

# Zacks Small-Cap Research

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## MTBC, Inc.

(MTBC-NASDAQ)

**Largest Acquisition in History, Meridian Medical, Prompts Upward Revision to Guidance. Moving PT to \$12.0/sh**

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 \$12.0/share

## OUTLOOK

MTBC made its largest acquisition to-date, closing on its purchase of Meridian Medical Management Co., on June 16th.

The addition of Meridian prompted management to upwardly revise revenue guidance for 2020 – while MTBC initially said (in their 6/17 PR announcing the deal) that they would wait until their Q2 earnings call to provide specifics on the increased guidance, they came out early, announcing yesterday that they now expect full-year 2020 revenue of \$105M - \$107M (upwardly adjusted from \$100M - \$102M prior to Meridian) while adjusted EBITDA guidance remains at \$12M - \$13M. More specifically as it relates to current-year guidance, MTBC now looks for 2H 2020 revenue at an annualized run rate of between \$130M and \$135M (i.e. averaging \$65M - \$67.5M per quarter in Q3 and Q4) and annualized adjusted EBITDA of \$24M - \$25M over the same period.

Updates to our model have moved our valuation from \$9.75 to \$12.0/share.

Current Price (07/08/20) \$10.71  
Valuation \$12.00

## SUMMARY DATA

52-Week High \$11.79  
52-Week Low \$3.25  
One-Year Return (%) 125.81  
Beta 1.11  
Average Daily Volume (sh) 154,855

Shares Outstanding (mil) 12  
Market Capitalization (\$mil) \$133  
Short Interest Ratio (days) N/A  
Institutional Ownership (%) 17  
Insider Ownership (%) 46

Annual Cash Dividend \$0.00  
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
Sales (%) 30.8  
Earnings Per Share (%) N/A  
Dividend (%) N/A

P/E using TTM EPS N/A  
P/E using 2020 Estimate N/A  
P/E using 2021 Estimate N/A

Zacks Rank N/A

Risk Level  
Type of Stock  
Industry

Average,  
Small-Value  
Med Info Sys

## ZACKS ESTIMATES

### Revenue

(in millions of \$)

|      | Q1     | Q2     | Q3     | Q4     | Year    |
|------|--------|--------|--------|--------|---------|
|      | (Mar)  | (Jun)  | (Sep)  | (Dec)  | (Dec)   |
| 2018 | 8.3 A  | 8.7 A  | 17.0 A | 16.5 A | 50.6 A  |
| 2019 | 15.1 A | 16.8 A | 16.9 A | 15.8 A | 64.4 A  |
| 2020 | 21.9 A | 18.8 E | 29.5 E | 35.5 E | 105.6 E |
| 2021 |        |        |        |        | 125.2 E |

### EPS (GAAP)

|      | Q1        | Q2        | Q3        | Q4        | Year      |
|------|-----------|-----------|-----------|-----------|-----------|
|      | (Mar)     | (Jun)     | (Sep)     | (Dec)     | (Dec)     |
| 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 A | -\$0.12 A | -\$0.60 A |
| 2020 | -\$0.42 A | -\$0.65 E | -\$0.40 E | \$0.07 E  | -\$1.54 E |
| 2021 |           |           |           |           | -\$0.81 E |

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

## MTBC Makes Largest Acquisition To-Date. Meridian Medical Mgmt Co Purchase Closed June 16<sup>th</sup>

MTBC made its largest acquisition to-date, closing on its purchase of Meridian Medical Management Co., on June 16<sup>th</sup>. As a reminder, CareCloud which MTBC acquired in early January of this year and which had an LTM revenue run rate of approximately \$33M, had been (up until now) the company's biggest purchase in history.

The addition of Meridian prompted management to upwardly revise revenue guidance for 2020 – while MTBC initially said (in their 6/17 PR announcing the deal) that they would wait until their Q2 earnings call to provide specifics on the increased guidance, they came out early, announcing yesterday that they now expect full-year 2020 revenue of \$105M - \$107M (upwardly adjusted from \$100M - \$102M prior to Meridian) while adjusted EBITDA guidance remains at \$12M - \$13M. More specifically as it relates to current-year guidance, MTBC now looks for 2H 2020 revenue at an annualized run rate of between \$130M and \$135M (i.e. averaging \$65M - \$67.5M per quarter in Q3 and Q4) and annualized adjusted EBITDA of \$24M - \$25M over the same period.

We may hear more specifics on the Q2 call, which we anticipate will happen towards the end of August. MTBC also previously noted that they believe Meridian will also positively influence growth and margins into 2021 and beyond.

