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Zacks Small-Cap Research

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MTBC, Inc. (MTBC-NASDAQ)

Q2 Results: Etransmedia Contributes to Revenue and OpEx. Revenue & Adj EBITDA Guidance Affirmed

Based on the average of implied EV/EBITDA and P/S multiples from analysts' estimates of publicly traded EHR / RCM companies and providers of related technology and services, we calculate fair value of MTBC at approximately $11.0/share

Current Price (08/13/19)	$4.82
Valuation	**$11.00**

OUTLOOK

Q2 revenue was up 93% yoy and 11% qoq to $16.8M, the second-highest level since the company went public. While acquisition-related integration and transaction costs and higher stock-based compensation (the latter which is in-part related to recent increase in share price) resulted in a sizeable operating loss, MTBC still managed to generate over $1.1M in adj EBITDA and positive operating cash flow. MTBC reiterated their previously issued FY2019 revenue and adj EBITDA guidance of $63M-$65M and $8M-$10M. Through the first half of the year, revenue and adj EBITDA were $31.8M and $2.72M – or approximately 50% and 34% of the low-ends of the respective forecasts. This guidance assumes organic growth from existing and new clients as well as potential additional 'tuck-in' deals. It also assumes significant cost reductions in the second half of 2019 as compared to the first six months (including non-recurring acquisition related expenses). Importantly, indications are that the integration of ETM has gone smoothly and (similar to their other acquisitions) very swiftly. Management noted on the call that they have already significantly reduced Etransmedia's expenses, including slashing related onshore labor costs by ~65% and eliminating offshore vendors. In total, ETM-related expenses have been cut by 38% since the acquisition.

SUMMARY DATA

52-Week High	**$5.65**
52-Week Low	**$3.25**
One-Year Return (%)	**8.43**
Beta	**1.62**
Average Daily Volume (sh)	**39,215**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$58**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**50**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**19.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2019 Estimate	**N/A**
P/E using 2020 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Healthcare IT**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2017	8.2 A	7.8 A	7.5 A	8.3 A	31.8 A
2018	8.3 A	8.7 A	17.0 A	16.5 A	50.6 A
2019	15.1 A	16.8 A	15.9 E	16.0 E	63.7 E
2020					69.2 E

EPS (GAAP)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2017	-$0.29 A	-$0.20 A	-$0.14 A	-$0.08 A	-$0.69 A
2018	-$0.06 A	-$0.09 A	-$0.25 A	-$0.20 A	-$0.59 A
2019	-$0.15 A	-$0.19 A	-$0.14 E	-$0.08 E	-$0.56 E
2020					-$0.09 E

Zacks Projected GAAP EPS Growth Rate - Next 5 Years % **N/A**

WHAT'S NEW…

Q2 2018 Results:
MTBC reported financial results for their second quarter 2019 and provided a business update. Revenue was up 93% yoy and 11% qoq to $16.8M, the second-highest level (behind only Q3'19's $17.0M) since the company went public in 2014. While acquisition-related integration and transaction costs and higher stock-based compensation (the latter which is in-part related to recent increase in share price) resulted in a sizeable operating loss, MTBC still managed to generate over $1.1M in adjusted EBITDA and positive operating cash flow.

Management reiterated their previously issued FY2019 revenue and adjusted EBITDA guidance of $63M-$65M and $8M-$10M, respectively. Through the first half of the year, revenue and adjusted EBITDA were $31.8M and $2.72M – or approximately 50% and 34% of the low-ends of the respective forecasts. This guidance assumes organic growth from existing and new clients as well as potential additional 'tuck-in' deals (i.e. small transactions). It also assumes significant cost reductions in the second half of 2019 as compared to the first six months (including non-recurring acquisition related expenses).

Q2 was the fourth full quarter with inclusion of Orion, the acquisition of which closed on July 1st. Orion-related assets contributed approximately 50% of MTBC's total revenue in the first three quarters since the acquisition (i.e. Q3'18, Q4'18 and Q1'19) and about 43% in Q2'19.

