MTBC

Q1 2018 Earnings Conference Call and Webcast

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CORPORATE PARTICIPANTS

Shruti Patel -- *General Counsel and Corporate Secretary*

Stephen Snyder *-- Chief Executive Officer*

A. Hadi Chaudhry -- *President*

Bill Korn -- *Chief Financial Officer*

Mahmud Haq -- *Founder and Executive Chairman*

PRESENTATION

Operator
Good day and welcome to the MTBC First Quarter 2018 Earnings Conference Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on a touchtone phone. To withdraw your question, please press star, then 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. Good morning, everyone. Welcome to the MTBC 2018 First Quarter Conference Call. On today's call are Mahmud Haq, our Founder and Executive Chairman; Stephen Snyder, our Chief Executive Officer and a Director; A. Hadi Chaudhry, our President; 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, business outlook, and potential organic growth and acquisitions, including any discussions regarding the details and closing of Orion and other acquisition opportunities.

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 first quarter 2018 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 Chief Executive Officer of MTBC, Stephen Snyder. Steve?

Steve Snyder
Thank you, Shruti, and thank you, everyone for joining us on our First Quarter Earnings Call. 2017 was a record year for MTBC, and we are pleased to report continued momentum as we start 2018.

During the first quarter of this year, we achieved another important profitability milestone as we reported our first quarter of positive GAAP net income since our IPO in 2014. We are generating positive cash from operations, and our balance sheet has never been stronger, with virtually no debt, $13 million in cash as of the end of April, and an untapped credit line of $5 million.

If you have been following the MTBC story since our IPO, then you know a few key things about us. First, you realize that the management team and Board together own almost half of our common stock, so you can be assured there's a profound alignment of interest between our leadership team and our shareholders. Second, you know that we have been committed to building a world-class platform, systems, and a team to support our growth. And, third, we've been consistently focused on the growing opportunity that we see for using our technology, proprietary processes, and unique business model to identify and close accretive acquisitions.

Since the beginning of 2014, we have purchased the assets of more than a dozen companies, rising to become the leading consolidator in the healthcare revenue cycle management sector. We believe the opportunity to identify and close accretive acquisitions is more compelling now than it's ever been.

As background, for those who are newer to the MTBC story, let me provide a quick recap of our largest acquisition to date, MediGain, which we closed during the fourth quarter of 2016. MediGain, like MTBC, recognized the opportunity for a consolidation play in the revenue cycle management space and began to acquire other revenue cycle management companies. However, unlike MTBC, MediGain lacked a comprehensive proprietary technology platform, they lacked best practices honed over 15 years of operation, and they lacked an experienced management team.

Over the year and half before we acquired MediGain's customer contracts, MediGain, in fact, lost more than half of their customers, and those who remained were, candidly, unhappy with MediGain's performance. Not only was MediGain's revenue collapsing, its business model was unprofitable, and it was burning roughly one-quarter million dollars or more of cash during each month.

While we were realistic about the challenges facing MediGain when we acquired its assets, we still believed that its best days were yet to come if we could empower its team with additional resources and strategically deploy our technology and processes. Of course, the chapters that unfolded since we purchased MediGain have proven that our vision was achievable. Not only were we able to turn dissatisfied MediGain customers into enthusiastic promoters of our solution, we also onboarded talented new team members from MediGain who are now some of the leaders within our organization, and we turned MediGain's losses into profits for our investors, reporting record performance on all fronts during 2017.

With that backdrop, we now find ourselves with a strong balance sheet as we talked about earlier—virtually no debt, $13 million in cash, and an untapped $5 million credit line with Silicon Valley Bank. And, in addition, we have new opportunities to pursue.

Let's talk about one of these opportunities, which we call Orion. Orion refers to Orion HealthCorp, Inc. and 13 of its affiliated companies. Earlier this month, we entered into an agreement to purchase substantially all of Orion's assets through a bankruptcy sale, called a 363, subject to court approval and the bidding process, with a target closing date in the latter part of next month. The underlying dynamics of Orion, we believe, are very similar to those we encountered with MediGain; however, Orion's revenues could be two-to-three times larger than MediGain's revenues were at the time we closed that acquisition, and we see an even greater potential upside with Orion.