Previously owned by GE Healthcare, Meridian provides leading edge IT solutions to physician practices as well as a number of hospitals. The transaction appears to fit with MTBC's playbook of acquiring assets that can be relatively easily integrated with its existing operations and where significant synergies can be realized within a short period of time. MTBC's has shown adeptness at finding and acquiring (what have proven to be) underpriced, and oftentimes distressed, companies and quickly wringing out costs which has resulted in rapid growth in revenue and profitability (i.e. adjusted EBITDA). For context, MTBC's revenue more than doubled between 2017 (\$31.8M) and 2019 (\$64.4M) while adjusted EBITDA grew by more than 250% (\$2.5M to \$8.1M) over the same period.

And the growth curve should steepen with the addition of Meridian. While management had been guiding for revenue in the current year to grow by at least 55% (as compared to 2019), this is now expected to be at least 63% (our current estimate is 64%). We have upwardly adjusted our revenue projections through the out year (2021) in our model. Our adjusted EBITDA forecast has inched up from \$10.8M to \$11.2M in the current year and has moved more significantly in 2021, moving from \$17.7M prior to Meridian to \$19.6M currently.

The \$24.8M cost of the transaction will be satisfied with \$15.0M cash, 200k series A (current series) preferred shares (aggregate value \$5M) and assumption of \$4.8M of Meridian's lease liabilities. While MTBC did not disclose the historical revenue run rate or purchase multiple, their characterization of Meridian as the largest acquisition in company history indicates that the it generated in excess of \$33M (i.e. CareCloud LTM revenue prior to the Meridian acquisition) and implies a price to sales multiple of 0.75x or less. This is a meaningful discount to the average ~1.0 P/S multiple of acquisitions in the industry.

### Valuation

We have updated our model for the Meridian acquisition – although expect additional adjustments following management's updated guidance and related disclosures on the Q2 earnings call. As it is now, our revenue and adjusted EBITDA forecasts have moved to \$105.7M and \$11.2M in 2020 (from \$95.2M and \$10.8M previously) and \$125.2M and \$19.6M in 2021 (from \$102.7M and \$17.7M previously).

Updates to our model has moved our valuation from \$9.75 to \$12.0/share.

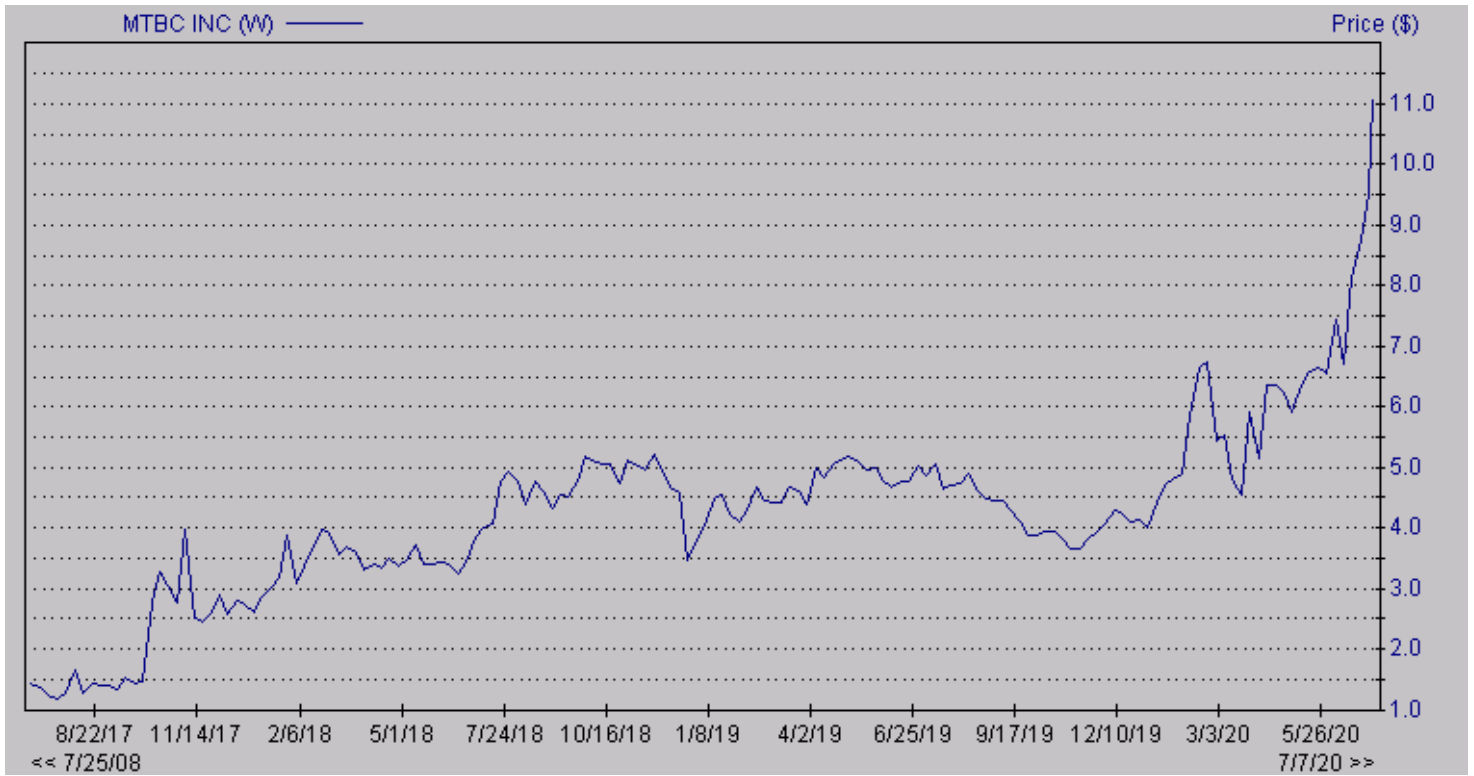
|                      | P/S    |        | EV/EBITDA |        | Average |  |
|----------------------|--------|--------|-----------|--------|---------|--|
|                      | 2020   | 2021   | 2020      | 2021   |         |  |
| Comparable Multiples | 1.6x   | 1.4x   | 16.5x     | 14.1x  |         |  |
| MTBC Per Share Value | \$13.6 | \$14.0 | \$10.4    | \$10.1 | \$12.0  |  |

