MTBC

Fourth Quarter 2015 Earnings

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CORPORATE PARTICIPANTS

Mahmud Haq - *Chairman and CEO*

Stephen Snyder - *President*

Bill Korn - *CFO*

Amritpal Deol - *General Counsel*

PRESENTATION

Operator
Good morning and welcome to the MTBC Fourth 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 star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad; to withdraw your question, please press star (*) then two (2). Please also note today's event is being recorded. I would now like to turn the conference over to Amritpal Deol, General Counsel. Please go ahead.

Amritpal Deol
Thank you. Good morning, everyone, welcome to the MTBC 2015 Fourth Quarter Conference Call. On today's call are Mahmud Haq, our Chairman and Chief Executive Officer; Stephen Snyder, our President and a Director; and Bill Korn, our Chief Financial Officer.

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

Mahmud Haq
Thank you, Amritpal, and thank you for joining us for our fourth quarter 2015 highlights call. I am pleased to report a number of accomplishments during the quarter. We finished 2015 on a very strong note. Having accomplished multiple key objectives which leaves us well positioned for growth and profitability, including achieving our first quarter of positive adjusted EBITDA since our IPO in 2014, growing our full year revenue by 26% and closing on our non-convertible preferred stock offering in November 2015, which generated gross proceeds of $5.8 million without any dilution to our common shares.

Combining the capital we recently raised from our preferred stock deal with our $10 million credit facility, which was signed with Opus in September 2015, we believe secures the growth capital we need to take us to the next level without diluting our shareholders. We are very pleased to have ended 2015 with $8 million cash, the highest cash balance in MTBC history.

Another important milestone is that we turned the corner on earnings with our first positive EBITDA quarter since our IPO and three simultaneous acquisitions in July 2014. We have successfully integrated the nine business units which were part of these acquisitions, migrating most customers to our software platform, and moving a large portion of operations work to our team offshore. This allowed us to greatly reduce our operating cost throughout the year. We are gaining traction on our growing initiative with an active acquisition pipeline and improving organic growth results. I would now like to turn the call over to our President, Stephen Snyder, to discuss our growth activity efforts in more detail. Stephen?

Stephen Snyder

Thank you, Mahmud. We are very encouraged by the acquisition opportunities that we see in the revenue cycle management space. During 2016, we moved forward on one of these opportunities and acquired a Texas-based company called Gulf Coast Billing Incorporated. Gulf Coast had trailing 12 months' revenues of approximately $3 million and we are very pleased to have acquired the company at an attractive valuation and at a structure that aligns our collective interest in client retention and revenue growth. We are paying 28% of revenues received during the three years after closing, which would total about 84% of annual revenues assuming revenues remain constant.

At closing, we also made an advance payment of $1.25 million and this advance payment will be deducted from the quarterly revenue-based payments we make over the next three years. While it has only been five weeks since we closed the Gulf Coast acquisition, we have already made significant strides in our transition. Within two weeks of closing, we had moved all acquired customers to our platform and we have now leveraged our technology and our global team to reduce local personnel expenses by approximately 30%. We expect that this acquisition will be accretive to earnings starting in second quarter 2016.

Now that MTBC has additional capital, we believe we have the ability to grow our business in a way that would have been impossible during 2015. We are in daily conversations with potential acquisition targets as we continue to work at identifying the very best opportunities to put our growth capital to work. The companies we are talking with, from the very smallest to the largest, are all struggling to hold their ground as the market evolves since they lack the technology and the business models needed to remain competitive. As we identify the best opportunities, we'll deploy our growth capital accordingly.

With regard to organic growth initiatives, during the fourth quarter of 2015 we more than doubled our investment in sales and marketing spending, increasing it from less than 2% of revenues in the first nine months of last year to almost 4% of revenues during the fourth quarter. We plan to further increase sales and marketing expenditures during 2016 as we continue to evaluate the return of this investment.

We have never been better positioned as a company to grow our sales and earnings. By leveraging our industry-leading platform and our experienced team, we believe that we will be able to grow revenues this year to $27 million to $30 million while expanding our adjusted EBITDA to $1.5 million to $2 million.

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

Bill Korn

Thank you, Stephen. I am happy to report that we met or exceeded the revenue and profitability targets we set forth at our last call. We grew our full year revenue by 26% from 2014 to 2015. Total revenue for the year ended December 31, 2015, was $23.1 million, which exceeded our 2015 revenue guidance of $23 million, compared to $18.3 million for the year ended December 31, 2014. Fourth quarter 2015 revenue of $5.4 million represents a decrease from $7.1 million in the corresponding period in 2014. This is primarily due to clients who had given us notice of termination earlier in 2015.