The most recent quarter also included contribution from Etransmedia Technology (ETM), MTBC's latest acquisition for which the company paid $1.6M and which closed on April 1st of this year. Etransmedia is a relatively small ("tuck in") deal for MTBC and one that, based on management's comments of the call, has already been largely integrated into their existing operating base. While Etransmedia contributed approximately $2M of revenue in Q2, accounting for ~12% of the total topline, we think that likely includes significant 'catch-up' collections.

We are modeling an annualized revenue run-rate of ~$3.2M related to Etransmedia assets over the next 12 months, which is based on management's comments on the Q1 call. We note, however, that while management indicated that they anticipate ETM to generate somewhere close to $3.5M annually, pro formas in the Q2 10-Q imply that these assets generated slightly more than $4.0M in 1H'19 alone (while we acknowledge that this run-rate is likely not representative of the post-acquisition performance of the assets, it may suggest that there is potential upside to our ETM-related forecasts).

Etransmedia both benefitted revenue and contributed to a substantive increase in operating expenses in Q2. It was also largely responsible for both our miss on revenue ($16.8M A vs $15.7M E) and on total operating expenses ($18.0M A vs $15.7M E). Our revenue estimate failed to consider the catch-up collections phenomenon that is typical of the initial period(s) following MTBC's acquisitions and our opex estimate clearly underestimated the level of transaction and integration expenses, which totaled more than $900k.

Importantly, indications are that the integration of Etransmedia has gone smoothly and (similar to their other acquisitions) very swiftly. Management noted on the call that they have already significantly reduced Etransmedia's expenses, including slashing related onshore labor costs by ~65% and eliminating offshore vendors. In total, Etransmedia-related expenses have been cut by 38% since the acquisition. Additionally, MTBC noted that the related expense rate at the end of June (i.e. final month of Q2) was significantly lower than that of the beginning of April (first month of Q2).

With operating expenses anticipated to significantly decrease from Q2 to Q3 (and, potentially more modestly from Q3 to Q4), MTBC continues to expect to hit their adjusted EBITDA guidance of $8M-$10M for the full year. While we continue to think that this may still be achievable, it may require a bit more belt-tightening than we had previously anticipated (i.e. in addition to the expected reduction in acquisition-related expenses) and/or an incremental revenue catalyst (such as another tuck-in deal). Organic growth from existing customers, cross selling opportunities or initial contribution from recently consummated relationships (such as Heights Hospital) could represent other potential sources of incremental topline and EBITDA contribution.

We are also more than hesitant to bet against management given their proven ability to eliminate redundancies and quickly shed related expenses of prior acquisitions (including significantly sized deals such as MediGain and Orion, the latter of which expenses have been cut by 67%). As such, both our revenue and adjusted EBITDA estimates remain largely unchanged. We look for FY total revenue or $63.7M and adjusted EBITDA of $8.0M.

Q2 Financials
Revenue, at $16.8M was up 93% yoy and up 11% from Q1'18. Orion-related assets contributed approximately $7.1M (43% of total) of revenue including $3.7M (22% of total) from RCM, $3.2M (19% of total) from practice management and $205k (1% of total) from the GPO. Etransmedia-related assets contributed approximately $2.0M (12% of total), almost all of which relates to RCM (it appears ETM may have contributed ~$50k to PM as well). MTBC legacy assets contributed the remaining $7.6M (45%), all of which we have rolling up to RCM.

Approximately $810k, or 74% of our $1.1M miss on revenue relates to RCM, while $267k (24%) relates to practice management. We had incorrectly assumed a more evenly distributed contribution from ETM (and, as noted, failed to include catch-up collections), which explains the bulk of our miss on both RCM and PM. Meanwhile, we were relatively close on GPO revenue ($205k A vs $182k E). Revenue through the first half of 2019 was $31.8M, up 87% from the prior year with Orion, ETM and legacy MTBC contributing 47%, 6% and 47%, respectively.

