MTBC

Q3 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 Third 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 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 Shruti Patel, General Counsel. Please go ahead.

Shruti Patel
Thank you. Good morning, everyone. Welcome to the MTBC 2017 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 certain statements made during this conference call are 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.

All statements, other than statements of historical fact, made during this conference call are forward-looking statements, including without limitation, statements regarding our expectations and guidance for future financial and operational performance, expected growth, and business outlook.

Forward-looking statements may sometimes be identified with words such as “will,” “may,” “expect,” “plan,” “anticipate,” “upcoming,” “believe,” “estimate,” or similar terminology and the negative of these terms. Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements.

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 a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

Finally, on today's call we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our third quarter 2017 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

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

Mahmud Haq
Thank you, Shruti. Thank you for joining us on our Third Quarter 2017 Call. We are pleased to report revenue of $7.5 million for the third quarter. This [referring to $23.5 million year-to-date revenue] represents growth of 50% over the first nine months of 2016. We have achieved this growth through successful integration of our MediGain acquisition and the ramp up of our new sales organization. Our year-to-date organic sales bookings have already exceeded our full-year bookings from any prior year and we expect a strong finish during the balance of 2017.

As we have grown our revenue, we have also expanded our margins. We're reporting adjusted EBITDA of $609,000 for the third quarter, the highest in our company's history, and an increase of 368% over the same quarter in 2016.

Also, our non-GAAP adjusted operating income was $356,000 during the third quarter, representing our second consecutive quarter of positive non-GAAP adjusted operating income. Our non-GAAP adjusted operating margin was 4.7%, a record since we have been a public company.

In addition to significant revenue growth and profit improvements, we are pleased to report that our balance sheet has never been stronger. Since our last earnings call, we have fully repaid our $10 million credit facility with Opus Bank, two years earlier than the original maturity date.

We also have paid Prudential the entire remaining balance of $5 million plus interest that was owed for our MediGain acquisition. This debt repayment, combined with our strong financial performance, enabled us to secure a $5 million revolving line of credit with Silicon Valley Bank to support our future growth.

I would like to turn the call over to our President, Steve Snyder, to take you through the details of our third quarter performance. Steve?

Stephen Snyder
Thank you, Mahmud. Good morning, everyone and thank you again for joining today's call. Throughout this year we've discussed our commitment to certain key objectives, including ramping up our business development team and enhancing our industry-leading platform to support continued growth. We've made great progress in both areas and I look forward to addressing both in turn.

First, with regard to business development, while we have spent less than 4% of our revenue in sales and marketing so far this year, we're generating more than $3 of annualized revenue for every $1 spent. Our strategy of building lead-generating relationships with other industry stakeholders and increasing our visibility at industry trade events has enabled us to sign much larger groups and achieve a record year of new sales bookings. In view of this strong return on our investment, we intend to further increase our sales and marketing activities during the year ahead.

Second, as to platform enhancements, we are very pleased by the early success of the newest components of our solution. For example, during the first 60 days of our talkEHR rollout, more than 250 providers practicing across 44 states in more than 40 unique specialties and subspecialties signed up for talkEHR. While talkEHR is offered free of charge to US healthcare providers, we also offer a premium billing upgrade at a very competitive price point, and we've already seen a few of our early EHR adopters select our premium billing solution.

Throughout the fourth quarter and beyond our team will remain focused on driving additional signups for talkEHR, promoting comprehensive use of this innovative platform, and upselling talkEHR users to our premium billing solution.

Separately, our newly launched EnrollmentPlus SaaS solution achieved an exciting key milestone with the recent signing of an important new customer, one of the nation's top 10 insurance carriers. EnrollmentPlus, which is an outgrowth of our successful clearinghouse solution, is designed to automate the processing and validation of group insurance enrollments. Our new EnrollmentPlus solution will represent approximately 1% of our revenues during the fourth quarter of 2017, and we believe that it has the potential to be a much larger revenue driver in 2018 as we continue to demonstrate proof-of-concept, increase the revenue from our newest customer, and sign additional large customers to this unique SaaS platform.

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 and year-to-date financial results. Bill?

Bill Korn
Thank you, Steve. We're pleased to report that revenues for the third quarter of 2017 were $7.5 million, an increase of 41% compared to $5.3 million in the same period last year. The increase was primarily due to the MediGain acquisition. The 50% growth number, that Mahmud mentioned, was the growth in year-to-date revenue. Both are great numbers, and we're proud of the results of our efforts.