As we completed integration of the businesses we purchased at the time of the IPO and the migration of clients to our platform, our customer base has stabilized and we expect to see higher retention from these clients in the future. For the year ended December 31, 2015, adjusted

EBITDA was negative $675,000, or negative 2.9% of revenue, compared to adjusted EBITDA of negative $1.7 million, or negative 9.4% of revenue in 2014. Our adjusted EBITDA of negative $675,000 for the year beats the high end of our guidance range, which was negative $750,000 to negative $1 million. Our adjusted EBITDA for the first three months of 2015 was negative $710,000 and our business generated positive EBITDA over the last nine months of the year.

For the fourth quarter of 2015, adjusted EBITDA was a positive $312,000, or 5.8% of revenue, compared to adjusted EBITDA negative $838,000, or negative 11.8% of revenue in the fourth quarter of 2014. Fourth quarter 2015 is our first quarter of positive adjusted EBITDA since the IPO and the three simultaneous acquisitions.

Our fourth quarter 2015 direct operating costs were $2.4 million, which is half of the $4.7 million in fourth quarter of 2014. And our general and administrative expense was $2.6 million, $940,000 less than $3.5 million during fourth quarter of 2014. We have reduced our direct operating costs four quarters in a row as we consolidated our acquired businesses, migrated clients to our platform, and moved work offshore where it could be done more effectively. We reduced our U.S. employee base of 205 employees at the end of 2014 to 64 employees at the end of 2015, at the same time that we reduced our offshore employees by 25% from approximately 2,080 at the end of 2014 to 1,560 at the end of 2015.

Our 2015 non-GAAP adjusted net income was negative $1.4 million, or negative $0.13 per share, compared to non-GAAP adjusted net income of negative $2.3 million, or negative $0.21 per share, in 2014. This beats the high end of our guidance range of between negative $0.15 and negative $0.20 per share for the year. For fourth quarter of 2015, non-GAAP adjusted net income was a positive $121,000, or $0.01 a share, compared to non-GAAP adjusted net income of negative $1 million, or negative $0.10 per share, in 2014. So this is also our first quarter with positive adjusted net income since the IPO.

For 2015, our GAAP net loss was $4.7 million, or $0.50 per share, compared to a GAAP net loss of $4.5 million, or $0.64 per share in 2014. Our GAAP net loss should be evaluated in the context of significant non-cash amortization of intangibles resulting from our acquisitions. Depreciation and amortization for 2015 was $4.6 million, almost the same as our GAAP net loss.

For fourth quarter 2015, the GAAP net loss was $802,000, or $0.10 per share, compared to a GAAP net loss of negative $995,000, or negative $0.10 per share, in fourth quarter of 2014. Our fourth quarter 2015 GAAP net loss was less than our fourth quarter of 2015 depreciation and amortization of $1.1 million. The $4 million difference between adjusted EBITDA and the GAAP loss reflects $4.6 million of noncash depreciation and amortization expense, primarily related to purchased intangible assets, $629,000 of stock based compensation, $341,000 of integration and transaction costs, $262,000 of net interest expense, and a $138,000 income tax provision offset by $170,000 of foreign currency gains and $1.8 million decrease in the value of the contingent consideration liability from the acquisitions at the time of the IPO.

This decrease is primarily due to the decline in the price of the Company’s stock since the value of the shares which were part of the purchase price is less, and two of the sellers forfeited a total of 472,000 of the shares that they’d received based on the revenue that we actually received from their acquisitions. This gain from decreasing contingent consideration is included in our GAAP earnings each quarter but we have excluded this gain from non-GAAP adjusted EBITDA and non-GAAP adjusted net income since it is non-cash.

We have not yet reached agreement with one of the three companies we acquired at the time of the IPO, but when we do so, those shares that they currently have will be released from escrow and the value of those shares will move from a liability account to equity, and there will be no further change in the value of the purchase price for each of these companies.

Of the small acquisitions we made during 2015, we paid 5% of the purchase price up front and will make cash payments for 36 months based on the actual revenues we collect. Together, we estimate the total contingent consideration in cash of approximately $890,000 for these two companies and this amount will be adjusted based on the actual and forecasted revenues each quarter.

