MTBC

First Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Shruti Patel - *General Counsel and Corporate Secretary*

Stephen Snyder - *Chief Executive Officer and Director*

A. Hadi Chaudhry - *President and Director*

Bill Korn - *Chief Financial Officer*

Mahmud Haq - *Founder and Executive Chairman*

PRESENTATION

Operator
Good day, and welcome to the MTBC first quarter 2019 earnings conference call and webcast. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press * then 1 on your touchtone phone. To withdraw your question, please press * then 2. Please note this event is being recorded. I'd now like to turn the conference over to Shruti Patel, General Counsel. Please go ahead.

Shruti Patel
Thank you. Good morning, everyone. Welcome to the MTBC 2019 first 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 a director; 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.

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 would 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. For anyone who dialed into the call by telephone, you may want to download our First Quarter 2019 Earnings Presentation. Please visit our Investor Relations site, ir.mtbc.com, click on Events, and download the Earnings Presentation.

Finally, on today's call we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our first year first quarter 2019 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 first quarter 2019 earnings call.

We are pleased to report a strong start to 2019, including revenue of $15.1 million, an increase of 82% from Q1 of 2018 and a $606,000 increase in adjusted EBITDA to $1.6 million, which represents the highest quarterly EBITDA in our company's history. Revenue and adjusted EBITDA were both consistent with our 2019 guidance, as we delivered our eighth consecutive quarter of positive adjusted EBITDA.

During the five years since our IPO, we grew our revenue at a compound annual growth rate of 37%, from $10 million in 2013 to over $50 million in 2018. In addition to our top-line growth, we were pleased to double our adjusted EBITDA year-over-year during 2018, while generating positive cash from operations.

In recognition of MTBC's track record, we are pleased that Nasdaq uplisted MTBC from the Nasdaq Capital Market to its exclusive Nasdaq Global Market during the first quarter, after concluding that we satisfied its strict financial, liquidity, and corporate governance standards. We're thankful to our enthusiastic team members and clients for enabling us to achieve this growth and qualify for inclusion in the Nasdaq Global Market.

While our early days were focused on providing manual medical billing and transcription to small practices, over the last 18 years we've evolved into one of the nation's leading providers of cloud-based practice and revenue cycle management, proprietary healthcare IT solutions, and integrated technology-driven services to healthcare practices. As we've evolved, we've become known in the industry as "MTBC," rather than "Medical Transcription Billing, Corp.," so we were pleased to officially update our name to MTBC during the first quarter to better reflect our company mission and DNA.

Moreover, since our last earnings call, we also announced the closing of a small tuck-in transaction. We acquired substantially all of the assets of Etransmedia Technology, Incorporated, and its affiliated companies for less than 1/2 times revenues. Similar to MediGain and Orion, the last two larger businesses that we acquired, Etransmedia recognized the opportunity to be a consolidator in our space. However, Etransmedia, like those before it, lacked three things that enable us to succeed where others have tried and failed: first, a leading-edge proprietary platform; second, a cost-efficient global team of experts; and third, we have unparalleled experience successfully integrating companies in our highly fragmented space. Etransmedia is emblematic of the type of tuck-in acquisitions that we are positioned to close and integrate, while we continue to work at identifying and selecting the most attractive larger acquisition targets.

I'll now turn the floor over to our president. Hadi?

A. Hadi Chaudhry
Thank you, Steve, and thank you everyone, for joining us on our first quarter 2019 call. The first quarter marked another exciting chapter in our story of building one of the nation's leading cloud-based practice management, revenue cycle, and healthcare IT platforms. We had a great quarter and remain on track to grow our revenue by 25% or more, while striving to again nearly double our adjusted EBITDA year-over-year.

During quarter one, we made additional strides in successfully integrating our Orion acquisition. This progress included not only cost reductions but forward momentum in integrating key operational components of Orion with our larger operations. These combined teams, from client success to patient services, coding to credentialing, and finance to HR, have laid an even stronger foundation for our growth. We are more capable of succeeding today as we onboard new accounts, whether they are joining us through acquisitions or organic growth.

While we only recently acquired Etransmedia, we have already made material progress at integrating this latest tuck-in transaction. We are also in the process of onboarding our first facility billing and HCIT hospital client, and we are hopeful that this new relationship will pave the way for our continued expansion into the hospital space.