Our third quarter 2017 GAAP net loss was $980,000, or 13% of revenue, an improvement of $714,000 compared to a net loss of $1.7 million in the second quarter of 2017. The GAAP net loss in the third quarter was largely a result of non-cash amortization and depreciation expenses of $664,000, as well as $463,000 of non-cash financing costs, which were written off as a result of the early termination of our Opus credit agreement. A $714,000 improvement in our GAAP net loss from last quarter was primarily due to a $780,000 reduction in amortization expense.

When we acquire businesses, the tangible assets are typically small. So most of the value is assigned to customer relationship intangible assets, which we amortize over three years. We purchased Omni Medical Billing Services, Practicare Medical Management, and CastleRock Solutions in July of 2014, at the time of our IPO, and the intangible assets from these acquisitions were fully amortized by the end of June.

Our amortization expense was reduced by 61% during the third quarter and will reduce even further in future quarters, with small reductions each time we completely amortize additional intangibles from other acquisitions.

The GAAP net loss for the third quarter of 2017 was $0.14 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 third quarter of 2017 was ($319,000), or ($0.03) per share, compared to the adjusted net income of ($208,000) in the same period last year. The decrease was primarily due to the $463,000 of non-cash financing costs. Non-GAAP adjusted net income per share is calculated using the end of period common shares outstanding.

Our third quarter of 2017 GAAP operating loss was $275,000, or 4% of revenues, which represents an improvement of $1.1 million, or 80% from the $1.4 million operating loss in our prior quarter. The GAAP operating loss also benefited from the $780,000 reduction in our amortization expense. GAAP operating loss excludes the provision for income taxes, net interest expense, and other income and expenses, which are included in the GAAP net loss.

Non-GAAP adjusted operating income for the third quarter was positive $356,000, or 5% of revenue. The third quarter of 2017 adjusted operating income represents an improvement of $207,000 from the $149,000 adjusted operating income in our prior quarter. This is our second consecutive quarter of positive non-GAAP adjusted operating income, which excludes non-cash expenses, such as $419,000 of amortization of purchased intangible assets and $126,000 of stock-based compensation expense, as well as $85,000 of integration and transaction costs associated with recent acquisitions. This reflects the fact that our business is now at a scale where our revenues exceed our cash operating expenses.

Adjusted EBITDA for the third quarter of 2017 was $609,000, or 8% of revenue, compared to adjusted EBITDA of $130,000, or 2.4% of revenue, in the same period last year. The third quarter of 2017 adjusted EBITDA represents an improvement of $141,000 from the $468,000 of adjusted EBITDA in our prior quarter, reflecting the significant cost savings we have achieved.

Third quarter adjusted EBITDA increased by $479,000, or 368% from third quarter 2016, and represents the highest quarterly adjusted EBITDA MTBC has achieved in our 15-year history. As our business now has a higher scale, we are able to spread our fixed expenses over a larger revenue base and generate larger adjusted EBITDA than we ever have before.

The difference of $1.6 million between adjusted EBITDA and the GAAP net loss in the third quarter of 2017 reflects $664,000 of non-cash amortization and depreciation expense; $673,000 of net interest expense, of which $463,000 was non-cash financing costs, which were written off as a result of the termination of our Opus credit agreement, $126,000 of stock-based compensation; $85,000 of integration and transaction costs related to recent acquisitions; and $65,000 of provision for taxes.

As Mahmud mentioned, our revenues for the first nine months of 2017 were $23.5 million, an increase of 50% compared to $15.7 million in the same period last year. The increase was primarily due to the MediGain acquisition.

For the first nine months of 2017, the GAAP net loss was $5.4 million compared to a GAAP net loss of $4.8 million in the same period last year. The GAAP net loss is largely a result of non-cash amortization and depreciation expense of $3.6 million as well as $570,000 of interest, plus $673,000 of non-cash financing costs and restructuring charges of $276,000 recorded during the first quarter of 2017 related to closing our offices in Poland and Bangalore, India, and shifting the work to our teams in Pakistan and Sri Lanka to gain operating efficiencies.