As of December 31, 2015, MTBC's cash balance was approximately $8 million, compared to approximately $1 million as of December 31, 2014. MTBC completed its public offering of 231,600 shares of 11% Series A cumulative redeemable perpetual preferred stock at a price of $25.00 per share. These shares are trading on the NASDAQ capital market under the ticker symbol MTBCP. They had a $25.00 liquidation preference and carried 11% dividend, payable monthly, and we've already made our first four dividend payments. These shares are <u>not</u> convertible, they have no stated maturity, and will not be 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 anytime after five years or within 120 days of a change of control.

In September 2015, we refinanced our credit line with TD Bank and signed $10 million credit facility with Opus Bank with an interest rate of prime plus 1.75%, which is a total of 5.25% today. At December 31, 2015, we had drawn $8 million from that facility, half of which was used to retire existing loans. Opus will release the final $2 million after receiving our 10-K and confirming satisfaction of our covenants.

We intend to use the proceeds from the preferred stock offering and our credit facility with Opus Bank to grow the business. This includes acquisitions of revenue cycle management or healthcare IT businesses as well as expansion of sales and marketing activities.

During December 2015, MTBC's Board of Directors authorized a stock repurchase program, allowing the Company to return value to existing 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 2016, with global equity markets in turmoil, our Board authorized a $1 million stock repurchase program, which will run through January 2017. As our share prices remained at levels that we believe to be undervalued, we have purchased approximately 486,000 additional shares under this program so far.

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.

Simultaneous with the filing of our 10-K, we intend to file an S-3 shelf registration statement with the SEC. We have no immediate plans to raise any additional capital and 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 than we have available, a shelf registration statement might allow us to raise funds in the public market more quickly and easily than filing an S-1 registration statement. Since we believe that our common stock is currently undervalued, we do not anticipate any scenario in which we would sell additional shares of common stock until its value significantly increases.

Management owns nearly 47% of our common stock and we will exercise the same judgment and same prudence that we have exhibited in the past and only issue new securities when we believe the overall impact will be accretive to shareholders, not dilutive.

Our registration statement would allow us to reopen our Series A preferred stock, which is not convertible and carries an 11% coupon, which we consider a much more attractive and less expensive means of financing than issuing additional common shares at these prices.

As Stephen mentioned, 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 acquisition of Gulf Coast Billing and anticipates additional tuck-in acquisitions, but excludes any major acquisitions that may occur during the year. Revenue during the first quarter of 2016 will be below our fourth quarter 2015 run rate, since healthcare providers throughout the industry experienced lower revenues during the first quarter as insurance reimbursements are reduced, due to the annual resetting of patients' insurance deductibles.

MTBC recognizes revenue when our providers are paid and thus are fees are determinable. So while providers wait for patient payments, which generally take longer than insurance payments, our revenues are delayed. We believe revenue will rise cyclically during the second quarter of 2016 after the largest impact of deductibles will likely be behind us and we recognize a full quarter of revenue from Gulf Coast Billing.

We are also reaffirming our 2016 full year adjusted EBITDA guidance of $1.5 million to $2 million. Because of the seasonality with revenue, we anticipate a negative adjusted EBITDA during first quarter 2016 since our expenses reflect the work of submitting a constant level of claims even though payments to our doctors are down. We anticipate positive adjusted EBITDA during the second through fourth quarters of 2016. We expect non-GAAP adjusted net income per share between negative $0.05 and negative $0.10 per share. These forecasts are based on our current share count of 10.3 million shares. That concludes my review of MTBC's fourth quarter and full year financial results and I'll now turn the call over to our Chairman and Chief Executive Officer, Mahmud Haq, for some closing remarks. Mahmud?

Mahmud Haq
Thank you, Bill. We beat our revenue and earning guidance for 2015, turned EBITDA-positive in fourth quarter, and raised the capital we need to execute attractive acquisitions and partnership opportunities. MTBC has never been in a stronger position and we look forward to giving you future updates on our progress. I want to thank you, our common and preferred shareholders, for their belief in MTBC. I would also like to thank all of our team members in U.S., Poland, and Pakistan for their hard work and dedication, as well as Opus Bank who has been very responsive and a pleasure to work with. Finally, I want to thank all our physician customers for trusting us to help manage their practices. We will now open the call to the 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 (1) on your telephone keypad. If you are using a speakerphone, we ask you to please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). Our first question comes from Keay Nakae of Chardan. Please go ahead.