Not only would Orion, as a transaction, significantly increase our revenues, after closing, it would likely expand our service offerings to include long-term practice management services as an offering, niche hospital solutions, and a pharmaceutical group purchasing organization that provides discounts to its physician customers. These new offerings and these new customer relationships present compelling opportunities for cross-selling our solutions and driving new growth.

In addition to Orion, we are exploring various other potential acquisition targets. With our available capital and our proven track record, we expect acquisitions to play a key role in our growth during this year. During 2017, our investors will recall that we grew our revenues by a remarkable 30 percent year over year. As a management team this year, we're committed to exceeding last year's revenue growth rate, and we believe we're well positioned to achieve this objective. In fact, it's our vision to increase our annualized revenues to $70 million by the end of 2018, more than doubling our annualized revenues on a year-over-year run rate basis as we execute on our broader acquisition and organic growth plans.

Naturally, closing Orion as we presently expect on the present terms, will be an important part in helping us achieve this objective, and, of course, we can't make any guarantees regarding that closing. But we expect another continued year of exciting growth during 2018, and we look forward to providing additional updates as we move forward.

I'll now turn the floor over to our President, A.Hadi Chaudhry. Hadi?

A.Hadi Chaudhry
Thank you, Steve, and thank you, everyone, for joining us on our first quarter 2018 call. I would like to focus on the role that our technology is playing in helping us achieve our objectives. First, with regard to our next generation electronic health records, called talkEHR, we have introduced a voice recognition-based, intelligent virtual assistant. It uses an artificial intelligence engine and algorithms to support decision-making, answer questions, and take appropriate actions automatically. talkEHR is already changing the way that our physician clients practice medicine and intelligent virtual assistance, raising the bar even further.

Second, during the last quarter, we increasingly leveraged our technologies trend to further reduce operating costs and uniquely address the needs of our clients, especially our growing portfolio of larger independent and hospital-based groups. As background, larger medical groups are often using multiple platforms that are not integrated. Since these platforms generally do not communicate with each other, there is redundancy, inefficiency, and leakage, which, in turn, leads to unnecessary costs and significant revenue loss. Some of these customers leverage our platform end-to-end. For others, we have been able to develop customized applications which are bridging the gaps between these disintegrated systems, and helping us drive increased revenues and reduced costs. This capability is a key competitive advantage and allows us to add value to accounts acquired in transactions like MediGain and Orion.

And, third, our team is continuing to develop the next generation of solutions to support health information exchange between our clients and other medical providers. We are employing Lawson technology, which will allow other EHRs to connect with our blockchain network to share protected health information in a highly efficient and secure manner, starting with medication histories by the end of this quarter. We are on the leading edge of exploring uses for blockchain technology, and expect to be able to add value to our users long before our competition is in the position to do so.

I will now turn the floor over to our Chief Financial Officer, Bill Korn. Bill?

Bill Korn
Thank you, Hadi. First quarter 2018 was a remarkable quarter for MTBC. We are reporting quarter-over-quarter revenue growth, even though across our industry, the first quarter is typically materially lower than other quarters due to seasonality. Most of our revenues are a percentage of the payments received by our clients, which are typically lower in Q1 due to annual deductibles.

We are also very pleased to report our first quarter of positive GAAP net income since the IPO, an increase of $2.8 million from Q1 2017, together with adjusted EBITDA for the first quarter of almost $1 million.

Revenues for first quarter 2018 were $8.3 million compared to $8.2 million in the same period last year. MTBC's revenue includes revenue from clients who signed contracts with MTBC during the fourth quarter of 2017 and began generating revenue during the first quarter of 2018.

Our revenue for 2018 is based on the new ASC 606 revenue recognition standard, which did not have a material impact on reported revenue. MTBC adopted the new revenue recognition standard on January 1, 2018. Under the old standard, revenue could not be recognized until it was fixed and determinable, which meant that MTBC recognized revenue at the same time insurance agreed upon the level of payment to our healthcare provider clients. Under the new standard, revenue is recognized as value is created for clients, which means a portion of the revenue is recognized over a period of weeks after each patient visit as work is performed, and the final amount of revenue, based on the ultimate payments by insurers and patients, is trued up each quarter. During first quarter 2018, MTBC recognized $47,000 of additional revenue due to the new revenue recognition standard, but since our revenue is recurring, the impact of the new standard is not at all material.

