MTBC

Second Quarter 2018 Earnings

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CORPORATE PARTICIPANTS

Shruti Patel - *General Counsel*

Mahmud Haq - *Executive Chairman*

Stephen Snyder - *CEO and Director*

A. Hadi Chaudhry - *President*

Bill Korn - *Chief Financial Officer*

PRESENTATION

Operator
Good day, and welcome to the MTBC Second Quarter 2018 Results 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. 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 note this event is being recorded.

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

Shruti Patel
Thank you, Alison. Good morning, everyone. Welcome to the MTBC 2018 Second 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 second 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?

Stephen Snyder
Thank you, Shruti and thank you, everyone for joining us on our second quarter 2018 earnings call. We are pleased to report another strong quarter of revenue growth. Revenues for the second quarter were $8.7 million, a year-over-year increase of 12%.

During the second quarter, we also continued to generate positive cash flow, while achieving record

GAAP net income and adjusted EBITDA. Our adjusted EBITDA was $1.6 million, representing more than 230% year-over-year growth, driven in large part by the successful integration of our MediGain acquisition, which closed in late 2016. Our GAAP net income was $195,000 during the second quarter, reflecting a year-over-year improvement of $1.9 million.

While we have had a record breaking first half of the year, we believe that the second half of the year will be even stronger. Having recently closed our largest acquisition to date, having purchased the core business assets of Orion Healthcorp and related entities, today we are providing revenue guidance for the second half of the year of $32 million to $33 million, which represents nearly a doubling of our annualized revenues. As we significantly accelerate our revenue growth, we are scaling our business without a corresponding increase in overhead expenses. Therefore, even with temporary redundancy and acquisition related ramp-up costs, we still expect our full year 2018 adjusted EBITDA to be between $4 million and $5 million, representing approximately 2 times our 2017 adjusted EBITDA.

In addition to traditional RCM, or revenue cycle management services, of the type we provide to other physicians throughout the country, the Orion acquisition also opens up multiple new revenue segments, each of which present growth opportunities and cross-selling potential. First, our newly acquired community hospital client service agreements involve innovative solutions beyond the scope of our historical RCM offerings. For example, with the Orion acquisition, we now have employees who work onsite at community hospitals to assist our customers and their patients in effectively addressing insurance eligibility and related needs. Our employees also provide other unique consulting and RCM solutions to hospital customers.

Second, our new group purchasing organization segment, which is known in the industry as a GPO, enables thousands of physician-clients throughout the country, who have become members of our GPO, to purchase vaccines from leading pharmaceutical companies with which our GPO has negotiated discounted rates. We look forward to making this valuable service available to all MTBC customers during the third quarter of this year and we will also introduce our new GPO customers to MTBC's full suite of services, which of course include RCM and electronic health records.

Finally, our newly acquired practice management services revenue segment involves our active management of pediatric practices in Ohio and Illinois. We provide these services through management service agreements that contain 40-year terms, which extend through 2039. We will leverage our experienced management services employees to join us as part of this acquisition, to analyze expansion opportunities for these existing practices, together with possible organic and acquisitive growth in this market segment.

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 second quarter 2018 call. While it has been less than 40 days since we closed the Orion transaction, we are pleased to report that we have already transitioned the back-office RCM work from Orion's offshore vendors to our employees. By doing so, we have reduced our offshore costs by an estimated 70%, while laying the foundation for a significant improvement in the level of service. Additionally, we have successfully transitioned all clients who were using Orion's proprietary platform to our software and are analyzing other opportunities to add value to relationships by leveraging our platform.

While we are very pleased about the Orion acquisition, we are equally excited about the growth of our platform. With regard to blockchain, as we have discussed during a past earnings call, it is our vision to create a comprehensive network that will support the secure and efficient exchange of electronic patient data through blockchain. We are pleased to report that we moved blockchain into production during the second quarter for data transmission between our EHR and patient portal. We've also recently obtained a commitment from a small NY-based EHR that will be partnering with us and this partnership will include connecting to our blockchain. While these are small and early achievements, we believe they are important milestones as we strive to leverage blockchain technology to solidify our position as a market leader, forge relationships with other vendors, and better serve the needs of our clients in the increasingly interconnected healthcare space.

Since our last earnings call, we also released powerful, new artificial intelligence-driven functionality in Allison, the virtual assistant built into talkEHR. For example, during an office visit, a physician typically renews a patient's prescription using a traditional EHR and this task, which should be simple, often takes many steps and up to five minutes to complete. By contrast, a talkEHR user need only say, "Allison, re-prescribe active medication," and the virtual assistant populates all necessary fields in seconds, prompts the physician for sign-off, and then sends the prescription to the patient's pharmacy. This is the type of assistance that Allison provides to physicians throughout the care continuum, and the scope of assistance will continue to expand.

This has been an exciting quarter and we look forward to providing new updates as we move forward. I will now turn the floor over to our Chief Financial Officer, Bill Korn. Bill?

Bill Korn
Thank you, Hadi. Second quarter 2018 was a remarkable quarter for MTBC. We started 2018 very strong, reporting strong revenue growth, record profitability, a strong balance sheet, and closing our largest acquisition ever on July 1st.

