MTBC

Third Quarter 2016 Earnings

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CORPORATE PARTICIPANTS

Melissa Paget - *Senior 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 Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal the 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 Melissa Paget, Senior Counsel. Please go ahead.

Melissa Paget
Good morning everyone. Welcome to the MTBC 2016 Third 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 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 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 will now turn the call over to the Chairman and CEO of MTBC, Mr. Mahmud Haq. Mahmud.

Mahmud Haq
Thank you Melissa, for filling in for Shruti Patel, our newly appointed General Counsel, who is on her way back from our India office, and thank you everyone for joining our third quarter 2016 call. We are pleased to announce another quarter of revenue growth, which marks a new post-IPO milestone. Even though we continue to report a GAAP net loss, which is largely a result of non-cash amortization and depreciation expense, we are proud to report our fourth consecutive quarter of positive Adjusted EBITDA.

On October 3 we closed our largest acquisition to date. We acquired substantially all of the assets of MediGain, LLC, a Texas-based medical billing company, and its subsidiary Millennium Practice Management, LLC, a New Jersey-based medical billing company, through our subsidiary MTBC Acquisition, Corp. The acquisition of MediGain reflects the strategic nature of our acquisition-based growth strategy and we are greatly encouraged by the growth opportunities it provides. The successful closing of this transaction has positioned MTBC to deliver significant revenue growth in 2017. We expect the acquisition to be accretive to common shareholders in 2017.

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

Stephen Snyder
Thank you, Mahmud. As Mahmud mentioned, we were very pleased to have acquired MediGain's assets last month, including customer relationships, accounts receivable, fixed assets and intellectual property. As a result of this acquisition, we have expanded our customer base by almost 200 additional medical groups, which represent more than $10 million in annual revenues. While we had hoped to close the transaction two quarters ago, we are still very pleased that we finally brought MediGain across the finish line, and as a result expect our revenue during the fourth quarter of 2016 to be the highest in our company's history.

We acquired the assets for a purchase price of approximately $7 million, which we believe to be a compelling valuation of less than 1 times revenues. The incremental profits from this acquisition are expected to greatly exceed our cost of capital and we expect that this acquisition will be accretive to our common shareholders in 2017.

As a result of the acquisition, we have increased our operational and sales resources in North America and incorporated MediGain's experienced, cost-effective teams in Asia. We look forward to continuing to leverage our combined team of professionals and proprietary technology to help healthcare providers increase their revenues and reduce operating costs.

Our global team of professionals and proprietary technology will allow us to continue improving operating margins while delivering outstanding service to our customers.

As a result of the MediGain acquisition, we have also added an experienced sales team with a track record of success of selling into medium-sized medical groups. Our cost efficient model is already allowing them to be increasingly competitive on pricing and our industry-leading technology is enhancing the strength of their offering. As a result, we expect that our sales team will be able to further accelerate organic growth in the days ahead.

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

Bill Korn
Thank you, Steve. We are pleased to report consecutive quarterly revenue growth during each quarter of 2016 so far, and expect this trend will continue through year-end.

While our revenue on a year-over-year basis was down, this was principally due to the loss of clients during early 2015 from the companies we purchased at the time of our IPO in the third quarter of 2014.

Revenue in third quarter 2016 was $5.3 million, compared to $5.6 million in the same period last year, and $5.2 million for second quarter 2016.

The third quarter GAAP net loss was $1.5 million, 28% of net revenue or $0.17 per share, compared to a GAAP net loss of $1.2 million in the same period last year. The GAAP net loss is largely a result of non-cash amortization and depreciation expense of $1.1 million as well as stock-based compensation expense of $194,000. The increase in net loss compared to 2015 is partly the result of lower revenues as well as increasing selling and marketing expense from $59,000 last year to $275,000 this year.

Direct operating costs were reduced by 5% from $2.8 million in the third quarter of 2015 to $2.7 million in the third quarter of 2016, while general and administrative expenses declined 17%

from $3.1 million to $2.6 million.

There was a significant improvement in our non-GAAP adjusted net income. Non-GAAP adjusted net income for the third quarter was negative $208,000 or negative $0.02 per share, compared to non-GAAP adjusted net income of negative $397,000 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.

Our Adjusted EBITDA for the quarter was $130,000 or 2.4% of revenue, compared to Adjusted EBITDA of negative $184,000 or negative 3.3% of revenue in the same period last year. Adjusted EBITDA has been positive each quarter since the fourth quarter of 2015.

MTBC's revenues for the nine months ended September 30, 2016 were $15.7 million compared to $17.7 million in the same period last year. The nine-month GAAP loss was $4.8 million or 30% of revenue compared to a GAAP net loss of $3.9 million for the same period last year. The GAAP net loss is largely a result of non-cash amortization and depreciation expense of $3.5 million and stock-based compensation expense of $816,000. The increase in net loss is also partly the result of lower revenues than last year.

Direct operating costs were reduced by 21% from $9.3 million in the first nine months of 2015 to $7.3 million in the first nine months of 2016, while general and administrative expenses declined from $9.4 million to $8.2 million. The GAAP net loss was $0.53 per share calculated using the net loss attributable to common shareholders divided by the weighted average number of common shares outstanding compared to $0.40 per share in 2015.

There was also a significant improvement in our non-GAAP adjusted net income for nine months. Non-GAAP adjusted net income was negative $724,000 or negative $0.07 per share compared to non-GAAP adjusted net income of negative $1.5 million in the same period last year.

Adjusted EBITDA for the nine-month period was $209,000 or 1.3% of revenue, compared to Adjusted EBITDA of negative $989,000 or negative 5.6% of revenue in the same period last year. The improvement in Adjusted EBITDA is primarily the result of our reduction in direct operating costs and general and administrative expenses.