Our first quarter 2018 GAAP net income was $75,000, or 0.9 percent of revenue, an improvement of $2.8 million compared with a net loss of $2.7 million in the first quarter of 2017. This was MTBC's first quarter with positive GAAP net income since our IPO and the purchase of three companies at the time of the IPO in 2014. First quarter GAAP net income includes $591,000 of non-cash amortization and depreciation expenses, so our operations generated positive cash flow of over $600,000 for the quarter.

The dramatic turnaround from a GAAP net loss of $2.7 million to GAAP net income of positive $75,000 was due to four factors: first, a reduction of $739,000, or 14 percent, in direct operating costs. Second, a $385,000, or 13 percent, reduction in general and administrative expenses. Third, a $929,000 reduction in depreciation and amortization expenses, as we fully amortized the intangible assets from the companies that we bought in 2014. And, fourth, the elimination of $276,000 of restructuring charges.

First quarter 2017 included restructuring charges, as we closed offices in Poland and Bangalore, India that were obtained during previous acquisitions and shifted the work to our teams in Pakistan and Sri Lanka to gain operating efficiencies. There were no restructuring charges in the first quarter of this year.

The impact of the new revenue recognition standard on our net income was $51,000, just a few dollars more than the impact on our revenue. So our net income would have been positive even without the new revenue recognition standard. We've included a table in the back of our earnings release comparing our first quarter as if we had used the old revenue recognition standard, so anyone who is interested can see the details.

Our GAAP net loss per share for first quarter 2018 was $0.06, calculated using the net loss attributable to common shareholders divided by the weighted average number of common shares outstanding.

GAAP net income is always calculated before the effects of any dividend, but GAAP net income or loss per share is always based on the net income or loss attributable to common shareholders, which subtracts the value of dividends paid to our preferred shareholders. That's why there is a GAAP net loss per share, even though overall GAAP net income is positive.

Adjusted EBITDA for first quarter 2018 was $974,000, or 11.7% of revenue, compared to adjusted EBITDA of ($313,000), or (3.8%) of revenue, in the same period last year. First quarter 2018 adjusted EBITDA represents an improvement of $1.3 million from the same period last year, reflecting the significant cost savings we've achieved. This is our third consecutive quarter of positive adjusted EBITDA, which has totaled $3.1 million over the last nine months.

The difference of $899,000 between adjusted EBITDA and the GAAP net income in the first quarter of 2018 reflects $591,000 of non-cash amortization and depreciation expenses, $69,000 of net interest expense, $128,000 of stock-based compensation expense, and $179,000 of integration and transaction costs associated with prior acquisitions, as well as a $47,000 provision for income taxes.

Our non-GAAP adjusted net income for first quarter 2018 was $666,000, an improvement of $1.5 million compared to adjusted net income of ($852,000) in the same period of last year. Non-GAAP adjusted net income per share was a positive $0.066, calculated using the end-of-period common shares outstanding.

First quarter 2018 GAAP operating income was positive $39,000, which represents an improvement of $2.4 million from the operating loss in the first quarter of 2017. This is the company's first quarter with positive GAAP operating income since the IPO in 2014.

Non-GAAP adjusted operating income for first quarter was $739,000, or 8.9% of revenue. First quarter 2018 adjusted operating income represents an improvement of $1.3 million from first quarter 2017. This is our fourth consecutive quarter of positive non-GAAP adjusted operating income, which excludes non-cash expenses such as the amortization of purchased intangible assets, stock-based compensation, and integration and transaction costs.

In first quarter 2018, our cash flow from operations was $673,000. Management finds that non-GAAP financial measures, such as adjusted operating income and adjusted EBITDA, are a good proxy for measuring the cash actually generated by our business.

