MTBC

First Quarter 2016 Earnings

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

CORPORATE PARTICIPANTS

Amritpal Deol - *General Counsel, Corporate Secretary*

Mahmud Haq - *Chairman and CEO*

Stephen Snyder - *President and Director*

Bill Korn - *CFO*

PRESENTATION

Operator
Good morning and welcome to the MTBC First 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 * 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 telephone keypad. To withdraw your question, please press * then 2. Please note that this event is being recorded. Please note this event is being recorded.

I would now like to turn the conference over to Amritpal Deol, General Counsel, Corporate Secretary. Please go ahead ma'am.

Amritpal Deol
Good morning everyone. Welcome to the MTBC 2016 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'll now turn the call over to the Chairman and CEO of MTBC, Mr. Mahmud Haq. Mahmud?

Mahmud Haq
Thank you, Amrita and thank you for joining us on our first quarter 2016 call. We are very pleased with the progress that we have made. We've made solid strides towards achieving our 2016 growth and EBITDA objectives.

Our management team continues to execute our long term business strategy of growth through acquisition on favorable terms, while delivering a second consecutive quarter of positive EBITDA and finishing the quarter with $7.4 million of growth capital.

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

Stephen Snyder
Thank you, Mahmud. Our acquisition team is hard at work identifying attractive growth opportunities. As our team identifies these opportunities, we are strategically deploying our growth capital accordingly. On April 30, we were pleased to acquire Renaissance Physician Services, a small Tennessee-based medical billing company.

Renaissance had trailing 12-months revenues for active accounts of approximately $600,000. Much like our February acquisition of Texas-based Gulf Coast Billing, we were pleased to acquire Renaissance at an attractive valuation structured in a manner that closely aligns our collective interests in client retention and revenue growth.

We are paying 27% of revenues received during the three years after closing, which totals approximately 81% of annual revenues, assuming revenues remain constant. At closing, we made an advanced payment for Renaissance of $175,000, which will be deducted from the first 4 or 5 quarterly revenue-based payments until the advanced payment is fully recouped.

We're also pleased to have on-boarded the former owner of Renaissance, who now serves as a member of our business development team. We look forward to deploying additional growth capital as we pursue opportunities with other potential sellers that align with our 2016 growth and profitability objectives.

With regard to organic growth initiatives, during the first quarter of 2016 we more than tripled our investment in sales and marketing, increasing it from less than 2% of revenue in the first quarter of 2015, to 6.5% of revenue during the first quarter of this year. While this is small compared to many of the other players in our industry, we're beginning to see results, including the signing of a new Chicago-based hospital-owned group that we believe has great growth potential as we move forward.

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

Bill Korn
Thank you, Steve. Revenue in first quarter 2016 was $5.1 million, down 17% from $6.1 million in the first quarter of 2015. This was principally due to loss of clients during 2015 from CastleRock, Practicare and Omni, companies we purchased at the time of the IPO. Revenue from these three acquisitions was down $1.8 million from first quarter 2015 to first quarter 2016 and was partially offset by revenue from several smaller acquisitions during 2015, as well as Gulf Coast.

Additionally, the first quarter is seasonally our lowest in terms of revenue and profits, similar to other ambulatory practice management and revenue cycle management providers. Most insurance plans contain an annual deductible, so when a patient visits their doctor during the first quarter, the fee is often part of the patients' deductible. Instead of insurance paying the doctor, the doctor has to wait for the patient to pay the deductible themselves. We recognize revenue when the doctor is actually paid and thus our fees are determinable, so while providers wait for patient payments, which generally take longer than insurance payments, our revenues are delayed.

Since our expenses reflect the work of submitting a constant level of claims, even though the payments to our doctors are down, we normally anticipate negative adjusted EBITDA during the first quarter of each year. Achieving positive adjusted EBITDA this quarter is a result of automating manual processes and moving enough work offshore to allow us to reduce costs and offset this seasonal decline in revenue.

