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Zacks Small-Cap Research

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Medical Transcription Billing (MTBC-NASDAQ)

MTBC: Ramping Profits By Providing Better Billing/EHR Solutions To Physician Practices

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 $5.5/share

Current Price (05/021/18)	$3.36
Valuation	**$5.50**

OUTLOOK

MTBC provides proprietary healthcare information technology and medical billing products and services to smaller U.S. physician practices. While the 2009 HITECH Act spurred adoption of EHR, sunsetting of 'meaningful use' incentives, coupled with reimbursement pressures and insufficient functionality has meant that stand-alone EHR providers find it increasingly difficult to rationalize their costs to physician practices. This has created an opportunity for MTBC which employs a business and revenue model that addresses small physician practices' EHR and medical billing related concerns. Unlike most vendors, MTBC offers their EHR/practice management technology for free and then offers users the opportunity to upgrade to their medical billing services. MTBC's cost advantage comes from their use of relatively very low-cost (yet highly skilled) Pakistani labor. Their growth-through-acquisition strategy has quickly proven successful, ramping revenue and generating $2.3M in adjusted EBITDA in 2017. MTBC expects to leverage their solid balance sheet and continue to opportunistically acquire while also implementing an organic growth strategy. Management expects significant growth in 2018, eclipsing 2017's record results.

SUMMARY DATA

52-Week High	**$5.44**
52-Week Low	**$1.08**
One-Year Return (%)	**74.00**
Beta	**2.03**
Average Daily Volume (sh)	**33,620**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$39**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**50**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**20.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
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	8.0 E	7.8 E	8.0 E	8.9 E	32.7 E
2019	35.4 E				
2020	38.8 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	-$0.08 E	-$0.10 E	-$0.10 E	-$0.12 E	-$0.41 E
2019					-$0.22 E
2020					-$0.10 E

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

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SNAPSHOT

Medical Transcription Billing Corp (MTBC) provides proprietary healthcare information technology products and services to physician practices in the U.S. The company's flagship product, PracticePro, is a fully-integrated software-as-a-service (SaaS) web-based platform with a comprehensive suite of functionality designed to streamline the day-to-day operations of medical practices and improve their financial performance. MTBC's proprietary technology and related services include electronic health records (EHR), practice management software and revenue cycle management (RCM) aimed at improving workflow, easing administrative burdens (such as those related to billing, insurance and patient scheduling), improving collections and reducing insurance claim denials, and meeting federal mandates related to adoption and use of healthcare information technology.

The EHR and RCM markets are in flux as physicians' discontent with their healthcare IT and billing providers continues to escalate. Reimbursement pressures, higher costs, claim denials, insufficient functionality and lack of positive return on investment have healthcare CFOs pining for better RCM solutions. Small physician practices, with tighter budgets and lower revenue per patient, means that this segment is particularly discerning when it comes to ROI and decisions regarding outsourcing their medical billing functions. In order to win their businesses, providers want to see that an RCM vendor can return positive ROI in the face of tightening margins, rising costs and lower Medicare reimbursements.

The passage of the Health Information Technology for Economic and Clinical Health (HITECH) Act in 2009, which offered healthcare providers financial ('meaningful use') incentives for (and penalties for not) adopting EHR, had the effect of dramatically increasing demand for healthcare IT. It also significantly increased the number of vendors offering EHR products and services – from just under 100 in 2009 to more than 1,000 today. Recent vendor consolidation, with (mostly) larger vendors scooping up less-viable smaller players, as well as concerns about cost, complexity and lack of substantive usability has resulted in widespread dissatisfaction among smaller physician practices, whose EHR and medical billing needs are increasingly not being met.

Recent sunsetting of 'meaningful use' incentives, coupled with increasing reimbursement pressures, has meant that stand-alone EHR providers find it increasingly difficult to rationalize their costs to physician practices. These industry challenges have, in our opinion, created opportunities for MTBC. Employing a revenue model that is aligned with the interests of their customers, performance which is better than the industry average and cost that is amongst the lowest of all vendors, we think MTBC's EHR and RCM offerings directly address practitioners' needs. And with the ability (and cost-efficiency) to customize and tailor their products and services to the needs of current and prospective customers, we believe MTBC is well positioned to quickly adapt to what will likely continue to by a highly dynamic and rapidly evolving environment.

MTBC is on the front-end of implementing a multi-pronged growth strategy. Recent investments in sales and marketing infrastructure, leveraging relationships with industry partners, and introduction of new products and services (such as free EHR and mobile device functionality), is expected to benefit their organic growth strategy. Meanwhile, they have already demonstrated initial success with their acquisition-related strategy. By buying cheap, rapidly integrating, slashing expenses through the almost-exclusive use of (relatively very inexpensive, yet highly experienced and trained) Pakistani and Sri Lankan labor, MTBC has demonstrated the ability quickly realize synergies. Since their IPO in July 2014, MTBC has acquired assets of 10 RCM companies and grown revenue and adjusted EBITDA from $18.3M and ($1.7M) in FY2014 to $31.8M and $2.3M in FY2017.

MTBC's competitive advantages relate to the comprehensiveness and ease-of-use of their EHR platform and expertise in medical billing, which is provided at lower cost than most of its competitors. Their pricing advantage is borne from the use of lower cost labor – MTBC estimates that Pakistani (most of the company's 1,600 employees are in Pakistan) labor costs approximately 50% of that of comparable labor in India and 10% of that in the U.S. Additionally, MTBC has historically only competed in the small physician practice segment (95+% of their customers are practices with ten or fewer physicians) – which is more price sensitive, customer service oriented and which places high value on user-friendliness – attributes which many of the larger EHRs are failing to deliver on.

The global EHR market is estimated to be worth approximately $22B (~$4B of which is ambulatory) and forecasted to expand at a CAGR of 5% - 7% over the next seven years. Growth in the U.S., which represents about 50% of the worldwide EHR market, is expected to be on the higher-end of this growth range and spurred by government incentives/penalties, healthcare policy changes, reimbursement related complexities, competition and increased demand for operational efficiencies. Meanwhile, the U.S. RCM market is forecast to grow from $9B in 2015 to almost $29B in 2025, representing a CAGR of more than 12%.

While MTBC will continue to seek additional acquisition candidates and recently beefed up their cash balance to facilitate their growth strategy, they have also focused on cleaning up their balance sheet and paying down debt. They paid down over $14M of debt during 2017 and exited the year with less than $300k in notes payable on the balance sheet. Current cash balance sits at approximately $13M. Another $5M is available under an untapped revolver. Additionally, management indicated their intentions to continue to improve upon profitability and (per their Q4 '17 earnings call in March '18) are guiding for adjusted EBITDA to show "significant growth" in 2018 from the $2.3M record high generated in 2017.

Electronic Health Records

Electronic health records are a relatively new concept. Traditionally, patient medical records including personal identification, billing information, vitals, medical history, current and past medications, test results, etc. have been recorded on paper and shared through postal mail, fax or by phone. While technological innovation was being applied to actual healthcare (and resulting in new drugs, biologics, diagnostics, imaging and more, much of which has benefitted patient care), there were few financial incentives for healthcare providers to invest in better and more efficient recordkeeping.

HITECH Act of 2009…

So instead, the U.S. government stepped in and in 2009 passed the Health Information Technology for Economic and Clinical Health Act (the HITECH Act was part of the American and Reinvestment Act of 2009, a bill aimed at stimulating the recession-stunted U.S. economy). The purpose of the HITECH Act was to greatly expand the adoption and use of electronic health records including "the development of a nationwide health information technology infrastructure that allows for the electronic use and exchange of information…"[1] Specific goals included improving the quality of and access to healthcare, reducing medical errors and improving the sharing of medical information and coordination of patient care.

The U.S. government provided $35B worth of incentives to healthcare providers as a way to spur adoption and use of EHR technology and systems. In order to receive the maximum amount of incentives (paid through Medicare or Medicaid), which amount up to $63,750 (under Medicaid, or up to $44,000 under Medicare) for professionals (over 6 years, starting in 2011) and millions of dollars for eligible hospitals (i.e. acute care hospitals), participants must demonstrate "meaningful use" of certified EHR technology. In order for professionals to qualify for the EHR programs incentives, they had to have met certain objectives and have begun receiving payments by 2016. Professionals that did not participate (physicians were required to begin participation by 2015) in the program or failed to meet 'meaningful use' requirements were subject to 1% penalties (of Medicare Part B reimbursements), which increased every year up to 5%.

Meaningful use was rolled out in three stages with each stage including progressively more functionality. Participants in the program must attest that over a 90-day period, they met the meaningful use requirements for each of the particular stages in order to receive the related incentives (and avoid penalties).

