

**MTBC**

**First Quarter 2017 Earnings**

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**CORPORATE PARTICIPANTS**

**Shruti Patel** – *General Counsel*

**Mahmud Haq** – *Chairman and Chief Executive Officer*

**Stephen Snyder** – *President and Director*

**Bill Korn** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to the MTBC First Quarter 2017 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key following by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Shruti Patel, General Counsel. Please go ahead.

### **Shruti Patel**

Good morning, everyone. Welcome to the MTBC 2017 first quarter conference call. On today's call are Mahmud Haq, our Chairman and Chief Executive Officer; Stephen Snyder, our President and Director; Bill Korn, our Chief Financial Officer; and Dr. Jon Bertman, our Chief Medical Officer.

Before we begin, I would like to remind you that many of our comments may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of risks and uncertainties that could cause our actual results to differ materially. These statements reflect our opinions only as of the date of this presentation and we undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our press release in our reports filed with the Securities and Exchange Commission where you will find factors that could cause actual results to differ materially from these forward-looking statements.

With that said, I'll now turn the call over the Chairman and CEO of MTBC, Mr. Mahmud Haq. Mahmud?

### **Mahmud Haq**

Thank you, Shruti, and thank you for joining our first quarter 2017 call. We are pleased to announce 61% revenue growth over the first quarter of 2016, which represents our second consecutive quarter with greater than 60% year-over-year revenue growth. Even more exciting is the fact that our GAAP net loss improved by 33% compared to the fourth quarter of 2016. Our adjusted EBITDA showed a 62% improvement compared to the fourth quarter 2016. As we have reduced expenses from our 2016 acquisition, we are seeing improvements in our profit margins and are on track to achieve positive adjusted EBITDA in the second quarter and full year 2017.

I would now like to turn the call over to our President, Steve Snyder, to discuss this exciting deal in more detail. Steve?

### **Stephen Snyder**

Thank you, Mahmud. As Mahmud mentioned, it has been two quarters since our most recent acquisition and we have now completed most of our planned acquisition-related cost rationalization. We expect that the positive impact on our operations and bottom line will become increasingly visible during the second quarter and beyond.

We are also very pleased about the promising initial results of our 2017 growth initiatives. As we have increased our investment in organic growth and built a successful sales team, we are beginning to see an attractive return on our investment. The anticipated revenues associated with our closings year-to-date far exceed our organic sales closings during the first four months of any prior year in our corporate history.

We also expect that the upcoming nationwide launch of our next generation electronic health records, talkEHR, will further accelerate organic growth during the second half of 2017. Our vision in talkEHR is to leverage voice recognition and artificial intelligence in unique ways that improve patient outcomes and enhance the user experience. The development and launch of talkEHR is being led by Dr. Jon Bertman, a recognized pioneer in electronic health records who joined us as our chief medical officer earlier this year. An earlier generation product that Jon previously developed for one of our competitors was embraced by physicians and become one of the most widely used EHRs in the one to ten provider ambulatory physician market. We look forward to the positive impact that we expect talkEHR to have on the way that our clients practice medicine, and we're hopeful that this positive impact will further extend the reach of our cloud-based solutions throughout the industry.

I'll now turn the call over to Bill Korn, our CFO, to provide you with a detailed review of our first quarter financial results. Bill?

### **Bill Korn**

Thank you, Steve. We are pleased to report that revenues for the three months ended March 31, 2017 were \$8.2 million, an increase of 61% compared to \$5.1 million in the same period last year. The increase was primarily due to the MediGain acquisition.

Our first quarter 2017 GAAP net loss was \$2.7 million, or 33% of net revenue, compared to a GAAP net loss of \$2 million in the same period last year. Net loss for first quarter 2017 is largely a result of \$1.5 million of non-cash depreciation and amortization expense, and increased primarily as a result of the MediGain acquisition. Depreciation and amortization for the quarter increased by \$306,000, or 25% due to the MediGain acquisition.

The increase in our net loss is also partly due to restructuring charges of \$276,000 recorded during the first quarter of 2017. We have now closed offices in Poland and Bangalore, India and shifted the work to our teams in Pakistan and Sri Lanka to gain operating efficiencies. In addition, our interest costs increased from \$141,000 to \$279,000 due to higher debt balances.

The first quarter 2017 GAAP net loss represents a decrease of \$1.3 million from the \$4 million net loss in our prior quarter as a result of significant cost savings during our first six months after acquiring MediGain. Our direct operating costs were reduced by \$901,000, or 15% quarter-over-quarter, largely by eliminating expensive subcontractors and moving work to high quality, cost effective offshore employees. Our general and administrative expenses were reduced by \$1.3 million, or 30% quarter-over-quarter, due to reduced transaction costs and stock-based compensation expenses and by closing expensive offices. In addition to these expense reductions, which will continue in future periods, there were additional savings achieved during the first quarter 2017, which will be fully reflected in our second quarter 2017 results.