Both the GPO and PM businesses have been profitable and were immediately accretive to MTBC's results following close of the Orion acquisition. The regular and predictable earnings of both segments are also attractive from a valuation standpoint, in our opinion. Cross-selling opportunities between the GPO and RCM customers could provide a very efficient complementary incremental revenue stream. Management has indicated that they have already had success with leveraging that opportunity, recently noting that ~100 existing RCM clients became new customers of the GPO. And, as their comfort level grows in the physician practice management space, we would expect MTBC may be looking to opportunistically add additional practices.

Adjusted EBITDA…
Adjusted EBITDA was $1.14M, down 27% from $1.56M in Q2'18 and down 28% from $1.58M in Q1'19. As noted, operating expenses included more than $900k in acquisition and integration costs. With the ETM integration largely completed and related expenses mostly shed, we should see a significant improvement in both the level of opex (i.e. decrease) and in adjusted EBITDA (i.e. increase) in both Q3 and Q4.

Outlook
MTBC's 2019 guidance also assumes organic growth from existing and new clients as well as potential additional 'tuck-in' deals. As it relates to new clients, early in Q2 MTBC announced the signing of Houston-based The Heights Hospital (operations of which had initially been expected to commence in Q2 but which has been delayed) for their inpatient and outpatient RCM services and customized IT solutions. This is their facility billing client as MTBC begins to deliver on their recently implemented goal of expanding into the hospital segment.

While the 2019 guidance does not assume any meaningful acquisitions, it is clear that management remains on the look-out for another Orion or MediGain-type transaction. They exited Q2'19 with $10.6M in cash and $10M available under their untapped credit facility. Coupled with the fact that MTBC is now generating consistent positive cash flow (Q2 marked the 7th consecutive quarter of generating positive cash from operations), they have the resources to do another sizeable deal. And, as we have noted in the past, given their ability to identify undervalued assets and to quickly integrate (and cut costs) without significant disruption to their ongoing operations or to those of the acquired company, a near-term transaction could result in upside to their current guidance.

Telemedicine offers a potential longer-term growth catalyst. Management noted on the Q2 call that they expect to launch a telemedicine offering later this year. While details in term of how this will be monetized have not yet been publicly disclosed, we expect we will hear more specifics leading up to the initial launch.

Valuation
We now look for FY'19 revenue and adjusted EBITDA of $63.7M and $8.0M, updated from $63.9M and $8.2M. Our FY'20 revenue and adjusted EBITDA are now $69.1M and $11.3M, updated from $69.7M and $11.3M (i.e. unchanged). Our calculated fair value remains at $11.0/share.