We have an exciting year ahead, and we look forward to providing updates as we progress. I will turn the floor over to our chief financial officer, Bill Korn. Bill?

Bill Korn
Thank you, Hadi. Revenue for the first quarter of 2019 was $15.1 million, which represents an increase of 82% compared to $8.3 million in first quarter 2018.

For the first quarter of 2019, our GAAP net loss was $296,000, compared to GAAP net income of $75,000 in first quarter 2018. The GAAP net loss in the most recent quarter includes non-cash amortization and depreciation expense of $757,000, including $262,000 resulting from the amortization of intangible assets from the acquisition of Orion during the second half of 2018. It also includes stock-based compensation expense of $758,000. The increase in these two GAAP expenses, which are primarily non-cash in nature, more than accounts for the difference in our net income year-over-year.

A sequential comparison may also be useful this quarter to illustrate the improvement in our GAAP net loss from the integration of our Orion acquisition, which occurred during third quarter 2018. Our GAAP net loss was $296,000 for first quarter 2019, compared to a GAAP net loss of $576,000 in fourth quarter 2018.

The 49% reduction in our net loss is due to our team quickly and effectively reducing costs associated with Orion's revenue cycle management business, using our technology where possible, replacing subcontractors with our own offshore employees, downsizing or closing offices, and otherwise reducing costs.

In the three quarters since this acquisition, we were able to reduce the total operating expense of Orion's RCM business by 59% from their expenses during the quarter before the acquisition.

Our GAAP net loss per share was $0.15, based on the net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the quarter.

Adjusted EBITDA for the first quarter of 2019 increased by 62% to $1.58 million, as compared to $974,000 in Q1 2018. This was our eighth consecutive quarter of positive adjusted EBITDA and represents a new record for MTBC. As we continue to scale our business through both organic sales activities and strategic means such as the Orion acquisition, we are able to spread our fixed overhead over larger revenues.

The difference of $1.9 million between adjusted EBITDA and the GAAP net loss reflects $757,000 of non-cash amortization and depreciation expense, $758,000 of stock-based compensation, $205,000 of integration and transaction costs related to recent acquisitions, $17,000 of net interest expense, $244,000 of foreign exchange losses offset by a $64,000 change in contingent consideration, and a $41,000 benefit for income taxes.

Non-GAAP adjusted net income for first quarter 2019 was $1.3 million, representing growth of 92% or $611,000 compared to Q1 2018. Again, since non-GAAP adjusted net income excludes non-cash amortization of purchased intangible assets, stock-based compensation, integration, transaction, and restructuring costs, management finds that it better reflects our overall operating performance.

We have reported six consecutive quarters of positive adjusted net income. Non-GAAP adjusted net income was $0.11 per share and is calculated using the end-of-period common shares outstanding.

Our Q1 2019 GAAP operating loss was $238,000. Our non-GAAP adjusted operating income was $1.1 million, or 8% of revenue, which represents an improvement of $408,000 or 55% from Q1 2018.

During the first quarter of 2019, MTBC generated $938,000 in cash from operations, which was MTBC's sixth consecutive quarter with positive cash from operations. Management utilizes non-GAAP measures of profitability, such as adjusted EBITDA, adjusted operating income and adjusted net income, in part because they better approximate the cash impact of the Company's operations.

We expect to continue generating positive cash from operations as we did during each of the four quarters of 2018, even though we expect to report a GAAP net loss for the next few quarters, as we continue to amortize the intangible assets from our latest acquisitions.

We ended the first quarter of 2019 with over $12.5 million in cash and an untapped $10 million line of credit from Silicon Valley Bank. Our line of credit is available to help finance growth initiatives, including potential future acquisitions with the bank's approval.

Our working capital, computed as current assets less current liabilities, was approximately $14.5 million on March 31.

In addition to common stock, MTBC also has non-convertible Series A Preferred Stock, which is perpetual, trades on the Nasdaq Global Market under the ticker MTBCP, pays monthly cash dividends at the rate of 11% per year, and can be redeemed at the Company's option at $25 per share starting in November 2020.

I'd like to close by reaffirming our 2019 guidance. For those looking at the webcast or those who downloaded our Earnings Presentation, please look at the slides, which tell the picture better than I can.

If you are listening by phone instead of by webinar, I suggest you download our First Quarter 2019 Earnings Presentation. Go to our Investor Relations website, ir.mtbc.com, click on Events, and download the First Quarter 2019 Earnings Presentation at the top of the page.