As of March 31, 2018, the company had $3.5 million in cash and positive working capital of approximately $5.4 million. The company has a $5 million secured revolving credit facility with

Silicon Valley Bank, where borrowings are based on 200% of repeatable revenue, adjusted by an annualized attrition rate as defined in the agreement. While we have not drawn on the Silicon Valley credit facility at any time during 2018, the SVB line can be used to fund future growth initiatives, including acquisitions with Silicon Valley Bank's approval.

The company raised net proceeds of $9.4 million from the sale of 420,000 additional shares of its non-convertible Series A preferred stock via a public offering during the first week of April. Preferred shares trade on the NASDAQ capital market under the ticker MTBCP and pay monthly cash dividends at the rate of 11% per annum.

Our Series A preferred stock is perpetual and has no mandatory reduction, although the company can choose to redeem shares at $25 per share starting in November of 2020. By the end of April, after this round was closed, the company had approximately $13 million of cash in the bank and virtually no debt.

Raising additional capital in early April has further positioned us to take advantage of the opportunities we see for consolidation in the market. For example, we intend to use a portion of our available cash as we close the Orion acquisition opportunity.

Our highly scalable proprietary technology and processes, experienced team, and strong balance sheet have made us the leading consolidator in our space. We are uniquely equipped to succeed with opportunities such as Orion, having successfully integrated MediGain's business, which faced a similar situation before we purchased their assets 20 months ago. That transaction allowed MTBC to grow revenues by 30% in 2017 and achieve record profitability. And after the successful integration of Orion, we expect to be able to grow our annualized revenue significantly more and to achieve a scale which will allow us to further expand our profit margins.

I'll now turn the floor over to Mahmud Haq, our Executive Chairman, for his concluding comments.

Mahmud Haq
Thank you, Bill. We have had a remarkable start of the year following record performance in 2017, and we believe that 2018 is likely to eclipse it all. In view of the traction we have gained on the acquisition front since our last earnings call and the additional cash raised in our recent offering of preferred stock, we are pleased to share our vision of growing our annualized revenue to $70 million by the end of this year.

We thank our investors, customers, employees for their continued support and look forward to providing additional updates as the year progresses.

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 star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw

from the queue by pressing star, then 2. Again, it is star, 1 if you would like to ask a question. And we'll pause just a moment to assemble the roster.

And the first question will come from Kevin Dede of HCW. Please go ahead.

Kevin Dede
Good morning, gentlemen, and thanks for taking the call. Steve, I'm just curious whether or not you've dealt with the purchase of—I mean, given your storied history of acquisitions, I'm just wondering if you've dealt with a purchase in a similar manner as the one that it seems Orion is teeing up to be.

Steve Snyder
Thanks, Kevin, for the question. Orion, in virtually every respect, is like MediGain, so as we think about the Orion scenario—the opportunity and also the challenges -frankly, it's a very similar acquisition in virtually every respect to MediGain. And when we look at the MediGain opportunity that we pursued in the end of 2016, we think about the challenges that we approached on day one, the team that we put together, the way we used technology to add value to those relationships, and then we look at the outcome, which was the source of the record performance of last year. And we're very encouraged and optimistic that Orion will be, much like MediGain, an opportunity for us to, again, achieve another level of scale and add value to these relationships and then, by extension, add value to our shareholders and other stakeholders.

Kevin Dede
I apologize, Steve, I listened very carefully to your opening remarks. I meant the auction construct.

Steve Snyder
Oh, understood, for sure. So for—if we talk again about MediGain, MediGain initially was going to go through a 363 construct, which, candidly, all things being equal, as a buyer, we prefer the auction construct of a 363, like Orion, to the MediGain strict foreclosure. For a variety of reasons, MediGain proceeded along the lines of a strict foreclosure, because of timing and other internal constraints they had, so the 363, it's really another way of accomplishing the same thing.

The 363 actually has some advantages, though, from the perspective of the buyer in terms of further mitigating risk and also ensuring that as the assets are transferred. The accounts for this scenario, are transferred over with a court order that provides that they've been assigned by the seller and assumed by MTBC, the sort of luxury that you actually don't have in a MediGain-type transaction.

Kevin Dede
Okay, and I guess what seems curious from the external perspective is the—given that it's open auction, that you might not have the opportunity to close it. I'm just kind of wondering how you look at that, what your confidence level is, and why?