Revenues for second quarter 2018 were $8.7 million, an increase of 12% compared to $7.8 million in the second same period last year. Revenue increased $376,000 or 5% compared to Q1 2018, and this did not include any revenue from the Orion acquisition, which closed on July 1st. Revenue for 2018 is based on the new ASC 606 revenue recognition standard, which did not have a material impact on our reported revenue. MTBC adopted the new revenue recognition standard on January 1, 2018. Please refer to our earnings release or our 10-Q for a table showing what we would have reported under the old revenue recognition standard.

Our second quarter 2018 GAAP net income was $195,000, or 2.2% of revenue, an increase of $120,000 compared to a net income of $75,000 in first quarter 2018 and an improvement of $1.9 million from the net loss of $1.7 million in second quarter 2017.

The $1.9 million improvement in our GAAP net income was a result of significant cost savings since we acquired MediGain in October of 2016. While second quarter revenue increased by $898,000 from the prior year, total operating expenses decreased by $557,000. The dramatic turnaround from a GAAP net loss of $1.7 million to GAAP net income of $195,000 was due to four factors:

- first, an $898,000 increase in revenue, where the majority of the increase comes from the 950 provider physical therapy practice who we signed as a new client last November;
- second, a reduction of $136,000 or 3% in direct operating costs, which includes additional costs to service the additional revenue, which were more than offset by cost reductions in the first 9 months after our MediGain acquisition in October 2016;
- third, a $282,000 or 10% reduction in general & administrative expenses;
- and finally, an $893,000 reduction in depreciation and amortization expenses, as we completed amortizing the intangible assets from our 2014 acquisitions.

The impact of the new revenue standard on our revenues and net income was approximately $280,000. The GAAP net loss for second quarter 2018 was $0.09 per share, 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 dividends, and 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 GAAP net income is positive.

Non-GAAP adjusted net income for second quarter of 2018 was $1.3 million, an increase of $1.4 million compared to adjusted net income of negative $77,000 in the same period last year and an increase of $613,000 compared to first quarter 2018. Non-GAAP adjusted net income was $0.11 per share, calculated using the end-of-period common shares outstanding.

Non-GAAP adjusted net income excludes significant non-cash expenses, such as $337,000 of amortization of purchased intangible assets, $409,000 of stock-based compensation expense, as well as $472,000 of integration and transaction costs associated with acquisitions. This is our third consecutive quarter of positive adjusted net income.

Our second quarter 2018 GAAP operating income was $72,000, or 1% of revenue, which represents an improvement of $1.5 million from the $1.4 million GAAP operating loss in second quarter 2017. This is the Company's third quarter with positive GAAP operating income since our IPO in 2014.

Non-GAAP adjusted operating income was $1.3 million, or 15% of revenue. Second quarter 2018 adjusted operating income represents an improvement of $562,000 from the $739,000 adjusted operating income in our prior quarter and a $1.2 million improvement from second quarter 2017. Achieving 15% non-GAAP adjusted operating income is an important milestone, especially for a company of MTBC's size. This is our fifth consecutive quarter of positive adjusted operating income.

Cash flow from operations for the quarter was also $1.3 million. Management looks closely at non-GAAP metrics such as adjusted operating income as a good proxy for measuring the cash actually generated by our business.

Adjusted EBITDA for second quarter 2018 was $1.6 million, or 18% of revenue, compared to adjusted EBITDA of $468,000, or 6% of revenue, in the same period last year. The second quarter 2018 adjusted EBITDA represents 233% growth on an annual basis, as well as 60% growth or an improvement of $583,000 from the $974,000 adjusted EBITDA in our prior quarter, reflecting the significant cost savings we've achieved. Second quarter represents the highest adjusted EBITDA MTBC has ever recorded.

This is our fifth consecutive quarter of positive adjusted EBITDA. The higher scale that we achieved from the MediGain acquisition has allowed us to spread our fixed expenses over a larger revenue base and generate larger adjusted EBITDA than we ever have before. We expect that the Orion acquisition will have a similar effect in the future.

The difference of $1.4 million between adjusted EBITDA and the GAAP net income in the second quarter of 2018 reflects $560,000 of non-cash amortization and depreciation expense, $472,000 of integration and transaction costs related to acquisitions, $409,000 of stock-based compensation, $44,000 of net interest expense, an $11,000 increase in our contingent consideration liability, and a $51,000 of provision for taxes, offset by a $185,000 of foreign exchange gain.

Let's talk a little about our six-month results. Revenues for the first half of 2018 were $17 million, an increase of 6% compared to $16 million in the same period last year. The first half of 2018 GAAP net income was $270,000 compared to a GAAP net loss of $4.4 million in the same period last year. 2018 GAAP net income includes non-cash amortization and depreciation expense of $1.2 million, which was $1.8 million less than during the same period in 2017, as well as $985,000 of additional revenue and a reduction of $603,000 of direct operating costs.

Non-GAAP adjusted net income for the first half of 2018 was $1.9 million, an increase of $2.9 million compared to the adjusted net income of negative $930,000 in the same period last year. Non-GAAP adjusted net income was $0.17 per share, calculated using the end-of-period common shares outstanding.