The difference of $5 million between Adjusted EBITDA and the GAAP net loss in the nine months ended September 30, 2016 reflects $3.5 million of non-cash amortization and depreciation expense, $3.1 million of which results from amortization of intangibles resulting from our acquisitions. The remaining difference is based on $816,000 of stock-based compensation, $609,000 of integration and transaction costs related to recent acquisitions, $126,000 of provision for taxes, and $461,000 of net interest expense, offset by a $608,000 decrease in the contingent consideration liability.

As of September 30, 2016, MTBC's cash balance was approximately $7.1 million compared to approximately $8 million as of December 31, 2015. $1.6 millionof cash was used for acquisitions during the first three quarters of 2016. During the third quarter, MTBC raised net proceeds of $1.3 million by selling 63,040 additional shares of its 11% Series A cumulative redeemable perpetual non-convertible preferred stock at a price of $25 per share. This sale utilized our S-3 shelf registration and showed us that there was strong demand for our preferred stock. We sold the maximum amount permissible with our S-3 under SEC's Rule I.B.6 within 36 hours. On October 3 we used $2 million of cash for the initial payment for MediGain.

MTBC is preparing to file a Registration Statement on Form S-1 to sell an additional 400,000 shares of its 11% Series A non-convertible preferred stock at a price of $25 per share. If all 400,000 shares are sold, this would result in net proceeds of approximately $9 million of which $5 million will be used for the remaining payment for the MediGain acquisition. The Series A Preferred Stock is identical to the $7.4 million of Series A Preferred Stock issued in November of 2015 and July of 2016. It carries an 11% annual dividend which is paid monthly and a $25 liquidation preference. Shares are <u>not</u> convertible, have no stated maturity and are not subject to a sinking fund or mandatory redemption. Shares of Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem the shares which can occur at the Company's option at any time after five years or within 120 days of a change of control.

Our Board of Directors has declared monthly dividends on the preferred stock payable through March 2017.

That concludes my review of MTBC's third quarter 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 had our fourth consecutive EBITDA positive quarter, our second quarter of sequential revenue growth and are excited to have closed our largest acquisition ever. 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 you, our team members in US, Poland, India, Sri Lanka, and Pakistan for their hard work and dedication. Finally, I want to thank our physician customers for trusting us to help manage their practices.

We will now open the call for 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 touch-tone phone. If you are using a speaker phone, 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 of Chardan. Please go ahead.

Keay Nakae
Yes, thank you. I was wondering if you can give us a sense of what the revenue contributions were from your acquisitions earlier in the year - Gulf Coast Billing, Renaissance - versus the legacy businesses.

Bill Korn
We don't generally provide a lot of detail in terms of breaking out the revenue from the various pieces because, as you know, Keay, we integrate our businesses together very soon after acquisition, but we can give you a little bit of visibility there. The three companies that we acquired so far during 2016 - Gulf Coast, Renaissance and WFS - contributed over $1 milliontowards revenue in third quarter of 2016. As we move forward, obviously they will be

joined by MediGain which we expect will provide a significantly larger contribution than that. In fact, as we look at our fourth quarter, we anticipate fourth quarter revenue will significantly exceed the peak quarterly revenue that we've had, which was in fourth quarter of 2014. Our fourth quarter 2014 revenue was $7.1 million, and we think we'll leave that milestone handily in the rearview mirror.

Keay Nakae
Okay, thanks. That's helpful. Then with respect to the most recent acquisition, MediGain and Millennium, can you give us a sense of what the current operating expense looks like and how much of that you think you can reduce by putting it on your platform?

Bill Korn
As you know, Millennium was acquired by MediGain in 2014. If you look at their combined operations prior to the acquisition by MTBC, they were losing money. We can't give you a lot of details as to exactly how much they lost, but we do have an audit underway of the results prior to our acquisition. We expect to publish audited results for MediGain and Millennium for 2014 and 2015 as well as interim reviewed results for the nine months ended September 2016 in an 8-K next week. But suffice it to say those businesses were not profitable. There were a variety of reasons for that and our goal is to very quickly reduce the expenses that will not hurt customer service; in fact, doing things, moving work to our team in a way that we believe will give customers a very positive experience. We expect that during fourth quarter there will be a negative profit contribution from that business but we expect that by first quarter of 2017 we will have reduced expenses to the point that our acquired business from MediGain is providing a positive profit contribution.

Keay Nakae
Okay. Then just finally in terms of the types of accounts and practices that you're acquiring through the acquisition, can you give us an early sense of how much of that you'll be able to hang on to going forward?

Stephen Snyder
We're expecting, as we move forward, to having annualized revenues that will exceed $10 million and the customer base in terms of specialties, Keay, is quite similar to our core base, both in terms of specialties and also with regard to the geography. The clients are primarily situated in states where we already have relatively large portfolios of clients: in Texas, in New Jersey and in a handful of other states as well. So we feel very comfortable both with the specialty mix and with the payer mix. In addition to that, as we think about the opportunities, the one differentiator between their average customer and MTBC's average customer would be in size. The typical MediGain customer is three to four times the size in terms of revenue of our typical customer.

As part of the acquisition, we've also had the opportunity to bring on board four or five experienced sales team members who have really been successfully selling into the space and by leveraging our platform and our cost efficient model, they'll have the ability to be more competitive from a pricing perspective. We believe we'll be able to help them accelerate the organic growth that they've been very successful at bringing to the table for MediGain.

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

Bill Korn

Thanks, Keay.

Operator
Again, if you have a question, please press star, then one.

There are no additional questions at this time. This concludes our question and answer session. I would like to turn the conference back over to Mahmud Haq for closing remarks.

CONCLUSION

Mahmud Haq
Thank you. Thank you everyone for joining the call. We look forward to talking next quarter.

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