

MTBC

Second Quarter 2016 Earnings

August 11, 2016 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Mahmud Haq - *Chairman and CEO*

Stephen Snyder - *President and Director*

Bill Korn – *CFO*

Shruti Patel – *Acting General Counsel*

PRESENTATION

Operator

Good morning and welcome to the MTBC Second Quarter 2016 Earnings conference call. All participants will be in a 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 also note today's event is being recorded.

I would now like to turn the conference over to Shruti Patel, Acting General Counsel. Please go ahead.

Shruti Patel

Good morning, everyone. Welcome to the MTBC 2016 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 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 CEO of MTBC, Mr. Mahmud Haq. Mahmud?

Mahmud Haq

Thank you, Shruti, and thank you for joining us on our second quarter 2016 call. We are pleased to announce that we have achieved quarter-over-quarter revenue growth, which marks a post-IPO milestone. We are also proud to announce that we have delivered our third consecutive quarter of positive adjusted EBITDA, while reducing our GAAP net loss by 35% from first quarter 2016.

We finished the quarter with \$6.6 million cash on our balance sheet. Our management team continues to execute our long-term business strategy of growth through acquisition on favorable terms.

I would now like to turn the call over to President, Steve Snyder, to discuss our growth activities efforts in more detail. Steve?

Stephen Snyder

Thank you, Mahmud. We are well positioned to continue to capitalize on the opportunities that are emerging as our segment of the market continues to undergo transformational changes. Our acquisition team remains focused on identifying the best opportunities and closing additional deals on favorable terms.

We are also continuing to deploy our growth capital and expand our offerings with the July 1 acquisition

of WFS Services, Incorporated, a hospital-focused revenue cycle management company, together with Tennessee-based Renaissance Physician Services on April 30th and our acquisition earlier in the year of Texas-based Gulf Coast Billing. All three deals were structured in a manner that we believe closely aligns our collective interest in client retention and revenue growth.

We acquired WFS Services without any cash down at closing. We will pay WFS Services base consideration of \$5,000 per month over the next 36 months, subject to client retention parameters. We will also pay WFS Services an earn-out based upon the acquired division's adjusted EBITDA over a three-year period.

Renaissance and Gulf Coast each included an advanced payment at closing, which is credited against the seller's right to receive a percentage of the revenue generated from the acquired business units during the three years after closing. We continue to work toward identifying additional, appropriate acquisition opportunities that align with our 2016 growth and profitability objectives, and on finalizing discussions with potential sellers.

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

Bill Korn

Thank you, Steve. Revenue in second quarter 2016 was \$5.2 million, up from \$5.1 million in the first quarter, but down 13% from \$6 million in the second quarter of 2015. The decrease was principally due to loss of clients during 2015 from CastleRock, Practicare and Omni, the companies we purchased at the time of the IPO in 2014.

Revenue from these three acquisitions was down \$1.7 million from second quarter 2015 to second quarter 2016, and was offset by \$674,000 of revenue from the acquisitions during 2016 as well as \$484,000 from the acquisitions during 2015. We are pleased to report revenue growth from first quarter of 2016 to second quarter of 2016, a trend that we hope to continue as the year progresses.

For the six months ended June 30, 2016 the GAAP net loss was \$3.3 million or 32% of net revenue compared to a GAAP net loss of \$2.7 million for the same period last year. While the GAAP loss increased, the first half of 2015 was helped by a \$916,000 non-cash reduction in the value of the shares held in escrow by the sellers of the three companies that we acquired at the time of the IPO, while the first half of 2016 included a similar benefit of only \$411,000.

Direct operating costs were reduced by 29% from \$6.5 million in the first half of 2015 to \$4.6 million in the first half of 2016, while general and administrative expenses declined from \$6.3 million to \$5.6 million.

Our \$3.3 million GAAP loss for the half reflects \$2.4 million of non-cash amortization and depreciation and \$622,000 of stock-based compensation expense. The GAAP net loss was \$0.36 per share, calculated using net loss attributable to common shareholders divided by the weighted average number of common shares outstanding, compared to \$0.27 per share in the first half of 2015.

For the three months ended June 30, 2016 the GAAP net loss was \$1.3 million, 25% of net revenue, or \$0.15 per share compared to a GAAP net loss of \$1.5 million or \$0.15 per share in the first quarter of last year. This decrease in our net loss is primarily the result of cost savings from the integration of our 2014 and 2015 acquisitions.

Direct operating costs were reduced by 21% from \$2.9 million in the second quarter of 2015, \$2.3

million in the second quarter of 2016, while general and administrative expenses declined from \$3.2 million to \$2.7 million.