Adjusted EBITDA for the first half of 2018 was $2.5 million, or 14.9% of revenue, compared to adjusted EBITDA of $154,000, or 1% of revenue, in the same period last year.

Cash flow from operations was $2 million for the 6 months, an improvement of $2.7 million over the first 6 months of last year.

As of June 30, 2018, the Company had $11.7 million in cash and a working capital surplus of approximately $14.2 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. The SVB line can be used for future growth initiatives, including acquisitions with SVB's approval. We did not utilize our line of credit during first half of 2018.

Raising $9.4 million through a sale of additional shares of our non-convertible Series A Preferred Stock in early April positioned us to take advantage of a compelling opportunity for consolidation in the market. Having capital available was a key factor enabling MTBC to purchase key businesses from Orion Healthcorp and 13 of its affiliates for an attractive price of $12.6 million.

The Orion transaction will help us significantly scale our business, enabling us to grow revenues without a corresponding increase in overhead, while expanding margins and investing in the people and technology that enable us to provide world class service. We expect that Orion will nearly double MTBC's revenue during the second half of 2018. You can expect our second half revenue to be in the range of $32 million to $33 million, close to double our revenue for the first half of 2018. This means our full year 2018 revenue will be a total of $49 million to 50 million, although we will end the year at a much higher run rate.

As with past acquisitions, for the revenue cycle management portion of Orion's business we will be leveraging our experienced US-based and offshore team members, to enable us to reduce dependence on third-party contractors. We will be moving to smaller, less expensive facilities, since we did not assume most of Orion's leases. We will begin utilizing our technology to improve services for our clients. These will all improve profitability, but it will take several quarters before the full impact occurs.

However, Orion's practice management business and group purchasing organization are already profitable, so we expect that the profits from these new businesses will offset any temporary operating losses in the RCM business while cost savings grow and have an impact. Hence, you can expect our overall adjusted EBITDA in the second half of 2018 to be similar to our first half, resulting in full year adjusted EBITDA of between $4 million and $5 million.

Please note that like our previous acquisitions, from an accounting perspective, a large portion of the value will be attributed to intangible assets, which we will amortize over the next few years. This means that our non-cash amortization expense will increase. This is excluded from adjusted EBITDA, but the positive GAAP net income we showed this quarter will be reduced to a GAAP net loss for the next few quarters. ***This does not impact our cash flow.*** However, as we reduce costs and spread our fixed overhead across larger revenue, you can expect that our adjusted EBITDA will continue to grow in 2019, and our GAAP net income will return positive and continue to grow.

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

Mahmud Haq
Thank you, Bill. We've had a remarkable first half of the year, and with the Orion acquisition, we are ready to turn in a year of record-breaking growth with continued profitability. We thank our investors, customers and employees for their support and look forward to providing additional updates as the year progresses.

We'll 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 phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause for a moment to assemble our roster. Our first question today will come from Kevin Dede with HC Wainwright. Please go ahead.

Kevin Dede
Good morning, gentlemen. Thanks for taking my call. I have a list of questions for you. Maybe we should start with just your view of the second half. Could you peel that $32 million to $33 million onion back a couple of layers, give us some insight on how you see your new businesses in terms of seasonality, and how that would compound or retract from inherent seasonality and your legacy RCM business? And then maybe layer on some of your margin expectations given higher amortization maybe less profitability and the Orion RCM business, and how you expect that to reflect in your consolidated results for the third and fourth quarter.

Bill Korn
Thanks, Kevin. Good questions. Let me see what I can do for you. So first in terms of seasonality, as many folks know, in general our business has a little seasonality. You don't think of people going to the doctor's differently across the year but typically during the first quarter of the year many people have deductibles in their insurance, and therefore payments are a little bit slower, and in most of our clients we're getting a payment that's related to the fee that the doctor actually collects. So typically our first quarter revenue is a little bit lower than other quarters.

In the case of Orion, let's look at each of the three segments. Their revenue cycle management business will look very similar to ours, and therefore Q3, Q4 will all be roughly similar to Q2, so nothing particularly major there. There are several hospital clients where we get fees that are essentially more fixed. So there's a little bit less seasonality but probably not enough to actually notice.

In the case of the three pediatric practices, I guess the typical pattern is in fact that the third quarter tends to see somewhat of a seasonal increase as children are going in for their pre-school visits. So typically August and early September, there's a little bit of an increase in revenue. So you may see Q3 a little bit bigger, again not a dramatic difference, but that's, I guess, one other factor to think about.

And finally with the group purchasing organization, we have 4,000 doctors who are currently participants, they buy vaccines directly from major pharmaceuticals and then we get a rebate check on a quarterly basis based on the vaccines that are purchased. So there's probably a little bit of seasonality to that in that a portion of that vaccine business is flu vaccines. Typically those flu vaccines tend to be third and fourth quarter and then a little bit more in first quarter. Very few people get flu vaccines during second quarter of the year.

And then there's the early childhood vaccines, those tend to be again a little bit more in third quarter as children need to get vaccinated before they return to school. Overall, I think a good way to look at this is that we've given a guidance of $32 million to $33 million for the second half. I would look at the two quarters generally being somewhat similar. Most often, right after we've completed an acquisition, our first quarter after that acquisition is a little bit higher because we often find work that wasn't done as effectively before we took over, and we essentially catch up on things that should have been processed previously, and that pulls in some revenue. So you might think about Q3 being a little bigger than Q4, but in general I think there's not a whole lot of big seasonality there.