Requirements for meeting 'Meaningful Use"		
Stage 1 **Data Capture and Sharing**	**Stage 2** **Advance Clinical Processes**	**Stage 3** **Improved Outcomes**
> Electronically capture health information in a standardized format	> More rigorous health information exchange (HIE)	> Improve quality, safety, and efficiency, leading to improved health outcomes
> Using that information to track key clinical conditions	> Increased requirements for e-prescribing and incorporating lab results	> Decision support for national high-priority conditions
> Communicate that information for care coordination processes	> Electronic transmission of patient care summaries across multiple settings	> Patient access to self-management tools
> Initiate the reporting of clinical quality measures and public health information	> More patient-controlled data	> Access to comprehensive patient data through patient-centered HIE
> Use information to engage patients and their families in their care		> Improve population health

[1] hhs.gov. HITECH act

HITECH Act Spurred EHR Adoption…

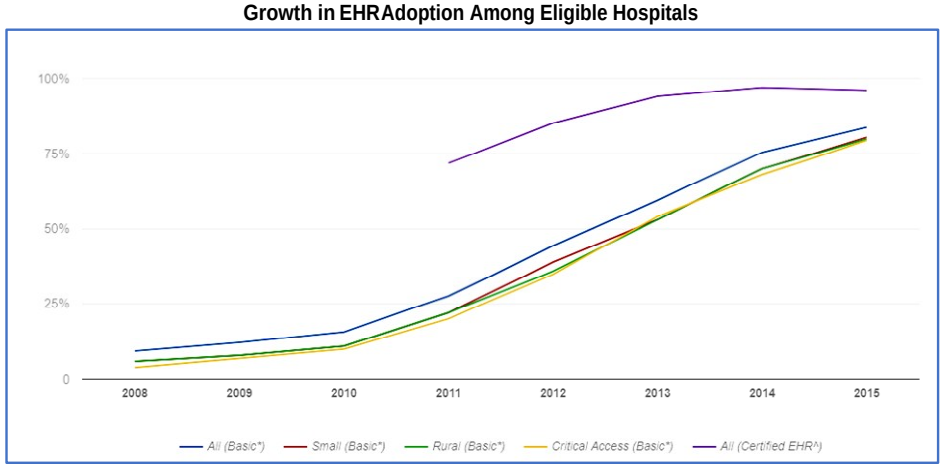
EHR adoption has been lower than anticipated – the reasons for which may relate to functionality and usability issues such as lack of interoperability, complexity or difficulty in using/learning the system (at least among some technologies). But, the HITECH Act does appear to have helped drive adoption and 'meaningful use' of EHR technology.

A study[2] published in August 2017 found that in the three years prior (2008-2010) to the incentive programs, EHR adoption among eligible hospitals increased at an annual rate of 3.2% but during the period 2011-2015 (i.e. after implementation), adoption increased at (a much higher rate of) 14.2% per year. Meanwhile, hospitals that were not eligible for the program saw annual increases of 0.1% prior to the program and 3.3% after implementation.

The Office of the National Coordinator for Health Information Technology (ONC), a division of the U.S. Department of Health and Human Services, is mandated to support adoption of health information technology. ONC is responsible for overseeing the EHR programs' administration including certification of EHR vendors and collection of adoption statistics. ONC's data also indicates that the adoption of EHR technology and systems has been significant. This includes adoption of both certified EHR and EHR systems. Per their most recent data;

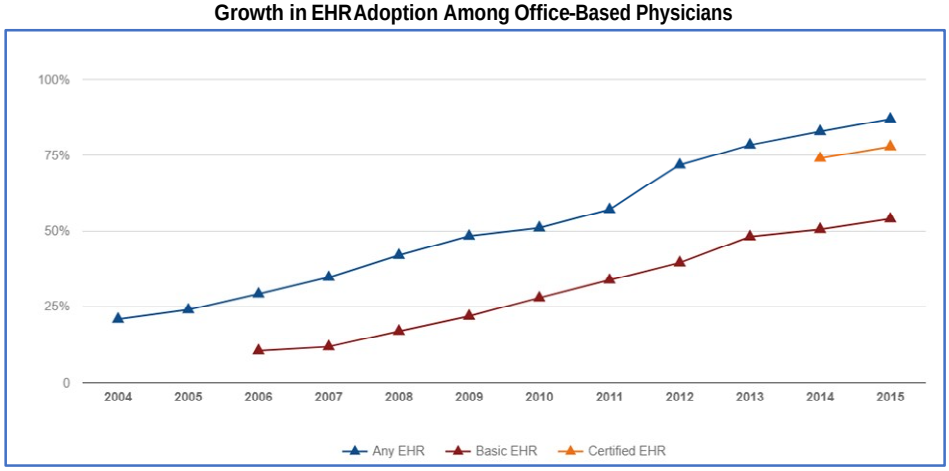
- adoption of certified EHR among eligible hospitals increased by approximately 14% from 2011-2015
- over 95% of eligible hospitals had demonstrated meaningful use of certified health IT in 2016
- adoption of basic EHR systems among eligible hospitals grew from 28% in 2011 to 84% in 2015
- 78% of U.S. physicians, including 81% primary care and 75% of specialists, adopted certified EHR by 2015
- 54% of U.S. physicians were using a basic EHR system in 2015

Growth in EHR Adoption Among Eligible Hospitals



SOURCE: ONC, Health IT Dashboard

Growth in EHR Adoption Among Office-Based Physicians



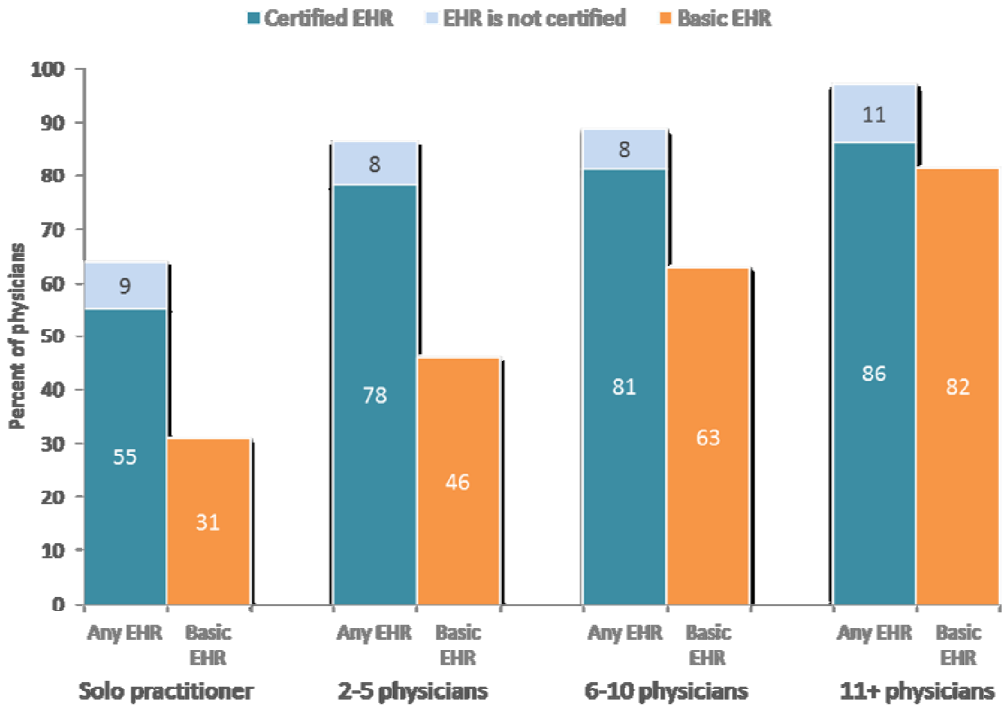
SOURCE: ONC, Health IT Dashboard

[2] Julia Adler-Milstein and Ashish K. Jha. HITECH Act Drove Large Gains In Hospital Electronic Health Record Adoption. Health Affairs. August 2017

'Certified EHR' is defined (by ONC) as EHR technology that "meets the meaningful use criteria as defined by the Department of Health and Human Services" while 'basic EHR' refers to a system that has all of the following functionalities: patient history and demographics, patient problem list, physician clinical notes, comprehensive list of patient's medications and allergies, computerized orders for prescriptions, and ability to view laboratory and imaging results electronically." 'Any EHR system' are medical records or systems that are "either all or partially electronic and excludes systems solely for billing." Note, also, that ONC began tracking adoption of certified EHR by physicians in 2014.

EHR's High Cost, Complexity and Disruptiveness Slows Adoption Among Small Physician Practices…
Physician practices with five or fewer physicians account for approximately 50% of all total U.S. medical providers. More than 95% of MTBC's customers are practices with ten or fewer physicians, a segment in which EHR adoption has lagged that of the overall healthcare provider population. According to ONC's most recent data, while 81% of primary care physicians have adopted certified EHR, just 72% of small physician practices have. Practice size (based on number of physicians) also appears to be positively correlated to EHR adoption. While 86% and 82% of larger practices (i.e. those with 11 or more physicians) had adopted certified and basic EHR, respectively, just 78% and 46% of practices with 2 to 5 physicians had done the same (chart below).

EHR Adoption Lagging Among Smaller Physician Practices (data as of 2014)



SOURCE: ONC, Health IT Dashboard

Lack of adoption or failure to meet requisite 'meaningful use' criteria has meant hundreds of thousands of medical practices face penalties each year, including 257k in 2015. And while the number of non-compliant practices continues to fall – to 209k in 2016 and 171k in 2017, the structured sequential increase in fines (3% of Medicare Part B in 2017) means the penalties can become increasingly financially painful.

