | |
| Technology | \$ 72 | \$ 29 | \$ 200 | \$ 78 |
| Professional services | 374 | 155 | 968 | 480 |
| Sales and marketing | 1,173 | 491 | 3,811 | 1,514 |
| Research and development | 1,339 | 255 | 4,841 | 787 |
| General and administrative | 1,858 | 381 | 8,024 | 1,339 |
| Total | \$ 4,816 | \$ 1,311 | \$ 17,844 | \$ 4,198 |

(2) Includes tender offer payments deemed compensation expense as follows:

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|-------------|-------------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Tender Offer Payments Deemed Compensation Expense: | (in thousands) | | | |
| Cost of revenue, excluding depreciation and amortization: | | | | |
| Technology | \$ — | \$ — | \$ — | \$ 28 |
| Professional services | — | — | — | 284 |
| Sales and marketing | — | — | — | 3,967 |
| Research and development | — | — | — | 906 |
| General and administrative | — | — | — | 3,133 |
| Total | \$ — | \$ — | \$ — | \$ 8,318 |

(3) Includes post-acquisition restructuring costs as follows:

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|--------------|-------------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Post-Acquisition Restructuring Costs: | (in thousands) | | | |
| Cost of revenue, excluding depreciation and amortization: | | | | |
| Technology | \$ — | \$ — | \$ — | \$ — |
| Professional services | — | 5 | 108 | 337 |
| Sales and marketing | — | 31 | 306 | 780 |
| Research and development | — | — | 32 | 513 |
| General and administrative | — | — | — | 484 |
| Total | \$ — | \$ 36 | \$ 446 | \$ 2,114 |

(4) Includes pro forma adjustments to net loss attributable to common stockholders and the weighted average number of common shares outstanding directly attributable to the closing of our initial public offering on July 29, 2019 as well as certain other non-GAAP adjustments. Refer to the "Non-GAAP Financial Measures—Pro Forma Adjusted Net Loss Per Share" section below for further details.

Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

| | Twelve Months Ended December 31, | |
|---|-------------------------------------|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Net loss | \$ (60,096) | \$ (61,984) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 9,212 | 7,412 |
| Loss on extinguishment of debt | 1,670 | — |
| Amortization of debt discount and issuance costs | 1,081 | 533 |
| Investment discount and premium amortization | (615) | (143) |
| Change in fair value of warrant liability | — | (34) |
| Gain on sale of property and equipment | (39) | (29) |
| Stock-based compensation expense | 17,844 | 4,198 |
| Deferred tax provision (benefit) | 40 | (163) |
| Other | (15) | — |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | 127 | (3,627) |
| Deferred costs | (288) | 113 |
| Prepaid expenses and other assets | (1,308) | (1,334) |
| Operating lease right-of-use assets | 2,557 | (3,942) |
| Accounts payable, accrued liabilities, and other liabilities | (86) | 4,588 |
| Deferred revenue | 77 | 10,317 |
| Operating lease liabilities | (2,345) | 3,799 |
| Net cash used in operating activities | (32,184) | (40,296) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (2,399) | (2,275) |
| Proceeds from the sale of property and equipment | 62 | 29 |
| Purchase of short-term investments | (256,007) | (13,993) |
| Proceeds from the sale and maturity of short-term investments | 50,677 | 37,870 |
| Purchase of intangible assets | (1,935) | (228) |
| Net cash (used in) provided by investing activities | (209,602) | 21,403 |
| Cash flows from financing activities | | |
| Proceeds from initial public offering, net of underwriters' discounts and commissions | 194,649 | — |
| Proceeds from the issuance of redeemable convertible preferred stock, net of issuance costs | 12,073 | 33,987 |
| Proceeds from exercise of stock options | 2,656 | 3,045 |
| Proceeds from employee stock purchase plan | 2,978 | — |
| Repurchase of common stock | — | (8,712) |
| Payment of SVB line of credit and mezzanine loan | (21,821) | — |
| Proceeds from credit facilities, net of debt issuance costs | 47,169 | 9,950 |
| Payments of acquisition-related consideration | (1,713) | (13,924) |
| Payments of deferred offering costs | (4,610) | — |
| Net cash provided by financing activities | 231,381 | 24,346 |
| Effect of exchange rate on cash and cash equivalents | 6 | — |
| Net (decrease) increase in cash and cash equivalents | (10,399) | 5,453 |
| Cash and cash equivalents at beginning of period | 28,431 | 22,978 |
| Cash and cash equivalents at end of period | \$ 18,032 | \$ 28,431 |