Kevin Dede
Okay. Thanks, Bill. I appreciate the color. How about the margin profile? I know that you're probably working through some of the contracts that Orion had established on its RCM side, and I'm just wondering—I missed a little bit of Hadi's discussion on how much of Orion's already been transferred. I think he said 100% is now on your system or 70%. I lost that, apologies, but I'm just wondering how far you've gotten there and what the margin impact is, as we work through the second half.

Bill Korn
In terms of what's transferred, we started first and foremost, as we typically do after an acquisition, with work that was being done by subcontractors of Orion, and in this case what was interesting is we heard uniformly from customers, as well as from employees, that these subcontractors weren't doing a great job. And so as we talked to our clients about making that transition, we got a very positive reception from all clients.

And so I think, Hadi, if I'm correct, said that by now we've actually moved—there were clients, 20 odd clients that were on a platform that this subcontractor had developed. I think we've moved all of that work, is that correct?

A. Hadi Chaudhry
That is correct. So two parts of it, Kevin, one is as Bill mentioned, the offshore works that vendor RCM work has been completely transitioned to MTBC's employees. So which means we will be able to save 70% of the cost, the back-office RCM related cost. When it comes in terms of the platforms, we just started with the proprietary platform of Orion which the uniform feedback that that platform itself was not a good quality platform, so that transition of that software platform is also then 100% accomplished since we have acquired the Orion.

For the rest of the platform, that platform is a small number in terms of the overall the client base because there are a large number of the hospital-based clients which have been using different big hospital supported software platforms, so as we have done in the past, we have started looking at the different opportunities where we can use our technology to bridge some of those gaps by providing small modules to increase the overall efficiency there.

Kevin Dede
Okay, Hadi. Let me just interrupt I apologize, but all right, so as I understand it all the stuff that Orion had transferred offshore has been transferred over to MTBC and most of or all of Orion's proprietary physician client, RCM business has been transferred over. And then how much would you estimate that the rest

of the platform, the platform that serves these large customers, represents of Orion's overall RCM business?

A. Hadi Chaudhry
Okay. If you're talking in terms of the platform, roughly the number that we have transitioned, it's about 10% from the IT platforms perspective. The rest, as I mentioned, there is large amount of revenue which is coming from the hospital-based physicians, the large hospital groups, so of course their systems are more the hospital-based ones, so we cannot transition those platforms, but for sure we can bring a lot of the improvements and efficiency by leveraging our technology and our IT staff.

Kevin Dede
Okay, great. Thanks, Hadi. Steve would you mind just commenting on I guess sort of your strategic vision? I guess it's taken roughly, what, 18 months to dive in to Orion since the closing of MediGain, and I'm wondering a couple things. One, are you still considering purchasing primarily RCM business in your roll up strategy? And two, have you fully evaluated the physician management business and the GPO business to the extent that you've made a final decision to keep it within the MTBC umbrella or is there still a chance you might decide that it doesn't necessarily fit your core competency and that you might perhaps sell it?

Stephen Snyder
So we'll be happy to, thanks for the question, Kevin. And let me address the last part of your question first. With regard to the physician management, the long-term MSAs that we have with those pediatric groups, and also the GPO, both of those, we believe, are good fits. Our current plan is to continue to maintain them as part of our overall portfolio of customer relationships. We see real opportunities for growth for both of them.

With regard to the GPO in particular, we consider the fact that the GPO, just as an example, up until the time when we closed the transaction, didn't even have a website. And if you consider the number of vendors that you work with or any of us work with on a day to day basis, whether they be just your local restaurant or your auto mechanic or any vendor. I think there's probably a relatively small number that aren't leveraging even a website to promote their product. So we think there's real significant opportunity with regard to the GPO to actually begin to start marketing and selling that into our existing base. So the GPO solution can add value to our existing primary care groups, our existing pediatric providers and like, while at the same time contacting the GPO clients and offering them MTBC's EHR, MTBC's PM. So we think it's a great strategic fit and are really excited to have that GPO now as part of our mix of solutions.

To the earlier question that you asked in terms of the acquisition opportunities, and when we look at the fact that this market continues to move in the direction of the competition having business models that are not well equipped for growth or even profitability, we continue to see a real opportunity in this highly fragmented market to acquire distressed companies and add significant value to those relationships. We can turn companies and customer relationships that are operating at a loss into profitable relationships, and are able to grow those relationships organically through referrals, to be able to develop new relationships. So we continue to think that the acquisitive aspect of our overall growth strategy is the most attractive part.