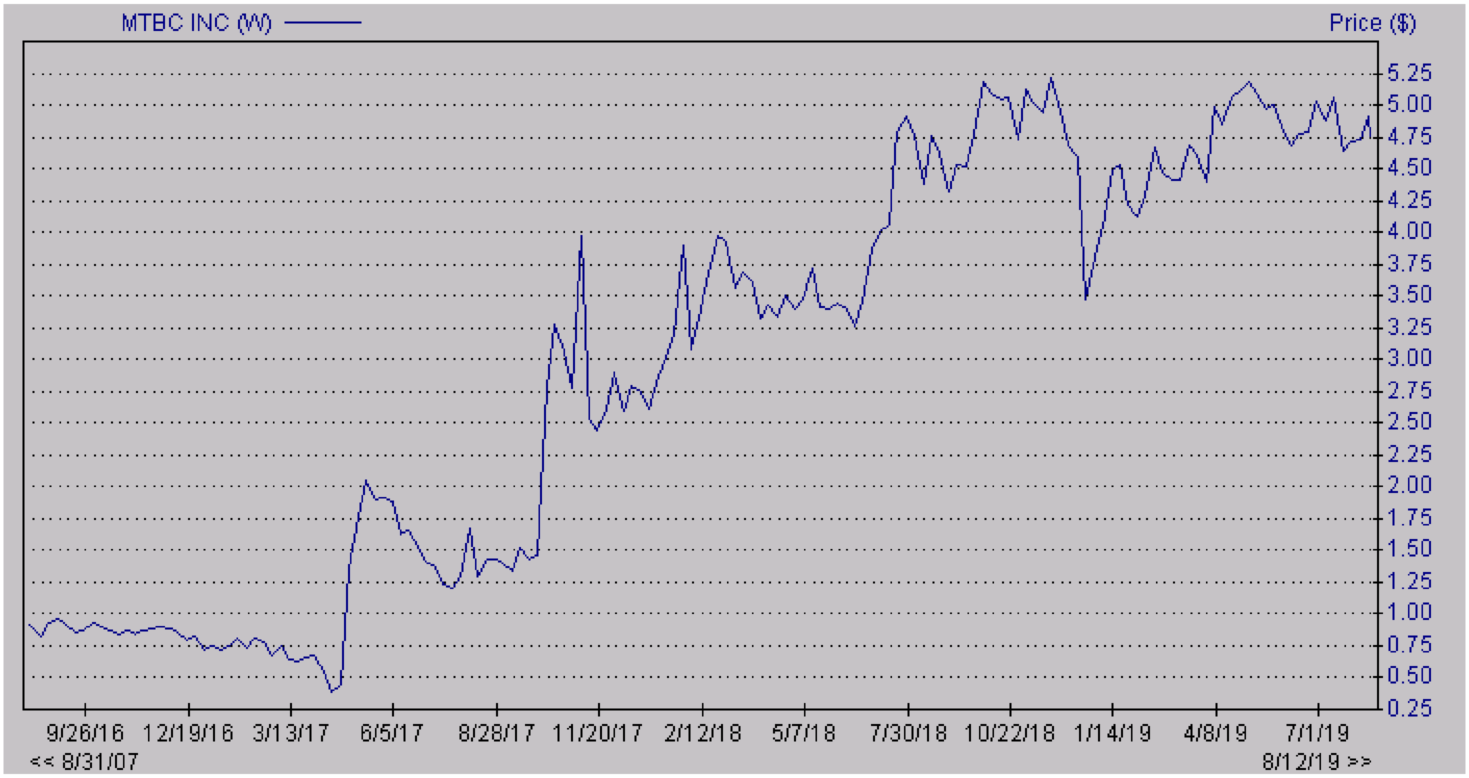
	P/S		EV/EBITDA	EV/EBITDA	
	2019	2020	2019	2020	
Comparable Multiples	2.1x	1.8x	24.4x	19.6x	**Average**
MTBC Per Share Value	$10.8	$10.1	$10.8	$12.4	**$11.0**