The GAAP net loss for first quarter 2017 was \$0.29 per share, calculated using the net loss attributable to common shareholders divided by the weighted average number of common shares outstanding. Non-GAAP adjusted net income for first quarter 2017 was (\$852,000) or (\$0.08) per share, compared to the non-GAAP adjusted net income of (\$217,000) in the same period last year. Non-GAAP adjusted net income per share is calculated using the end of period common shares outstanding, including shares which are part of contingent consideration.

Adjusted EBITDA for the first quarter of 2017 was (\$313,000), or (3.8%) of revenue, compared to adjusted EBITDA of \$65,000 or 1.3% of revenue in first quarter 2016. The first quarter 2017 adjusted EBITDA represents an improvement of \$500,000, or 62%, from the (\$813,000) adjusted EBITDA in our prior

quarter, which reflects the significant cost savings during our first six months after acquiring MediGain. The negative adjusted EBITDA during fourth quarter 2016 and first quarter 2017 were anticipated due to the MediGain acquisition, as we anticipated that it would take six months to ring out sufficient excess costs to turn the newly acquired business profitable. We anticipate a return to positive adjusted EBITDA starting next quarter, and since our business now has a higher scale, we anticipate the ability to spread our fixed expenses over a larger revenue base and generate larger adjusted EBITDA than we ever have before.

The difference of \$2.4 million between adjusted EBITDA and the GAAP net loss in the first quarter of 2017 reflects \$1.5 million of non-cash amortization and depreciation expense, \$129,000 of stock-based compensation, \$459,000 of integration and transaction costs and restructuring charges related to the recent acquisitions, \$60,000 of provision for taxes, and \$276,000 of net interest expense, offset by \$11,000 decrease in the contingent consideration liability. Management believes that our non-GAAP metrics are closer to reflecting our operating cash flow, and we will focus on driving positive adjusted EBITDA during 2017.

The company is reiterating that we expect the full year 2017 revenue will be approximately \$30 million to \$31 million, which represents growth of 22% to 27% over 2016 revenue. We reaffirm adjusted EBITDA is expected to be \$2 million to \$2.5 million for the full year 2017, anticipating that second quarter 2017 will return to positive adjusted EBITDA and each successive quarter will be positive and reflect growth.

As of March 31, 2017, the company had \$1.2 million in cash, and our stockholders' equity was approximately \$4.2 million. We had a working capital deficiency of approximately \$9.6 million, \$5 million of which is attributable to the balance of the MediGain purchase price. We paid \$2 million of the \$7 million price upfront and still owe Prudential \$5 million.

In order to satisfy its existing obligations, the company believes additional funding will be necessary, which might be in the form of sales of additional shares of its Series A preferred stock, its common stock, or some other instrument. The company may in the future seek additional capital from public or private offerings of its capital stock, or it may elect to borrow additional amounts under new credit lines or from other sources. If the company issues equity or debt securities to raise additional funds, its existing stockholders may experience dilution, it may incur significant financing costs, and the new equity or debt securities may have rights, preferences and privileges senior to those of its existing stockholders.

Finally, I'm pleased to report that MTBC's common stock has recorded a closing bid at or above \$1.00 per share for the last ten trading days. While we haven't received official clearance yet, it is likely that we will receive notification from NASDAQ that we are in compliance with their minimum listing requirements, and therefore we will not need to effect a reverse stock split.

That concludes my review of MTBC's financial results, and I'll now turn the call over to our Chairman and CEO, Mahmud Haq, for some closing remarks. Mahmud?

#### **Mahmud Haq**

Thank you, Bill. We are excited by two consecutive quarters of greater than 60% year-over-year revenue growth and by our GAAP net loss improvement of 33% and our adjusted EBITDA 62% improvement, both as compared to the fourth quarter 2016. The integration of MediGain into our business is going very well and we anticipate this will give us the scale we need to generate adjusted EBITDA starting with quarter second of 2017. MTBC has never been in a stronger position and we look forward to giving you future updates on our progress.

I would also like to thank all of our team members in the US overseas for their hard work and dedication.

Finally, I want thank our physician customers for trusting us to help manage their practices.

We will now open the call to questions. Operator?

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Keay Nakae from Chardan. Please go ahead.

### **Keay Nakae**

Thank you. With respect to your operating expense and maybe more specifically your direct operating costs, G&A, so coming off a number of \$8.2 million in Q1, what further reductions should we be looking for in Q2?

### **Bill Korn**

Hi, Keay. Thanks for asking the question. In terms of cost reductions, we have a number of things where we have some good visibility. For example, during Q1 we concluded the use of the subcontractors that had been used by MediGain prior to the acquisition. So while they were all wrapped up by the end of Q1, during January, February and even some of March, there were still some subcontractor expenses. So there's some savings from that.