Several studies[3] and surveys[4] have been conducted since shortly after passage of the HITECH Act in 2011 in an effort to better understand the reasons behind lagging adoption among smaller physician practices. These studies have uncovered several potential factors that are more unique to smaller practices and which may contribute to their less robust adoption, including;

- small practices are less likely have use for certain EHR system functionality

[3] (Xierali IM, et al 2013), (Decker, et al 2012), (Furukawa, et al 2014), (Sowmya, et al 2011),
[4] (Sowmya, R Rao et al., 2011), (Chad C. Sines, 2017)

- implementation of EHRs is more cost-prohibitive for small practices, which may not have requisite IT infrastructure
- patient volume has decreased in smaller practices after EHR implementation
- in a survey of small practices, 47% expressed concern about losing money as a result of seeing fewer patients following EHR implementation
- small practices have fewer financial and personnel resources to dedicate to the increased time necessary to input data into EHR
- small practices are less likely to have the technical acumen or time to learn EHR systems
- concern among smaller practices of less face-to-face time among physicians and their patients post-EHR implementation

The headwinds toward greater EHR adoption among small practices is further illustrated by the results of a small observational study of ambulatory practices. Among the 21 physicians that completed the trial, they averaged two hours per day in the clinic on EHR and desk work for every one hour spent with patients. They spent another one to two hours after work with computer and other clerical work.[5]

The American Medical Association (AMA) also weighed in on the disconnect between the perceived benefits of EHRs and the needs of physician practices. Andrew Gurman, President of the AMA, noted that, "Prescriptive design, use, and certification demands by the federal government have driven the design of EHRs to focus on CMS reporting requirements, largely ignoring the needs of physicians and patients."[6] In order to address the needs of physicians, the AMA recommends EHRs that are designed in such a way to enhance physicians' ability to provide patient care, promote care coordination, provide configurability, reduce cognitive workload, facilitate mobile patient engagement and expedite user input into production design.[7]

MACRA Act of 2015 Changes Focus to Quality of Care…

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) changed the way that providers are reimbursed by Medicare with a focus on quality, instead of volume, of care. MACRA consolidated the meaningful use program (as well as the Physician Quality Reporting System and Value Based Modifier program) into Merit Based Incentive Payment System (MIPs). So instead of certifying compliance based solely on meaningful use (and thereby avoiding penalties), providers are now measured on additional (i.e. four) performance categories based on; advancing care information (i.e. meaningful use criteria), quality (based on PQRS/VBM), clinical practice performance and resource use. Based on a provider's compliance in meeting these measures, they will receive a score between 0 and 100 and be subject to penalties between 4% and 9% of Medicare reimbursement. Performance measurement begins with 2017 with (potential) penalties applied for the following two years (i.e. 2018 and 2019 for the 2017 measurement period).

While small practices (i.e. those that do not meet a specified threshold of annual Medicare claims[8]) are currently excluded from the new reporting requirements, given that MIPS does not change the (legacy) meaningful use mandates, this update in oversight means that providers could face even stiffer penalties (assuming they score low on the other MIPS measures). As a result, and coupled with the potential that the small-practice exclusions are eliminated in the near-future, it is essential that EHR systems and technology are not only 'certified' but also facilitate MIPS-related reporting and compliance.

MTBC's EHR / Billing Solution Targets Needs of Small Practices

MTBC's flagship product, PracticePro, is a fully-integrated software-as-a-service (SaaS) web-based platform with a comprehensive suite of functionality designed to streamline the day-to-day operations of medical practices and improve their financial performance. MTBC's proprietary technology and related services include EHR, practice management software and revenue cycle management (RCM) aimed at improving workflow, easing administrative burdens (such as those related to billing, insurance and patient scheduling), reducing insurance claim denials and meeting federal mandates related to adoption and use of healthcare information technology.

PracticePro is a certified EHR as defined by ONC and provides all of the functionality required for establishing 'meaningful use'. Integrated with clinical partners across a wide range of specialties, such as LabCorp (for lab testing and results), SureScripts (for e-prescriptions), HealthCare Compliance Network (for healthcare regulatory

[5] (Sinsky, et al 2016)
[6] Reisman, Miriam. EHRs: The Challenge of Making Electronic Data Usable and Interoperable. P T. 2017 Sep; 42(9): 572–575.
[7] Jack Resneck, Jr, MD. EHR Usability and Digital Health: The AMA Perspective. Sept 2016
[8] Clinicians are excluded from MIPS reporting if; received less than $30k in Medicare Part B or treated less than 100 Medicare patients for 2017. Thresholds increased in 2018 to $90k and 200 Medicare patients

compliance), NCO Group (for collections) and Dr. First (for patient data and communication), MTBC's platform provides users with a complete EHR solution.

Per the description of PracticePro on MTBC's website, the system includes the following functionality;

- E-prescribing: prescribe drugs electronically via their SureScripts certified solution
- Patient health records: patients can access their records online, receive statements, make payments and schedule appointments
- Insurance eligibility: instantly verify patient insurance eligibility – reduces risk of claim denials
- Messaging: direct and secure messaging between physicians and patients
- Balance reminder calls (BRC): BRC automatic reminder calls to patients for unpaid invoices reduces cost of collections and improves cash flow and profitability
- Real-time claims adjudication (RTA): flags claims and reimbursement processing errors in real-time to reduce insurance denials and improve collections and cash flow. MTBC's RTA is partnered with national and regional payers
- Patient scheduling: schedule patients appointments and send reminders. Functionality includes the ability to set up automated appointment reminders which can reduce no-shows
- Lab integration: order lab services directly with major labs including LabCorp and Quest
- Business Intelligence: key financial information and metrics which practices can use to make informed operational decisions
- WebEHR dashboard: summary of daily action-items including appointments, messages, pending medication refill requests and patient lab results in a graphical dashboard
- Mobile connectivity: functionality via mobile apps (for iOS and Android) includes 'Patient Health Records App', 'iCheckIn' (for patient check-in, personal information, insurance and payments), 'iRx' (prescription approvals and refills), 'Dictate' (dictate patient notes), 'iEHR' (complete EHR) and 'ICD 9-10 converter' (converts reimbursement coding from legacy to current)
- WebPro: create and maintain professional website

MTBC's EHR Solution



SOURCE: mtbc.com

MTBC Provides Bundled EHR / Practice Management, Generates Revenue From Medical Billing Service…
As evidence from the above referenced clinical studies and surveys show, the cost, complexity and (over-) functionality of certified EHR systems means that they (and the meaningful use mandate) often don't fit with the budgets, capabilities and needs of small physician practices. Recognizing this disconnect, MTBC aligned their business and revenue models in such a way so its customers (i.e. mostly small practices) can meet the meaningful

use mandates (and receive associated incentives) by adopting their EHR technology and do so with little-to-no cost. They have also been highly cognizant of the disconnect between the meaningful use mandates and the needs of physician practices, as well as MIPS-related performance measures, and have used that knowledge in developing more intuitive, user-friendly and functional EHR technology aimed primarily at the small-to-medium sized physician segment.

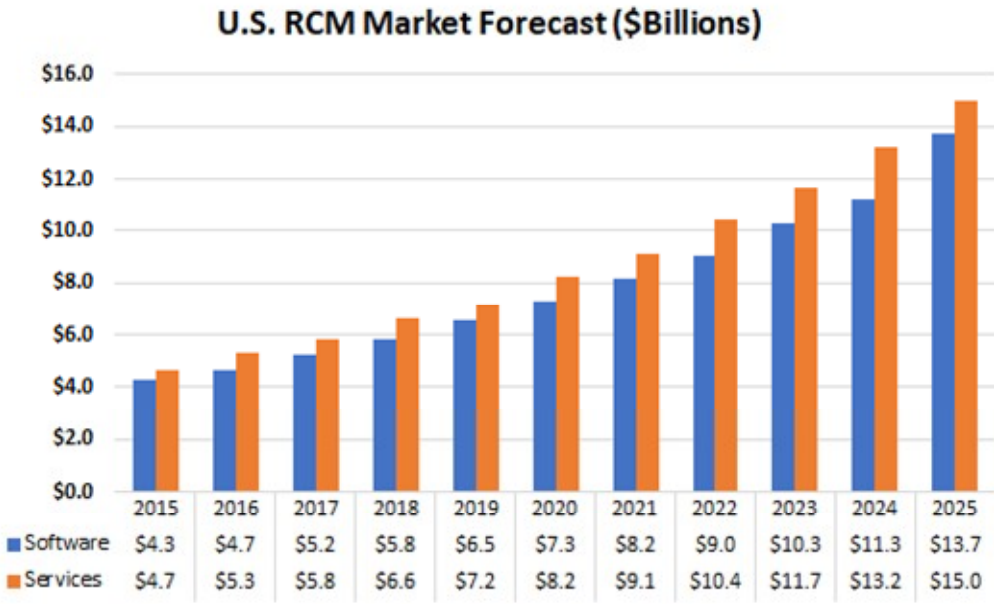
In August 2017 MTBC introduced 'talkEHR', their new ONC-certified proprietary EHR solution, which will be rolled out through 2018. talkEHR incorporates artificial intelligence built on Google Voice framework to provide voice assistant functionality. This enables simple, hands-free operation which is expected to further improve upon user-friendliness and reduce time and effort of data input. MTBC offers talkEHR free of charge, including full data migration to their platform, to healthcare practices which are then offered the opportunity to upgrade to their (revenue generating) services.

Instead of charging for EHR, MTBC generates revenue from revenue cycle management (i.e. medical billing) and related services that it provides to medical practices. Many small physician practices may not have the utility for a full-suite of EHR functionality, but do find a need for more efficient, productive and less costly medical billing. Any customer that contracts with MTBC for their medical billing services receives their EHR and practice management software for free.

Physicians Turning to RCM Outsourcing To Address Billing, Reimbursement Challenges…

More and more physicians are expected to turn to RCM services as a way to address the time and costs necessary to keep up with increasing complexity of medical billing, changes in reimbursement and related coding, and requisite technology upgrades. According to a recent survey by healthcare IT research firm, Black Book, traditional medical billing solutions are increasingly crimping practitioners' margins, prompting a majority of the 2k physicians surveyed to seek more efficient billing methods. But, Black Book noted that (as of 2016), 90% of small, independent practices remain unprepared for the new billing challenges presented by value-based care mandates.