Keay Nakae
Yes, thanks. As we look forward to 2016 and the organic growth from the existing businesses, can you give some examples of some of the lower hanging fruit where you can add revenue to the existing businesses?

Stephen Snyder
Sure, we'd be happy to, Keay. From a growth perspective, we continue to see the real opportunity primarily in the acquisitive growth where we can acquire large portfolios of customers at very attractive prices. On a parallel track, we continue to be excited, though, about ramping up organic growth.

We'll continue to focus on two areas. Primarily, we're focusing in on our core strength, which is the small to medium sized ambulatory practices. Again, our platform is specifically designed around the unique needs and workflows of these groups. So we see significant opportunity there. So we'll continue to focus on the smaller groups, in particular, primary care practices, podiatry practices, ophthalmology groups, mental health, those are some of the key specialties.

But on a parallel track, from an organic growth perspective, we have also included in our team some folks who have a background with regard to working with IPAs and ACOs and larger groups so we are also leveraging some of that knowledge base and some of those contacts to begin to explore some of the larger growth opportunities which have a much longer timeframe between the initial conversations and closing. But on a parallel track, we'll continue those conversations going as well.

Keay Nakae
With respect to ICD-10 going live, how is that impacting your business?

Stephen Snyder
It's really helped us from the perspective of name recognition. Our ICD-9 to ICD-10 converter app in the lead up to that conversion was the most popular app on the Apple app store among U.S. physicians and has continued to hold that place. So it's really helped us from the perspective of branding and name recognition.

In terms of our overall client base, operationally, it's helped us significantly, being able to streamline the processes and move a relatively significant percentage of the practices who were formerly using paper-based manual processes from charge capture to our electronic charge capture. So it's really streamlined the overall processes and the throughput from a data input perspective and the ultimate result, of course, being improved timeframe between the actual encounter and the reimbursement.

Mahmud Haq
And, Keay, the discussion that Stephen just pointed is we are very comfortable with where we are in terms of numbers and going forward with organic growth with the business that we have today. The most excitement is coming from the way we are positioned in the marketplace. If you are following, which I am sure you are, there are major players that are announcing a sale or closure of their businesses. With our preferred stock for financing, and we have talked to bankers who are excited about reopening it when the time comes, we believe that we have the capital available to us that we need for acquisitions. Also, we believe with the IPO market the way it is, with 6 IPOs so far, in one of the slowest and toughest IPO markets, some of these players who were thinking of going public as an exit strategy are finding it hard do so. And so we are talking to a couple of them in the $10 million to $50 million range.

And if we can do this, with funding through our preferred, that is where majority of the excitement for us is, to acquire one of these larger players in the market. And as we've talked about in the past, there were two different types of money that came into this space. The first group built their own software, and they ended up using $100 million to $200 million of either PE money or investors' money but really could not achieve the revenue that was needed to support the business. The other set of acquisition targets that we are looking at were basically the consolidators, where the money came from PE, whether it was $40 million, $50 million, $100 million, they bought a few companies but did not consolidate and integrate.

We went through some rough times and as you know, over the last four or five quarters because we made a deliberate decision to go through the painful process of integrating, which we did over the year. The majority of these companies that received PE money have not brought everyone onto the same platform. So they are feeling the pain at this point and I think that's where the excitement is when we sit around the table as management. As Bill mentioned, I own roughly half of all outstanding shares, that is where the excitement, as a shareholder, is for the Company. These target companies, whether they are going through a bankruptcy process or the PE are looking to get out because they don't see the public market as a viable exit strategy, that's where the excitement is for us today.

Organic growth, as you mention, and cross-selling opportunities, they will bring us, let's say, 5% to 10% revenue growth, but the bigger bang for the buck will come from acquiring one of these major players out there.

Keay Nakae
Okay, well that's helpful and insightful. Just switch to the latest acquisition, how much of the run rate revenue of $3 million do you think you're going to be able to hang on to and then on expense side how much expense are you adding on the front end?

Mahmud Haq
This will be our first acquisition where our goal is to increase the revenue. There will be some attrition as we have expected, but there is enough pipeline with this company that we will be back-filling if there is attrition. We expect to see that revenue at least stay flat if not grow.

Keay Nakae
And then on the expense side?

Mahmud Haq
Expense side, as Stephen mentioned, we've already gone through reducing the expenses over there. We believe in 90 days, Stephen, the target is?