Financial Model

MTBC	Q1A	Q2A	Q3A	Q4A	2018 A	Q1A	Q2A	Q3E	Q4E	2019 E	2020 E
RCM Total	**$8,307.3**	**$8,682.9**	**$13,252.9**	**$13,146.7**	**$43,389.9**	**$11,919.7**	**$13,255.5**	**$12,211.6**	**$12,634.5**	**$50,021.33**	**$54,129.1**
% of total revenue	*100.0%*	*100.0%*	*77.8%*	*79.6%*	*85.8%*	*79.0%*	*79.1%*	*76.8%*	*79.1%*	*78.5%*	*78.3%*
yoy growth	*1.1%*	*11.5%*	*76.4%*	*58.5%*	*36.4%*	*43.5%*	*52.7%*	*-7.9%*	*-3.9%*	*15.3%*	*8.2%*
Practice mgmt Total	**$0.0**	**$0.0**	**$3,314.4**	**$3,186.7**	**$6,501.1**	**$2,960.5**	**$3,288.9**	**$3,248.8**	**$3,169.1**	**$12,667.3**	**$13,626.4**
% of total revenue	*0.0%*	*0.0%*	*19.4%*	*19.3%*	*12.9%*	*19.6%*	*19.6%*	*20.4%*	*19.8%*	*19.9%*	*19.7%*
yoy growth	-	-	-	-	-	-	-	*-2.0%*	*-0.6%*	*94.8%*	*7.6%*
GPO Total	**$0.0**	**$0.0**	**$477.2**	**$177.6**	**$654.8**	**$200.0**	**$205.1**	**$444.7**	**$162.7**	**$1,012.5**	**$1,394.0**
% of total revenue	*0.0%*	*0.0%*	*2.8%*	*1.1%*	*1.3%*	*1.3%*	*1.2%*	*2.8%*	*1.0%*	*1.6%*	*2.0%*
yoy growth	-	-	-	-	-	-	-	*-6.8%*	*-8.4%*	*54.6%*	*37.7%*
MTBC Total Revenue	**$8,307.3**	**$8,682.9**	**$7,646.2**	**$8,111.0**	**$32,747.4**	**$7,419.7**	**$7,605.5**	**$7,651.2**	**$7,842.2**	**$30,518.6**	**$34,440.5**
% of total revenue	*100.0%*	*100.0%*	*44.9%*	*49.1%*	*64.8%*	*49.2%*	*45.4%*	*48.1%*	*49.1%*	*47.9%*	*49.8%*
yoy growth	*1.1%*	*11.5%*	*1.8%*	*-2.2%*	*2.9%*	-	-	-	-	-	-
Etransmedia Total Revenue	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$2,067.3**	**$1,999.4**	**$855.0**	**$860.0**	**$3,714.4**	**$3,450.0**
% of total revenue	-	-	-	-	-	-	*11.9%*	*5.4%*	*5.4%*	*5.8%*	*5.0%*
yoy growth	-	-	-	-	-	-	-	-	-	-	-
Orion Total Revenue	**$0.0**	**$0.0**	**$9,398.4**	**$8,400.0**	**$17,798.4**	**$7,660.5**	**$7,144.6**	**$7,398.9**	**$7,264.1**	**$29,468.1**	**$31,259.0**
% of total revenue	-	-	*55.1%*	*50.9%*	-	*50.8%*	*42.7%*	*46.5%*	*45.5%*	*46.3%*	*45.2%*
yoy growth	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	$8,307.3	$8,682.9	$17,044.5	$16,511.0	$50,545.8	$15,080.2	$16,749.5	$15,905.1	$15,966.3	$63,701.1	$69,149.5
YOY Growth	*1.1%*	*11.5%*	*126.8%*	*99.1%*	*58.9%*	*81.5%*	*92.9%*	*-6.7%*	*-3.3%*	*26.0%*	*8.6%*
Direct operating costs	$4,484.1	$4,333.6	$12,123.9	$10,311.0	$31,252.6	$9,847.5	$11,396.4	$10,096.2	$9,919.0	$41,259.2	$38,378.0
% direct op costs	*54.0%*	*49.9%*	*71.1%*	*62.4%*	*95.4%*	*65.3%*	*68.0%*	*63.5%*	*62.1%*	*64.8%*	*55.5%*
Selling & mktg	$305.0	$403.1	$461.5	$442.4	$1,612.0	$361.4	$382.6	$381.7	$416.7	$1,542.4	$1,728.7