In addition, as we mentioned, we have effectively shut the office in Bangalore, India, and in Poland, those two offices having come from acquisitions. So there are expenses in Q1 which will not repeat in Q2.

Finally, we have a continuing effort at rationalizing our workforce. As you know, when we do acquisitions it's important to us to keep the people with the strong client relationships, but when there are individuals whose work could be automated or that can go offshore to be done more cost effectively, we're always looking at cost savings.

So I would expect that as you look at second quarter and then you look at third quarter, you'll see continuing decrease in direct operating costs. I can't give you an exact number, but the decrease is going to be big enough that you'll see the adjusted EBITDA that was a (\$300,000) in Q1, you'll see that being a positive number in Q2 and a significantly bigger positive number in Q3.

### **Keay Nakae**

Okay. Switching to revenue, of the \$8.2 million you did in the quarter, what part of that came from MediGain? Then just in terms of overall attrition of the MediGain revenue, what is that trending like?

### **Bill Korn**

Good question. In terms of the revenue, when we bought MediGain we thought we were acquiring a business with roughly \$10 million in annualized revenue, and we knew that revenue was a little bigger, but we knew there were clients who had given indications of leaving prior to the acquisition. The good news is that the largest of those clients is still with us, is very happy and our revenue is staying flat.

So our revenue from MediGain will actually be at a greater than a \$10 million annualized rate. It was in Q1. It will continue to be in Q2 and it's forecast to stay at a greater than \$10 million annualized rate

through the entire year.

**Mahmud Haq**

Keay, as far as attrition is concerned, as Bill mentioned we are very pleased that we believe that attrition, especially from MediGain, who had experienced an \$8 million loss of business in the trailing 12 months when we acquired them, for the most part it had stabilized, as Bill mentioned.

**Keay Nakae**

Okay. Very good, and then just a final question on the debt. What's the near-term plan to address what you owe to Prudential?

**Stephen Snyder**

So, Keay, as you know, Prudential has an unsecured junior contract right to payment. We are in active discussions and continue to be in active discussions with Prudential. At this point in time we have not yet arrived at a meeting of the minds regarding an adjusted payment timeline and schedule that's acceptable to Opus Bank. Opus Bank of course is our senior secured lender, so obviously they have to approve of any new payment arrangement. All the parties are continuing to focus on arriving at a new arrangement. Everyone understands it's in our collective best interests. Certainly as soon as we arrive at new terms—if and when we arrive at new terms—we'll announce those new terms. But we're all still engaged in trying to find the right timeline for payment.

**Mahmud Haq**

As far as the new offering is concerned, Keay, for repayment whenever the time comes as we mentioned in the press release, a preferred offering will be the first choice and a common if we need to, but I think that's what we're looking for.

Bill, do you want to talk about the shelf?

**Bill Korn**

Yes. As we all know, management and board control half the shares. So clearly every decision that we make in terms of financing we do with the eye towards how do we be non-dilutive to all our existing shareholders. Because our stock price increased recently, we have some shelf availability, so that might give us the opportunity, for example, to reopen our Series A preferred stock.

But at this point we're looking at the various alternatives, and when we make a decision of what's in the best interest of shareholders, we'll certainly let everybody know.

**Keay Nakae**

Okay. Thanks. That's all I have.

**Bill Korn**

Thanks, Keay.

**Operator**

Again, if you have a question, please press star then one. Our next question comes from Elise Stern with Dawson. Please go ahead.

**Elise Stern**

Good morning, everyone, and congratulations on a terrific quarter and impressive improvement. I just had a question about the acquisition environment and what you've seen out there in terms of the multiples at which you are being able to acquire companies and where you see that going forward.

**Mahmud Haq**

Thanks, Elise. This is Mahmud. Elise, our experience has been anywhere between one-time revenue for a \$5 million to \$10 million revenue company. It depends on their profitability and the challenges that they're facing. Recently what we have basically focused on is organic growth. Jon Bertman is on the call with us and he's heading the talkEHR initiative for us, Elise, just to give you an example.

We believe that that initiative will bring us the growth that we are looking and counting for in 2017. But to answer your question directly, anywhere between 0.75 to 1.25 of revenue is what we have experienced in the past. We have gotten companies for less than that and we have paid more than that based on certain criteria, but that one times revenue is a general rule of thumb that we use.

**Elise Stern**

And historically what has been the ratio of cash to stock and do you see that changing as the stock price hopefully continues to increase?

**Stephen Snyder**

Historically, Elise, we've purchased companies with a combination of a minimal amount of cash down, generally speaking between 10% and 30% cash down at closing, and then the balance paid over time. So with stock prices at current levels, we would anticipate continuing in future acquisitions to use cash and probably use a similar structure. We've also in the past considered leveraging the preferred stock for a portion of the consideration. And of course as opportunities present themselves depending upon the strength of a particular opportunity, we'll consider all the options in terms of leveraging equity for a portion of the consideration.