### MTBC Financial Model

| MTBC                               | Q1A                | Q2A                | Q3A                | Q4A                | 2019 A             | Q1A                | Q2E                | Q3E                | Q4E               | 2020 E              | 2021 E              |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|---------------------|---------------------|
| <b>Total Revenue</b>               | \$15,080.2         | \$16,749.5         | \$16,851.3         | \$15,757.6         | \$64,438.6         | \$21,867.2         | \$18,767.8         | \$29,477.3         | \$35,526.7        | \$105,639.0         | \$125,193.4         |
| <i>YOY Growth</i>                  | 81.5%              | 92.9%              | -1.1%              | -4.6%              | 27.5%              | -56.7%             | 24.5%              | 76.0%              | 110.8%            | 63.9%               | 18.5%               |
| Direct operating costs             | \$9,847.5          | \$11,396.4         | \$10,535.6         | \$9,406.5          | \$41,186.0         | \$13,566.7         | \$12,125.4         | \$18,423.3         | \$20,072.6        | \$64,188.1          | \$71,485.4          |
| <i>% direct op costs</i>           | 65.3%              | 68.0%              | 62.5%              | 59.7%              | 63.9%              | 62.0%              | 64.6%              | 62.5%              | 56.5%             | 60.8%               | 57.1%               |
| Selling & mktg                     | \$361.4            | \$382.6            | \$347.6            | \$430.3            | \$1,521.8          | \$1,581.4          | \$1,313.7          | \$1,768.6          | \$1,918.4         | \$6,582.2           | \$6,885.6           |
| <i>% S&amp;M</i>                   | 2.4%               | 2.3%               | 2.1%               | 2.7%               | 2.4%               | 7.2%               | 7.0%               | 6.0%               | 5.4%              | 6.2%                | 5.5%                |
| General & admin                    | \$4,162.1          | \$5,143.8          | \$4,452.0          | \$4,154.0          | \$17,911.8         | \$5,592.7          | \$5,536.5          | \$6,190.2          | \$6,110.6         | \$23,430.1          | \$24,913.5          |
| <i>% G&amp;A</i>                   | 27.6%              | 30.7%              | 26.4%              | 26.4%              | 27.8%              | 25.6%              | 29.5%              | 21.0%              | 17.2%             | 22.2%               | 19.9%               |
| R&D                                | \$254.6            | \$218.4            | \$175.8            | \$222.0            | \$870.8            | \$2,333.1          | \$2,109.0          | \$2,344.0          | \$2,588.0         | \$9,374.1           | \$9,765.1           |
| <i>%R&amp;D</i>                    | 1.7%               | 1.3%               | 1.0%               | 1.4%               | 1.4%               | 10.7%              | 11.2%              | 8.0%               | 7.3%              | 8.9%                | 7.8%                |
| Change in contingent consideration | (\$64.2)           | \$0.0              | (\$279.6)          | \$0.0              | (\$343.8)          | \$0.0              | \$0.0              | \$0.0              | \$0.0             | \$0.0               | \$0.0               |
| Depreciation & amort               | \$756.7            | \$836.2            | \$814.2            | \$598.5            | \$3,005.6          | \$1,332.8          | \$2,516.0          | \$2,620.0          | \$2,720.0         | \$9,188.8           | \$11,510.0          |
| Restructuring charges              | \$0.0              | \$0.0              | \$156.5            | \$82.1             | \$219.0            | \$291.1            | \$0.0              | \$0.0              | \$0.0             | \$291.1             | \$0.0               |
| <b>TOTAL OpEx</b>                  | <b>\$15,318.2</b>  | <b>\$17,977.3</b>  | <b>\$16,181.9</b>  | <b>\$14,893.9</b>  | <b>\$64,371.3</b>  | <b>\$24,704.4</b>  | <b>\$23,600.7</b>  | <b>\$31,346.2</b>  | <b>\$33,409.6</b> | <b>\$113,060.9</b>  | <b>\$124,559.6</b>  |