% S&M	*3.7%*	*4.6%*	*2.7%*	*2.7%*	*4.9%*	*2.4%*	*2.3%*	*2.4%*	*2.6%*	*2.4%*	*2.5%*
General & admin	$2,600.7	$3,054.2	$5,131.3	$5,478.3	$16,264.5	$4,162.1	$5,143.8	$4,155.1	$4,233.4	$17,694.4	$21,298.0
% G&A	*31.3%*	*35.2%*	*30.1%*	*33.2%*	*49.7%*	*27.6%*	*30.7%*	*26.1%*	*26.5%*	*27.8%*	*30.8%*
R&D	$255.9	$248.9	$263.7	$261.0	$1,029.5	$254.6	$218.4	$254.5	$255.5	$983.0	$1,313.8
%R&D	*3.1%*	*2.9%*	*1.5%*	*1.6%*	*3.1%*	*1.7%*	*1.3%*	*1.6%*	*1.6%*	*1.5%*	*1.9%*
Change in contingent consideration	$31.7	$11.0	$25.5	$5.0	$73.2	($64.2)	$0.0	$0.0	$0.0	($64.2)	$0.0
Depreciation & amort	$590.8	$559.7	$822.1	$881.2	$2,853.8	$756.7	$836.2	$728.8	$631.3	$2,953.0	$1,600.0
Restructuring charges	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OpEx	**$8,268.2**	**$8,610.5**	**$18,828.0**	**$17,378.9**	**$53,085.6**	**$15,318.2**	**$17,977.3**	**$15,616.4**	**$15,455.9**	**$64,367.8**	**$64,318.6**
% Total OpEx	*99.5%*	*99.2%*	*110.5%*	*105.3%*	*105.0%*	*101.6%*	*107.3%*	*98.2%*	*96.8%*	*101.0%*	*93.0%*
Operating Income	$39.1	$72.5	($1,783.5)	($867.9)	($2,539.8)	($238.0)	($1,227.8)	$288.7	$510.4	($666.7)	$4,830.9
Operating Margin	*0.5%*	*0.8%*	*-10.5%*	*-5.3%*	*-5.0%*	*-1.6%*	*-7.3%*	*1.8%*	*3.2%*	*-1.0%*	*7.0%*
Total Other Income (Expense)	$82.6	$174.4	($299.0)	$286.2	$244.0	($98.2)	$512.2	($542.0)	($30.0)	($158.1)	$25.0
Pre-Tax Income	$121.7	$246.8	($2,082.5)	($581.8)	($2,295.8)	($336.2)	($715.6)	($253.3)	$480.4	($824.7)	$4,855.9
Tax expense (benefit)	$46.7	$51.5	($250.1)	($5.5)	($157.4)	($40.5)	$55.4	$0.0	$0.0	$14.8	$781.8
Tax Rate	*38.3%*	*20.9%*	*12.0%*	*0.9%*	*6.9%*	*12.1%*	*-7.7%*	*0.0%*	*0.0%*	*10.8%*	*16.1%*
Preferred dividends	$775.3	$1,248.7	$1,056.2	$1,743.7	$4,824.0	$1,492.7	$1,486.7	$1,486.0	$1,486.0	$5,951.4	$5,500.0
Net Income (to common SH)	($700.3)	($1,053.4)	($2,888.7)	($2,320.0)	($6,962.4)	($1,788.4)	($2,257.7)	($1,739.3)	($1,005.6)	($6,791.0)	($1,425.9)
YOY Growth	*-75.9%*	*-50.4%*	*76.9%*	*149.6%*	*-8.3%*	*155.4%*	*114.3%*	*-39.8%*	*-56.7%*	*-2.5%*	*-79.0%*
Net Margin	*-8.4%*	*-261.4%*	*-16.9%*	*-14.1%*	*-13.8%*	*-11.9%*	*-13.5%*	*-10.9%*	*-6.3%*	*-10.7%*	*-2.1%*
EPS (GAAP)	($0.06)	($0.09)	($0.25)	($0.20)	($0.59)	($0.15)	($0.19)	($0.14)	($0.08)	($0.56)	($0.09)
YOY Growth	*-78.9%*	*-53.9%*	*72.6%*	*143.6%*	*-13.9%*	*148.3%*	*108.0%*	*-41.3%*	*-57.6%*	*-5.0%*	*-83.4%*
Shares O/S	11,617	11,665	11,770	11,833	11,721	11,946	12,022	12,080	12,100	12,037	15,260

Brian Marckx, CFA

HISTORICAL STOCK PRICE



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