MTBC

2Q 2015 Earnings

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CORPORATE PARTICIPANTS

Mahmud Haq - *Chairman and Chief Executive Officer*

Stephen Snyder - *President*

Bill Korn - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the MTBC second quarter 2015 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 also note this event is being recorded.

I would now like to turn the conference over to Amrita Deol, the General Counsel. Please go ahead.

Amrita Deol
Good morning, everyone. Welcome to the MTBC 2015 second quarter conference call. On today's call are Mahmud Haq, our Chairman and Chief Executive Officer; Stephen Snyder, our President and a Director; and Bill Korn, our Chief Financial Officer.

Before we begin, I would like to remind you that many of our comments may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of risks and uncertainties that could cause our actual results to differ materially. These statements reflect our opinions only as of the date of this presentation and we undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our press release and our reports filed with the Securities and Exchange Commission, where you will find factors that could cause actual results to differ materially from these forward-looking statements.

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

Mahmud Haq
Thank you, Amrita, and thank you, all of you, for joining us on the second quarter 2015 call. I am pleased to highlight a number of key accomplishments during the first half of 2015.

Revenue for the second quarter 2015 was $6 million, which represents a 128% increase from the second quarter 2014. Adjusted EBITDA for the second quarter 2015 showed an 86% improvement versus first quarter 2015, with a negative $96,000 versus negative $710,000 in first quarter 2015.

In July, we announced the acquisition of three divisions of SoftCare Solutions, Inc., the U.S. subsidiary of QHR Technologies Inc., a publically traded Canada based healthcare technology company. We have almost completed integrating the three businesses we acquired at the time of the IPO and have realigned resources and cut expenses.

We filed an S-1 on July 15th with the SEC to issue $15 million of non-convertible preferred stock. Our plan is to raise additional capital for growth and acquisition in a way that does not dilute our existing investors.

I would now like to turn the call over to President Steve Snyder, to discuss operations in more detail, including the SoftCare acquisition. Steve?

Stephen Snyder
Great, thank you, Mahmud. As Mahmud mentioned, last month we acquired substantially all of the assets of three small divisions of SoftCare Solutions, inclusive of a clearinghouse division, an electronic data interchange division, also known as "EDI", and a billing division. While this acquisition will add very little to the top or bottom line in the near-term, we believe that it presents us with a unique strategic opportunity.

As a result of this acquisition, we now have business relationships with more than 2,000 additional healthcare providers throughout the U.S. We expect that the vertical integration of the clearinghouse and EDI divisions with our existing healthcare information technology platform will drive increased efficiencies, platform enhancements and a further expansion of our PracticePro customer base. Our new clearinghouse division has been granted full accreditation by the Electronic Healthcare Network Accreditation Commission, also known as "EHNAC". EHNAC is the premier, independent, federally recognized, accrediting body that's designed to promote standards that support interoperability, compliance, high quality service, and innovation throughout the healthcare industry.

We believe that this accreditation confirms that our clearinghouse service is truly a best of class solution and it will help support our continued growth. I'll now turn the floor over to Bill Korn, our Chief Financial Officer, who will provide you with a detailed review of our second quarter financial results and provide additional information on our new preferred stock offering. Bill?

Bill Korn
Thank you, Steve. We are pleased with our second quarter, where, as Mahmud mentioned, we approached breakeven. Second quarter 2015 revenue of $6 million grew 128% compared to $2.6 million in the second quarter of 2014. Revenue for the first half of the year, $12.1 million grew 133% compared to $5.2 million, 2014. This growth was primarily attributed to our acquisitions made at the time of our IPO.

Adjusted EBITDA in the second quarter was negative $96,000, compared with negative $7,000 in the second quarter a year ago. Second quarter EBITDA of negative $96,000 is an 86% improvement over the negative $710,000 EBITDA in the first quarter of this year. As our U.S. headcount dropped from 205 employees on January 1st to 104 on March 31st, to 79 on June 30th, our U.S. payroll cost dropped by $1.1 million from Q4 of 2014 to Q2 of 2015.

Our subcontractor costs in India dropped from $500,000 in fourth quarter of 2014 to close to zero, while our cost in Pakistan increased by less than $200,000. We spent approximately $200,000 during the quarter on payroll and benefits for employees who are no longer with us, as our U.S. headcount decreased from 104 employees on April 1st to 79 employees on June 30th. That reduced cost will drop to our bottom-line starting in the third quarter.