Our \$1.3 million GAAP loss for the quarter reflects \$1.2 million of non-cash amortization and depreciation, and a \$132,000 of stock-based compensation expense.

There was a significant improvement in our non-GAAP adjusted net income from negative \$1.1 million or negative \$0.10 per share during the first half of 2015 to negative \$515,000 or negative \$0.05 per share during the first half of 2016. Non-GAAP adjusted net income per share is calculated using the end of period common shares outstanding, including those shares which are part of contingent consideration.

For the six months ended June 30, 2016, adjusted EBITDA was \$80,000 or 0.8% of revenue, a significant improvement from the adjusted EBITDA of negative \$805,000 or negative 6.7% of revenue in the same period last year. The improvement in adjusted EBITDA is primarily the result of our 29% reduction in direct operating costs, a result of automating manual processes and moving work offshore, and an 11% reduction in general and administrative expenses.

For the three months ended June 30, 2016, adjusted EBITDA was \$14,000, or 0.3% of revenue compared to adjusted EBITDA of negative \$96,000 or negative 1.6% of revenue in the same period last year. We expect to continue to reduce expenses from Gulf Coast and Renaissance and to continue to report positive adjusted EBITDA during the fiscal year ended December 31, 2016.

The difference of \$3.4 million between adjusted EBITDA and the GAAP loss in the first half of 2016 reflects \$2.4 million of non-cash amortization and depreciation expense, \$622,000 of stock-based compensation, \$325,000 of integration and transaction costs related to recent acquisitions, \$81,000 of provision for taxes, and \$296,000 of net interest expense, offset by a \$411,000 decrease in the contingent consideration liability.

As of June 30, 2016 MTBC's cash balance was approximately \$6.6 million, compared to approximately \$8 million as of December 31, 2015; \$1.6 million of cash was used for the two acquisitions during the first half of 2016.

In early July, MTBC completed a drawdown from its S-3 shelf registration selling 63,040 additional shares of its 11% Series A Cumulative Redeemable Perpetual Preferred Stock at a price of \$25 per share. This resulted in net proceeds of \$1.4 million, based on the maximum permissible under the SEC's rule I.B.6, governing the use of shelf registration statements by companies with under \$75 million of public float. The Series A Preferred Stock is identical to the \$5.8 million of Series A Preferred Stock issued in November 2015. It carries an 11% annual dividend payable monthly, and a \$25 per share liquidation preference.

The shares are not convertible, have no stated maturity, and are not subject to a sinking fund or mandatory redemption. Shares of Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem the shares, which can occur at the company's option at any time after 5 years or within 120 days of a change of control. Our board of directors has declared monthly dividends on the preferred stock payable through November 2016.

At the time this drawdown was completed, the company modified the covenants in its credit agreement with Opus Bank, providing additional flexibility for financing working capital. In exchange for the modification, the company paid a fee of \$25,000 and issued additional warrants to Opus for the purchase of 100,000 shares of its common stock at a strike price of \$5.00 per share, with similar terms

to the previous warrants issued to Opus when the \$10 million credit facility was opened in third quarter 2015.

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

Mahmud Haq

Thank you, Bill. We had our third consecutive EBITDA positive quarter, our first quarter of sequential revenue growth in two years, and we have capital to invest in attractive acquisitions and partnership opportunities. I would like to thank all of our team members in US, Poland, Pakistan for their hard work and dedication. Finally, I want to thank all 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. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone telephone. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Keay Nakae of Chardan. Please go ahead.

Keay Nakae

Thank you. First question is for Bill. I know you stated the components of the revenue. Could you repeat those? I didn't catch all of it. So from the loss of the 2014 clients, the revenue was down \$1.3 million and what was the rest of the statement you made?

Bill Korn

Yes, so from the clients from the acquisitions of the 2014 companies it was actually down \$1.7 million from second quarter 2015 to second quarter of 2016. Then there was \$674,000 of revenue that came from three acquisitions during 2016 as well as \$484,000 from two acquisitions in the second half of 2015.

Keay Nakae

Okay, thanks. So it sounds like the Gulf Coast and Renaissance, you seem to be holding relatively close to the run rates, where those were at when you took them over.

Stephen Snyder

I think that's fair to say, Keay, and of course we've also acquired WFS Services. That's a company that we're very excited to fold into our portfolio. It also gives us now a more prominent foot in the door with regard to the hospital space. They have a revenue cycle management business that's focused on the hospital space, and we think this is going to open up pretty significant opportunities for us as we move forward.