Non-GAAP Financial Measures

To supplement our financial information presented in accordance with generally accepted accounting principles in the United States, or GAAP, we believe certain non-GAAP measures, including Adjusted Gross Profit, Adjusted Gross Margin, Adjusted EBITDA, Adjusted Net Loss, and Adjusted Net Loss per share, basic and diluted, are useful in evaluating our operating performance. We use this non-GAAP financial information to evaluate our ongoing operations, as a component in determining employee bonus compensation, and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

Adjusted Gross Profit and Adjusted Gross Margin

Adjusted Gross Profit is a non-GAAP financial measure that we define as revenue less cost of revenue, excluding depreciation and amortization and excluding (i) stock-based compensation, (ii) tender offer payments deemed compensation, and (iii) post-acquisition restructuring costs. We define Adjusted Gross Margin as our Adjusted Gross Profit divided by our revenue. We believe Adjusted Gross Profit and Adjusted Gross Margin are useful to investors as they eliminate the impact of certain non-cash expenses and allow a direct comparison of these measures between periods without the impact of non-cash expenses and certain other non-recurring operating expenses. The following is a reconciliation of revenue, the most directly comparable GAAP financial measure, to Adjusted Gross Profit, for the three and twelve months ended December 31, 2019 and 2018:

| | Three Months Ended December 31, 2019 | | |
|--|--------------------------------------|-----------------------|-----------|
| | (in thousands, except percentages) | | |
| | Technology | Professional Services | Total |
| Revenue | \$ 22,582 | \$ 20,919 | \$ 43,501 |
| Cost of revenue, excluding depreciation and amortization | (7,261) | (14,416) | (21,677) |
| Gross profit, excluding depreciation and amortization | 15,321 | 6,503 | 21,824 |
| Add: | | | |
| Stock-based compensation | 72 | 374 | 446 |
| Adjusted Gross Profit | \$ 15,393 | \$ 6,877 | \$ 22,270 |
| Gross margin, excluding depreciation and amortization | 68 % | 31 % | 50 % |
| Adjusted Gross Margin | 68 % | 33 % | 51 % |

| | Three Months Ended December 31, 2018 | | |
|--|--------------------------------------|-----------------------|-----------|
| | (in thousands, except percentages) | | |
| | Technology | Professional Services | Total |
| Revenue | \$ 18,765 | \$ 17,319 | \$ 36,084 |
| Cost of revenue, excluding depreciation and amortization | (6,647) | (12,080) | (18,727) |
| Gross profit, excluding depreciation and amortization | 12,118 | 5,239 | 17,357 |
| Add: | | | |
| Stock-based compensation | 29 | 155 | 184 |
| Post-acquisition restructuring costs | — | 5 | 5 |
| Adjusted Gross Profit | \$ 12,147 | \$ 5,399 | \$ 17,546 |
| Gross margin, excluding depreciation and amortization | 65 % | 30 % | 48 % |
| Adjusted Gross Margin | 65 % | 31 % | 49 % |

| | Twelve Months Ended December 31, 2019 | | |
|--|--|------------------------------|------------------|
| | (in thousands, except percentages) | | |
| | Technology | Professional Services | Total |
| Revenue | \$ 83,975 | \$ 70,966 | \$ 154,941 |
| Cost of revenue, excluding depreciation and amortization | (27,797) | (47,548) | (75,345) |
| Gross profit, excluding depreciation and amortization | 56,178 | 23,418 | 79,596 |
| Add: | | | |
| Stock-based compensation | 200 | 968 | 1,168 |
| Post-acquisition restructuring costs | — | 108 | 108 |
| Adjusted Gross Profit | <u>\$ 56,378</u> | <u>\$ 24,494</u> | <u>\$ 80,872</u> |
| Gross margin, excluding depreciation and amortization | <u>67 %</u> | <u>33 %</u> | <u>51 %</u> |
| Adjusted Gross Margin | <u>67 %</u> | <u>35 %</u> | <u>52 %</u> |

| | Twelve Months Ended December 31, 2018 | | |
|--|--|------------------------------|------------------|
| | (in thousands, except percentages) | | |
| | Technology | Professional Services | Total |
| Revenue | \$ 57,224 | \$ 55,350 | \$ 112,574 |
| Cost of revenue, excluding depreciation and amortization | (19,429) | (40,423) | (59,852) |
| Gross profit, excluding depreciation and amortization | 37,795 | 14,927 | 52,722 |
| Add: | | | |
| Stock-based compensation | 78 | 480 | 558 |
| Tender offer payments deemed compensation | 28 | 284 | 312 |
| Post-acquisition restructuring costs | — | 337 | 337 |
| Adjusted Gross Profit | <u>\$ 37,901</u> | <u>\$ 16,028</u> | <u>\$ 53,929</u> |
| Gross margin, excluding depreciation and amortization | <u>66 %</u> | <u>27 %</u> | <u>47 %</u> |
| Adjusted Gross Margin | <u>66 %</u> | <u>29 %</u> | <u>48 %</u> |

