MTBC

Third Quarter 2014 Earnings Call

Wednesday, November 12, 2014, 8:30 A.M. Eastern

CORPORATE PARTICIPANTS

Mahmud Haq - *Chairman, Chief Executive Officer*

Stephen Snyder - *President*

Bill Korn - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to MTBC's third quarter 2014 earnings and webcast conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one on your touchtone phone; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Brendan Harney, General Counsel. Please go ahead.

Brendan Harney
Thank you. Good morning, everyone. Welcome to the MTBC 2014 third quarter conference call. On today's call are Mahmud Haq, our Chairman and Chief Executive Officer; Stephen Snyder, our President and a Director of MTBC; and Bill Korn, our Chief Financial 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 Provision of the Private Securities Litigation Reform Act of 1995. Please refer to our press release and 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 to our Chairman and Chief Executive Officer, Mr. Mahmud Haq. Mahmud?

Mahmud Haq
Thank you, Brendan, and thank you all for joining us on the call today to discuss our third quarter financial results and operational highlights. I am pleased to report a number of accomplishments in the quarter. For third quarter 2014, our revenue was $6 million. This represents 104% increase over third quarter 2013. Our adjusted EBITDA was negative $878,000, which was in line with our expectations and we remain on track to achieve our financial target for 2014. We anticipate attaining a 30% EBITDA margin by mid 2015. The integration of our acquisitions at the time of IPO is right on track and we have continued to execute our growth strategy and are seeing promising results. Additionally, we have an active pipeline of potential acquisitions. With that, I will turn the call over to Steve Snyder, who will take you through our integration efforts in more detail. Steve?

Stephen Snyder
Thank you, Mahmud. As Mahmud mentioned, we are making substantial progress in terms of our integration efforts. In fact, we have already transitioned almost one half of the core operational work flows to our offshore team and we are actively transferring accounts to our technology platform. We anticipate a relatively small impact to our financials in the fourth quarter, but we will start to realize a meaningful impact in the first quarter of next year. Our right-sizing efforts are going as planned and at this point, we have reduced our U.S. based personnel levels at our acquired divisions by a little more than 20%. Likewise, as of today, we have reduced our India-based teams of subcontractors by approximately one third, thereby positioning us to benefit from the lower labor costs in Pakistan, which, as you may recall, are approximately 50% less than those in India.

With regard to the billing platform, our software migration is ramping up as planned and we have already transitioned approximately 30% of the acquired accounts to MTBC's billing platform. We expect to transition the majority of the remaining accounts over the next several months. Finally, we expect the right-sizing and platform migration efforts to allow us to continue to rationalize costs beyond simple personnel and software expenses. For example, we are actively negotiating new facility lease terms at most of the divisions and we expect to be able to reduce the total expense associated with these leases by more than 60%. Additionally, the management teams at our newly acquired divisions are really doing a great job pivoting into their new and expanded roles. They're already helping MTBC establish new relationships and are focusing our local team members on proactive account management. So, in conclusion, our integration efforts are advancing as planned and we look forward to experiencing notable reductions in our expenses during the first quarter of 2015.

I'll now turn the call over to Bill Korn, our Chief Financial Officer, to provide you a detailed review of our third quarter results. Bill?

Bill Korn
Thank you, Steve. We are very pleased with our third quarter and I'm excited to be able to provide some color on the financial results and other highlights from the quarter. Please keep in mind, however, that these results only reflect the inclusion of our acquisitions for approximately two months in the quarter. The fourth quarter of 2014 will be the first full quarter reported as a combined company and with the integration efforts well underway, we remain on track to reach our goal of 30% EBITDA margins by one year after the acquisitions.

Third quarter 2014 revenue of $6 million increased 104% compared to $2.9 million in the third quarter of 2013. This growth was primarily attributed to our recent acquisitions. Adjusted EBITDA in the quarter of a loss of $878,000, compared to a positive $206,000 in the third quarter a year ago. This loss resulted from higher expenses related to our acquisitions. We fully anticipate reduction of our expense profile, as Steve described, and plan to report positive EBITDA in the first quarter of 2015.