We continue to anticipate full-year 2019 revenue of approximately $63 to $65 million, which represents growth of 24% to 29% over 2018 revenue. Revenue guidance is based on our expectations regarding revenues from existing clients and new clients acquired through organic growth and/or tuck-in deals like Etransmedia but excludes the effect of any additional, material acquisitions. This will continue our trend of steadily increasing revenues, from $10 million in 2013, the year before our IPO, to more than $50 million in 2018.

We continue to anticipate that adjusted EBITDA will be $8 to $10 million for full-year 2019, representing growth of 67 to 108% over 2018 adjusted EBITDA, as we continue to scale our business.

MTBC's financial position is our strongest ever. Our 2018 adjusted EBITDA was double 2017's adjusted EBITDA, and we anticipate a roughly similar increase in 2019. This gives us the freedom to pursue multiple paths for continued growth, including organic growth, partnership opportunities, and the potential for material accretive acquisitions. Since we can't predict the timing and magnitude of significant acquisitions, our forward-looking guidance does not take these into account.

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

Mahmud Haq
Thank you, Bill. We had a strong start to 2019, which promises to be another year of record-breaking growth and increased profitability. We thank our investors, customers, and employees for their continued support.

We will now open the call to questions. Operator?

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If any time your question has been addressed and you would like to withdraw your question, please press * then 2.

As a courtesy, we please ask that you limit yourselves to no more than three questions at a time. If you have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble the roster.

And our first question today comes from Gene Mannheimer with Dougherty and Company. Please go ahead.

Gene Mannheimer
Good morning, gentlemen. Congrats on a good quarter here, good start to the year. I wanted to ask you a little bit about Etransmedia. It sounds like the contribution to revenue was, call it, $3.5 million, based on the multiple of revenue that you paid, and I understand that's already factored into your guidance for the year.

So, I guess the question is how much revenue from tuck-ins is contemplated in your outlook? In other words, if you were to close another one like this, would that necessitate a revision to your full-year guidance, and when will the transaction be accretive? Thanks.

Bill Korn
Thanks, Gene, and I want to say it's great having you covering us. We feel honored having an analyst who covers Allscripts, and you covered athenahealth through their growth to a billion dollars, covering us. So, it's great to have you covering MTBC.

As far as Etransmedia, as you noted, we paid $1.6 million, and while we haven't given official guidance as to how much revenue to expect, we anticipate that just like Orion we'll get at least twice the continuing revenue to the value that we paid. So yes, that'll be in the $3.5 million annualized range.

We recognize that Etransmedia has gone through some hard times before, and so, our model takes into account the fact that there are some clients who probably have looked at other alternatives and at the same time we will work as hard as possible to keep them with us.

And in terms of what we've baked into our model, I guess I'd say there are two small paths to growth and one big path to growth. As we continue to sign new organic clients, such as, for example, the Heights Hospital, those could add pretty significant chunks of revenue, and we've got other new clients that we've been signing.

So, in some respects, whether we get another Etransmedia deal or another hospital or large practice, those are sort of a wash as to which one is included here. So, I wouldn't specifically say whether we have one or not. I think we're going to continue to look for bigger, very accretive deals. We're going to continue to look for organic opportunities that make sense, and when we see tuck-ins like Etransmedia that can get done without breaking a sweat, then we'll continue to do those.

Gene Mannheimer
Thank you, Bill. And my follow-up question would be on the Orion acquisition now you cited a 59% reduction in opex I think since closing the transaction. How does that compare with your expectations going into it? And is there still more to go with that one? Thank you.

Bill Korn
So, the 59% on Orion is from the quarter before we closed the transaction. So, we looked at what was their expense in second quarter of last year. We bought them on July 1st. So, you won't see the whole 59% in our numbers because we didn't take on some costs even when we started.

But I'd say it's very consistent with what we expected and with our experience when we purchased MediGain. Looking out at a total of four quarters, there was a 62% decrease in expenses from the quarter before we bought them. So now, three quarters into Orion, we're at 59%.

As we look at the current second quarter, there are still reductions that happened in the middle of first quarter, where we got a partial quarter effect, and so, you'll see a little bit more in Q2. So, I think this will be very similar, and again, our team is focused primarily on the cost reductions in Orion's revenue cycle management business.