Stephen Snyder
Sure, so from a personnel expense, we've reduced the personnel expenses at this point by 30%. By the time we have our next call and we have the opportunity to provide a subsequent update, we believe we will have reduced the personnel expenses by another 30% and then with some subsequent reductions thereafter.

Again, with regard to GCB, during the second quarter of this year, we expect to be EBITDA positive and we're EBITDA neutral during the first quarter of this year, with only a month and half. But then we expect to be well on our way to our target margins, relative to this particular acquired division, of 30% by the end of the year.

Keay Nakae
Okay, very good, thanks.

Operator
And our next question comes from Paul Nouri of Noble Equity Funds. Please go ahead.

Paul Nouri
Hey, good morning.

Mahmud Haq
Good morning.

Paul Nouri
The depreciation and amortization of over $1 million in the quarter seems a bit high, given your intangible asset base. Can you talk about what the depreciation/amortization is going to look like in 2016?

Bill Korn
Sure, Paul. So we, like all companies, when we do acquisitions we have to apportion the purchase price into goodwill, which is not amortized, and into intangible assets, which are amortized. We apply a three year life for amortization purposes, and we made the decision last year that it made sense to use double declining balance, an accelerated method for amortizing that would essentially amortize these intangibles in a way that reflected the fact that at the beginning of an acquisition, you have a lot of value for having acquired the customer.

By three years out, the value of that customer is from our relationship with them and really has much less correlation with where they came from. So we've chosen to do a faster amortization and again, our view is that most people tend to really be focused more on the cash flow as opposed to the amortization.

Interestingly, in fourth quarter of 2015, our cash flow from operations was a positive number. And again, that to us is really the true measure of the business and we hope to be sitting here a year from now, and nobody is worried about GAAP, non-GAAP, everybody is talking about the fact that we're generating cash from operations because at the end of the day, that's what we are here for.

Paul Nouri
Okay, and you talked about being in discussions with one of your former acquisitions about releasing some shares possibly. Would that be a significant number if you are able to come to an agreement?

Bill Korn
So at the time of the IPO, we bought three companies and they each received shares that went into escrow. And the goal was, at the end of a year we would do a true-up. For two of the three, that's done. In the third case, Practicare, those shares haven't been released. They're counted in the 10.3 million shares that we talk about as outstanding today. I think the number, which is in the public record, but there's something under 300,000 shares that are sitting in escrow at the moment. They will not get any more than the original number. They will most likely forfeit some of them. Frankly, they haven't been fast at moving to release them because they look at the stock price and say: I am not going to sell them at this price anyway so what is the difference whether

they sit in escrow or in sit in my brokerage account?

Paul Nouri
Okay.

Bill Korn
In some ways it is a non-event. But for accounting purposes, that still gets treated as "contingent liability", it doesn't move into equity until they're released.

Paul Nouri
Okay and do you expect any significant capital expenditures for 2016?

Bill Korn
Other than acquisitions and again, those are, I would say, a big question mark. As Mahmud mentioned, we have a lot of exciting things. Until a deal is done, you don't know that it's going to happen, but we're not spending a lot on brick and mortar, we're not going to spend a lot on it. We've got a great technology infrastructure, so most of the capital is really buying businesses and growing the company.

Paul Nouri
Okay, and then last question, it looks like you're expanding your direct sales presence and can you talk about, then, what your strategy is to go direct to the market in terms of whether it's geographically or by the type of client?

Stephen Snyder
Sure, our focus continues to remain on the small to medium size practices in the ambulatory space where we think we have a solution at a price point that's extremely compelling. So it continues to be focusing additional resources and team members on the opportunities that we think exist. As we acquire companies, that also opens the door to additional opportunities because we can leverage that expanded network of providers to obtain referrals from those new providers, which then lead to organic growth related to those referrals. In our experience, a referral from an existing provider is worth far more than any other type of lead source. So there's a certain synergy or a certain snowball effect, if I could use that as the phrase, whereas we continue to grow through acquiring new books of business, new customers, those acquired customers then allow us to in turn generate referrals which help us grow organically.

Paul Nouri
Okay, thank you.

Operator
And ladies and gentlemen, as a reminder, if you would like to ask a question, please press star (*) then one (1) at this time. Showing no further questions, I'd like to turn the conference back over to Amritpal Deol for any closing remarks.

CONCLUSION

Amritpal Deol
Thank you. Thank you, everyone, for joining the MTBC 2015 fourth quarter conference call.

Mahmud Haq
Thank you.

Stephen Snyder
Thanks.

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