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we define as net loss adjusted for (i) interest and other expense, net, (ii) loss on extinguishment of debt, (iii) income tax provision, (iv) depreciation and amortization, (v) stock-based compensation, (vi) tender offer payments deemed compensation, and (vii) post-acquisition restructuring costs. We believe Adjusted EBITDA provides investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial performance and is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance. The following is a reconciliation of our net loss, the most directly comparable GAAP financial measure, to Adjusted EBITDA, for the three and twelve months ended December 31, 2019 and 2018:

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|-------------|-------------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (in thousands) | | (in thousands) | |
| Net loss | \$ (14,266) | \$ (13,575) | \$ (60,096) | \$ (61,984) |
| Add: | | | | |
| Interest and other expense, net | 495 | 635 | 3,419 | 2,024 |
| Loss on extinguishment of debt | — | — | 1,670 | — |
| Income tax provision (benefit) | 99 | 7 | 142 | (135) |
| Depreciation and amortization | 2,368 | 2,160 | 9,212 | 7,412 |
| Stock-based compensation | 4,816 | 1,311 | 17,844 | 4,198 |
| Tender offer payments deemed compensation | — | — | — | 8,318 |
| Post-acquisition restructuring costs | — | 36 | 446 | 2,114 |
| Adjusted EBITDA | \$ (6,488) | \$ (9,426) | \$ (27,363) | \$ (38,053) |

Pro Forma Adjusted Net Loss Per Share

Adjusted Net Loss is a non-GAAP financial measure that we define as net loss attributable to common stockholders adjusted for (i) accretion of redeemable convertible preferred stock, (ii) stock-based compensation, (iii) post-acquisition restructuring costs, (iv) amortization of acquired intangibles, and (v) loss on debt extinguishment. We believe Adjusted Net Loss provides investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial performance and is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance.

On July 29, 2019, we closed our initial public offering (our IPO) in which we issued and sold 8,050,000 shares (inclusive of the underwriters' option to purchase an additional 1,050,000 shares) of common stock at \$26.00 per share. We received net proceeds of \$194.6 million after deducting underwriting discounts and commissions and before deducting offering costs of \$4.6 million. Upon the closing of our IPO, all shares of our outstanding redeemable convertible preferred stock converted into 23,151,481 shares of common stock on a one-for-one basis. As a result of our IPO closing during the twelve months ended December 31, 2019, we have prepared the below adjusted condensed consolidated statement of operations data in order to present pro forma adjusted net loss per share amounts that will be comparable to future periods. The following calculation gives effect to the following pro forma adjustments:

- I. The automatic conversion of all outstanding shares of our redeemable convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred as of the beginning of each period.
- II. The issuance of 8,050,000 shares of common stock as part of the IPO, assuming the shares of common stock were issued and sold as of the beginning of each period.

The table below presents our calculation of pro forma adjusted net loss per share, basic and diluted, including a reconciliation of Adjusted Net Loss and the pro forma as adjusted weighted-average shares used in calculating pro forma adjusted net loss per share, basic and diluted, to the most directly comparable financial measures calculated in accordance with GAAP:

| | Three Months Ended December 31, 2019 | Twelve Months Ended December 31, 2019 |
|--|--|--|
| Numerator: | | |
| | (in thousands, except share and per share amounts) | |
| Net loss attributable to common stockholders | \$ (14,266) | \$ (240,922) |
| Add: | | |
| Accretion of redeemable convertible preferred stock | — | 180,826 |
| Stock-based compensation | 4,816 | 17,844 |
| Post-acquisition restructuring costs | — | 446 |
| Amortization of acquired intangibles | 1,659 | 6,330 |
| Loss on extinguishment of debt | — | 1,670 |
| Adjusted Net Loss | <u>\$ (7,791)</u> | <u>\$ (33,806)</u> |
| Denominator: | | |
| Weighted-average number of shares used in calculating net loss per share attributable to common stockholders, basic and diluted | 36,519,401 | 18,741,119 |
| Pro forma adjustments: | | |
| Pro forma adjustment to reflect conversion of redeemable convertible preferred stock to common stock, assuming the conversion took place at the beginning of each period | — | 13,002,887 |
| Pro forma adjustment to reflect issuance of shares of common stock as part of IPO, assuming the issuance took place at the beginning of each period | — | 4,524,110 |
| Pro forma as adjusted weighted-average number of shares used in calculating Adjusted Net Loss per share, basic and diluted | <u>36,519,401</u> | <u>36,268,116</u> |
| Pro forma adjusted net loss per share, basic and diluted | <u>\$ (0.21)</u> | <u>\$ (0.93)</u> |

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