Adjusted EBITDA for the first nine months of 2017 was $763,000, or 3.2% of revenue, a 267% increase, compared to adjusted EBITDA of $208,000, or 1.3% of revenue in the same period last year.

As of September 30, 2017, the company had $2.8 million in cash and positive working capital of approximately $913,000, a $5 million improvement from the working capital deficiency of approximately $4.1 million reported at the end of second quarter.

The company raised gross proceeds of $7.9 million from the sale of approximately 315,000 additional shares of our non-convertible Series A preferred stock via four small public offerings during the quarter. This was in addition to the approximately $7.4 million raised from the sale of approximately 295,000 shares of Series A preferred stock sold in June. These shares trade on the NASDAQ capital market under the ticker MTBCP and pay monthly cash dividends at the rate of 11% per annum.

The cash costs associated with our Series A preferred stock is far less than most businesses pay for term debt. Term debt is typically repaid over three-to-four years, so the cash used is 25% or 33% annually on top of the interest rate, as compared to a total cost of only 11% per year for our Series A preferred stock. Our Series A preferred stock is perpetual, has no mandatory redemption, although the company can choose to redeem shares at $25 per share starting in November 2020. So our cash cost is much lower, and there are no restrictive covenants.

The company used a portion of the net proceeds of these offerings to repay in full our term loans outstanding with Opus Bank, which were approximately $7.3 million as of December 31, 2016. In addition, the company paid Prudential Insurance approximately $5.3 million, which covered the remainder of the purchase price from our acquisition of MediGain plus interest.

In early October, MTBC entered into a new revolving credit facility with Silicon Valley Bank and repaid and terminated our revolving credit facility with Opus Bank. The Silicon Valley bank credit facility is a $5 million secured revolving line of credit where borrowings are based on a formula of 200% of repeatable revenue, adjusted by an annualized attrition rate as defined in the agreement. Under the Silicon Valley agreement, the amount currently available to the company to be borrowed is in excess of $4 million. The SVB credit facility can be used for growth initiatives, including acquisitions, with SVB's approval.

Based on MTBC's current financial position, the fact that our operating losses are dramatically reduced, our adjusted operating income and adjusted EBITDA are positive, and our cash flow from operations is anticipated to be positive, we are very pleased to no longer be including the going concern disclosure which we included in our previous 10-Qs. We now have a solid financial foundation, which leaves the company well-positioned for growth.

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

Mahmud Haq
Thank you, Bill. We have had a record quarter and we are well-positioned to build on our success as we finish 2017 strong and prepare for an exciting 2018. We look forward to giving you future updates on our progress as we move forward. We appreciate the support of our shareholders and extend our thanks to all of our team members and their hard work and great results. Finally, we thank our healthcare provider 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 telephone keypad. 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 will pause momentarily to assemble our roster. A reminder, questions will be taken from analysts only.

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

Keay Nakae
Thanks. The first question is related to revenue retention. In Q3, we saw about a little less than $300,000 sequential decline from your Q2 revenues. So talk about what the revenue retention is looking like, especially at MediGain.

Bill Korn
Thanks, Keay. We're very pleased that our revenue retention and our client retention have been very strong from the MediGain acquisition. We typically estimate that we're going to lose 1% a month of clients, and we found this typically in companies that we've thought about buying. When we look at competitors, we've seen these numbers, and I'm very pleased to say that during the third quarter that was roughly the attrition rate that we saw from our clients during Q3.

Now, remember that revenue during Q3 probably has very little to do with client loss during Q3, probably more to do with client loss during Q2, since we only recognize revenue after we process claims, submit them to insurance, insurance determines what they're going to pay, and then actually remits cash to the doctors.

We also saw a little bit of revenue decline that was unrelated to client loss. It's hard to know exactly what caused that. I know when Jonathan Bush gave his earnings call at athenahealth a couple weeks ago, he mentioned the two hurricanes; he mentioned uncertainty related to Obamacare. We don't have any direct information to tell us exactly what caused this. But I'd say our third quarter revenue was a little bit lower than we would have predicted based on clients that we had and our client retention.

Keay Nakae
Okay. So for the full-year 2017, your previous guidance was $31 million to $32 million; is that still good guidance, or are you changing that?

Bill Korn
Yes, we decided we're not going to explicitly confirm or reaffirm guidance, but right now, I'd say there's nothing that would cause us to change the expectation for revenue for the year.