If we think about MediGain, to your question, we think about the cost for customer acquisition, the costs for acquiring that revenue was roughly 45% -50% of annualized revenues in MediGain. If we think about the Orion acquisition, the cost was significantly less than that. So it's a very cost efficient way, we believe, to be able to grow our top-line and to really expand margins over time as well once we integrate those customer relationships. When we compare the costs associated with acquiring these relationships versus organic growth, we consider our competitors in this space for whom one times revenue is a pretty typical benchmark for their costs for acquiring those relationships. And when we look at that, we think about our strengths, we think about the fact that as a team, I think it's an accurate statement that there really is not another company, at least that we know of, that has the scope and breadth of experience in acquiring and successfully so acquiring companies in this space. So we have the team that has that experience, has the capabilities. We have the industry-leading platform. We have the global business model that allows us to, together with our technology, take struggling customer relationships, take companies that are struggling and turn them into profit generating divisions. And we continue to be very excited about the acquisition aspect of our overall growth strategy.

Kevin Dede
Okay with that backdrop, Steve, how would you say the pipeline looks and what's your appetite nearer term versus longer term?

Stephen Snyder
I think near-term, our primary focus is going to be on expanding margins, and as we think about the third quarter and certainly the earlier part of the fourth quarter, we'll continue to focus on third party vendor relationships where we think that we can candidly increase the quality of the service being provided and significantly reduce expenses by taking a lot of that work in-house. The bankruptcy has allowed us to eliminate a lot of the equipment and lease expenses and the like, reducing the facility and software expenses and leveraging our broader team.

As we think about the adjusted EBITDA in 2017, we're really pleased to have reported record EBITDA last year. This year, in spite of all of the ramp-up costs associated with the Orion acquisition, as with any acquisition, and the planned redundancy as we're getting the team in Islamabad ramped up to take over the work of the current vendor but then running them in parallel for a period of time, notwithstanding all of those expenses, again, we're pleased to be able to say that we believe this years adjusted EBITDA will be twice as large as last year. We'll provide guidance for the full year 2019 during early 2019 first quarter. I think that we anticipate at that point in time being able to talk about a similar trend in terms of what we've been able to do in terms of the rate of growth of our EBITDA during 2019 as we compare that to what we're what we believe we'll be able to achieve in 2018.

So from the perspective, then, of the next acquisition to get back to your question, we continue to believe there are a lot of other opportunities out there in this highly fragmented space, but in particular for the third quarter and also for the fourth quarter, our primary focus will be on integrating and expanding margins with regards to this book of business.

One last thing I would say is if we think back to the first quarter of this year, there were similar questions from investors with regard to what did we anticipate the full year of 2018 looking like. At that point in time, we expressed our reluctance to provide any real specific guidance even though we were very confident we'd be able to outperform expectations, and we were confident we'd be able to - based upon our pipeline, our conversations, our knowledge of the industry - to identify and to acquire companies that would allow us to significantly increase revenues. But as a management team, we tend to be relatively conservative with regard to forward-looking guidance. I think we'll continue to do that now and continue to in the future, but rest assured, we are excited about the acquisition opportunities, focused on identifying the right next one and very confident that will do so at the appropriate time.

Kevin Dede
Great, Steve. Thanks for the detail. One last question and I'll turn the floor over. Bill, $12.6 million to complete the Orion deal. You ended the June quarter at $11.7 million. Just fill me in on what you expect your September cash balance to look like, and then what you think you'll have in the bank at the end of the year.

Bill Korn
Kevin, so as you said, we spent $12.6 million to do the Orion acquisition. The first million of that was actually written in June and held in escrow as a deposit. So therefore there was $11.6 million more that went out the door on July 1st. On July 1st, we actually tapped our Silicon Valley credit line to give ourselves some working capital and over the next two weeks, as we were collecting receivables from clients, we fully paid the line back. Right now we're using that line as a revolver as it was intended to, so at the very first of the month as we have some payroll to cover, we're borrowing on the line and then by the third, fourth, fifth of a month as cash starts to come in, then repaying it.

So I believe as you look at 2018, assuming there are no other transactions, assuming there's nothing else that's particularly extraordinary, you'll see that the cash that we have is sufficient to pay the expenses, and that's all the operating expenses as well as enough cash flow to cover our preferred stock dividends. And so then the question of what will cash look like at the end of the year. Again, barring another acquisition, barring raising money, barring anything unforeseen, I'd say the cash will be a small positive number, but we'll have the full revolver that we can work with.

By the way, Silicon Valley is interested in extending that relationship. We don't have anything firmly put together, but I think the fact that we've been able to demonstrate results out of past acquisitions gives them and other people plenty of confidence. So that would give us the capability to do whatever it is that we think makes sense. Again, I think it's remarkable thinking about where we were 18 months ago, and thinking about where we are today. Having enough cash that we could write a check to make an acquisition of a major company, that put us in a much better position to negotiate good terms. We expect to continue to be in that same position of strength.

Stephen Snyder
Kevin, we also acquired, as part of the transaction, more than $5 million of AR which is unique when we contrast that to our prior acquisition. So that's one other element to consider from a cash perspective.

Bill Korn
Right. Through a bankruptcy, we were able to say, we'll keep the AR but you could hold onto the AP.

Kevin Dede
That’s a nice choice to make. Thank you very much, gentlemen, for entertaining all my questions and apologies for hogging the floor.

Operator
Our next question will come from Brian Marckx of Zacks Investment Research. Please go ahead.