| <i>% Total OpEx</i>                | 101.6%             | 107.3%             | 96.0%              | 94.5%              | 99.9%              | 113.0%             | 125.8%             | 106.3%             | 94.0%             | 107.0%              | 99.5%               |
| <b>Operating Income</b>            | <b>(\$238.0)</b>   | <b>(\$1,227.8)</b> | <b>\$669.4</b>     | <b>\$863.7</b>     | <b>\$67.3</b>      | <b>(\$2,837.2)</b> | <b>(\$4,832.8)</b> | <b>(\$1,868.9)</b> | <b>\$2,117.1</b>  | <b>(\$7,421.8)</b>  | <b>\$633.8</b>      |
| <i>Operating Margin</i>            | -1.6%              | -7.3%              | 4.0%               | 5.5%               | 0.1%               | -13.0%             | -25.8%             | -6.3%              | 6.0%              | -7.0%               | 0.5%                |
| Total Other Income (Expense)       | (\$98.2)           | \$512.2            | (\$720.0)          | (\$440.3)          | (\$746.3)          | \$365.4            | \$224.8            | (\$54.1)           | (\$18.7)          | \$365.4             | (\$271.4)           |
| <b>Pre-Tax Income</b>              | <b>(\$336.2)</b>   | <b>(\$715.6)</b>   | <b>(\$50.6)</b>    | <b>\$423.4</b>     | <b>(\$679.0)</b>   | <b>(\$2,471.8)</b> | <b>(\$4,608.0)</b> | <b>(\$1,923.0)</b> | <b>\$2,098.4</b>  | <b>(\$7,056.5)</b>  | <b>\$362.4</b>      |
| Tax expense (benefit)              | (\$40.5)           | \$55.4             | \$87.0             | \$91.0             | \$192.8            | \$29.9             | \$0.0              | \$0.0              | \$0.0             | \$29.9              | \$63.4              |
| <i>Tax Rate</i>                    | 12.1%              | -7.7%              | -172.0%            | 12.1%              | -28.4%             | -1.2%              | 0.0%               | 0.0%               | 0.0%              | 0.0%                | 17.5%               |
| Preferred dividends                | \$1,492.7          | \$1,486.7          | \$1,602.8          | \$1,803.9          | \$6,386.2          | \$2,642.9          | \$3,420.0          | \$2,997.0          | \$2,997.0         | \$12,056.9          | \$11,988.0          |
| <b>Net Income (to common SH)</b>   | <b>(\$1,788.4)</b> | <b>(\$2,257.7)</b> | <b>(\$1,740.4)</b> | <b>(\$1,471.5)</b> | <b>(\$7,257.9)</b> | <b>(\$5,144.7)</b> | <b>(\$8,028.0)</b> | <b>(\$4,920.0)</b> | <b>(\$898.6)</b>  | <b>(\$19,143.3)</b> | <b>(\$11,689.1)</b> |
| <i>YOY Growth</i>                  | 155.4%             | 114.3%             | -39.8%             | -36.6%             | 4.2%               | -26.1%             | 348.9%             | 117.9%             | -48.4%            | 163.8%              | -38.9%              |
| <i>Net Margin</i>                  | -11.9%             | -13.5%             | -10.3%             | -9.3%              | -11.3%             | -23.5%             | -42.8%             | -16.7%             | -2.5%             | -18.1%              | -9.3%               |
| <b>EPS (GAAP)</b>                  | <b>(\$0.15)</b>    | <b>(\$0.19)</b>    | <b>(\$0.14)</b>    | <b>(\$0.12)</b>    | <b>(\$0.60)</b>    | <b>(\$0.42)</b>    | <b>(\$0.65)</b>    | <b>(\$0.40)</b>    | <b>(\$0.07)</b>   | <b>(\$1.54)</b>     | <b>(\$0.81)</b>     |
| <i>YOY Growth</i>                  | 148.3%             | 108.0%             | -41.6%             | -38.7%             | 1.1%               | -29.6%             | 332.5%             | 110.4%             | -49.8%            | 156.8%              | -47.7%              |
| Shares O/S                         | 11,946             | 12,022             | 12,146             | 12,239             | 12,088             | 12,311             | 12,400             | 12,450             | 12,500            | 12,415              | 14,500              |

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# HISTORICAL STOCK PRICE



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