In terms of expanding the businesses with the existing WFS Services customers, there are lots of opportunities that have yet to be tapped with those existing relationships. Then we'll also be pivoting towards other opportunities within the hospital space.

Keay Nakae

So with respect to the operating expense, we continue to see this come down. Just relative to, again Gulf Coast and Renaissance, how much have you reduced the expense for those two entities combined since you took them over, and how much reduction is left to be captured?

Bill Korn

I would say roughly 60% expense reduction is done and there is maybe 40% to go. So we bought Gulf Coast in the middle of first quarter, and we've done a great job of moving those clients to our platform, moving the work that makes sense offshore and automating work that we can.

We bought Renaissance in May. So that's a little bit further behind in the process, but again is on a very nice curve to reducing expenses and showing that each time we do an acquisition we add revenue and we add incremental profit contribution.

Keay Nakae

Okay, and then I didn't see any mention of this, neither the press release or verbally, but with respect to your prior guidance, revenue in the range of \$27 million to \$30 million and adjusted EBITDA positive in the range of \$1.5 million to \$2.0 million, are you sticking with that or are you modifying it?

Bill Korn

So we noticed that most micro-cap companies that are our size tend not to provide earnings guidance. And we've concluded that at this point it's probably better to not get in that habit. So at this point we're not going to comment on the future.

Keay Nakae

Okay. Just finally then in terms of what else was looking attractive in the pipeline to bring on-board, comment about the landscape that you're seeing there.

Stephen Snyder

Sure, we'll be happy to Keay. Again, at any point in time we are in conversations with multiple target companies. And what we're really trying to do is to be patient and to make sure that we're acquiring the companies that are the best fit for accomplishing our 2016 objectives. So, as you know, we've acquired three companies so far. And we've made pretty significant progress in terms of being able to rationalize those costs and also being able to leverage the team members who have joined us through those acquisitions to identify and to go after new business. With regard to retention it's always an unknown until we start progressing.

But certainly with regard to Renaissance in particular that's exceeded our expectations. For WFS, we probably see the growth opportunities. GCB has been a little bit more of a struggle but again we're closing business to offset some of the accounts that have attrited.

So as we look at the other opportunities that exist, we really think that as we progress to the end of the year we'll be able to close a number of additional deals. For one of these particular opportunities, we've been in conversations for an extended period of time and those conversations had progressed very well. It's a much larger company from a revenue perspective; we think it's a great opportunity. We don't know whether or not that will ultimately close or not. We had progressed very close to what seemed to be a definitive agreement and then the gap widened again, and we're not sure if that's going to go across the finish line or not.

Even if that doesn't, we have many other opportunities that we're actively pursuing, and again as we move forward we will continue to identify those best opportunities, negotiate the most favorable deals, and then bring them across the finish line. But again, it's a bit difficult to predict the timing with regard

to these transactions.

Keay Nakae

Okay, so just in terms of some of the other organic growth initiatives that you're focused on for this year and specifically as that pertains to the base business coming out of 2015, so including the 2014 acquisitions, are you feeling like there's enough opportunity for organic growth to grow, what had been your 2015 base, or are you still losing customers from that business at a faster rate than what you can achieve through organic growth?

Stephen Snyder

So when we look at our base business -- , and included in that base business discussion are the companies that we acquired prior to 2016 -- when we look at that retention rate right now, from a retention rate perspective in terms of the number of accounts, we're retaining roughly 88% on an annualized basis of those accounts. So we feel comfortable with that when we look at the base business. There have been a couple of outliers that from a revenue perspective increase that if we look at that from a revenue perspective. But in terms of the retention in view of the significant changes that are happening in the industry, we feel comfortable with retention of that base business.

But we do think it's important to continue to focus on, again, where the industry is going and to be on the leading edge of that. So for instance for WFS Services we now have a foot in the door in the hospital space, and as hospitals continue to acquire independent physician offices, having that foot in the door and having an established book of business and referencable clients in the hospital space, we're confident will allow us to continue to grow through organic means.

Having said that, we continue frankly to be primarily focused on the acquisition opportunities, where the cost for acquiring those customers is frankly more attractive in acquisitions than it is through organic growth.

Keay Nakae

Okay, thank you.

Operator

And, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star then one at this time. And as a final reminder, if you would like to ask a question, please press star then one.

Showing no further questions, I'd like to turn the conference back over to Mahmud Haq for any closing remarks.

CONCLUSION

Mahmud Haq

We thank all of you for joining us and have a good day. Thank you.

Operator

And thank you, sir. And we thank you all for attending today's presentation. The conference has now concluded. You may disconnect your lines. Have a great day.