We are achieving an overall reduction of our expense profile with reduced lease costs, third-party software costs and other expenses, causing our EBITDA losses to narrow. We're now at the point where EBITDA is turning positive and will begin growing.

Non-GAAP adjusted net income was negative $252,000, or negative $0.02 per share, compared to non-GAAP adjusted net income of negative $82,000, or negative $0.02 per share, in second quarter of 2014. It represents a 70% improvement from non-GAAP adjusted net income of negative $854,000, or negative $0.08 per share, during the first quarter of 2015.

The GAAP net loss in the quarter was $1.5 million, or $0.15 per share, compared to GAAP net loss of $289,000, or $0.06 per share, in the second quarter of 2014. The $1.4 million difference between adjusted EBITDA and the GAAP net loss was driven by $1.2 million of non-cash depreciation and amortization expense, primarily related to purchased intangible assets. It also includes $197,000 of stock-based compensation, $93,000 of integration and transaction costs, $37,000 of net interest expense, offset by $57,000 of foreign currency gains, and an $87,000 decrease in the value of the contingent consideration liability.

The $87,000 gain from the reduction in the fair value of the contingent consideration, the money that we paid to the companies that we acquired at the IPO, is primarily due to the decline in the price of the Company's stock, since the value of the shares which were issued is now less, based on the stock price. This gain from the lower value of contingent consideration must be included in our GAAP earnings each quarter, but we've excluded this gain from non-GAAP adjusted EBITDA and non-GAAP adjusted net income, since it is non-cash and might be reversed in a future quarter if the stock price moves higher.

Next month, when the actual revenue for the 12 months after purchase from each acquisition is final, and adjustments are agreed upon, the number of shares will be fixed and the value of the shares will move from a liability to equity and, at that point, there'll be no further change to the value of the purchase price or gain on contingent consideration.

As of June 30, 2015, MTBC's cash balance was approximately $630,000, compared to approximately $1 million as of December 31, 2014. As Mahmud mentioned, MTBC filed a registration statement on Form S-1 with the Securities and Exchange Commission to register a proposed underwritten public offering of $15 million of Series A cumulative preferred stock. Ladenburg Thalmann will be the sole book runner. These shares represent a new class of security with an 11% annual dividend, payable monthly, and a $25 liquidation preference. The shares are not convertible have no stated maturity and will not be subject to a sinking fund or mandatory reduction. The preferred stock will remain outstanding indefinitely unless we decide to redeem the shares, which can occur at the Company's option at any time after five years or within 120 days of a change of control. We intend to use the proceeds from the offering to grow our business. This includes acquisitions of revenue cycle management or healthcare IT businesses, as well as expansion of sales and marketing activities. We will use a portion of the proceeds to repay debt.

Our current credit facility was established four years ago when MTBC was much smaller and privately held. After the preferred stock offering, we intend to secure a new revolving credit facility on terms which are more appropriate for a public company.

Based on our year-to-date revenue and current expectations for the third and fourth quarters of 2015, today, we are revising our revenue and earnings guidance. Our full year 2015 guidance for revenue is between $24 million and $25 million. Our guidance for adjusted EBITDA is revised to be breakeven, and adjusted net income per share is revised to be between negative $0.06 and negative $0.10. At the time we issued guidance at the beginning of the year, we anticipated that we would have additional capital available for further growth, both additional sales and marketing, as well as acquisitions.

During the first half of 2015, that was not the case. Our sales and marketing spending was under 2% of revenue, which was a major contributor to decreased revenue, both during the first half and, more significantly, will limit our growth during the second half. Our ability to ramp up sales and marketing and implement our growth strategy is dependent on our ability to raise additional capital, including through the successful offering of our Series A preferred stock.