According to Grand View Research[9], in 2015 the U.S. RCM market was worth approximately $9B, which included $4.2BM for software and $4.8B for services. They forecast the market to grow to about $28.7B (12% CAGR) by the year 2025, with software accounting for $13.7B (13% CAGR) of the market and $15.0B (12% CAGR) related to RCM services. Grand View cites increasing complexity of managing revenue cycle processes as a result of regulatory reforms, as well as greater financial challenges [faced by providers], as catalysts driving growth of the U.S. RCM services market. In addition, greater focus on reducing claim denials and improving overall work efficiencies through better medical billing management are also mentioned as expected contributors to RCM market growth.



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Software	$4.3	$4.7	$5.2	$5.8	$6.5	$7.3	$8.2	$9.0	$10.3	$11.3	$13.7
Services	$4.7	$5.3	$5.8	$6.6	$7.2	$8.2	$9.1	$10.4	$11.7	$13.2	$15.0

SOURCE: Grand View Research and analyst estimates

[9] Revenue Cycle Management Market Analysis By Product, By Type, By Delivery Mode, By End-use, & Segment Forecasts, 2018 - 2025

Revenue Model Aligns MTBC's Interests With Those of Their Customers…
MTBC's revenue model also aligns their interests with those of their customers. MTBC charges 5% of a practice's net collections (in addition to a small one-time set-up fee), incentivizing MTBC to minimize insurance claim denials, remain current on insurance coding and billing practices, verify patient insurance eligibility and co-pay responsibility, shorten accounts receivable aging and everything else that relates to maximizing collections and cash flow for their customers. In addition to aligned interests, MTBC believes that their fees (i.e. 5% of collections plus small set-up fee) are among the lowest in the industry. Medical billing services account for approximately 89% of MTBC's total revenue.

MTBC has demonstrated significant success with their RCM services, as evidenced by high scores on certain industry metrics. MTBC reported that during 2017 (and 2016) they scored;

- First pass acceptance rate of ~96% (96%): this compares to ~95% of the top 12 payers
    - First pass acceptance is the % of claims submitted electronically to insurers that are not denied
- First pass resolution rate of 94% (94%)
    - First pass resolution is the % of primary claims that are favorably adjudicated after one submission
- Median days in A/R: 37 (33) days for primary care and 41 days (40) for specialist practices. This compares to a 2016 national average of 36 days and 40 days
    - Median days in A/R is directly influenced by first pass acceptance and first pass resolution performance

MTBC also offers clearinghouse and electronic data interchange (EDI) services, services which optimize insurance companies' enrollment processes and track claims and which were obtained through their acquisition of SoftCare in July 2015. Clearinghouse and EDI services currently account for approximately 3% of MTBC's total revenue and are expected to grow from the recent launch of 'EnrollmentPlus, a software-as-a-service EDI service. Another ~8% comes from other (non-billing) ancillary services which includes printing and mailing services (capabilities which came with MTBC's July 2016 acquisition of WFS Services), transcription services, platform usage fees (related to customers' use of non-MTBC EHRs) and coding services. Unlike billing services, fees for ancillary services are generally based on a per unit of work basis.

As of the close of 2017, MTBC serviced 980 customers, including 750 to which they provided medical billing services and 230 which used their clearinghouse and electronic data interchange services. In addition, 950 providers had signed up for talkEHR, 40 of which were actively using it in their practice.

EHR Market and Vendors

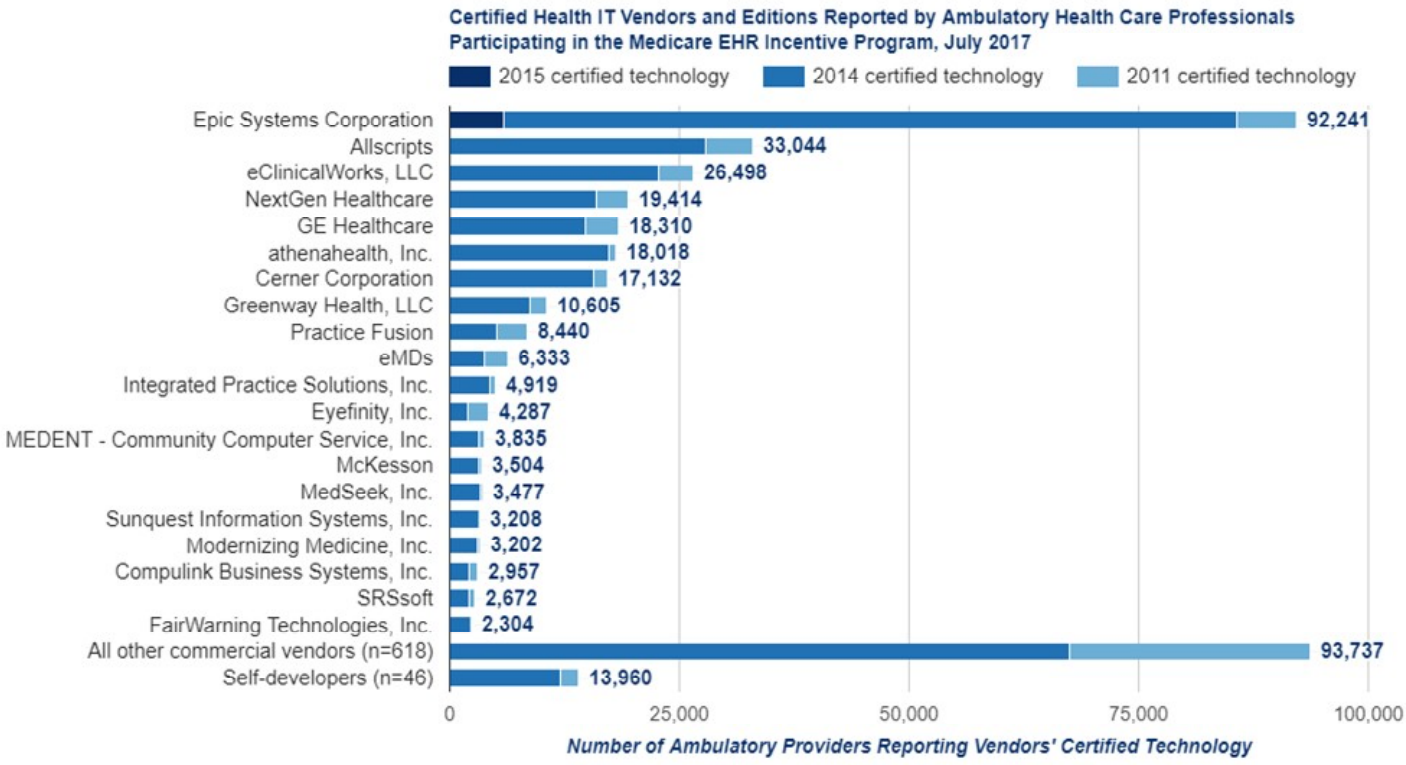
The HITECH Act and meaningful use mandates not only spurred adoption of EHRs among medical institutions and professionals, it also had the effect of dramatically increasing the overall size of the EHR market and the number of healthcare IT vendors. The global EHR market, approximately 50% of which is represented by the U.S., grew from approximately $10B in 2010 to $22B today. The ambulatory segment increased from about $1.5B to $4B over the same period.

In 2009 less than 96 EHR vendors operated in the U.S., today that number is estimated at just north of 1,000. This rapid growth (~30% 9-year CAGR) resulted in a fragmented vendor base – ranging from relative behemoths such as Cerner and Epic, which combined are estimated to command nearly 50% market share of the hospital EHR market, to many hundreds of much smaller players vying for single-digit percentage share of the ambulatory space.

There are two distinct segments of the EHR market; hospitals and ambulatory. Hospitals, particularly larger facilities, may employ both an in-house as well as an ambulatory EHR system. The ambulatory segment is also quite diverse and includes outpatient hospitals and medical facilities as well as large and small physician practices. The ambulatory physician practice market is further segmented by size (i.e. number of physicians). KLAS, a healthcare IT research company which publishes data and rankings on EHR vendors, categorizes the ambulatory physician practice segment into large (>75 physicians), medium (11-75 physicians) and small (<10 physicians). While more than 95% of MTBC's customers fall into the ambulatory 'small' category, in November 2017 the company brought on a 950-clinician practice – which is their largest to-date in terms of both size and monthly revenue.

MTBC services the ambulatory segment of the EHR market. The chart below is ONC's data of ambulatory EHR vendors (that were participating in the EHR incentive program as of July 2017) and illustrates the large size (in

terms of number of participants), diversity and fragmented nature of the market. MTBC is included in this chart as one of the 618 'other commercial vendors' providing health IT to, in aggregate, almost 94k ambulatory professionals attesting to meaningful use as of 2016. MTBC, per ONC's accompanying data, served 154 'certified' providers as of 2016 (note that we only illustrate this for context as this number relates only to 'certified technology' customers, which is significantly less than the number of customers that MTBC provides medical billing services to).