GAAP net loss in the quarter of $3.3 million, or $0.35 per share, compared to GAAP net loss of $138,000, or $0.03 per share, in the year ago period. Of the $3.3 million loss in the quarter, $3 million could be attributed to what we consider as being not core to our ongoing operations. We would characterize those expenses in one of three categories, including ramp up costs, non recurring expenses, and amortization, which is a non cash expense.

First, I'll discuss ramp up costs. During the quarter, we spent approximately $430,000 ramping up our offshore operations by hiring and training over 600 new employees in advance of transitioning operations from our three newly acquired businesses. This will position us well for the savings Steve described. Second, we incurred a few one-time, non-recurring items in the quarter, including $624,000 of transaction costs for the three acquisitions; $483,000 in IPO related bonuses for all employees, worldwide, with one year of service, with the exception of the CEO and CFO; and a non-cash tax provision of $474,000 required by ASC 740.

Finally, we had non-cash amortization of approximately a million dollars related to purchased intangible assets. Third quarter 2014 non GAAP adjusted net income was a loss of $1.6 million, or $0.15 a share, compared to a positive $89,000, or $0.02 a share, in the third quarter of last year. Transaction costs and amortization of purchased intangibles account for $1.6 million of the adjustments along with stock based compensation expense and foreign exchange gains and losses.

During the quarter, our recently acquired businesses generated combined revenue of $3.6 million. Again, due to the timing of the acquisitions, only revenue occurring from July 28th was reflected in our consolidated financial results. As of September 30, 2014, MTBC's cash balance was $2.5 million, compared with $498,000 as of December 31, 2013.

Now, looking forward to the rest of 2014, we continue to expect 2014 full year revenue between $18 and $18.5 million, likely towards the upper half of that range. We anticipate an adjusted EBITDA loss of $1 million to $1.5 million and non-GAAP adjusted net income per share between negative $0.15 and negative $0.20. These forecasts are based on a share count of 11 million shares. Our effective tax rate for the rest of this year is 0% and will be 0% next year until we surpass $4.5 million of pretax net income.

That concludes my review of MTBC's third quarter results and I'll now turn the call back over to Mahmud for some closing remarks. Mahmud?

Mahmud Haq
Thank you, Bill. Third quarter has been really exciting for us. Our growth strategy is on track, our team is making meaningful progress on the integration and our pipeline is full of potential acquisition targets. We look forward to keeping all of you current on our efforts and providing you with updates on our initiatives for the future.

Lastly, I want to thank all of our shareholders for their belief in MTBC, all of our team members in U.S., Poland and Pakistan for their hard work and dedication, and, finally, our physicians for trusting their practices to us.

We will now open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press the star (*) then one (1) 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 (2). At this time, we will pause momentarily to assemble our roster.

The first question comes from Mark Landy with Summer Street. Please go ahead.

Mark Landy
Good morning, guys.

Mahmud Haq
Good morning, Mark.

Mark Landy
Thanks for taking my questions. I have three of them, I'll just shoot them off and then I'll sit back for the commentary. The first question is could you give us an idea of the attrition rate that you currently experienced at the IPO acquisitions? The second question is could you give us a practice count exiting the quarter for the total practices using your platform? I then, I guess, those that are still waiting to be transferred to the platform. And then, lastly, any updates on the PracticeFusion relationship? On the last call, you alluded to some exciting developments; do you have anything to add there? Those are the questions, thanks.

Mahmud Haq
Okay, thank you, Mark. The attrition, I will start and then Steve and Bill will jump in. This is Mahmud. We are experiencing better than expected attrition number. If you remember, our model was roughly at about 1% monthly, or 12% annual, natural acquisitions. These are people

retiring, practices being sold. At this point, on our attrition number is below that number and Steve will get to the practices. Go ahead.