The $65,000 adjusted EBITDA in the first quarter of 2016 is a significant improvement from the negative $710,000 adjusted EBITDA in the first quarter of last year. We reduced direct operating costs by 35%, from $3.5 million to $2.3 million, and reduced general and administrative expenses from $3.1 million to $2.9 million. We expect to continue reducing 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 $2 million between adjusted EBITDA and the GAAP loss in the first quarter of 2016 reflects $1.2 million of non-cash amortization and depreciation expense, $489,000 of stock-based compensation, $212,000 of integration and transaction costs related to the recent acquisitions, $43,000 of provision for taxes, and $134,000 of net interest expense. This was offset by a $45,000 decrease in the contingent consideration liability. There was also a significant improvement in our non-GAAP adjusted net income, from negative $854,000 or negative $0.08 per share during first quarter 2015 to negative $217,000 or negative $0.02 per share during first quarter 2016.

On a GAAP basis, in the first quarter of 2016 we had a $2 million loss or $0.21 per share. While this is greater than the $1.2 million loss in the first quarter of 2015, the first quarter of 2015 was helped by an $829,000 non-cash reduction in the value of the shares held in escrow for the sellers of the three companies we acquired at the time of the IPO, while the first quarter of 2016 included a similar benefit of only $45,000. Our $2 million GAAP loss also includes $1.2 million of non-cash amortization and depreciation and $489,000 of stock-based compensation expense.

As of March 31, MTBC's cash balance was approximately $7.4 million compared to approximately $8 million as of December 31, 2015.

During December of 2016, MTBC's Board of Directors authorized a common stock repurchase program, allowing the company to return value to shareholders by purchasing MTBC shares at prices that we believe to be very attractive. We purchased approximately 100,000 shares under this one-month program. During January of 2016, with global equity markets in turmoil, our Board authorized a $1 million stock repurchase program which will run through January of 2017.

As our share price has remained at levels that we believe to be undervalued, we have purchased approximately 646,000 additional shares under this program so far. In total, we spent approximately $668,000 repurchasing shares. All shares are repurchased in open market transactions in accordance with all applicable securities laws and regulations including Rule 10b-18 of the Securities Exchange Act of 1934 as amended.

In March we filed an S-3 shelf registration statement with the SEC, which is now effective. We believe we have plenty of cash for operating expenses but having an effective shelf registration statement may provide us with additional flexibility in the future. If a significant acquisition opportunity arises which requires more capital that we have available, this shelf registration statement might allow us to reopen our non-convertible Series A preferred stock and raise funds in the public market more quickly and easily than filing an S-1 registration statement.

Finally, we are reaffirming our 2016 full-year revenue guidance of $27 million to $30 million, which represents growth of $4 million to $7 million over 2015 revenue. This includes revenue from the recent acquisitions of Gulf Coast Billing and Renaissance Physician Services. We believe revenue will rise cyclically during second quarter 2016 after the largest impact of deductibles will likely be behind us and we recognize a full quarter of revenue from Gulf Coast billing and a partial quarter from Renaissance.

We're also reaffirming our 2016 full-year adjusted EBITDA guidance of $1.5 million to $2 million and reaffirming our non-GAAP adjusted net income per share guidance of between negative $0.05 and negative $0.10 per share.

That concludes my review of MTBC's first 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. As Bill highlighted we had our second consecutive EBITDA positive quarter and have capital available to invest in attractive acquisitions and partnership opportunities. MTBC has never been in a stronger position to grow and we look forward to giving you further updates on our progress.

I would also like to thank all of our team members in the U.S., Poland and Pakistan for their hard work and dedication. Finally, I want to thank our physician customers for trusting us to help manage their practice.

We will now open the call to questions. Operator?

CONCLUSION

Operator
We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset prior to pressing the keys. To withdraw your question, please press * then 2. At this time we will pause momentarily to assemble our roster.

Again, if you would like to ask a question, please press * then 1 on your touchtone phone.

Showing no questions at this time, I would like to turn the call back over to Amritpal Deol. Please go ahead, ma’am.

Amritpal Deol
Thank you. Thank you everyone for joining our first quarter 2016 call.

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