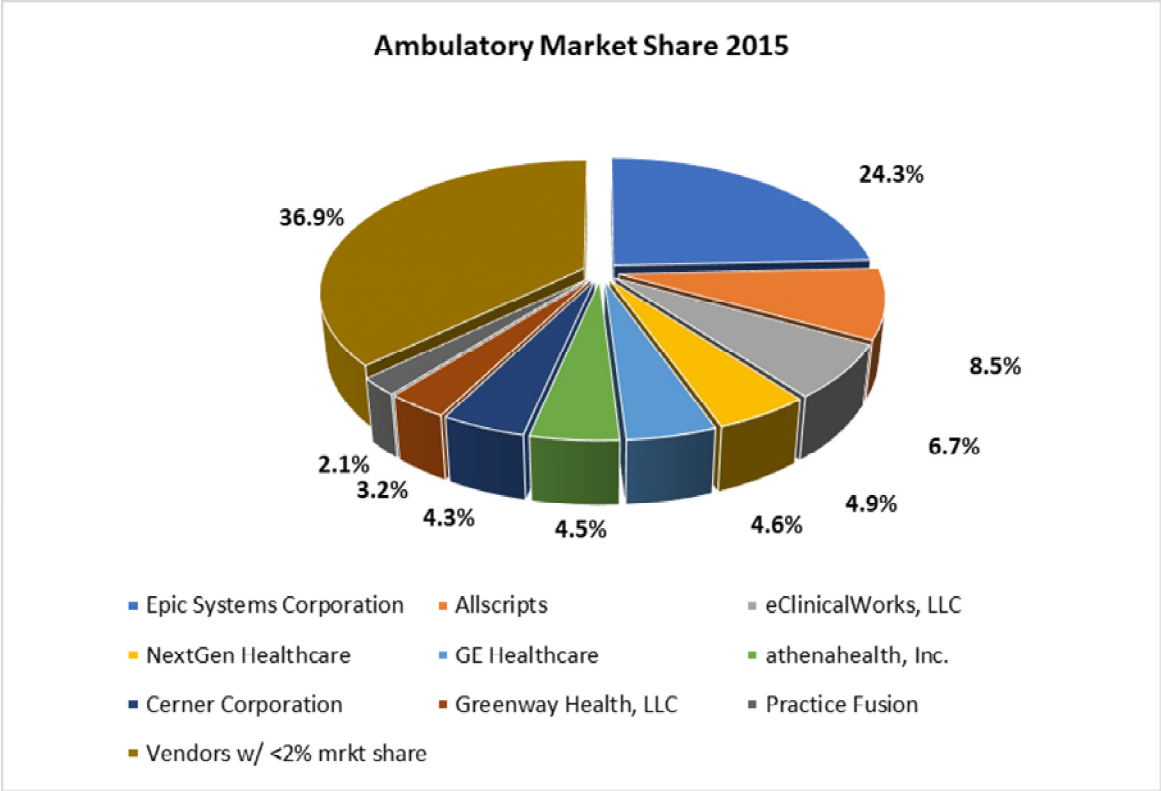


SOURCE: ONC, Health IT Dashboard

With adoption-related meaningful use incentives now largely a thing of the past and MACRA-mandates focused on value-based care, small providers' EHR-related priorities have shifted. Competitiveness in MTBC's target market segment is largely measured by an EHR vendor being able to sufficiently satisfy the needs and desires of small physician practices (at an acceptable cost), requirements which are often much different than those of hospital customers. For example, hospitals look to their EHR for relatively advanced functionality such as interoperability, networking, bundled reimbursement, custom reporting and population health analytics (in addition to more basic functionality) while small ambulatory practices are likely to be satisfied with a (a more basic) EHR system that addresses different concerns such as; affordability, customer support/service, ease-of-use, regulatory compliance, reimbursement and billing.

Ambulatory Vendors: Goliaths vs. 'Others'

Of the almost 700 vendors that provide certified EHR technology to the ambulatory segment, just six account for over 50% share of the market (based on number of physicians). While some of the larger EHR vendors serve across the ambulatory size spectrum (from small to large physician practices), in general, the larger EHR vendors (most of which also serve the hospital segment) focus mostly on larger ambulatory practices and the ambulatory needs of hospitals (many of which will also have an inhouse system) while much of the small physician practices are served by vendors in the "other commercial" category. The reasons are intuitive – larger practices have larger budgets and may desire more functionality than their smaller counterparts.



While Epic Systems holds nearly 25% share of the ambulatory EHR market (based on 2015 EHR certification), aggregate market share of the more than 600 vendors with less than 2% market share of the ambulatory is almost 37%. This illustrates the top-heavy nature of the ambulatory EHR vendor market. The fragmented nature of the market, inability of many of the smaller vendors to evolve their technology with MACRA/MIPS requirements and growing demands from providers has resulted a weeding-out of some of the smaller EHR players. This has resulted in recent vendor consolidation, with (mostly) larger vendors scooping up less-viable smaller players. While the market remains fragmented, consolidation has (slightly) trimmed the ambulatory EHR vendor base from almost 800 in 2014 to less than 700 as of July 2017.

Big Vendors Acquiring Small Vendors…

A recent report[10] revealed that when it comes to attributes of EHR systems, small ambulatory physician practices are mostly concerned with customer support, user-friendliness and functionality that meets current and evolving regulatory mandates, that provides accurate billing and allows them to effectively care for their patients – all at a cost-effective price.

According to recent reports by Frost & Sullivan and P&S Market Research, EHR solutions for small-to-medium sized physician practices are expected to experience the fastest growth in the ambulatory segment as these providers look to EHRs as a way to improve profitability, address EHR optimization agendas and tackle reimbursement-related changes and complexity. This has fueled a greater shift towards cloud-based systems, which are generally more affordable than installed EHRs, and prompted greater attention from EHR Goliaths. An example of this was Allscripts' January 2018 acquisition of Practice Fusion, a free cloud-based EHR that is popular with small physician practices. With an estimated 30k ambulatory sites (and ~100k physicians) which serve ~5M patients per month, the acquisition afforded Allscripts solid entry into this relatively high-growth segment.

According to a recent report by healthcare IT consulting firm H.I.S. Professionals[11], larger vendors' acquisition-related strategy has been to buy smaller vendors, purge their most expensive (and experienced) personnel and then sell the acquired client base their (i.e. the acquirers') products via a strong sales and marketing approach. While this strategy may be paying initial dividends to the acquirers in the form of quick bolt-on revenue and (at least some level of) cost synergies, providers - particularly smaller practices that place high value on customer service and affordability – may be on the losing end of this trend.

[10] HIT Consultant.net: KLAS Report: Cerner & athenahealth Stumbling in Small Practice Ambulatory EMR/PM Market
[11] Vince Cottie, Elise Ames. H.I.T. Professionals LLC. *Physician Practice Vendor Review*. 2017

Widespread Physician Dissatisfaction of EHR…

The theme that there may be somewhat of a disconnect between small practices' desires and larger vendors' offerings appears to be supported by the results of a recent KLAS[12] survey of more than 600 small physician practices. The report cited athenahealth, Cerner and Allscripts (all top 7 vendors) as having one or more problems related to customer service, technical support, usability and pricing. Fueled by providers' dissatisfaction, a separate KLAS report indicated that EHR vendor churn could increase – noting that 27% of medical practices were planning to replace their current EHR system and another 12% would, if it were not for financial constraints.

The KLAS survey may actually understate the extent of physicians' dissatisfaction, however. Healthcare IT research firm Reaction Data, recently conducted a survey of users of the top ten EHR vendors, asking them to rate their satisfaction with their EHR system. On a scale of 1-10, Reaction Data categorized scores of 7-10 as users being 'advocates' of their EHR vendor and scores of 5-6 as users being 'fence sitters'. By default, scores under 5 can de considered dissatisfied. Results, in the table below, further confirm high rates of dissatisfaction of ambulatory EHR users including that, on average, over 60% (i.e. 'fence-sitters' and 'dissatisfied' users, combined) would likely not recommend their EHR vendor.

	Percentage of Ambulatory Users That Are:		
	Advocates (score 7-10)	Fence-sitters (score 5-6)	Dissatisifed (score < 5)
Allscripts	18%	13%	69%
athenahealth	50%	18%	32%
Cerner	19%	12%	69%
eClinicalWorks	53%	29%	18%
Epic	41%	21%	38%
GE Healthcare	47%	27%	26%
Greenway	16%	42%	42%
Meditech	40%	20%	40%
NextGen	25%	30%	45%
Practice Fusion	70%	5%	25%
Average	**38%**	**22%**	**40%**

Data source: Reaction Data

While there is no shortage of evidence of physicians' displeasure with EHR, results of a recent large survey by the Mayo Foundation may provide the clearest insight into some of the potential consequences. The survey[13], of almost 7k physicians across all specialties, found that physicians' dissatisfaction with EHRs is so extreme that it is an independent predictor in driving doctors to leave the profession. The authors note that this has the potential to worsen the expected shortage of U.S. physicians.

Lack of ROI Fuels Widespread Dissatisfaction of RCM Providers…

Healthcare practices' dissatisfaction is not just contained to EHR. According to recent surveys by Black Book, medical providers have not only been highly discontented with the services and results provided by RCM vendors, but this displeasure has become increasingly widespread. Black Book reported that, as of Q4 2015, 79% of surveyed healthcare practice CFOs expected to discontinue relationships (within a few months) with RCM vendors that had not generated a positive return on investment. But, by Q3 2016, that figure had risen to 93% of CFOs which had expected to do the same.

Providers' concerns, as explained by Black Book's Doug Brown, are that "[a]s reimbursements come under pressure and costs keep rising, provider CFOs will face unparalleled pressure over the next year to preserve financial solvency, increase productivities in care delivery, implement regulatory mandates and reduce RCM expenses associated with getting paid."