Keay Nakae
Change the expectation from what you previously stated?

Bill Korn
Right. No reason to change the expectation from what we previously stated.

Keay Nakae
Okay. Very good. In terms of operating expense, we continue to see nice reductions especially on the G&A side. So, as we move into Q4, based on the Q3 results, have we pretty well wrung out the costs, or is there anything additional we might see in Q4?

Bill Korn
I guess I'd say that we tend to look at ways to reduce cost without hurting service every single day. So clearly the lion's share of costs has been reduced. And consolidating our offshore operations in two locations has certainly helped. But there are both opportunities to reduce the expense and also there's the upside of additional revenue comes onboard from new organic clients that we signed during the first nine months, where you don't see that revenue fully reflected in Q3. You'll see some of that revenue coming on in Q4 without any appreciable increase in expenses.

Keay Nakae
Okay. And then just a final question on what we should be thinking about for interest expense going forward. What's the total amount of borrowing under the revolver, and so given the rate on that, what should we be thinking about interest expense going forward in the near-term?

Bill Korn
Yes. So interest expense will be down, for several reasons. Right now, the borrowing is all on a revolver, so it tends to go up and down. Near the beginning of the month it's a few hundred thousand dollars as we pay payrolls that are due at the first week of the month, and as we start sending out invoices, as we start collecting from clients, you may see that revolver completely repaid for a portion of the month.

But the amount borrowed will be measured in hundreds of thousands of dollars, as opposed to the first nine months of the year, where typically we were fully drawn on our $2 million revolver. We started the year with $7 million of term debt and in addition we had $5 million of debt from Prudential. So, all the term debt is gone, all the Prudential debt is gone.

The accounting for the interest expense also included, with Opus, capitalizing a fair amount of loan origination costs that were amortized over the four-year life of the loan. And again because we were able to pay that off after two years, we had to write-off that $463,000 during Q3, so that's all gone. So, I think you should be looking at much, much reduced interest expenses going forward.

Keay Nakae
What's the rate on the SVB LLC?

Bill Korn
So the rate right now is prime plus 1.75%.

Keay Nakae
Okay. Very good. That's all I had.

Operator
The next question comes from Kevin Dede of H.C. Wainwright. Please go ahead.

Kevin Dede
Good morning, gentlemen. Thanks for taking my questions. Bill, just to go back on some of the questioning that Keay had on third quarter revenue, and I appreciate the color that you offered on Athena, I was just wondering if maybe there that you've seen any seasonality, or is it still kind of tough to tell given MediGain hasn't been in a full year?

Bill Korn
The seasonality impact that we typically see, which again I think others in the industry see as well, tends to relate to more the first quarter. What we see in first quarter is that a lot of people have deductibles and more and more people have high deductible plans. So when you go to the doctor, we submit the claim to insurance, insurance says it's fully covered. Instead of the insurance company remitting a check, they send an explanation of benefits saying that you, the patient, need to write a check for the remaining money.

And unfortunately the average patient doesn't write their check instantly the day that the EOB arrives in the mail, and we only recognize revenue when the actual payment is made. So that tends to be a phenomena that hits Q1, and it hits to a small extent throughout the year. But of course with deductibles, they're all on a calendar year basis.

There's a little bit of seasonality, for example, the number of days that people are seeing doctors goes down with July 4, or Labor Day, or whatever other holidays, and the number of days that insurance is actually processing claims again changes by one or two. And again, I was amused to hear Athena relate to the fact that there was one less day in the third quarter of 2017 than there was in the third quarter of 2016 and use that as a rationale. I'd say for us that that's sort in the noise, so it's hard to look at external factors like that and say that that explains the revenue.

Kevin Dede
Right. Yes, fair enough. So, Athena also mentioned the Hurricanes and I was wondering if you could see specific changes based on geography, specifically Southern Texas and Southern Florida.

Bill Korn

Yes, we actually saw lower revenue in Texas and Florida. I would say Florida, in particular, was a bigger decrease than we would have expected. And again it could be the hurricane, but we don't really know. So, it is certainly possible. Again, I would say if you were seriously in need of medical attention, you probably figured out what you were going to do with or without the hurricane. I'd say it's too hard for us to really blame something at this point.

