MTBC

First Quarter 2015 Earnings

May 13, 2015 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Mahmud Haq – *Chairman and Chief Executive Officer*

Stephen Snyder – *President*

Bill Korn – *Chief Financial Officer*

Amritpal Deol – *Vice President, General Counsel*

PRESENTATION

Operator

Good morning and welcome to the MTBC First Quarter 2015 Earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press * then 1 on your touchtone phone. To withdraw your question please press * and then 2. Please note this event is being recorded.

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

Amritpal Deol

Good morning, everyone. Welcome to the MTBC 2015 First 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 will now turn the call over to the Chairman and Chief Executive Officer Mr. Mahmud Haq. Mahmud?

Mahmud Haq

Thank you, Amrita, and thank you for joining us on our first quarter 2015 financial results and business highlights call. First, the financial results, revenue for first quarter 2015 were $6.1 million, which represents a 139% increase over 2014. Adjusted EBITDA was $710,000 loss; we are on track to attain a 30% EBITDA margin in the fourth quarter 2015 as previously mentioned.

I am pleased to report a number of accomplishments during the year so far. We recently entered into a partnership with Amazing Charts to provide revenue cycle management to Amazing Charts' clients. As you know, Amazing Charts is a leading EHR company focused on our target market. We increased our line of credit with TD Bank to $3 million, which represents an increase of 150%. This increase in our credit facility provides additional working capital to fund our growth at very attractive interest rates.

We introduced a number of upgrades to our service platform including iCheckIn, an enhanced version of our mobile patient check-in app; PHR 2.0, an enhanced personal health record platform for patients that simplifies meaningful use stage 2 compliance, and a partnership with X-Link that extends the reach of our platform to more than 350 other practice management and EHR platforms. We've started beta testing of SameDay Funding.

We made great progress integrating the three businesses that we purchased last year at the time of the IPO. Integration efforts are going as planned and we are near completion. We have realigned resources and significantly cut expenses.

With this I will turn the call over to Steve Snyder, our President, to discuss our operations in more detail.

Steve Snyder
Great. Thank you, Mahmud. As Mahmud mentioned, we are making substantial progress in terms of our integration efforts and have already transitioned approximately 90% of our clients to our platform. We expect that the right sizing and system migration will allow us to continue to rationalize a variety of costs including facility leases and personnel and software expenses. Likewise, as we increasingly leverage our proprietary technology and processes, our efficiency increases and our outcomes are optimized. We look forward to experiencing additional reductions in our expenses during the second and third quarters of this year.

We are also very pleased to have officially launched our European operations office, MTBC-Europe, which is based in Poland. Our European team members will be working alongside of our US and Asia-based team members to support our continued growth.

I'll now turn the call over to Bill Korn, our Chief Financial Officer to provide a detailed review of our first quarter financial results. Bill?

Bill Korn
Thank you, Steve. We're pleased with our first quarter. First quarter 2015 revenue of $6.1 million, grew 139% compared to $2.6 million in the first quarter of 2014. This growth was primarily attributed to our acquisitions. Adjusted EBITDA in the first quarter was negative $710,000 compared with positive $2,000 in the first quarter a year ago. The adjusted EBITDA loss is primarily due to two factors: seasonality and post-acquisition ramp-up costs.

First quarter revenue for each of our customer practices is normally lower than other quarters and because our fee structure is generally based upon a percentage of the money our doctors collect, our revenue typically declines in first quarter as well. Insurance payments are generally lower in Q1 because many health insurance plans have an annual deductible which resets on January 1st. This elongates most doctors' collection cycles; hence our first quarter revenues are normally lower than other quarters.

Second, we spent approximately $0.5 million on payroll and benefits during the first quarter for employees who are no longer with us, as our US headcount decreased from 205 employees on January 1st to 104 employees on March 31st. That reduced cost will drop to our bottom-line starting in the second quarter. We are achieving the overall reduction of our expense profile as Steve described with reduced lease costs, third-party software and other expense causing EBITDA losses to narrow during the first three months in the year. We are now at the point where EBITDA is turning positive and will begin growing.

Our non-GAAP adjusted net income was negative $854,000 or negative $0.08 per share, compared to non-GAAP adjusted debt income of positive $83,000 or $0.02 per share in first quarter 2014. The GAAP net loss in the quarter was $1.2 million or $0.12 per share compared to GAAP net income of $384,000 or $0.08 per share in the first quarter of 2014. The $456,000 difference between adjusted EBITDA and the GAAP loss reflects $1.2 million of non-cash depreciation and amortization expense primarily related to purchase of intangible assets, $127,000 of stock-based compensation, $35,000 of net interest expense offset by $46,000 of foreign currency gains, a $696,000 decrease in the value of the contingent consideration liability and a gain of $133,000 related to CastleRock's forfeiture of 53,797 shares of the company's common stock. The $696,000 gain from the reduction in the fair value of contingent consideration is primarily due to the decline in the price of the company stock, since the value of the shares which are part of the purchase price, is now less.

In addition, you may recall that one of the former owners of one of the businesses we acquired, CastleRock, violated the terms of our non-compete agreement. We settled with them in February and as a result CastleRock forfeited 53,797 shares of our common stock, which were due to be released from escrow in January. We also modified the formula we will use for a final adjustment in September in a way that we'll reduce the number of shares we pay for this company. This change in formula was a contributor to the $696,000 gain from the reduction in the fair value of the contingent consideration.

The 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.

In September of this year, when the actual revenue for the twelve months after purchase from each acquisition is known, the number of shares will be fixed and there will be no further change to the value of the purchase price.