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

Mahmud Haq
Thank you, Bill. Second quarter marked a major milestone. We are essentially at breakeven point and returning to profitability where we operated the business for six years before the acquisitions at the time of IPO. Our strategy is on track and our team has done a great job integrating the businesses we acquired at the time of the IPO. We look forward for working with Ladenburg to raise additional capital in a way that does not dilute our existing shareholders, providing capital to execute attractive acquisitions and partnership opportunities. I want to thank all our shareholders for their belief in MTBC. I would also like to thank our team members in U.S., Poland and Pakistan for their hard work and dedication, our financing partners such as TD Bank for helping us meeting our needs of our growing Company, and finally, our physician customers for trusting us to help manage their practices.

We will now open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you, sir. We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys and to withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

Our first question comes from Bill Sutherland of Emerging Growth Equities. Please go ahead.

Bill Sutherland
Okay, thanks and good morning, guys. Bill, I just wanted to understand a little bit better, kind of how to think about your revised revenue guidance and the implication for the back half of the year, which is essentially kind of running at this revenue level. I know you've got some modest growth initiatives underway, essentially those practice additions that don't really require capital, and I'm also thinking about this little acquisition, just trying to figure out why there isn't any lift in the back half, based on the new outlook. Thanks.

Bill Korn
Thanks, Bill. As we thought about guidance, we felt that it was most appropriate to ignore the current capital raise and initiatives that may come from that capital raise. So, as we raise $15 million, there very well may be acquisition opportunities that will generate revenue in the last part of the year, but we thought it was probably prudent at this stage to take that out and sort of just look at the revenue that we get from the existing business as it is today. So, we're essentially flat with the $12 million in the first half of the year.

Bill Sutherland
But the growth, I guess, from those little revenue share deals that you're doing are just too modest to move the needle?

Bill Korn
Right, they're small deals and again, we've done a great job of managing with the cash available to us and working to make sure that, as an existing doctor retires, that we have additional growth to fill in and keep the overall revenue flat and maybe modestly growing, but in order to really move the needle, we'll need to be making some investments. As you know, we're spending under 2% of revenue on sales and marketing, and typically companies spend a lot more than that.

Bill Sutherland
Right, and then last on the acquisition, so you've got this, I think it's 2,000 on a number of clients and I'm trying to, and you're saying it's going to be de minimis, as far as revenue impact, so I'm kind of curious about the revenue per customer that this unit has that you're buying and maybe how it's generated.

Stephen Snyder
Sure, I'd be happy to handle part of that and Bill can jump in, as well. The divisions we purchased, again there are three divisions, an EDI division, a clearinghouse division, and a billing division. The revenue per client clearly would be the greatest in the billing division, but actually the billing division represents, we would estimate approximately 10% of that revenue. So, the majority of the revenue is coming from the clearinghouse division and the EDI division.

The clearinghouse revenue, per client, is very low and that's where the lion's share of the providers are doing business with us, through the clearinghouse division. The clearinghouse division, then, presents to us, we believe, a real strategic opportunity on a couple fronts, one from an operational perspective, leveraging the technology that we acquired as part of that division and integrating that with our broader platform. Again, we've already developed our own connection, our own networks, direct connections with payers throughout the country and other third party vendors. So we're actively focused right now on combining the best of their platform with our platform. That's one part of it.

The second part of it is we see the growth opportunity. For instance, in the clearinghouse division, we have approximately 240 clients. The overwhelming majority of these are healthcare provider clients, while three dozen, roughly, are other vendors. And with regard to the healthcare provider clients, we're really looking forward to the opportunity, as we move throughout the following quarter, to begin rolling out promotions, special marketing and sales activities oriented at cross selling and upselling to healthcare providers. With regard to the vendors that we're working with, we're looking forward to the opportunity of continuing to explore other ways that we can meet their needs as they continue to work with healthcare providers.

If there's anything that you want to add to that, Bill?

Bill Korn
Yeah, so again, I would look at this as, we're giving guidance that, candidly, we want to beat. We're focused on closing this additional preferred stock offering, having the capital to both be able to ramp up sales and marketing and look at other strategic opportunities. Clearly those would all provide upside that you would add to these numbers, but again, not knowing the exact timing of things, we felt at this stage it was sort of prudent to take them all out of the guidance to set an easy baseline.

Bill Sutherland
That makes sense and I maybe didn't read the press release closely enough. Did you talk

about the price paid on this acquisition?