Kevin Dede
Right. But I guess if something was just subjective or not critical, you might have not chosen, right? I guess that's another way to look at it.

Bill Korn
Absolutely. Right. There certainly could have been people who didn't see the doctor in Florida. And again, we saw a little decline in both Florida and Texas. The quarter-over-quarter decline was bigger than it was in the rest of the country. So it's certainly possible that that accounted for some amount. But again it's going to be hard for me to give you a number because it's probably not statistically significant.

Kevin Dede
Okay. Fair enough. So just back to the $31 million to $32 million, you're saying that it's okay but you don't really feel comfortable officially affirming your guidance. I guess if you could offer just a little more clarity on your stance, just so I have an understanding of your thinking.

Bill Korn
Yes. I think one thing we want to be conscious of is when I look at revenue in Q3 and I look at Q4 so far, Q4 looks very strong. But not being able to say exactly why Q3 did what it did, I'd say in particular when I think about the revenue, the revenue to me seems to be pretty clear that it's going to hit at least hit the bottom of the range.

The EBITDA has a range, and while we feel really good about it, I would say it's a little bit closer call. And we concluded that it was hard to be affirming one and being silent on the other. And so we decided the right official stance here is to say we're not really going to get into the quarter-by-quarter affirming things. But again when you look at where we are year-to-date, I don't really see jeopardy on the $31 million number.

Kevin Dede
Okay. Just for a little bit more background on how you're looking at it, and what you think you might speak to on this to investors going forward, I'm wondering when it comes time to report the fourth quarter, do you think you'll look at full-year 2018 and feel that you had sufficient time to figure out what happened in the third quarter to offer guidance for the full-year, or how do you think we should think about that?

Bill Korn
I don't think we've fully made up our mind yet.

Kevin Dede
Okay.

Bill Korn
Again, I think we've had people say to us that if we were 10 times or 100 times the size, giving this kind of guidance makes sense, but that we are really small for a company to be providing guidance. But being small doesn't necessarily stop us from doing these things anyway.

Kevin Dede
Right. I think part of the message you might want to think about communicating is just the recurrence in revenue and the confidence that you have in that.

Bill Korn
Yes.

Kevin Dede
Alright. So, since you're still handling the bulk of the questions, Bill, could you just help me understand the $2 million that's on the balance sheet as of the end of September, that's Silicon Valley, or, because I just lost track of the timing?

Bill Korn
Yes. End of September we had repaid all the term loans from Opus Bank during September. We had a term sheet signed with Silicon Valley, but we knew that we were a week or two away from completely closing the Silicon Valley deal, so we left the revolver. Remember, Opus had a $2 million revolver and $8 million of term debt. So we left that revolver sitting there with Opus on September 30, knowing that a week or two later we would close on Silicon Valley and as part of the closing there would be a payoff to Opus. And so we thought that was a simpler mechanism to just let that happen. And while it would have been great to have closed SVB in September, so much happened with other financing that we were sitting there down to the end of the quarter and it didn't really make a difference that we waited until October 13.

So the two million dollars that was outstanding on September 30 was Opus. That was all repaid in full, actually some of it was repaid in the first week of October and the remainder was repaid in full at the time that we moved over to Silicon Valley on October 13.

Kevin Dede
Okay, fair enough. So if you were to look at the bottom…

Bill Korn
There were a lot of ins and outs, a lot of moving pieces.

Kevin Dede
Right. So I apologize for not keeping the timeline straight, but I do remember seeing the press, now that you've mentioned it. So, thanks for the review. Just curious if you could speak to this…

Bill Korn
No apologies.

Kevin Dede
Yes, but just curious if you could speak to this, if you were to look at the balance sheet now, was SVB holding any debt?

Bill Korn
So, today there's about $700,000 outstanding, and again on the first of the month we're typically sending wires overseas because our non-US payroll happens on the 5th of each month. So, we are typically drawing near the end of the month so that we've got the cash to send overseas. And then as we get to the first and the second of the month we're sending out the invoices for the prior month. And it takes some number of days for those invoices to hit clients, so typically we start seeing the cash

coming in roughly a week or so later. So, therefore the first week of each month we're typically drawing on the revolver.