Brian Marckx
Hi, good morning, guys. I think your previous guidance as it relates to an Orion in terms of incremental revenue implied about $16 million annualized, and today it's about close to double that. Can you kind of help us with why the why this significant increase? What gives you the confidence today that it is going to be closer to double that than what you previously had expected?

Stephen Snyder
Of course, we'd be happy to and thank you for the question. Earlier in the bankruptcy process, we were discussing what we anticipated the revenue to look like, and we wanted to make sure we were conservative in our forward looking comments with regard to what we anticipated the revenue to actually b. We lacked some visibility at the time, in terms of which assets would be included in that acquisition.

The bankruptcy process allows customers to object to the sale, and we were unsure in terms of which customers would object to that sale. In fact, when all was said and done, there were very few objections and the objections that were asserted, in fact, were overcome and those customers joined us.

Since then, we've gone through that bankruptcy acquisition process and we have full visibility in terms of the acquired assets. We've also had the opportunity to, as an executive team, to personally interact with, either with in-person meetings or telephone calls, with customers representing roughly three-quarters of the overall revenue mix of the acquired relationships. We've also, since the time when we spoke about those lower revenue expectations, had the opportunity to fully assemble our team to lead the acquired divisions. We have the confidence that we have a winning team in place that will be successful in helping us integrate the acquired companies.

So with the visibility in terms of which assets we, in fact, were able to acquire with the additional information and positive feedback from the customers that we've met with, and with the confidence that we've assembled a winning team, we feel very confident providing guidance with regard to the second half of the year that, to your point, is much higher than we had initially anticipated.

Brian Marckx
Thanks. That leads me into the next question. It has to do with the rate of attrition of the RCM business, of Orion's RCM business, their customers, RCM customers. Can you kind of give us an idea in terms of the attrition rate maybe in the context of what you saw with MediGain?

Stephen Snyder
In MediGain, we spoke about and messaged to the market the ability to retain roughly $10 million worth of the revenue. MediGain had very similar dynamics during the four or five quarters prior to the point at which we purchased MediGain. Before our involvement, MediGain's revenue had dropped by about one half, so we anticipated the distinct possibility of a continued slide in revenue. We spoke about a $10 million revenue number, and in fact, as time passed, we've had the ability to assemble the team in MediGain to integrate that client base. A year and half later, our revenue was still much higher than $10 million. So we outperformed and exceeded those expectations. In a similar way for Orion, we've done our very best to be conservative with regard to the revenue that we anticipate being able to, in fact, retain, and the numbers for the second quarter embody those expectations.

The bankruptcy process, needless to say, places stress on relationships. The quality of the overall work during the year and a half before we acquired the Orion assets, especially for the RCM division, seemed to have degraded over that period of time. There are competitive pressures that you'd expect in any acquisition and those exist in this acquisition context as well. But having baked all of those aspects into our model, we continue to believe that the revenue numbers that we're providing in terms of guidance for the second half of the year are realistic. And as we get to the first part of 2019, we'll provide guidance for the full year of 2019. But again, we're optimistic that in spite of all of those pressures that we'll be able to retain the lion's share of that revenue.

Brian Marckx
And then in terms of the synergistic cost-cutting. I know you covered that in your prepared remarks to a certain degree, but can you kind of give us a little bit more specifics if you can in terms of when you think that may be completed?

Stephen Snyder
We'll be happy to. I'll break this apart into some of the key categories. With regard to the offshore expense which represented in excess of $300,000 per month, as to the offshore expense, as Hadi and Bill

indicated, we've already transitioned that work from that team that was being leveraged to third-party vendors by Orion to our team. We have continued redundancy in terms of that expense while we have that other team on board providing some review and the like just to make sure we're being extra prudent in the transition of that work, but the actual work itself, the workflows have all been transferred to our team. They're being handled by our team. By doing so, as Hadi mentioned, we believe we've been able to reduce that expense by roughly 70%. And even more importantly than having reduced that expense, we believe we've been able to lay the foundation for significantly improving the quality.

As we think about things like photocopier leases and a whole variety of different equipment leases that burdened the seller, that burdened Orion, we are only leveraging that equipment during the transition period which is going to be probably to 60 to 90 days. We didn't assume those obligations, so we're simply paying for what we use during this period of time. And we've already candidly stopped using a significant portion of that equipment. And hence have stopped paying for that. And by the end of this quarter we'll have stopped using the majority of it. Regarding that equipment, candidly where Orion was paying X a month for a photocopier we can probably pay 2x that monthly cost one time and own it outright versus leasing it. And a whole variety of different cost-cutting initiatives with regard to equipment will be complete within the next 60 days or so.

With regard to the facilities, we are in the process right now of renegotiating, our legal team is renegotiating many of those leases, so the facility expense reduction will all happen during the second half of this year, at least the majority of that will happen during the third and fourth quarter of this year.

And then leveraging our broader team, we'll continue to do that progressively as the year proceeds. That again will help us improve the overall quality of the work, assist us with retention, and also help us further expand margins.

Brian Marckx
Thanks guys.

Operator
Our next question will come from Bill Sutherland of the Benchmark Company. Please go ahead.

Bill Sutherland
Hey, good morning. Kudos on the Orion deal. Just curious as you look at the map of their business. I don't think you've talked about kind of how it fits with where you had strength and how that might play into some marketing potential?