Stephen Snyder
We didn't flesh it out in detail, but we'll be happy to do that. This was a revenue share purchase price. We paid 5% of the trailing 12 months revenue at the time of closing, which after adjustments, equated to about $22,000, roughly, at closing. We have an obligation as we move forward to make additional payments. The additional payments equate to 30% of the revenue paid in semi-annual payments for the next three years, then at the end of that payment period, 5% of the then trailing 12 months revenue. However, there's an important addition to that formula. With regard to the payments that we're making, the 30% payments that we're making in terms of the revenue share, our requirement to make those payments is conditioned upon being cash flow positive. To the extent that we're not cash flow positive, we don't have the obligation to make those payments. So, we're really paying them a revenue share on the portion of the overall revenue that's cash flow positive after deducting the expenses and costs.

Mahmud Haq
Right, and cash flow positive, Bill, on this business, not as MTBC as a Company, but on these, go ahead.

Stephen Snyder
Good point, Mahmud, that's right, on these divisions, on this business.

Bill Sutherland
Got it, okay. Thanks for the color, Steve, appreciate it.

Stephen Snyder
Thank you, Bill.

Operator
And ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star (*) then one (1) at this time. Our next question comes from Paul Nouri of Noble Equity Fund. Please go ahead.

Paul Nouri
Hey, guys. Given that the preferred stock offering and the issuing of preferred stock is going to be dilutive on its own, are you going to be pretty focused on finding deals later this year?

Mahmud Haq
Yes, Paul, this is Mahmud. Absolutely and I think, as Bill mentioned, this $24 million, $25 million revenue does not include any expected revenue from organic growth or from acquisition that will result from this additional $15 million that we're expecting, but we have a number of these target companies, that, as soon as we are done, our roadshow is expected to start in the next couple weeks and we expect this to close within a month or so, month and a half. So, I think at that time, we will approach these targets with a definitive agreement.

Paul Nouri
And have any recent changes in the requirements for healthcare providers to update their IT systems, has that had an effect on you at all or going forward over the next year?

Mahmud Haq
No, I think that will have a major benefit to us, because ICD-9 to ICD-10 conversion, which is

going in effect in October, in a couple of months, that will flush out a lot of these smaller billing companies because it forces the doctors to use technology. So, I think it'll have our decision to raise this money now coincides with what we expect in terms of smaller billing companies coming available for acquisition in the third and fourth quarter of this year, mostly fourth quarter. That's why we want to get this thing completed in third quarter so we start the fourth quarter in acquisition, organic growth both lined up. So our numbers are, we needed to do this reduction or this new guideline to make sure that the preferred stockholders, they understand the base. So, it was more of a legal advice to have a baseline out there. That's what we have done with our guidance.

Paul Nouri
Okay, and then looking at the operating expenses, I believe the press release stated that there were at least $200,000 of expenses that won't be there next quarter, but other than that, should the operating structure look similar in 3Q as it was in 2Q?

Bill Korn
Yes. I mean, the first step is, yes, just looking at people who were employees at the beginning of second quarter on April 1, who we let go during the quarter, there was $200,000 paid for their work during second quarter and those people are no longer employees, were not employees as of July 1. So, if we took no other actions, you would see the expenses reduced by $200,000. However, that's actually understating the situation. We are continuously looking at how do we rationalize the companies we bought, where do we have more offices than we need, where do we have more employees than we need, where can we automate work or move work offshore. So it's everything from reducing people cost to removing unneeded phone lines to the offices we're closing, so we continue to look at opportunities for savings and, again, it's hard to predict exactly what that number is going to be, but we as a management team are committed to operating profitably and that means continually, every quarter, looking at how do we do better and how do we reduce costs.

Paul Nouri
Okay, and then my last question. What is your expectation for the adjusted EBITDA margin in the fourth quarter?

Bill Korn
So, at this stage, what we're talking about is being at breakeven, overall, for the year. So, being breakeven for the year means that in fourth quarter we would probably be in the 10% to 12% adjusted EBITDA range. Again, it's our firm belief that our long-term target margin continues to be 30%. That's what we stated in the past, that's where we're heading towards. That's going to require a little bit more time and a little bit more scale, but we think that getting to the 10%, 12% range by the fourth quarter is very achievable.

Paul Nouri
Okay, thank you.