As of March 31, 2015, MTBC's cash balance was approximately $1.2 million, compared to approximately $1 million as of December 31, 2014.

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

Mahmud Haq
Thank you, Bill. This quarter has been very encouraging for us. Our strategy is on track. Our team is making meaningful progress on the integration and our pipeline is full of potential acquisition targets. We believe that we will get a boost from ICD-10, the new Medical Classification System which all doctors in the U.S. will need to use for medical billing starting in October 2015.

ICD-10 has seven times as many codes as the current system ICD-9, and the government believes that could bring many benefits to the medical community. But the extra complexity means that it will be nearly impossible for most of the doctors to do their billing in-house and the other revenue sector's management, who lack our technology platform and our low-cost offshore workforce to perform these services profitably. We think this will provide us with attractive acquisition and partnership opportunities. We look forward to keeping you all updated on our current efforts and providing you with updates on our initiatives for the future.

Lastly, I want to thank all of our shareholders for their belief in MTBC. I would like to thank all of our team members in U.S., Poland and Pakistan for their hard work and our physicians for trusting us to help manage their practices.

We will now open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question you may press * then 1 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 * and then 2. At this time, we'll pause momentarily to assemble our roster.

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

Keay Nakae
Yes, thank you. First question is for Bill, just wanted to revisit your comment that EBITDA had turned positive. So, now that we're halfway through the quarter, should we expect that positive adjusted EBITDA to be reported for Q2?

Bill Korn
Thanks, Keay. So we're really glad to see that all of the integration and the cost reduction is really providing the results. And at the moment as I look at our Q2 numbers, I see our direct operating costs down, I see our G&A down again due to all the savings that we've looked at. I'd say the only wild card is we're starting to spend a little more on marketing and sales —which we think is great investment for the future — so depending on exactly what we spend on that investment that might shade the number a little bit. But otherwise, we're really confident that we've turned the corner here and we'll be operating profitably as we did for the six years before the acquisitions and IPO.

Keay Nakae
Okay, great. When we look at some of the remaining cost reduction items related to the acquisitions, what are some of the key areas there where we should see continued reductions?

Bill Korn
As you know we've been reducing the number of employees in the US from the companies that we acquired. That number was nearly 300 at the time of the acquisitions. It was 104 by the end of March. That number is going to continue to go down gradually. There's not going to be one sudden drop-off, but basically as we find we can move work offshore while keeping our clients happy, we'll continue to do so.

We've also been working on what I'll call sort of the second-order effects, like, let's think about making the phone services cost effective in each office, let's look at leased copiers that came from the acquisitions and do we really need them, so there's lots of little things. So there's no silver bullet where you can expect a half-million drop in cost, but literally we're saving $1,000 at a time, the old-fashioned way.

Keay Nakae
Okay. And as far as the foreign workers, where are you in terms of transitioning those workers to Pakistan?

Bill Korn
Yes, so we've got roughly 90% of the work being done by our team offshore, mostly Pakistan, a few in the office in Poland. And again, we continue to look at the employees in the U.S. as the ones who have the customer relationship and the employees offshore to be doing most of the operations work. I don't know, Steve, if you want to add to that.

Steve Snyder
Sure, I think that's exactly right, Bill. I think, Keay, if we break down the functions and we look at the core operational parts of the workflow, so the data entry, the charge capture, the payment posting, the follow-up and the like, roughly 90% of those functions are being handled by our team members offshore or offshore offices. And then the onshore team is primarily focused on the retention of our clients; they're focused in on higher value activities, identifying opportunities for additional reimbursement, meeting with our clients, really client-facing responsibilities.

Keay Nakae
Okay. And just one final question in terms of practice retention, so of the three acquired businesses, where would you characterize the percent of practices that are still with those doctors—that are still with you?

Mahmud Haq
I think I would — this is Mahmud. Going back to your previous question and we'll get to the number in a minute. The second quarter, the second half of the year, as Bill mentioned, now we are focusing on growing the business. We have experienced I think roughly — there's different ways of looking at numbers — but let's say we went through about a 20% loss of business of going through transition and understand that part of it was, as Bill mentioned, one of these companies that we purchased, CastleRock, a majority of the loss came from that division. But I think at this point as Bill mentioned, we are cash flow positive and the next two quarters, the remaining of the year, is where we want to focus, regain the lost business and add some more and I think that's what our goal is for the next half of the year. So if you want to walk away with a number, it will be about 20% of the attrition since the IPO.

Keay Nakae
When you talk about growing the business, are you talking about organic growth or additional acquisitions?

Mahmud Haq
I think mostly we are focused on organic growth, as Steve mentioned, the partnership with Amazing Charts, Practice Fusion providing the back-end support, back-end revenue cycle management. Those plus if the right opportunity comes, we'll be open for an acquisition.

Just to remind everyone that initially we were thinking of doing many more acquisitions, but the amount of money that we raised was $20 million instead of $30 million, which kind of made us focus on bringing the cost under control at a faster speed than what we initially planned on. So now that that's behind us, we'll have the funding for organic growth plus if a right opportunity comes for acquisition, if we can find funding. If it's big enough, if it could be self-funded, funding will be open for smaller acquisitions.

Keay Nakae
Okay, thank you.

CONCLUSION

Operator
This concludes our question and answer session. I'd like to turn the conference back over to Mahmud Haq for any closing remarks.

Mahmud Haq
Okay, Amrita? We'd like to thank you all of you. Is there any other comments on this?

Amritpal Deol
No other comments.

Mahmud Haq
Okay, thank you.

Bill Korn

Thanks, everyone.

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