Stephen Snyder
That's a great question. And as we think about the client base from the perspective of geography, prior to Orion we were already working with clients across all 50 states. We have clients in all 50 states leveraging at least an aspect of our overall services. When we think about the concentration of these relationships, our key states in Orion are California, Colorado, New York, Pennsylvania and New Jersey -- and we've had active relationships in all those states for years. New York and New Jersey, today represent a very significant part of our overall client base. In California, as well, we've had a pretty significant presence. So the one state where I think we will have more of a presence because now we have a team there as part of this acquisition, an on-site team within Colorado who can help us with account management alike, so Colorado will be the one state where we'll have a new presence and look forward to really leveraging those local team members to continue to grow to that client base.

From a specialty perspective, prior to Orion, we were working with providers in more than 60 unique specialties and sub-specialties. That number really hasn't changed in any material way with Orion. However, we have now, as part of the Orion transaction, obtained some very talented team members, and even some technology that can assist us with regard to some key specialties, in particular, pathology and radiology and anesthesia where we've had relationships in the past, but we haven't had a significant number of those relationships. Now with the critical mass of relationships in those specialties, we are excited about being able to leverage those relationships in order to develop new relationships on an organic growth basis.

Bill Sutherland
Interesting. And their practice management business, it's limited, as I understand it, to three large pediatric groups. And are you kind of thinking about that as you said it's something you want to definitely keep in the fold. Are you going to just use it as a way to learn more about that business before you kind of played, maybe expansion there?

Stephen Snyder
I think that's a great way to look at it, exactly how you describe, Bill. For us, on day one, it's profitable, adjusted EBITDA positive. This gives us the opportunity, again, having onboarded more than 100 team members who work on servicing those relationships and providing the management services, we now have the expertise on our team to be able to, in a very credible way, explore other possible opportunities for growth, whether they be acquiring similar practice management groups, expanding the existing groups into the local markets or, from an organic growth perspective, helping to identify other providers who are looking to set up practices and form these relationships.

So we are right now at the early stages of better understanding that overall opportunity, and we'll certainly have more to talk about during the next couple quarters in terms of the overall strategic direction and opportunities with regard to the long term practice management and relationships.

Bill Sutherland
Great and just one last one for me, and away from Orion for a second. I'm wondering, as you talk more about how you've developed the blockchain technology, how should we think about the monetization potential of that technology? Will it just simply be another value added service under current contracts?

Stephen Snyder
From the perspective of blockchain as we think about the overall industry, there's a lot of discussion in healthcare, as there is discussion in other industries, about blockchain. There's excitement, but to the best of our knowledge there are very few vendors who are actually dedicating development resources and have products that are going live that are in production. That's why we were excited, as Hadi mentioned, to actually have a portion of this blockchain technology, the portion that connects our patient portal to our EHR, go live.

We're in the early stages of beginning to reach out to other EHRs, like Universal EHR, who we think may have an interest in being able to connect to our blockchain. We don't presently anticipate charging those other vendors who are connecting to the blockchain. Instead, the overall advantage is really twofold for us.

First, by being able to continue to develop partnerships with other industry vendors, we also now have an opportunity to not only add value to their overall offering, and to generate goodwill by doing so, but to leverage that goodwill and that relationship that we now have through the blockchain connection to be able to hopefully assist them, for instance, with a revenue share relationship where we provide revenue cycle management services to the EHR vendor that's now connected to us through the blockchain. So for us, the opportunity, first and foremost, is one that relates to the ability to cross-market, to cross-sell and to generate revenue through those cooperative, collaborative relationships that would be in addition to the blockchain, but hopefully, the blockchain would be an entry point into that relationship.

Secondarily, to the extent that if it's simply MTBC's blockchain and one other small EHR, as we all understand and appreciate, then in and of itself we haven't really accomplished anything of any real significance from an operational perspective with regard to the users of our EHR, the patients and the like. Instead, the value comes when it's not just MTBC and one other EHR, but when there's a large number of EHRs, all connecting. Much like a snowball as it rolls down the hill that gets larger and larger, here, we believe that there will be, or at least we're hopeful that there will be, as we continue to gain momentum with other vendors, an increasing number of vendors who desire to connect, especially the small to medium-sized EHRs who understand that when they look at the healthcare industry more broadly that there is a need that no one disputes to be able to have an effective mechanism for sharing data.

There's a desire for the data and the systems to be interoperable, but up to this point in time, the industry has really lacked a good solution for that. There's government money that went into health information exchanges. Some of those had a bit of success, most of those probably didn't really achieve the objectives that were sought out to achieve. But this top-down approach that has been attempted with regard to creating that connection throughout the industry that's secure and efficient for sharing data, yet it doesn't seem to have worked-- that's our assessment at least.

So our hope is that by instead developing of a grassroots movement between smaller and medium-sized vendors, we'll be able to collaboratively help each other when it comes to these revenue share relationships and also then be able to actually create something that becomes increasingly valuable as more and more individuals connect, and as the number of overall patient lives on the network grows.

Bill Sutherland
So it's a revenue sharing strategy then, is that right take away, Steve?

