MTBC

Q2 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 Second 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one (1) on your telephone keypad. 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 Shruti Patel, General Counsel. Please go ahead.

Shruti Patel
Thank you, Kate. Good morning, everyone. Welcome to the MTBC 2017 Second 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 in 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 those 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 second 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, and thank you, everyone for joining us on our Second Quarter 2017 call. We are pleased to announce 55% revenue growth in the first half of 2017 versus 2016. With $16 million of revenue during the first half of 2017, we recently revised our 2017 revenue guidance upward by $1 million to a range of $31 million to $32 million for the year.

Even more exciting is that we have successfully integrated MediGain, a business we purchased in October of 2016. This successful integration enabled us to achieve positive adjusted EBITDA of $468,000 in the second quarter marking our highest EBITDA, ever, as a public company and representing a $780,000 increase from the previous quarter. We are pleased to have achieved this important milestone, in our forecasting, continued positive adjusted EBITDA, and margin expansion for the remaining quarters of 2017.

I would now like to turn the call over to our president, Steve Snyder to discuss our business development in more detail. Steve.

Stephen Snyder
Thank you, Mahmud. Good morning, everyone, and thank you again for joining today's call. As Mahmud mentioned, we are pleased to have achieved important corporate milestones during the second quarter. In addition to significant revenue growth and strong EBITDA, we're also reporting our first positive quarter of non-GAAP adjusted operating income as a public company. These and other metrics that we'll discuss later in our call reflect MTBC's strong momentum and reinforce our belief that we're very well-positioned to continue to lead in our segment of the market as we deliver increased value to our stakeholders.

As we began this year, we were committed and remain committed to certain key objectives including generating positive adjusted EBITDA, ramping up new business development efforts, and enhancing our industry-leading platform to support our continued growth. With regard to adjusted EBITDA, as Mahmud mentioned, our second quarter was record-setting for us. Additionally, we are on track for a record-breaking year of $2 million to $2.5 million of adjusted EBITDA.

In terms of ramping up business development efforts, we're very pleased to have announced multiple new cross-referral relationships with industry partners since the beginning of this year. During this same period, our sales team closed new business contracts representing more expected revenue than in any prior six-month period, and we believe our team is just getting started.

Moreover, we've just recently leveraged the strength of our platform and our team to acquire another small billing company on a revenue-share basis, and the former owner of that company has joined as a director of business development. We expect to build on these successes during the second half of this year.

During the first half of the year, we also made strides at further enhancing our industry-leading platform to support our continued growth. We improved the strength and the scalability of our own business with the launch of MTBC WebSoft, which leverages state-of-the-art technology to streamline our day-to-day operations, allowing us to achieve significant operating efficiencies when acquiring and managing businesses.

We also beta launched talkEHR, our next–generation electronic health records, which is designed to leverage voice recognition and artificial intelligence to improve patient outcomes and simplify the user experience. As we move forward, our technology will continue to differentiate us from our competition and provide strategic inroads to new business opportunities.

I'd like to now turn the call over to Bill Korn, our CFO, to provide you with a detailed review of our second quarter and first half financial results. Bill.

Bill Korn
Thank you, Steve. We are very pleased with this quarter's results. Revenue for the three months ended June 30, 2017 was $7.8 million, an increase of 49% compared to $5.2 million in the same period last year. This increase was primarily due to the MediGain acquisition.

The second quarter 2017 GAAP net loss was $1.7 million, which represents 22% of net revenue, an improvement of $1 million compared to a net loss of $2.7 million in the first quarter of 2017. The net loss for second quarter 2017 is largely a result of $1.5 million of non-cash depreciation and amortization expense.

The one million dollar improvement in our GAAP net loss was a result of significant cost savings achieved during the past three months. Second quarter direct operating expenses declined by $1 million or 20% quarter-over-quarter, which reflects the substantial operating efficiencies we've been able to extract since the MediGain acquisition, mainly by eliminating expensive subcontractors and by moving work to high-quality, cost-effective, offshore employees.

We also reduced general and administrative expenses by $215,000 or 7% quarter-over-quarter due to lower transaction costs, stock-based compensation expenses, and personnel expenses. There were also additional savings achieved during the second quarter of 2017, which will be fully reflected in our third quarter 2017 results.

The second quarter 2017 GAAP net loss was $0.20 per share. GAAP net loss per share is calculated using the loss attributable to common shareholders divided by the weighted average number of common shares outstanding.

Non-GAAP adjusted net income for second quarter 2017 was negative $77,000 or negative $0.01 per share, which is a 74% improvement compared to the non-GAAP adjusted net income of negative $298,000 in the same period last year.

Our GAAP operating loss for the second quarter was $1.4 million.

We haven't talked about non-GAAP adjusted operating income before, but I'm happy to tell you that non-GAAP adjusted operating income was positive $149,000! Positive! We're very excited about this milestone. Achieving positive adjusted operating income is a significant achievement, and again, reflects the operating efficiencies we've been able to leverage with our new scale after the MediGain acquisition.

Adjusted EBITDA for the second quarter of 2017 was $468,000. Again, a positive $468,000 or 6% of revenue. As Mahmud mentioned before, the second quarter 2017 adjusted EBITDA represents MTBC's highest quarterly adjusted EBITDA since our IPO and is a significant improvement compared to the adjusted EBITDA of negative $313,000 in the first quarter of 2017 and negative $814,000 in the fourth quarter of 2016. This shows that we have achieved significant cost savings within two quarters of acquiring MediGain, our largest acquisition ever.