But again, our current model continues to be primarily cash with a small portion down at closing, the balance over time. Of course, MediGain being an exception to this rule.

**Mahmud Haq**

Elise, with MediGain let's assume that \$10 million revenue, we paid them \$2 million down. There was \$5 million that is owed, which brings us to 0.7 times expected revenue. We are experiencing a higher revenue retention, but the \$10 million was based on the \$8 million loss that they incurred in the trailing 12 months before we acquired.

I think coming back to the organic growth, as Steve mentioned, initiatives like talkEHR I think would be the reason for our growth going forward. So we are not actively looking for an acquisition at this point, but nevertheless, if an attractive target is in sight we will have to talk to them.

**Elise Stern**

Okay. Thank you.

**Mahmud Haq**

Thanks.

**Operator**

The next question comes from Andrew Hanson from Redwood Investment. Please go ahead.

**Andrew Hanson**

Yes. Could you give us some clarity on where you stand in terms of interviewing and retaining an investment banker, and also, what kind of advice you're being given with regard to current market conditions?

**Bill Korn**

Yes. So we can't really talk a lot about investment bankers. But I will say is that there's been a lot more interest in our stock lately. So the phone seems to never stop ringing. I'll just leave it at that. I'd say it's always good to have options so we can do the right thing for all our shareholders.

**Andrew Hanson**

Right.

**Mahmud Haq**

And, Andrew, to further that answer, we do expect to—let's say next week or so—announce whatever next steps that we have decided for whether it's shelf registration or other options. It will be soon that we'll announce our decisions on that but we are in active discussion with a number of investment bankers.

**Andrew Hanson**

Thank you. Thanks.

**Operator**

The next question comes from Michael Galantino from Boenning and Scattergood. Please go ahead.

**Michael Galantino**

Good morning, guys. I would echo the congratulations on the numbers for the first quarter. They were higher than we expected, so nice job by everybody. I just had a couple of questions. One of them, the recent activity in the stock has been terrific and Mahmud and senior management own the majority of the common stock, so congratulations to everybody on the call. I was curious as to the—if you guys have gotten any institutional inquiries in the stock or if you have any thoughts as to the new shareholders or who's stepping up and buying the stock up here at roughly \$2.00. That's my first question.

Then the second question is kind of a—the MediGain acquisition, do you feel as a group that you are—it was what you thought it was going to be? And are you ahead of schedule in terms of the integration of their clients and their technology and their management? So I need a little color on MediGain if you guys can give me some.

**Stephen Snyder**

Sure. Why don't we start with MediGain first and then Bill can provide some feedback in terms of your first question. So MediGain has exceeded our expectations on every front. In terms of the ability to rationalize costs, we're ahead of schedule probably by a quarter or so. It has also exceeded our expectations from an integration perspective. Likewise as Bill had spoken about before in terms of revenue retention, our expectations have been exceeded.

You'll recall that prior to acquiring the MediGain customer portfolio, the relationships had been in free fall. The company we acquired the relationships from had lost a significant portion of their revenue, and we're really pleased to see that the loss of revenue trend significantly changed as the relationships stabilized. Again, we guided the market to roughly \$10 million in annualized revenues, and the current revenues for MediGain exceed that \$10 million handily.

I'll let Bill address you other question.

**Bill Korn**

Thanks, Mike. So as you know, our largest shareholder outside of the management team is Adage, who bought a million shares at the time of the IPO at \$5.00 a share. As far as we know, they continue to be



a happy shareholder. Everyone knows Adage. It's a \$37 billion fund, so it's a great investor.

Over the course of the last couple of weeks, we think we have gotten some other institutions interested, none of whom has gotten big enough that they've actually done any filings. So there's not a lot of direct visibility, but what we've observed is that as our stock as gotten more liquidity, it's become a little more attractive to institutions. And of course, in addition, it's also been attractive to individuals.

So it's gratifying to see that after being public for a few years, having good news that people were often not really looking for, now we have people who are starting to pay attention. So that's a very satisfying feeling as a management team.

**Mahmud Haq**

Right. And, Mike, the point you made about management owning 50% plus, I think that's an important one with the common stock/common shares. Every decision that we are making is in the best interest of the shareholders, because we are the shareholders. So in terms of offering, we always prefer using the preferred Series A stock because that's non-dilutive, but we are looking at all the options. That's our plan all along.

**Mike Galantino**

Thanks, Mahmud.

**CONCLUSION**

**Operator**

This concludes our question and answer session. I would like to turn the conference back over to management for any closing remarks.

**Shruti Patel**

Thank you, and we would like to thank everybody for joining the call this morning. And that will conclude our call.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.