Steve Snyder
You're 100 percent right. As with any of the bankruptcy sales, 363 being an example, there's the opportunity for another bidder to come in, and, in fact, we understand with regard to this particular opportunity, Orion, there were something like 15 or 16 companies who have already looked at the opportunity, and at least up to this point in time, have passed or at least haven't

submitted a bid that's as high as ours. And when we look at it, our thought is that the opportunity with Orion is such that pure financial buyers really won't have the technology platform or the team that they need to succeed, in our opinion. And if we think about others who may, from a strategic perspective, have an interest in it, probably most of those strategic buyers wouldn't have the capital they need or, candidly, the experience of doing a transaction like MediGain.

So we have a high level of confidence at the end of the day we're going to proceed to closing, but you're 100 percent right that there aren't any guarantees. The process, by its very nature, is open to other bidders who could come in and could submit a bid.

Kevin Dede
Is there any way you could sort of quantify your confidence level on your ability to get the deal done and the timing? I think you alluded to the end of June.

Steve Snyder
Sure. Yes, in terms of the timing, the debtors of Orion, they've asked the court to enter an order that would provide for a sale to occur during the last week of June. And when we look at it, based upon all the information we know and based upon our discussions with our outside counsel, who has focused on the bankruptcy matters exclusively, our confidence level is certainly higher than 50 percent.

Of course, we can't provide a guarantee that it will occur, but we have a high level of confidence. To the extent, of course, it doesn't occur, we are the stalking horse bidder, if another bid comes in, not only would they have to get comfortable with the transaction, they would not only have to have the available capital, and of course the technology, the team, the experience to be able to credibly move forward, but they would also have to do so pretty quickly. In submitting a bid, that bid would not only have to be higher than ours by a certain dollar amount, but in addition to that, it would also have to include, if they were to outbid us, roughly $600,000, which is the total of our fee that we would be paid as a break-up fee, together with the expense reimbursement.

Kevin Dede
Okay, thank you. Now, you also spoke to a pretty aggressive sales target this year, so I'm wondering what your pipeline looks—and what that pipeline looks like on the acquisition side, since it doesn't seem that organic growth could get you there, and why you're so confident that even, you know, should this deal not work out, you could still approach that figure, which is what—almost a 2X from last year?

Steve Snyder
Yes, Kevin, much like prior years, the overwhelming majority of our growth this year will come from acquisitions, much like last year and years before. That's really where we see the opportunity at a very attractive multiple and cost-per-acquired customer to be able to grow and to achieve the scale that we're looking to achieve in the timeframe we're looking to achieve it.

So the majority of that growth will continue to come through acquisitions, but we are and have been since the year began, looking at other acquisition targets. This is, candidly, the most attractive and certainly the furthest along of all those opportunities, and when we talk about a $70 million run rate by the end of the year, again, that's premised upon closing Orion. To the extent that Orion doesn't happen, we don't want you to expect us to be at a $70 million run rate. We would, nevertheless, in that scenario, continue to be moving forward in discussions with other companies from an acquisition perspective, and would expect by the end of the year, it would be our vision to close other acquisition and, nevertheless, grow from a revenue perspective at a higher rate this year than last. But it wouldn't be at that $70 million level. Again, that's really premised upon our belief that we're more likely than not going to be able to close the Orion transaction on terms that are similar to those that we envision today.

Kevin Dede
Fair enough. Okay, yes. Thank you for clarifying, Steve. One question for Hadi, if I may, please.

A.Hadi Chaudhry
Yes, Kevin?

Kevin Dede
Hadi, you referenced a blockchain application and tying together talkEHR and health records, if I understood correctly. I'm just wondering what your software construct would be in that implementation and why you would choose sort of a decentralized view versus sort of a more centralized database construct.

A.Hadi Chaudhry
Thank you, Kevin, so one is the EHR part of it, which we are continuously focusing on leveraging the artificial intelligence, and the integrated database can improve the usage or make it easier for the user to continue using the EHR. We also have added the voice recognition technology as well as have introduced, you can say a virtual employee in your office, so you can keep talking to your EHR, and it can keep on taking the decisions using the AI, making the appropriate actions in the EHR, updating the patient records and responding back to the user as well.