A difference of $2.2 million between adjusted EBITDA and the GAAP net loss in the second quarter of 2017 reflects mainly $1.5 million of non-cash amortization and depreciation expense, $79,000 of stock-based compensation, $92,000 of integration and transaction costs, and restructuring charges related to recent acquisitions, $67,000 provision for taxes, $280,000 of net interest expense, and $163,000 of increase in the contingent consideration liability.

Our cash flow from operations was a positive $178,000 in second quarter 2017. Cash flow from operations turned positive at the same time as adjusted EBITDA turned positive. Management believes that our non-GAAP metrics are closer to reflecting our operating cash flow, and we will focus on driving positive adjusted EBITDA and positive cash flow during the second half of the year.

Turning to the six-month results, first half 2017 revenue was $16 million, a 55% increase over first half 2016. This increase is primarily due to the MediGain acquisition. First half 2017 GAAP net loss was $4.4 million compared to a loss of $3.3 million in 2016. The GAAP net loss is largely a result of non-cash amortization and depreciation expense of $3 million and increased primarily as a result of the MediGain acquisition.

Adjusted EBITDA, however, was positive $154,000 for the first half compared to positive $80,000 last year. We anticipate adjusted EBITDA to continue to grow through the rest of 2017 as we continue to achieve operating efficiencies based on our larger scale.

As Mahmud mentioned, the Company recently raised its full-year 2017 revenue guidance by $1 million to a range of $31 million to $32 million, which would represent growth of 27% to 31% over 2016 revenue. Client retention at MediGain post-acquisition has been higher than our expectations, and we therefore believe that full-year revenue will be higher than our initial guidance.

With $16 million of revenue in the first half of 2017, we felt confident to raise revenue expectations. We are also reaffirming that our adjusted EBITDA is expected to be $2 million to $2.5 million for the year reflecting continued positive EBITDA and growth over the next two quarters.

During the quarter ended June 30, 2017, we completed two equity financings raising a total of $8.5 million after placement agent fees. In May, we sold one million shares of our common stock directly to a healthcare institutional investor at $2.30 per share raising gross proceeds of $2.3 million. We also issued to this investor two million warrants with a one-year life and an exercise price of $5.00 per share. It could be exercisable for proceeds up to $10 million.

Also in June, we completed a public offering of approximately 295,000 additional shares of our Series A nonconvertible Preferred Stock at $25 per share, raising gross proceeds of approximately $7.4 million. These shares trade on the Nasdaq Capital Market under the ticker MTBCP and pay monthly cash dividends at the rate of 11% per annum. We have paid dividends to our preferred shareholders for 19 consecutive months, and this week, our board of directors declared dividends for the remaining months of 2017.

As a result of these financings, we were able to substantially pay down our debt facilities with Opus Bank. On December 31, 2016, we owed Opus $9.3 million, and we reduced the balance to $5.2 million by June 30, 2017.

As of June 30, we had $5.8 million of cash. We still owe Prudential $5 million, which is the remainder of the MediGain purchase price. We paid the first $2 million of the $7 million price last year. We are currently negotiating a payment plan with Prudential and Opus Bank who, as our senior secured lender, must approve any payment we wish to make to Prudential.

That concludes my review of MTBC's financial results. 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're excited by increase in profitability and operating cash flow since the MediGain acquisition. 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 and overseas for their hard work and great results. I appreciate the support of our shareholders, especially investors in our recent preferred stock financing. Finally, I want to 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.

Again, if you have a question, please press star then one. The first question comes from Keay Nakae of Chardan. Please go ahead.

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

Keay Nakae
Hello. Can you hear me?

Mahmud Haq
Yes.

Bill Korn
Yes, Keay, we can hear you.

Keay Nakae
Yes. Thank you. could you give us maybe a little more color on what the retention rate has been from MediGain?

Stephen Snyder
Sure, Keay. We'd be happy to. This is Steve. You may recall, from the perspective of MediGain, when we announced the MediGain acquisition at the beginning of the fourth quarter of last year, we had set the expectation of slightly more than $10 million in annualized revenues. We're really pleased at this point that when we look at the MediGain book of business, our revenues are about $13 million roughly on an annualized basis.

As Bill mentioned, the retention has really exceeded our expectations. As you may recall, from the context of MediGain during the year leading up to our acquisition of MediGain, they had lost something like 50% of their business during the year or year and a half prior to our acquisition. We're really pleased to have been able to stabilize that book of business by leveraging our team, leveraging our processes, our technology to accomplish a real stabilization of that portfolio of business, and maybe equally exciting, to be able to integrate their sales team in a way that has allowed us to leverage those relationships or referrals to grow and develop new business and to expand our business even beyond that portfolio of customers.

Keay Nakae
Okay, and with respect to additional expense reduction, Bill, you mentioned some of that that occurred in Q2 that would be more fully reflected in Q3. Can you quantify that a little bit more?

Bill Korn
Sure, Keay. As always happens when we do acquisitions, we're always focused on preserving the quality of service that we're providing the clients, keeping the people who are focused on the client relationships, and looking at ways to make things more cost effective. throughout second quarter, there were some

reductions in expense that happened. Those that happened on April 1st, you can see in the whole quarter, those that happened in mid-June obviously you didn't really see.

There is probably at least $100,000 or $200,000 of direct operating costs and a similar amount of G&A expense which was reduced during the second quarter, but only partially reflected in the quarter. You'll see that reduced during third quarter, which will then all drop to our bottom line.

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

Bill Korn
Thanks.

Operator
Again, if you are an analyst or an investor, and you have a question, please press star then one.

CONCLUSION

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

Shruti Patel
Thanks, Kate, and thank you, everybody, for joining us. At this time, we will adjourn our call, and we hope everyone has a great day. Thank you.

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