[12] HIT Consultant.net: KLAS Report: *Cerner & athenahealth Stumbling in Small Practice Ambulatory EMR/PM Market*

[13] Sinsky CA, et al. *Professional Satisfaction and the Career Plans of US Physicians*. Mayo Clin Proc. 2017 Nov;92(11):1625-1635. doi: 10.1016/j.mayocp.2017.08.017. Epub 2017 Nov 1.

The surveys further indicate that while 94% of CFOs believe that better designed RCM processes could improve efficiencies and result in positive return on investment, almost one-half of the CFOs fear that budget constraints will prevent them from obtaining the RCM solutions necessary to make that happen.

MTBC Leveraging Competitive Strengths To Capitalize On State of Ambulatory Market

MTBC's revenue model and growth strategy are aimed at capitalizing on the recent changes in, and current dynamics of, the ambulatory EHR market. MTBC's business and revenue model address small physician practices' EHR-related concerns surrounding cost, user-friendliness, reimbursement/coding and regulatory compliance. Unlike most EHR vendors, MTBC offers their EHR technology for free and then offers users the opportunity to upgrade to their revenue cycle management services. MTBC believes that their fees (typically 5% of collections plus small set-up fee, or 2.95% for users of talkEHR) are among the lowest in the industry.

MTBC's growth strategy, which is similarly focused on the desires of small physician practices, includes growth through;

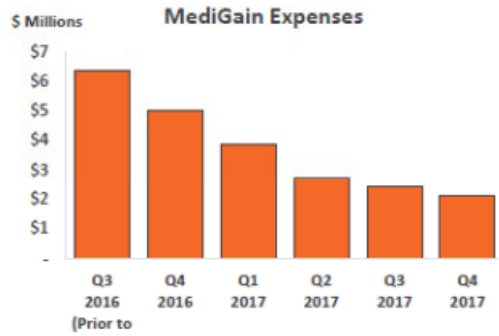
- **Organic means**: MTBC has historically committed few resources towards internal growth strategies. This is evidenced by their almost insignificant sales and marketing expenses. But, with physician dissatisfaction and related EHR vendor churn showing no signs of dissipating, the company has begun implementing an organic growth plan aimed at opportunistically poaching competitor's clients by offering them a better customer experience. The main focus is to provide the products and services that physician practices desire at an affordable cost. Some of the key components include;
    - talkEHR: "make it much easier to use" was cited as the number one reason in a survey[14] by Reaction Data which asked ambulatory EHR users what their EHR vendor could do to retain them as customers. That's exactly what MTBC aims to do with talkEHR, their free ONC-certified proprietary ambulatory EHR solution which includes voice enabled-functionality to further improve upon user-friendliness and reduce time and effort of data input. MTBC offers talkEHR free of charge, including full data migration to their platform, to healthcare practices which are then offered the opportunity to upgrade to their (revenue generating RCM) services.
    - Mobile apps: mobile access is a functionality that is resonating with physicians and will likely soon be a 'must-have'. A survey[15] by the ONC (which queried individuals about their use of technology, including smartphones, for healthcare over the past 12 months) found that more than one-third of individuals used mobile apps (and/or other electronic means) to track healthcare charges, nearly 30% used texting for healthcare purposes and 40% or more scheduled doctor's appointments and filled out paperwork with the use of a mobile device and/or computer. MTBC has developed and continues to develop functionality via mobile apps (for iOS and Android) including 'Patient Health Records App', 'iCheckIn' (for patient check-in, personal information, insurance and payments), 'iRx' (prescription approvals and refills), 'Dictate' (dictate patient notes), 'iEHR' (complete EHR) and 'ICD 9-10 converter' (converts reimbursement coding from legacy to current).
    - RCM: while small physician practices may mostly view EHRs as a necessary evil (to avoid penalties), changes to and complexity of reimbursement and related coding means that billing and collections is time consuming and often costly if not done properly. The issue can be particularly problematic for primary care practices, which typically have a high volume of patients but relatively low per-patient billings. MTBC provides expertise in this at a relatively low cost (~5% of collections) and with better than industry average performance. Key to MTBC's ability to keep expenses (and thereby their fees) low is their use Pakistani labor, which MTBC estimates costs approximately 50% of that of comparable labor in India and approximately 10% of comparably experienced and educated labor in the U.S. Importantly, their Pakistani workforce (which includes all operational and IT-related functions) is highly educated and trained and customer-facing personnel speak fluent English.
    - Customization: MTBC's relatively inexpensive and capable Pakistan-based development team means that they have the ability to customize their EHR and RCM platforms to 'fit' the needs of different practices and do so cost-effectively. We think this has the potential to be a significant competitive advantage against RCM / EHR vendors with higher operating expenses. Given differing needs of different practices, customization capability can be potentially critical for winning business.

[14] reactiondata.com. *Trends and Insights in Ambulatory EHR*. 2015
[15] ONC. Health IT Dashboard. *Individuals Use of Technology to Track Health Care Charges and Costs*. 2017

- Practice Fusion: an estimated 100k clinicians across ~30k ambulatory practices which serve about 5M patients per month use technology from Practice Fusion, which, similar to MTBC, offered certified EHR for free (Practice Fusion sold ad-space as a way to fund the free version). The fact that it was free helped Practice Fusion achieve relatively high customer satisfaction scores (see table), although that could soon change. Just weeks after being acquired by Allscripts in early 2018, it was announced that Practice Fusion was doing away with free EHR and will instead charge users $100 per month. While not exorbitant, if recent history (of hospital EHR vendors' acquisitions of ambulatory EHR vendors) is a guide, customer experience may suffer in the event that Allscripts looks to further monetize their acquired customer base. Regardless, customer defections are a certainty and we expect MTBC will be waiting at the gate. Clearly MTBC views this as a major opportunity and they have made preparations to capitalize on it including bringing on Practice Fusion's founder and former CEO, Ryan Howard, as a special advisor to the company.
- EnrollmentPlus: MTBC also offers clearinghouse and electronic data interchange (EDI) services, capabilities which optimize insurance companies' enrollment processes and track claims – capabilities which were obtained through their acquisition of SoftCare in July 2015. Clearinghouse and EDI services currently account for approximately 3% of MTBC's total revenue and are expected to grow from the recent launch of 'EnrollmentPlus, a software-as-a-service EDI service.
- Sales/marketing: MTBC has indicated that they expect to build a more dedicated sales and marketing outreach effort including hiring additional personnel. Expect there to be more activity related to this throughout 2018

- **Partnerships**: MTBC's partnership-related strategy is really also part of the organic plan, although it is more reliant on third-party relationships and collaborations. Part of this focus will be leveraging existing relationship with other EHR vendors – for example, MTBC would provide RCM for clients of other EHRs.
- **Acquisitions**: MTBC's revenue has grown from $10.5M in 2013 to $31.8M in 2017. Most of this growth was the result of acquisitions (MTBC completed 15 acquisitions in the last five years). Following a game-plan of buying cheap and quickly moving the cost base to their Pakistani operations, their acquisition strategy has largely proven successful. Several of their acquisitions have been structured (so as to be almost fully de-risked) with little-to-no upfront payment and only back-end sales contingencies (i.e. % of sales of the acquired company through a specified future period). While others have required significant upfront cash, these were also priced at highly attractive (i.e. inexpensive) valuations. MTBC has indicated that they expect to continue to be an opportunistic acquirer and with $13M in cash (as of early April) and $5M available under an untapped revolver, we think their growth-by-acquisition strategy could further heat up in 2018. Recent acquisitions include;

  - 2014 acquisitions (Omni Medical Billing, Practicare and CastleRock): three revenue cycle management companies' assets were acquired for $17.4M in July 2014. Within five months MTBC had migrated 72% of customers and retained 92% of acquired customers. Incremental revenue from these companies was $8.2M in 2014 (~5 months) and $12.4M in 2015. Adjusted EBITDA improved from ($1.7)M in 2014 to ($675)k in 2015
  - 2016 acquisitions: acquired assets of four companies, including MediGain, MTBC's largest acquisition to-date. Terms of two of the three acquisitions included no significant upfront payment (and modest back-end contingencies). MediGain, a medical billing company, was in financial distress when acquired by MTBC in September 2016 for $7M. While operating expenses increased immediately after the acquisition, the assets were quickly integrated, costs were cut and MediGain generated incremental revenue to MTBC of $13.6M in 2017. Contribution from MediGain was also a major component of MTBC's significantly improved financial results: revenue grew 30% ($24.5M in 2016 to $31.8M in 2017), operating loss fell by $3.4M ($7.9M to $4.5M) adjusted EBITDA improved by $2.9M and ended the year in the black at $2.3M and MTBC even generated $282k of cash from operations (compared to $889k used by operations in 2016). MTBC bought MediGain for (what would prove to be) just of 50% of forward revenue. Much of the success of this acquisition was credited to the quick integration and ability to minimize customer and revenue attrition through providing a better customer experience (i.e. MTBC was able to quickly improve billing processes and collections which helped stem defections)



SOURCE MTBC Presentation

- 2017: Washington Medical Billing acquired with just $205k upfront plus contingencies on Washington's revenue for the first three years.

Outlook

Solid Cash Position, Cleaned-Up Balance Sheet
MTBC has made a deliberate, and successful, effort to clean up their balance sheet over the last few quarters in order to put themselves in a solid position to execute on their growth strategies. They paid off more than $14M of debt during 2017, exiting the year with less than $300k in notes payable on the balance sheet.