Kevin Dede
Okay. Gotcha. Thanks so much. Steve, if you wouldn't mind, could you just help me get my arms around the 250 that you had on talkEHR, and maybe relate that to the overall total client base that you have, and what sort of feedback you're getting? And then maybe some insight on how you see the balance of your base, looking at it and maybe adopting it.

Stephen Snyder
Sure, we'd be happy to. Thanks for the question, Kevin. So with regard to talkEHR, when we look at the practices who have signed up - again, more than 250 in the first couple of months of the launch, so we're really excited by that - roughly two-thirds of those practices are in primary care. They tend to be smaller groups, which is really our target market for the EHR.

And one of the interesting phenomenon we've seen is, as we've seen other players in the industry that have business models that are more reliant upon the sale of standalone software solutions, we've seen them, especially during this quarter, begin to struggle from a growth perspective. A lot of the meaningful use incentives, those dollars have since passed, for the most part. So, the stimulus from the government that supported the purchase of more expensive systems is really, for all intents and purposes, done.

So, what we've seen is, I think, the same thing that our competitors have seen, which is a growing reluctance to invest large amounts in an EHR. And instead focus on finding a solution that's intuitive, that's easy to use, that's interoperable and connected to the larger practice management suite of the practice. So, we think that this solution has come at exactly the right time, and again, our strategy involves being able to upsell a certain segment of that user base as we continue to grow that user base to our integrated billing solution, and we're really excited to see some success in that.

I would say, just even separate and apart from that, if we think about this quarter even more broadly from a growth perspective, we've also seen some pretty exciting things happening on two different fronts. One would be the EnrollmentPlus, which would be our newest software as a service, SaaS, solution. And for EnrollmentPlus, we had one of the ten largest insurance carriers in the country sign up as a client, as a user of that solution, which we think is a validation that we're on the right path, that we've really identified a need in the market, and we've found and developed a solution over the last five quarters that is a great fit for addressing that need in the market.

That first large client that signed up will represent roughly 1% of revenue for the fourth quarter. As we look at 2018, we believe that that client actually represents perhaps two- or three-fold that as a percentage of the overall revenue mix. And as we continue to have additional proof of concept and continue to move forward with other opportunities that we have in our sales pipeline relative to the solution, we think that they could play a very important part of our revenue story going forward into next year.

And I think a third key thing would be the success of our business development efforts. As you know, Kevin, prior to the last year, our focus from a growth perspective was almost exclusively on acquisitions. And while we continue to see opportunities and look forward in 2018 to pursuing additional acquisitions, we've been building out an organic growth team that has helped us grow during this last year. And for every $1 invested in that sales and marketing team, we've seen $3 of annualized revenue signed in new relationships.

They've done some exciting things so far this year. Unlike the smaller accounts larger accounts take longer to ramp up, so that revenue from many of those accounts really has been ramping up towards the end of the third quarter. And we'll see the ramp up, we believe, in the fourth quarter for some of those larger groups. But, frankly, we still think we have a potentially exciting end of the year from an organic growth perspective as we look at our opportunities.

So, we see those as three of the exciting things that are happening from a growth perspective.
And to your question before, as we later talk about our fourth quarter results and our full-year results, we look forward to providing guidance in terms of continued growth and margin expansion throughout 2018.

Kevin Dede
Okay. Fair enough, Steve. Thanks so much for the additional color. But, back to your third point on the organic growth initiative. I'm wondering if you could just offer a little more color on talkEHR and maybe how your customers are viewing it and maybe a little more insight on their road to acceptance. And then maybe any insight that you can offer on how it stands as a competitive differentiator, especially against some of the–well, I guess many of your clients' competitors are really doing things in-house. And I'm just wondering if you can talk to how that sales and marketing effort might be making that talkEHR capability that you've developed more broadly known.

Stephen Snyder
Sure. I'd be very happy to do that. First, with regard to our existing client base, as of today, the overwhelming majority of our existing client base continues to be leveraging our legacy platform, the webEHR application. So, the majority of our existing user base continues to be leveraging that platform today, and that's really by design at this point. That application, and it was first launched about a decade ago, was one of the top ranked applications for our target market of one to 10 providers, and many of those practices have built their workflow around that particular application. So, that's with regard to the existing client base. Over time, they'll migrate to talkEHR as we go into 2018, but the majority of those practices are continuing to use the application that they've become accustomed to over years of usage.