Orion has two other lines that were actually both positively contributing to profits before we bought them. There's a group purchasing organization which generates a little over a million a year in revenue, and the GPO has essentially very little cost with it because physicians are buying vaccines from Merck and Sanofi and we're getting a quarterly rebate check. So, there's no cost--so, there's really not much you can do to reduce the cost there.

And finally, Orion was managing three physician practices, so we employ 100 employees across five offices in the Midwest, who are nurses and other caregivers, and again, there's no plan to change that model. It's nicely profitable. It's a profitable stream of revenue that we don't have to do much about, and we wouldn't really look at doing things differently in that particular business. There are not the same kind of synergies or opportunities to change the cost structure there.

Gene Mannheimer
Very good. Thank you, Bill. Congrats.

Bill Korn
Thanks, Gene.

Operator
And once again, if you would like to ask a question, please press * then 1, and our next question comes from Brian Marckx with Zacks Investment Research. Please go ahead.

Brian Marckx
Good morning, guys, and congrats on the quarter. Bill, I wonder if you can give us the breakdown of the three business segments in terms of revenue.

Bill Korn
Thanks, Brian. So, I guess when you say the three business segments, I think if you look in the 10-K, and you'll find the same thing in this 10-Q, we actually divide ourselves in two business segments: healthcare IT and practice management.

The practice management business last year for the half of the year was roughly $6 million of revenue. It's roughly a constant business, so it's roughly about $12 million of revenue per year.

The remainder of the revenue is in our healthcare IT business, and that includes about a million dollars annually of GPO revenue. It includes traditional revenue cycle management. It includes some printing and mailing and other ancillary services.

We actually give a little bit more of a detail of revenue in one of the notes, but in terms of providing segments and a full P&L, we break it into two segments. And in large measure, the practice management business is separated, again, because the cost structure, the economics are very different. So, we feel it's useful to separate that out, and that will have different margin and growth expectations going forward.

Brian Marckx
So, the itemization in the Q will be the same as the itemization was in the K. Is that right?

Bill Korn
That's right. There'll be a note that I believe is called disaggregation of revenue that might have, I'll say, seven categories in it, that gives you a little more granular detail on revenue. But since a lot of the same people are doing the things for multiple revenue streams, it's really hard to separate out the costs.

Brian Marckx
Understand, yeah. In terms of G&A expense in Q1, it was about $700,000 less than what we were anticipating. Was the G&A expense where you thought it would shake out, or was it lower than where you anticipated? And can you give us a little bit help with where you think it goes into Q2?

Bill Korn

Sure. So, I would say G&A was pretty much on track with what we were planning for and managing for. As you know, when we buy companies, and we're paying a low price, we know that they weren't doing everything right.

We look for money were they spending that we could change that wouldn't negatively impact customers, and the simplest thing is close big offices that you don't need. Find back-office expense that doesn't really impact the customer and find ways to do it more cost effectively.

I think when we put together our plan, even at the time that we closed Orion, we had specific steps in mind and specific timelines. So, I think we're actually executing on that pretty well against plan.

We also recognize that when portraying out to the street we don't necessarily want to tip our hand completely and tell everybody everything that we possibly could do. We like to have a little bit of room because things happen that are unforeseen.

And so, if I then think about G&A going forward and I think about profitability for the rest of the year, on April 1st we acquired Etransmedia. Now again, before we acquired Etransmedia, their business was losing money. We've already taken lots of steps, but I'd say, if I think about the full-year 2019, the overall expense, the overall profitability will be exactly what we said we expected.

If I look at Q2, Etransmedia will probably have a little bit of a drag on Q2 earnings. That will neutralize and may be a little positive in Q3, and then, it will be accretive in Q4.

If we bought a company that was generating 30% profit margins, the amount we'd have to pay would be a lot more. If you want to be able to buy these things at a real discount, you've got to assume that the day you close the transaction you start reducing costs. In this case, for example, Etransmedia has three big offices, where there's opportunity to sublease out a lot of unused space. So, there's a lot of cost reduction that's happening even in the 35 days since we completed that transaction.

Brian Marckx
Great. Thank you, Bill.

Bill Korn
Sure

CONCLUSION

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

Shruti Patel
Thank you. Thank you, everyone for joining our call. We hope that you all have a great day, and we'll speak to you soon. Thank you.

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