MTBC's recent preferred funding source has been, and continues to be, their Series A preferred stock: 11%, cumulative (28 consecutive monthly payments have been made), perpetual, non-convertible. There are currently 1.536M (inclusive of the April 2018 sale) Series A shares outstanding ($38.4M notional). MTBC can, at their option, redeem the Series A at par (i.e. $25/share) beginning November 4, 2020. The Series A preferred was used to raise $16.5M (net) in 2017 – much of which was used to pay off debt and fund acquisitions. The most recent Preferred A related raise was in April with 420k shares sold, netting $9.4M and bringing their cash balance to approximately $13M. Another $5M is available under an untapped revolver.

2017 Set Records on Revenue, Adjusted EBITDA and Cash Flow… Revenue grew $7.3M (+30%) from $24.5M in 2016 to $31.8M in 2017, a new record high. The yoy improvement was largely a result of $9.7M in incremental revenue from MediGain (and, to a much lesser extent, from the other companies that were also acquired in 2016), which contributed $17.0M of revenue in 2017 and $7.3M in revenue in 2016, which was partially offset by some customer attrition.

Given that much of the underlying 'value' of RCM companies lies in their customer relationships (i.e. billing contracts with their physician practice clients), a significant portion of the purchase price of MTBC's acquisitions have been (and will likely continue to be) allocated to intangible assets (amortized over three years) as well as to Goodwill. Importantly, MTBC's opportunistic acquisition strategy of buying at depressed prices (which, in some cases, required insignificant intangibles or Goodwill capitalization), quickly integrating and wringing out revenue has meant only modest growth in Goodwill balance over the last few years (with no significant recent write-downs) and very significant accretion to operating income in 2017.

Similar to revenue, MTBC set several other new records during 2017 including on adjusted operating loss, EBITDA and cash flow. From 2016 to 2017 adjusted EBITDA increased from negative $605k to positive $2.3M, operating loss improved from $7.9M to $4.5M and cash flow from operations grew from an $889k outflow to a $282k inflow.

….And, 2018 is Expected to be "Significantly Better Than 2017"
While 2017 was a record year, management expects even better results this year. Given the rapid integration of MediGain and what appears to have been stabilization of attrition of their customers during 2017, we are hopeful that MediGain-related revenue will show meaningful net growth during 2018. In the past MTBC has provided full-year revenue guidance (which MTBC met in 2017, even after they upwardly revised). Management has been clear that they will put their cash to work and expect growth to come from organic means, acquisitions and/or their partnership strategy. So, while MTBC decided not provide 2018 guidance on the Q4 2017 call (March 7th), they are clearly confident in their ability to deliver on their growth strategies, noting that "our 2018 numbers will be significantly better than 2017".

Expect MTBC to Capitalize on Disconnects in EHR / RCM Markets
We think MTBC's business, revenue and operating models, coupled with a strategy aimed at addressing the disconnects between the needs of EHR / RCM consumers and the products / services being offered to them, bodes well for continued growth in revenue and profitability.

We believe that their organic growth strategy is well-suited to take market share of the small-to-medium sized physician practice EHR / RCM market. Recognizing that cost, usability, customer and technical support, and ability to meet regulatory mandates (so as to avoid penalties) are priorities for physician practices, MTBC designed their business model around meeting these needs. Practice Fusion has already demonstrated that free, well-designed and comprehensive EHR is associated with high customer satisfaction – expect MTBC will look to leverage the receptiveness of the market for their offering and poach customers that are likely to defect from Practice Fusion as

that vendor ends their free EHR offering. With Ryan Howard, Practice Fusion's founder and former CEO, coming on board in April as a 'special advisor' to MTBC, there is no doubt that the company views this as a major opportunity.

In situations where MTBC does not get the EHR contract, their partnering strategy could be a win-win for them and their partners. Stand-alone EHR providers will be more pressured to rationalize their cost given the sunsetting of meaningful use incentives and as customers margins tighten. One way to do that is to contract with MTBC to provide RCM services

RCM market opportunities…
The RCM market is similarly in flux as providers' discontent with their RCM vendors continues to escalate. Reimbursement pressure, higher costs, claim denials, insufficient functionality and lack of positive return on investment have healthcare CFOs pining for better RCM solutions. But, as recent industry surveys highlight, almost 50% of healthcare practices may not have the budgets to spend on an end-to-end RCM system. As a result and with an almost hyper-focus on cost, almost one in three providers that had intended to replace their current RCM vendor has yet to do so. In order to win their businesses, providers want to see than an RCM vendor can return positive ROI in the face of tightening margins, rising costs and lower Medicare reimbursements.

With a revenue model that is aligned with the interests of their customers, performance which is better than the industry average and cost that is amongst the lowest of all vendors, we think MTBC RCM's offerings directly address practitioners' RCM related demands. And with the ability (and cost-efficiency) to customize and tailor their products and services to the needs of current and prospective customers, we believe MTBC is well positioned to quickly adapt to what will likely continue to by a highly dynamic and rapidly evolving environment.

Sustainable Cost Advantage…
While much of MTBC's competitive advantages lie in their use of relatively low-cost labor, which might be argued is an advantage that could be threatened if competitors employ a similar strategy, we think the barriers-to-jeopardy are actually significantly high for several reasons. MTBC enjoys a high comfort level in Pakistan as a result of having operated in that country for 16 years and has expended considerably resources in the past on establishing a safe, secure and highly capable infrastructure and workforce. The operation and personnel have proven to function extremely effectively. In addition, MTBC's board member, Cameron Munter (joined as Director in June 2013), served as the U.S. Ambassador to Pakistan from October 2010 to July 2012. So, while MTBC's Pakistani labor-derived cost advantage could theoretically be replicated by competitors, we think the unique comfort level that MTBC has in that country and (likely) hesitance of other U.S. companies (particularly relatively small, direct competitors) to operate there does provide a substantial and sustainable competitive advantage.

Acquisition Strategy Likely To Accelerate
MTBC has demonstrated success in buying cheap, quickly integrating, cutting costs and wringing out revenue and margin. MediGain, the most recent large deal, was particularly successful. While we have no insight into when MTBC's next acquisition will be, we have no doubt that they will be looking for opportunistic purchases, particularly now with their beefed-up cash balance. The churn in the RCM market as providers dump vendors for ones that fit their needs likely means more RCM services providers will struggle to keep afloat – that is likely to present MTBC with additional opportunities to buy RCM assets (i.e. physician practice's billing contracts) on the cheap.

Valuation

Our model should be considered fluid, particularly given the potential for near-term acquisitions. We base our valuation 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 currently model MTBC 2018 revenue of $32.7M and adjusted EBITDA of approximately $2.6M. Based on a fully diluted share count of 15.6M, we calculate fair value of MTBC at approximately $5.50/share.

	P/S			EV/EBITDA		
	TTM	2018	2019	TTM	2018	
Comparable Multiples	3.2x	2.8x	2.5x	23.6x	27.4x	Average
MTBC Per Share Value	$6.4	$5.6	$5.7	$3.8	$4.9	$5.3

EHR / RCM, Related Healthcare IT												
				P/S			P/E Based on Adj EPS*			EV/ Adj EBITDA		
Company	Ticker	Mkt Cap	EV	TTM	2018	2019	TTM	2018	2019	TTM	2018	2019
Allscripts	MDRX	$2,160	$3,630	1.2x	1.0x	0.9x	19.5x	15.7x	13.6x	9.7x	8.6x	8.3x
athenahealth	ATHN	$5,110	$5,890	4.2x	3.8x	3.5x	50.6x	33.4x	28.1x	20.4x	17.7x	16.1x
Cerner	CERN	$19,570	$18,990	3.8x	3.6x	3.3x	24.8x	22.4x	19.9x	18.1x	18.3x	16.2x
Computer Pgrms	CPSI	$412	$533	1.5x	1.4x	1.4x	16.9x	14.4x	13.4x	-111.1x	24.2x	16.7x
Evolent Health	EVH	$1,296	$1,060	3.0x	2.3x	2.0x	-47.5x	-184.7x	118.7x	-481.8x	50.5x	26.5x
HealStream	HSTM	$804	$655	3.2x	3.6x	3.4x	92.5x	92.5x	71.4x	NA	NA	NA
Inovalon Hldgs	INOV	$1,530	$1,270	3.4x	2.8x	2.5x	36.9x	27.5x	21.0x	NA	NA	NA
Medidata	MDSO	$4,225	$3,730	7.8x	6.7x	5.7x	52.1x	41.7x	34.3x	NA	NA	NA
Quality Systems	QSII	$861	$876	1.7x	1.5x	1.6x	16.5x	20.1x	17.8x	32.5x	36.5x	29.2x
R1 RCM	RCM	$790	$578	1.8x	0.9x	0.8x	-10.0x	-12.5x	57.8x	NA	NA	NA
Streamline Hlth	STRM	$35	$25	1.3x	1.5x	1.4x	-4.2x	-6.1x	-7.9x	NA	NA	NA
Tabula Rasa	TRHC	$839	$803	6.2x	4.9x	3.9x	155.2x	83.8x	48.7x	NA	NA	NA
Vocera	VCRA	$745	$641	4.6x	4.1x	3.6x	61.1x	59.6x	35.8x	40.8x	40.0x	29.1x
	Average	**$2,952**	**$2,976**	**3.4x**	**2.9x**	**2.6x**	**52.6x**	**41.1x**	**40.0x**	**24.3x**	**28.0x**	**20.3x**
		Avg ex-high and low		**3.2x**	**2.8x**	**2.5x**	**44.3x**	**38.0x**	**34.8x**	**23.6x**	**27.4x**	**20.9x**

SOURCE: Zacks Analyst estimates, sell-side analysts' estimates

*NOTE: While we also looked at P/E multiples, we chose not to incorporate that into our valuation methodology given company-to-company and analyst-to-analyst inconsistencies of how 'adjusted' EPS is calculated.