From the blockchain perspective, the purpose of the blockchain is connecting and interacting with the other EHRs in the industry. A few years back, after different health information exchanges started coming up, the one way of communicating and talking between different EHRs was with the use of those health information exchanges. So if there is a Physician A who has seen the patient and there's a Physician B which could be a specialist who wants to look at the health record of the same patient, there was no good mechanism that existed between the two EHRs. So one way was continuing to use the health information exchanges or using the certified method to communicate or share that patient's health records.

So as blockchain technology is starting to get evolved further and there is a high probability of getting some of these pieces regularized in the healthcare industry, and because, due to the design of this blockchain technology — it is more secure — you can say the more secure data interchange, and any other EHR vendor can connect to the same chain of those blocks and can share the data.

So the purpose of leveraging this blockchain technology is so we will be able to share the protected health information for any specific patient between different EHRs. And as we further evolve this thing, we expect in the industry that the same blockchain can be used to share the prescription details, the lab details, and so on and so on.

So as far as the integrated database, that still stays there. Every application that we have is currently connecting and operating from the same integrated database that we have.

Kevin Dede
Okay. Could you be more specific regarding the platform that you hope to leverage? Are you thinking about using, you know, Hyperledger or Azure? What's your thinking on that? And then how do you ensure HIPAA compliance?

A. Hadi Chaudhry
Okay. So a few things. I do not want to specifically talk about which type of blockchain, but there's a high probability that some of these pieces get regularized in the healthcare industry, but the standard HIPAA compliance, you can say the requirements, we are making sure that those are being implemented.

So one thing is, as I mentioned, the security, the built-in design, the inherent design of the blockchain, that, by default, is more secure than any other system out there in the industry right now, but we absolutely will be making sure that all the relevant and the specific HIPAA compliance requirements are being met.

Kevin Dede
Okay. Thank you very, much, Hadi, for the color. I appreciate it. Thank you, gentlemen, for taking my questions.

Steve Snyder
Thanks, Kevin.

Operator
The next question will be from Brian Marckx of Zacks Investment Research. Please go ahead.

Brian Marckx
Good morning, guys, and congratulations on the quarter. Just trying to get a little bit more clarity on what your thoughts are in terms of organic growth. You made a comment that Q1 is typically seasonally low for the RCM industry. Is that—can we interpret that to mean that just, based on organic growth, that you may see sequential growth through the remainder of 2018?

Bill Korn
Thanks, Brian. Q1 was up in large measure due to organic growth. We signed a number of clients during the fourth quarter of last year, in particular, a business which is now our largest client, a physical therapy and rehabilitation practice with 950 providers. They were signed two days before Thanksgiving. They went live in the beginning of December, and so we got a full three months' worth of revenue from them in the first quarter of this year, and that was all organic.

Large clients, obviously, are hard to predict, so I can't tell you when we're going to sign another one that's the same size, but we've had a number of new clients that have signed up that are in the process of going live. So we expect that we'll continue to see organic growth. It's not going to let us double our revenue. No one in a recurring business like ours would spend enough on sales and marketing to generate that many clients organically, especially when you can do so far more cost effectively on an inorganic or acquisition basis. But we continue to be growing our organic sales efforts and adding new clients on a regular basis.

Brian Marckx

Bill, in terms of the sales team, I think one of your potential strategies on the organic side anyway was to potentially build out the sales team and sales infrastructure. Is that still potentially in the plans in 2018?

Steve Snyder
Absolutely. For sure, we're continuing to build out our sales team, and, as Bill said, we had a large closing towards the end of last year. We've had some successes during the first quarter of this year as well, continuing to gain traction. We've also added as an advisor from a marketing perspective, the former CEO and the founder of Practice Fusion, Ryan Howard, who joined our team and is providing strategic support and guidance as we roll out our talkEHR product,—his input has been invaluable.

We're also continuing to add other sales team members, and, candidly, as a result of the Orion transaction that we hope to close, we hope to onboard additional experienced team members as part of that acquisition.