Stephen Snyder
That's correct. And it's a revenue sharing strategy, not specifically with regard to the blockchain itself, but instead the blockchain creates the connection that then instead allows us to leverage that relationship to be able to then, for instance, provide revenue cycle management services to EHR clients of, for instance, Universal EHR being a good example. That's part of the relationship which is a cross-marketing and cross-selling aspect where we hope to be able to sell our revenue cycle management services into Universal EHRs client base. And again, Universal EHR is a small but established EHR, but is a representative model of what we think we can achieve with other vendors.

And the overall vendor relationship model is something that we've talked about for quite a few quarters. And we think this is another potential avenue of getting to that same destination.

Bill Sutherland
Interesting. Thanks for the color Steve and congrats again. Thanks,

Stephen Snyder
Thank you Bill.

Operator
Our next question will come from Jay Albany of SeeThruEquity. Please go ahead.

Jay Albany
Hey, guys, thank you for taking my question. Congratulations on the results and the deal. I just wanted to, many of my questions have been answered, I just hoping you could remind me, of the mix of revenue looking at the second half between the three different segments of Orion? And maybe can you discuss a little bit about how we should think about gross margins?

Bill Korn
Sure. We haven't given specific guidance in terms of the mix between the three segments within Orion, but I'll give you at least a little bit of color there. I would say more than half of Orion's revenue came from revenue cycle management. So if you think about the RCM business in the second half of this year, you're going to have all of our business prior to Orion which is roughly half of the overall revenue and you're going to have a little over half of their business, so you're going to see that roughly three-quarters of our revenue is still revenue cycle management.

There are a number of hospitals, but the raw number of clients, the vast majority tend to be independent practices, whether they are pediatricians, internists, surgeons, etc. The GPO business, revenue is actually very small, but the interesting thing about that revenue model, the clients of the GPO directly pay Merck and Sanofi for their vaccines. We get a referral fee, so essentially while that's a relatively small amount its pure profit, and we've got one employee who, as part of her job, manages that relationship, and part of her job does something else.

So it's truly a profit stream and again as we've mentioned, one of the things we find intriguing here is that virtually every primary care doctor gives vaccines. The pediatricians give more, but internists, family practitioners give flu shots. Thinking about leveraging the discounts that the GPO has with our existing client base, we think that's going to have the potential grow that revenue stream. Of course, going to those 4,000 doctors and let's imagine that some fraction of them say, hey, I'm interested, we may be able to grow the RCM business from there.

The practice management business that Orion had, is smaller than their RCM business, but it's still pretty sizable. And one thing that's interesting about that, it is very stable. I was looking at the revenue that they had back in 2007 for those practices and the amount that those practices received in payments from insurance and Medicaid was almost the same in 2017 from what it was 2007. So in some respects, it's interesting to have this nice, stable revenue stream. The potential for improving the margin isn't as great. Again, when I think about having nurses, physician assistants on the payroll, well there's nothing I'm going to do with technology that's going to reduce those costs.

On the other hand, when we think about what we can do in terms of leveraging our technology at those practices, maybe we can make them a little bit more efficient. Maybe we could help them with better reminders to bring patients back in for visits. We think there are clearly some opportunities to showcase what we have and to utilize it. But we think that it is actually nice to have that core stable revenue that, and at this point, we're exploring how we might leverage it. As Steve said, there may be organic or there may be M&A ways to leverage that. Right now, we want to learn first before we make a firm decision as to exactly what to do.

Jay Albany
Ok, thanks for the additional color. Congrats for the quarter and additional results.

Bill Korn
Thanks Jay.

Operator
Our next question is a follow-up from Kevin Dede of HC Wainwright. Please go ahead.

Kevin Dede
Yes, thanks. Bill, just to piggyback off Jay's question, have you formally decided how that practice management business is reflected in the P&L? I mean I think there was some discussion at one point of whether or not you were going to recognize all the revenue that they saw or just a portion of it? And I guess I was just wondering if that formal decision been made?

Bill Korn
Yes, good question, Kevin. So we've gone through the analysis of the right way to recognize the revenue. Our first step was even before we won the auction, we had started to audit their financials. We got a third party auditor engaged and prior to issuing those audit results, we've actually gone through it with Grant Thornton, our auditor, to make sure everybody is comfortable. We got the revenue recognition worked out that basically for all the practice management services that we're providing, that all gets recognized as revenue, but for the fraction of the fee that gets remitted to the doctors, if the doctor did the work therefore the doctor is recognizing that revenue, not us.

So I think that's the right answer. It wouldn't make sense if out of a dollar that gets reimbursed from insurance, if $0.30 goes to the doctors it wouldn't make sense to show that $0.30 as our revenue, but we would show the remainder and again, then we'll show the cost of our employees, of the three practices having a total of five offices, of the vaccines that are in the inventory, the medical malpractice insurance, so all those become our costs, but in addition we still earn a nice profit margin.

Kevin Dede
Thanks Bill.

CONCLUSION

Operator
Ladies and gentlemen, this will conclude our question-and-answer session. I'd now like to turn the conference back over to Shruti Patel for closing remarks.

Shruti Patel
Thank you, Alison. And thank you everybody for joining our second quarter earnings call. We hope everyone has a great day.

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