Mahmud Haq
And, Paul, this is Mahmud. For us, it was a major milestone to become cash flow positive, which we did and I think, as Bill mentioned, now we are going to focus on this raise, because that kind of dictates how much reduction going forward, depending on what we end up acquiring, where we acquire, whether it's organic growth, a lot of those factors, but we wanted to cross this bridge of cash flow positive, as we talked in the past, which we have achieved now.

Paul Nouri
Okay, thanks.

Operator
And our next question comes from Keay Nakae of Chardan. Please go ahead.

Keay Nakae
Hi, thanks. So, touching on the breakeven adjusted EBITDA on your Q1 results call, back in May, you said you had just reached breakeven and have you been able to sustain that and grow that since that point up till now, mid-August?

Bill Korn
Hi, Keay, how are you doing? So, yes, when we had the call in May, obviously, at that point, we knew our April results and we were halfway through the quarter. So, we knew that we were running at breakeven, which we sustained through the second quarter and we're continuing to improve upon that here during third quarter. So in some respects, I'd say the business is really on the track that we've been talking about, maybe a little bit slower, but having passed the neutral point, it's clearly good to be seeing the growth in the earnings, the growth in the monthly cash flow.

Keay Nakae
Okay, and then, just following up on the response to the prior question about where you're going to be at come Q4 in terms of your adjusted EBITDA, given that you've already wrung out most of the cost from the three acquired businesses of last year, how do you then go from this 10% to 12% margin up to your stated goal of 30%? What are the factors that get you there?

Stephen Snyder
So, one of the key ways that we get there is, again, increasingly leveraging technology. So, Mahmud was talking before, for instance, about the transition from ICD-9 to ICD-10 and what we see in our own client base and what we'll see increasingly over the next 90 days, we believe will be a continued movement from a more manual paper-based workflow from the billing perspective to a digital electronic charge capture, demographic capture perspective, which, in turn, will really create excess capacity from an operational perspective that we can then leverage for future acquisitions and for other organic growth. So, that's at least one way that we see from the going forward perspective, we see a real opportunity to further reduce expenses and to achieve our EBITDA margin targets.

Bill Korn
We've been operating the business focused on the long term and so, candidly, if our goal was totally short-term focused, we probably would've reduced expenses a little bit more. We probably wouldn't be making as many investments in technology, in infrastructure, in systems that allow us to scale. But for us, the game isn't about what are 2015 results, but rather how are we best positioned to grow in 2016, 2017 and take advantage of the industry. So, based on that, we feel we're in a very good position to be able to scale revenue without having to see expenses grow in a proportional way.

Keay Nakae
Okay, and then, you typically historically have had monthly attrition, but maybe more specifically to the acquired businesses; do you feel like the level of customers has stabilized at this point?

Stephen Snyder

We do, we do feel like the transition - which, of course, is a combination, largely speaking, of all of the changes that are happening from a workflow perspective, from a process perspective, and the like - we do feel that the trend is, one hundred percent, moving in the right direction and has stabilized.

Keay Nakae
Okay, and then finally, if you close your financing, let's call it, sometime in October, how quickly and what size revenue are you targeting for some of the subsequent acquisitions? What kind of revenue is out there to be captured if you have the capital to go after it?

Stephen Snyder
So we're looking at, again, revenue cycle management companies in the $5 million to $10 million revenue range.

Keay Nakae
Okay, very good, thanks.

Stephen Snyder
Thank you.

Mahmud Haq
And I think the timing we're looking at for this roadshow in the next couple of weeks, starting and completing the process in, I would say, five to six weeks. So, we will have it done this quarter, in the third quarter, and we'll be ready for fourth quarter acquisition and, as Steve mentioned, we're looking for companies between $5 million to $10 million revenue and we believe that we can get, we can buy up to $20 million with this cash. We will not be paying all cash on these deals.

Operator
Thank you, sir. This concludes our answer question-and-answer session. I'd like to turn the conference back over to Mr. Haq for any closing remarks.

CONCLUSION

Amrita Deol
Thank you, Rocco, this is Ms. Deol. Thanks, everyone, for joining the MTBC 2015 second quarter conference call.

Mahmud Haq
Thank you.

Operator
And thank you. Today's conference has now concluded and we thank you all for attending today's presentation. You may now disconnect and have a great day.