MTBC

Fourth Quarter 2014 Earnings

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CORPORATE PARTICIPANTS

Brendan Harney – *Vice President and 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 MTBC Fourth Quarter 2014 Earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed 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 Brendan Harney, General Counsel. Please go ahead.

Brendan Harney

Thank you. Good morning, everyone. Welcome to the MTBC 2014 Fourth Quarter Conference Call. On today's call are Mahmud Haq, our Chairman and Chief Executive Officer; Stephen Snyder, our President and Director; 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. 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, 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 the Chairman and Chief Executive Officer of MTBC, Mr. Mahmud Haq. Mahmud?

Mahmud Haq

Thank you, Brendan, and thank you for joining us on the call to discuss the fourth quarter and full year 2014 results and operational highlights. 2014 was a watershed year for us. We completed our successful initial public offering, along with the three acquisitions. New initiatives such as SameDay Funding, which is in its beta testing, were launched. Key management positions were filled, such as Vice President, Sales and Marketing; Vice President, HR; and Vice President, Controller.

Now for the financial accomplishments, revenue for the fourth quarter was $7.1 million, which represents a year-over-year increase of 138%. Revenue for the full year was $18.3 million, which represents an increase of 75% year-over-year and exceeded the midpoint of $18 (million) and $18.5 million guidance.

Adjusted EBITDA for the fourth quarter and full year 2014 were negative $838,000 and negative $1.7 million, respectively. We remain on track to attain a positive 30% EBITDA margin on a run rate basis by the fourth quarter 2015. Our integration efforts are going as planned and are near completion. We have realigned resources and significantly cut expenses, which puts us on track for achieving our 2015 target of revenue and EBITDA growth.

I would now like to turn the call over to President Steve Snyder to discuss our integration effort in more detail. Steve?

Stephen Snyder

Great. Thank you, Mahmud. As Mahmud mentioned, we're making substantial progress in terms of our integration efforts. In fact, as of today, we've already transitioned more than 90% of the core operational workflows of the acquired companies to our offshore team, and in addition have transitioned 85% of the accounts to our technology platform. Moreover, we're very pleased to have officially on-boarded more than 80 team members from the acquired businesses who are now actively supporting our local clients and playing a key role in our local business growth.

We expect that the rightsizing and platform migration will allow us to continue to rationalize related costs beyond personnel and software expenses. For example, we renegotiated 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 65% as compared to 2014. As a result of these new lease terms, rightsizing and migration to our platform, we look forward to experiencing notable reductions in our expenses during the first and second quarters of 2015.

We're also very pleased about the progress that we've made as a team in terms of laying the foundation for accelerating organic growth. To achieve our growth targets, we've taken various steps, including, as Mahmud mentioned, hiring a new Vice President of Sales and Marketing. Likewise, we're in active discussions with various potential channel partners and we're actively testing a unique and very competitive pricing model and we're really encouraged by the initial feedback we've received.

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

Bill Korn

Thank you, Steve. We're very pleased with our fourth quarter and I'm excited to be able to provide some color on the financial results and other highlights for the year. Please keep in mind, however, that these results only reflect the inclusion of our acquisitions for approximately five months of the year. Most of the impact of the cost savings Steve mentioned, right-shoring and reducing the facilities expenses of the acquired businesses, will start to be reflected in our 2015 results.

Fourth quarter revenue of $7.1 million grew 138% compared to $3 million in the fourth quarter of 2013. Full year revenue was $18.3 million and grew 75% compared to $10.5 million in 2013. This growth was primarily attributed to our recent acquisitions.

Adjusted EBITDA in the fourth quarter was a loss of $838,000 compared to a profit of $516,000 in the fourth quarter a year ago. Adjusted EBITDA for the year was a loss of $1.7 million, or negative 9.4% of revenue, compared to a profit of $1.1 million in 2013.

The adjusted EBITDA loss for the year is primarily due to expenses in two categories; post-acquisition ramp-up costs and non-recurring IPO-related expenses. First, during the year, we spent approximately $1.3 million ramping up our offshore operations by hiring and training new employees to support the integration of the acquired accounts. While this allowed us to reduce our reliance on subcontractors and US employees from the businesses we acquired by approximately $400,000 in the fourth quarter, this will result in much larger savings in future periods, as our own employees in Pakistan are half the cost of the sub-contractors in India who they replaced, and one-tenth the cost of employees in the US.

Second, the loss reflects $483,000 of non-recurring IPO-related bonuses for most employees worldwide with a year or more of service at the time of the IPO. We fully anticipate reduction of our expense profile, as Steve described, and plan to report positive EBITDA in the first half of 2015.

Non-GAAP adjusted net income for the quarter was negative $1 million or negative $0.10 per share, compared to non-GAAP adjusted net income of $246,000 or $0.05 per share in fourth quarter 2013. Non-GAAP adjusted net income for the year was negative $2.3 million, or negative $0.21 per share, compared to non-GAAP adjusted net income of $546,000, or $0.11 per share, in 2013.

Our GAAP net loss in the quarter was $996,000, or $0.10 per share, compared to GAAP net income of $29,000, or $0.01 a share, in the fourth quarter of 2013. GAAP net loss for the year was $4.5 million, or $0.64 per share, compared to a GAAP net loss of $178,000 or $0.03 per share in 2013. The $2.8 million difference between adjusted EBITDA and the GAAP loss reflects $1.1 million of integration and transaction costs for the three acquisitions, $259,000 of stock-based compensation, $157,000 of net interest expense, $135,000 of foreign currency losses and a non-cash tax provision of $176,000.