Stephen Snyder
Sure, sure, again, thanks, Mark, for the question. With regard to where we are at today, about 180 practices are on our software platform, which leaves, roughly, another 415 practices to go and we really expect, by the end of this quarter, to see thenumber of clients on our platform almost double.

Mark Landy
Steve, can I just jump in there, and what is the total number of practices that you count as customers, exiting the quarter?

Stephen Snyder
Sure. So, in terms, if we're talking about the acquired practices, we're looking at 595 and if we, then, look at our own client base, we're looking at a total number of practices of roughly 950 practices.

Mark Landy
Thank you.

Mahmud Haq
And our relationship with PracticeFusion, Mark, is going as expected. We are working out the technical aspects of providing them with eligibility for their entire database and I think, at this point, Steve, do we have a timeline when do we expect? First quarter.

Stephen Snyder
First quarter of next year, correct.

Mahmud Haq
Next year, that we'll be up and running with that.

Mark Landy
Okay, thanks, guys, those are my questions.

Operator
Again, if you have a question, please press the star (*) then one (1). The next question comes from Ling Wang with Chardan Capital Markets. Please go ahead.

Ling Wang
Good morning, thank you for taking our questions. I was wondering whether you can give us more color on the perspectives on the additional acquisitions firmed and can you also, maybe, talk about some of the means you would like to fund future acquisitions?

Stephen Snyder
Absolutely, and I'm sorry, Ling, I missed the second part of your question, if you could repeat that, please.

Ling Wang
Oh, I see, yeah, I was wondering whether you can discuss some of the means or avenues you wanted to fund the future acquisitions.

Stephen Snyder
Sure, sure. So I can answer a part of that and Bill and Mahmud can jump in as well. So we're in active discussions right now, Ling, with a few billing companies. Again, billing companies that fit our profile, a couple of these billing companies that we're in active discussions with are the same ones that we've referenced in the past, or from that same group of those that we spoke with during the lead-up to the IPO and, obviously, when we get to the point of having something firm, obviously, we'll announce that. But we're right now in the phase of active discussions with them and, perhaps, Bill can talk about the second part, in terms of financing.

Bill Korn
Yeah, so we're having some good discussions with financial institutions. We've got a couple with term sheets and, frankly, we're working to come up with really good terms. We're not happy with what's been put forward so far, but we recognize there's always a little bit of a negotiation process. So we feel confident that we can secure the financing for these deals on favorable terms.

Ling Wang
Great and also, a follow-up, in terms of the integration of the acquired companies, it looks like so far it goes pretty smoothly, but any challenges or unexpected things with this or so far it's been pretty good?

Mahmud Haq
Ling, this is Mahmud. So far, it's better than expected. Out of all the divisions, I think, the exception might be in one where the person decided to move on. As Steve mentioned earlier, all of these division presidents have signed up and are showing excellent results, not only in terms of integration, but bringing on new business to the Company. So we are very pleased with the progress that's been made and, as you know, that even though there were three companies that we acquired at the time of IPO, but in reality, there were ten companies that were consolidated in three companies. So the challenge that we have this quarter, fourth quarter, is to basically complete all of the integration and when I say all, as Steve mentioned, we are talking about 80% plus of transition will be completed by the end of the year. And next quarter, we'll be positioned, to Bill's point, we are working with some term sheets, we have active discussions with the same type target companies that we talked about on the road show for first quarter, that's what our goal is. If you remember, as we talked about on the last call, the challenge that we are facing was that we were expecting to raise a little bit more at the time of IPO and we were expecting to have about $10 million of available cash to do these purchases. But with the credit line in place, let's say, in next 60 days, 90 days, I think we'll catch up and we'll stay on track of acquisition next quarter.

Ling Wang
Great, that's very helpful and I'll look forward to see additional progress. Thank you.

Mahmud Haq
Good, thank you.

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

CONCLUSION

Brendan Harney
Thank you very much. This concludes our conference call for the third quarter of 2014. Thank you, everybody, for joining and have a great day.

Mahmud Haq
Thank you.

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