With regard to the new clients who are using talkEHR, from a differentiation perspective and how it compares to the competition, we've really designed it with usability being the key component of it and being able to leverage voice and converting voice to text, both for populating the fields within the EHR and also for navigating the EHR. In a recent broad-based survey of EHR users throughout the country, one of the consistent themes that, interestingly enough, came across was that providers are looking for a solution that's easy to use, that's nimble, and that's really what we've developed.

From a cost perspective, absolutely, of course, you really can't beat the cost - the overwhelming majority of our competition is charging for the EHR. And it's our belief, and I think even the competition has acknowledged this in their quarterly earnings calls, to one extent or another, that providers have become fatigued with this notion of making heavy investments in their healthcare IT infrastructure and are instead looking for a solution that melds together the clinical components of the practice with the collections of the practice, since the two are, as we move forward are more and more intertwined in terms of levels of reimbursement. Our application does that and our business model again ties our revenue to a percentage of the practices' collections, once they're using billing, so that further aligns our interests.

Kevin Dede
Okay. Yes. Thanks, Steve. Thanks for that color. Last question for me is just on the EnrollmentPlus that you mentioned. Could you offer a little insight on, I guess how the insurance companies view it. I

guess what's the incentive for them and maybe a little bit on how you're marketing that and I guess the length of the sales process and how long it took that one big provider to come over.

Stephen Snyder
If we think about the clearinghouse more broadly within the healthcare industry and if we go back two decades, the overwhelming majority of the claims were submitted to insurance carriers on paper. The claims were received by paper, were processed manually, and then the checks were cut manually, and the adjudication and the communications back and forth between healthcare providers and insurance companies were done by paper. It was a labor intensive, expensive undertaking for both the healthcare provider or the billing company on one end of the transaction and the insurance company on the other end of the transaction.

Over the last 20 years, the clearinghouse industry has been built up and now, for the overwhelming majority of transactions, there's a clearinghouse between the healthcare provider or billing company on one end of the transaction and insurance company on the other end of the transaction. What that clearinghouse does is it significantly reduces the cost of both participants in the transaction by creating a standardized format and approach, by automating that, and it also increases the speed and reduces the error rate.

We see a similar opportunity in the group insurance enrollment process, which is really primarily the enrollment of group insurance plans between employers and insurance companies, a whole variety of different types of insurance enrollments. Today that's typically done manually.

To the best of our knowledge, there is not another similar application in the industry that's doing something similar to what we're doing. There are players who are trying to do components of this. But we believe we've built something pretty unique that bridges that gap and acts as the conduit between the employers on one end and the insurance companies on the other. And we think we have the opportunity to do the same thing for both the insurance companies on the one end of the transaction and employers on the other, which is to significantly reduce the expense, to speed up the overall process, and to create a streamlined approach that allows a carrier to move away from manual processing to an automated one to many connection.

So, I think that as the insurance companies are looking at the solution, they look at it and understand, like our insurance company client that we spoke about before, that there's a significant opportunity to reduce costs, to speed up the overall process, and to significantly reduce the error rate in the enrollment process. So, I think that's the key driver from the insurance company's perspective in terms of looking for a solution like ours.

The sales process is a longer sales process. This first client has been in the pipeline for probably about four or five months. What our team has done in terms of building the connections within the industry and also helping to develop our product, is our EnrollmentPlus team built a group that has met on an ad hoc basis. And it's comprised of representatives from some of the top insurance companies in the country, from employers and from others who have reviewed our product over the last year or so when it's been in development. They've provided their input. So, we've built the solution largely around the feedback and the wish list of many of these potential customers.

So, those conversations with those potential customers who were involved in that process are ongoing. And we look forward to continuing to develop additional proof of concept, continuing those conversations that are ongoing with potential clients and growing the existing relationship as well.

Kevin Dede

Great, Steve. Thanks so much for the background there, very helpful. That color certainly adds a lot more depth to the win, so congratulations on that, and congrats to all of you on the improved financials. Thanks very much for taking my questions.

Stephen Snyder
Thank you.

CONCLUSION

Bill Korn
Thanks, Kevin. Thanks, Keay. We appreciate the great questions. And with that, I think we'll declare that our earnings call is over. We appreciate everybody taking the time this morning to listen to us, so thank you.

Mahmud Haq
Thank you, everyone.

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