The GAAP loss also includes $2.5 million of non-cash amortization expenses related to purchased intangible assets, offset by a $1.8 million non-cash gain on contingent consideration, reflecting the lower value of the shares issued to the businesses we acquired at the time of the IPO, primarily because of a decline in the price of our stock.

The company has restated its third quarter 2014 results to correct the accounting to 1.3 million of the shares issued in connection with the acquisitions of Omni, Practicare and CastleRock. Because the number of shares issued to the sellers will be adjusted based on actual revenues from each acquisition after a year, the shares subject to adjustment are considered contingent consideration. This requires that they be accounted for as a liability, not equity, even though they cannot be redeemed for cash.

Third quarter 2014 was restated to include $425,000 of gain from the reduction in the fair value of contingent consideration and the full year of 2014 includes $1.8 million of gain, primarily due to the decline in the price of the company stock. This gain must be included in our GAAP earnings each quarter, but we have excluded this net gain from non-GAAP adjusted EBITDA and non-GAAP adjusted net income.

In September of 2015, when the actual revenue for the 12 months after purchase from each acquisition is known, the number of shares will be fixed and there will be no further change to the value of the purchase price. As of December 31, 2014, MTBC's cash balance was approximately $1 million compared to $498,000 as of December 31, 2013.

In March 2015, the company's revolving line of credit was increased from $1.2 million to $3 million. This line of credit with TD Bank renews in November of each year, subject to the approval of MTBC and TD Bank, and has been renewed annually for the past seven years. As this line of credit is subject to renewal before year-end, the company's independent registered public accounting firm will include a going concern disclosure in its audit report.

Now, looking forward to 2015, we continue to anticipate that 2015 full year revenue will be $30 million. We anticipate adjusted EBITDA of $2 million to $3 million, which will be backend-loaded, as our EBITDA loss declines during our first quarter and EBITDA turns positive in the second quarter.

We expect non-GAAP adjusted net income per share between a positive $0.10 and $0.20 per share. These forecasts are based on our full share count of 11 million shares, which includes 1.3 million shares that are considered contingent consideration. Our effective tax rate for 2015 will be 0% until we surpass $3.6 million of pre –tax income.

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

Mahmud Haq
Thank you, Bill. The quarter has been very encouraging for us. Our growth is on track. Our team is making meaningful progress on integration and our pipeline is full of potential acquisition target. We look forward to keeping you all 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. I would also like to thank all of our team members in US, Poland and Pakistan for their hard work and dedication, our long-term financing partners, such as TD Bank, for helping meet the need of our growing company, and finally our physician customers for trusting us to manage their practices.

Well, now we will open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you. 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're 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'll pause momentarily to assemble our roster.

Our first question is from Keay Nakae of Chardan. Please go ahead.

Keay Nakae
Thank you. My first question is for Bill. Just in Q4, with respect to the continued consideration, I did some quick math, it looks like that number was a positive 1.375. Is that about right?

Bill Korn
That's correct.

Keay Nakae
Okay. And then if you can, given that you're almost through Q1, can you give us a sense of what the decline in op ex in Q1 relative to Q4, excluding the changing continued consideration, might look like?

Bill Korn
Yes. So in Q1, as we mentioned, we've been reducing our headcount. We reduced the dependence on the sub-contractors, who were a significant amount of expense during fourth quarter. It's hard to predict exactly what the decline is going to look like, but at least our internal estimates are roughly in the three quarter million dollar decline in expenses quarter-over-quarter.

Keay Nakae
Okay. Great, thanks for that. And then, finally, with respect to some of your initiatives to grow the business organically, can you talk about the pricing model that you hinted at, is that the SameDay Funding program you're rolling out or is that something different?

Mahmud Haq
Okay, I think there are two things that we're talking about. One is new initiatives such as SameDay Funding, which basically allows us to fund the doctor the day we complete the claim. So let's say if the claim is sent to us the next day, we fund the doctor. Right now it's in beta testing, but once we launch that, it will have a significant market acceptance.

The second thing that we're talking about is we looked at our competitors and they have pricing models where they advertise 2.9%, 2.75% with a minimum monthly charge, which could be anywhere from $1,600 or around that number. So what we're planning to do is initiate a similar type of pricing, let's say, 2.5% with anywhere between $1,000, $1,200 minimum monthly fee. So that is what we're initiating going forward.

Keay Nakae
And so in aggregate, I know you have different size accounts, but how is that compared to maybe, traditionally, what we thought of as 5% of revenue?

Steve Snyder
Sure, this is Steve and Bill can also jump in, too. When we look at our client base, we work primarily with primary care practices. The monthly minimum will bring us either at or above the revenue levels that we've experienced from our average clients to date, and again that monthly minimum is a per provider monthly minimum. So for some specialties that monthly minimum will be such that it's low enough that they'll surpass that and their effective rate may be something less than what it is today, but that will be a distinct minority of our client base and of our prospective clients.

Keay Nakae
Okay, thanks. That's all I had.

Operator
Again, if you would like to ask a question, please press star and then one.

Showing no addition questions, this concludes our question and answer session. I'd like to turn the conference back over to Mr. Harney for any closing remarks.

CONCLUSION

Brendan Harney
Thank you, and thank you, everybody, for joining. I hope you enjoyed our call and have a great day.

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