Financial Model

MTBC	2017 A	Q1E	Q2E	Q3E	Q4E	2018 E	2019 E	2020 E
Sources and Customers								
RCM Revenue	$28,311.5	$7,462.2	$7,344.1	$7,422.7	$8,413.3	$30,642.3	$33,216.2	$36,371.8
% of total sales	89.0%	93.7%	93.6%	92.9%	94.7%	93.8%	93.7%	93.6%
EDI/Clringhse Revenue	$636.2	$168.5	$171.3	$168.3	$185.7	$693.8	$732.0	$859.4
% of total sales	2.0%	2.1%	2.2%	2.1%	2.1%	2.1%	2.1%	2.2%
Printing & mailing	$1,272.4	$332.1	$327.0	$398.2	$285.3	$1,342.6	$1,490.2	$1,609.5
% of total sales	4.0%	4.2%	4.2%	5.0%	3.2%	4.1%	4.2%	4.1%
Total Revenue	**$31,810.6**	**$7,962.8**	**$7,842.4**	**$7,989.2**	**$8,884.3**	**$32,678.7**	**$35,438.5**	**$38,840.6**
YOY Growth	29.9%	-3.1%	0.7%	6.3%	7.1%	2.7%	8.4%	9.6%
Direct operating costs	$17,679.1	$4,379.5	$4,313.3	$4,394.1	$4,442.2	$17,529.0	$18,144.5	$19,420.3
% direct op costs	55.6%	55.0%	55.0%	55.0%	50.0%	53.6%	51.2%	50.0%
Selling & mktg	$1,106.7	$318.5	$313.7	$319.6	$355.4	$1,307.1	$1,736.5	$1,864.3
% S&M	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.9%	4.8%
General & admin	$11,738.2	$2,707.3	$2,666.4	$2,716.3	$3,642.6	$11,732.6	$12,120.0	$12,623.2
% G&A	36.9%	34.0%	34.0%	34.0%	41.0%	35.9%	34.2%	32.5%
R&D	$1,081.8	$246.8	$243.1	$247.7	$275.4	$1,013.0	$1,240.3	$1,359.4
%R&D	3.4%	3.1%	3.1%	3.1%	3.1%	3.1%	3.5%	3.5%
Change in contingent consideration	$151.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Depreciation & amort	$4,299.9	$532.0	$532.0	$532.0	$532.0	$2,128.0	$1,562.0	$1,188.0
Restructuring charges	$275.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OpEx	$36,332.8	$8,184.2	$8,068.5	$8,209.6	$9,247.5	$33,709.9	$34,803.3	$36,455.2
% Total OpEx	114.2%	102.8%	102.9%	102.8%	104.1%	103.2%	98.2%	93.9%
Operating Income	**($4,522.2)**	**($221.5)**	**($226.1)**	**($220.4)**	**($363.2)**	**($1,031.2)**	**$635.2**	**$2,385.3**
Operating Margin	-14.2%	-2.8%	-2.9%	-2.8%	-4.1%	-3.2%	1.8%	6.1%
Total Other Income (Expense)	($975.2)	$50.0	$47.0	$20.0	($20.0)	$97.0	$55.0	$25.0
Pre-Tax Income	**($5,497.4)**	**($171.5)**	**($179.1)**	**($200.4)**	**($383.2)**	**($934.2)**	**$690.2**	**$2,410.3**
Tax expense (benefit)	$67.8	$14.6	$16.1	$16.0	$38.3	$85.1	$74.5	$388.1
Tax Rate	-1.2%	-8.5%	-9.0%	-8.0%	-10.0%	-9.1%	10.8%	16.1%
Preferred dividends	$2,030.3	$747.0	$1,030.0	$1,036.0	$1,036.0	$3,849.0	$3,900.0	$3,650.0
Net Income	**($7,595.5)**	**($933.0)**	**($1,225.3)**	**($1,252.5)**	**($1,457.5)**	**($4,868.3)**	**($3,284.4)**	**($1,627.7)**
YOY Growth	-20.5%	-67.9%	-42.3%	-23.3%	56.8%	-35.9%	-32.5%	-50.4%
Net Margin	-23.9%	-11.7%	-15.6%	-15.7%	-16.4%	-14.9%	-9.3%	-4.2%
EPS (GAAP)	**($0.69)**	**($0.08)**	**($0.10)**	**($0.10)**	**($0.12)**	**($0.41)**	**($0.22)**	**($0.10)**
YOY Growth	-27.5%	-72.1%	-47.0%	-26.6%	49.6%	-40.7%	-46.1%	-55.0%
Shares O/S	11,010	11,700	11,800	12,000	12,100	11,900	14,900	16,400

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LEADERSHIP

Management

Stephen Snyder
CEO and Director
Stephen Snyder joined MTBC in September 2005 as General Counsel, and later served as Chief Operating Officer, President in September 2011 and CEO in 2018. Mr. Snyder is an attorney by background and his writings on healthcare law and practice management are regularly featured in print and electronic media. Mr. Snyder received his Juris Doctorate from Rutgers School of Law - Newark, where he served as a senior editor of a law journal.

Bill Korn
Chief Financial Officer
Bill Korn joined MTBC in June 2013 as Chief Financial Officer. Mr. Korn has served as CFO for six other businesses, including SnapOne and Antenna Software, where he enabled the business to grow at an 87% CAGR through a combination of acquisitions and organic growth. He also spent ten years with IBM as a member of the senior management team that created IBM's highly successful services strategy in the 1990's. Mr. Korn graduated magna cum laude from Harvard College and received his MBA from Harvard Business School.

A. Hadi Chaudhry
President
A. Hadi Chaudhry joined MTBC in October 2002 as Manager of IT, and later served as General Manager and Chief Information Officer through his appointment as Vice President of Global Operations in October 2016 and President in 2018. He has extensive healthcare IT experience and served in various roles in the banking and IT sector prior to joining MTBC. Mr. Chaudhry received his BS in Mathematics and Statistics and holds numerous information technology certifications.

Board of Directors

Mahmud Haq
Executive Chairman
Mahmud Haq is the founder and Executive Chairman of MTBC. Prior to founding MTBC, Mr. Haq served as CEO and President of Compass International Services Corporation (NASDAQ:CMPS) from 1997-1999. From 1985 to 1996, Mr. Haq served as Vice President of Global Risk Management for American Express (NYSE: AXP). Mr. Haq is a graduate of Bridgewater State College (Massachusetts) with a BS in Aviation Management and he has earned an MBA from Clark University (Massachusetts) with a concentration in Finance.

Stephen Snyder
CEO and Director
Stephen Snyder joined MTBC in September 2005 as General Counsel, and later served as Chief Operating Officer, President in September 2011 and CEO in 2018. Mr. Snyder is an attorney by background and his writings on healthcare law and practice management are regularly featured in print and electronic media. Mr. Snyder received his Juris Doctorate from Rutgers School of Law - Newark, where he served as a senior editor of a law journal.

Howard L. Clark, Jr.
Director
Howard L. Clark, Jr. joined MTBC's Board of Directors in October, 2013. Mr. Clark previously joined American Express in 1981, eventually being appointed CFO in 1985. From 1990 through 1993, Mr. Clark was the Chairman and CEO of Shearson Lehman Brothers, Inc. He later served as Vice Chairman of Lehman Brothers from 1993 through 2008, and then as Vice Chairman of Barclays Capital from 2008 through 2011. Mr. Clark graduated from Boston University in 1967 and received his MBA from Columbia University.

Cameron P. Munter
Director
Cameron P. Munter joined MTBC Board of Directors in June 2013. Mr. Munter served as the U.S. Ambassador to Pakistan from October 2010 through July 2012. Prior to this appointment, Mr. Munter held a variety of high-profile diplomatic positions in Iraq and also served as U.S. Ambassador to Serbia and U.S. Deputy Chief of Mission to Poland. Mr. Munter received his B.A., magna cum laude, from Cornell University and doctoral degree in Modern European History from the Johns Hopkins University. He is currently President and CEO of the EastWest Institute.

John Daly
Director
John N. Daly has over 50 years of experience in the financial services industry, beginning with 23 years at E.F. Hutton, where he served as an Executive Vice President and member of the Board of Directors. After that, Mr. Daly worked at Salomon Brothers,

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both in New York and London, where he headed the Private Client Division and International Equity Capital Markets. Currently, Mr. Daly serves as a Trustee Emeritus of the Culinary Institute of America. Mr. Daly was awarded his degree from Yale University and completed the Harvard Business School Advanced Management Program in 1979.

Anne M. Busquet

Director

Anne M. Busquet joined MTBC's Board of Directors in July 2014. Ms. Busquet is presently the President of AMB Advisors, and has over three decades of executive business experience with American Express and Interactive Corp (IAC). She has led several successful businesses and served on various boards, including Blyth, Inc., and Meetic. Currently, Ms. Busquet serves on the Board of Pitney Bowes, Provista Diagnostics and is also a Trustee on the Board of Overseers for Columbia University, Business School, the Romanian American Foundation and the French Institute Alliance Francaise. Ms. Busquet graduated from Cornell University and received her MBA from Columbia University.

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