Also some of the additional lines of business that would come with that acquisition, we think will also be really helpful as we continue to focus in on our organic growth strategy during the second half of this year. For instance, one of the business units that we would acquire as part of Orion is a group purchasing organization, which negotiates discounts with pharmaceutical companies on the one end, and it extends those discounts to a universe of healthcare providers on the other end of the transaction. And it receives a fee, essentially, as a middle person negotiating that discounted rate. They work with roughly, we understand, 4,000 healthcare providers, mostly pediatricians, who, again, we think would be phenomenal candidates for cross-selling our revenue cycle management and EHR solutions. And then vice versa, we have an entire client base that could benefit from this sort of GPO solution. So we see these sorts of synergies, whether it be in the Orion transaction or with other partnerships that we're pursuing.

Brian Marckx
And in terms of the integration, assuming Orion closes based on the fact that you will be bringing on additional capabilities like the GPO that you referenced, are those functions that can be done out of your overseas operations?

Steve Snyder
We'll be onboarding the team that is presently working with Orion and then adding additional resources - whether they be onshore resources, the key members we have throughout the US, or offshore team members - and using our talent globally to be able to take those solutions to the next level.

So, for instance, if you think about the group purchasing organization, they already have a phenomenal team managing that business unit, but we believe we'll be able to add sales resources and marketing capabilities and the like.

Brian Marckx
Great. Thank you, guys.

Steve Snyder
Thank you.

Operator
The next question will be from Amit Tandon of SeeThroughEquity. Please go ahead.

Amit Tandon
Congratulations on reaching a positive GAAP net income, guys. You've shown real improvements in your direct operating costs, which obviously allows for margin expansion. My question is, is this mostly from integration synergies that were implemented over the last year, or are there some other important moves that enabled the improvement?

Bill Korn
So there are really two things that are responsible for integration synergies. You know, if you think about the day that we close a major transaction like MediGain, they have a team that's providing work, a combination of employees and, in MediGain's case, there were five different subcontractor firms. So day one, we added more employees to our Pakistan and Sri Lanka office and started moving work away from the subcontractors, who were both more expensive than our own resources and who the clients felt weren't doing nearly as good a job. So we were able to do that quickly. That's the first low-hanging fruit of an integration. There were leases we were able to get out of, expensive leases, and again, in all these transactions, we typically don't assume leases and long-term liabilities, so we could use the space for a couple months as needed and then move people to the smaller and less expensive space. So, there's a variety of opportunities for cost savings.

But if you think about it, when you're a small public company, it's hard to generate positive net income, because you've got all the fixed expenses of being public. When you grow your revenue, you get to spread that overhead over a bigger base. You know, think about us doubling our revenue again. We're not going to need another CEO; we're not going to need another CFO; we're not going to need another Grant Thornton. And so, as a result, a lot of those gross margins will be able to drop completely to the bottom net income line.

Amit Tandon
Great, and so can you also give us a sense of, you know, the scope of the potential integration process with Orion? Is that—are you going to have to double up on the work, or are you obviously going to save on the work already done with respect to kind of prior acquisitions like MediGain?

Bill Korn
So it's a combination. It is our understanding that they've got 500 individuals as offshore subcontractors, and, we think about it and say, "If those people can provide the greatest service at a cost-effective rate, then those subcontractors are good people to keep." But we've got team members with 10, 15 years' experience who, candidly, may be able to do a better job at a lower cost, and so we'll probably be adding to our team, just as we did with MediGain. Providing the best possible service to clients is first and foremost, so we'll probably double up a little on resources to do a good job to get people's confidence right after the transaction.

And, again, as a couple of quarters go by and you see both the ability to reduce expenses and to cross-sell services, you'll start to see pretty significant improvements in the net bottom line.

Amit Tandon
Okay, great. Thanks for taking my questions.

Operator
And, ladies and gentlemen, that will conclude our question-and-answer session.

I would like to hand the conference back to Shruti Patel for any closing remarks.

CONCLUSION

Shruti Patel
Thank you so much. Thank you, everybody, for joining our first quarter conference call. I hope you all have a great day
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Operator
Thank you. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.