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Zacks Small-Cap Research

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Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Medical Transcription Billing (MTBC-NASDAQ)

MTBC: 2018 Off To Strong Start. Orion Deal Could Add Significant Value

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 (05/23/18)	$3.41
Valuation	**$5.70**

OUTLOOK

Despite Q1 typically seasonally softer in the RCM industry due to January-1 deductible-resets, MTBC's revenues remained relatively elevated. Benefitting from some customer onboardings in late-2017, Q1 '18 revenue, at $8.3M, was up 1% yoy and just slightly better than flat on a sequential basis. The prior-year period included $4.5M (~55% of total) in revenue from customers that came with the "2016 acquisitions" (most notably, MediGain, which closed Oct 2016). Given that MTBC did not make any significant acquisitions during 2017, the fact that revenue and customer-counts have held up as well as they have is encouraging. The major news on the operational front relates to the intended acquisition of (privately-held) Orion Healthcorp Inc. Announced on May 7th, MTBC hopes to close on the acquisition by the end of June (mgmt. believes better than 50% chance the deal closes).

Management not only mentioned that they are committed to beating the 30% revenue growth in 2017 but that their vision is to generate $70M of revenue in 2018. Much of that anticipated revenue growth is expected to be the result of acquisitions. Our $5.70/share price target does not include assumed contribution from Orion. If the deal closes, it will likely positively affect our calculated valuation.

SUMMARY DATA

52-Week High	**$5.44**
52-Week Low	**$1.08**
One-Year Return (%)	**63.64**
Beta	**1.73**
Average Daily Volume (sh)	**213,636**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$40**
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 (%)	**20.2**
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	8.3 A	8.2 E	8.4 E	9.0 E	33.9 E
2019					35.9 E
2020					39.4 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 E	-$0.09 E	-$0.12 E	-$0.36 E
2019					-$0.22 E
2020					-$0.10 E

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

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WHAT'S NEW…

Q1 2018 Results:
MTBC reported financial results for their first quarter 2018. Despite Q1 typically seasonally softer in the RCM industry due to January-1 deductible-resets, MTBC's revenues remained relatively elevated. Benefitting from some customer onboardings in late-2017, Q1 '18 revenue, at $8.3M, was up 1% yoy and just slightly better than flat on a sequential basis.

The prior-year period included $4.5M (~55% of total) in revenue from customers that came with the "2016 acquisitions" (most notably, MediGain, which closed Oct 2016). Given that MTBC did not make any significant acquisitions during 2017, the fact that revenue and customer-counts have held up as well as they have is encouraging. In addition, given that the deductible-related seasonality benefits Q4, the qoq strength was also somewhat surprising. Q1 revenue was about 4% better than our $8.0M estimate.

MTBC exited Q1 '18 with 970 total customers, including 750 medical practices – which compares to 1,040 total customers, including 800 medical practices in Q1 '17. Despite the incremental slide in customer-count, medical billing revenue (which accounts for ~89% of total revenue) actually ticked up about 1%. This is due to an almost 8% increase in medical billing revenue per customer over the same period.

That increased revenue-generating efficiency also showed up in operating expenses, which fell 14% (excludes D&A), or $1.2M, from Q1 '17 (fell $110k, or 5% from Q4 '17). Direct operating expenses shed over $700k while G&A fell almost $400k. With expenses falling to just 92% of revenue (for context, this compares to 108% in Q1 '17 and 98% in Q4 '17), MTBC achieved the greatest operating leverage since the company went public (in July 2014). The relatively strong top-line, muted expenses and lower D&A also resulted in new (i.e. since-public) records in operating income, net income and adjusted EBITDA. In fact, Q1 '18 was the first period since their IPO that MTBC generated positive operating ($39k) and net ($75k) income. Meanwhile, adjusted EBITDA was $974k in Q1 '18 – which is second to only Q4 '17 ($1.5M) since going public.

Operational Update: ***Orion Acquisition Expected To Close By End of June…***
The major news on the operational front relates to the intended acquisition of (privately-held) Orion Healthcorp Inc. Announced on May 7th, MTBC hopes to close the acquisition by the end of June (which corresponds to the timeline requested by Orion's debtors to the bankruptcy court). Orion would not only bring RCM-related accounts but also expand MTBC's capabilities to include long-term practice management services and a vaccine group purchasing organization. These bolt-capabilities presumably bring not only immediate incremental revenue but also opportunity to add-value via cross-selling to MTBC's current customer base. In addition, Orion would also potentially accelerate penetration into the hospital segment.

Orion notes on their website that they are one of the largest RCM companies in the U.S. and that they provide (or, at least provided at one time) services to more than 3,700 physicians across 18 states. MTBC's PR notes that Orion currently has 300 employees. Orion's customers (per their website) include "single physician practices through multi-specialty clinics and hospitals". Integrated Physician Solutions, Orion's GPO, provides services to over 3,600 physicians (per IPS website).

MTBC will pay between $10M and $12M for Orion. MTBC expects the addition of Orion would increase annual revenue by 50% or more – which, using 2017 as the base, implies incremental annual revenue of at least $16M. That also implies a purchase price of between 0.63x and 0.75x revenue – which would be a discount to the recent industry average take-out multiple of ~1x sales.

If we assume that (post-integration) Orion's incremental adjusted-EBITDA is at a margin equal to MTBC's TTM margin of 7.2%, this implies first-year (Orion-related) incremental adjusted-EBITDA of at least $1.1M. And that, we think, may be a highly conservative estimate given MTBC's adjusted-EBITDA margin jumped to almost 12% in Q1 '18 and we would expect to see meaningful EBTDA-margin expansion as a result of (post-integration) operational synergies. In addition, it also does not consider synergistic revenue growth via cross-selling.

Management also noted that Orion is very similar to MediGain – and MediGain has proved an overwhelming successful acquisition. As a reminder, 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 $3.7M in 2016 and $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).

In terms of the likelihood of this Orion deal closing – MTBC noted that 14 or 15 other potential suitors kicked the tires on Orion and decided not to bid (or, at least not yet). As we discussed in our initiation report (May 3rd), MTBC's RCM expertise and proven ability to quickly (and successfully) integrate and cut costs provides them a competitive advantage that few others enjoy. It also means that MTBC can generate 'sufficient' ROI on certain transactions that other potential acquirers cannot. And, importantly, with $13M of cash on the balance sheet (as of April 30th) and full availability under their $5M revolver (which can also be used for acquisitions), MTBC has the means to close. Management believes there is a 50% or better chance that they will close the Orion acquisition.

Guidance

While management did not provide specific financial guidance, they have offered offer some general expectations in terms of revenue and adjusted EBITDA. After coming off a strong Q4 '17, management mentioned on the (Q4) call (in March) that they were confident that "2018 numbers will be significantly better than 2017."

Q1 results certainly show they are off to a strong start – particularly as it relates to adjusted EBITDA. On the call management not only mentioned that they are committed to beating the 30% revenue growth in 2017 but that their vision is to generate $70M of revenue in 2018. Much of that anticipated revenue growth is expected to be the result of acquisitions. And while the $70M figure assumes that the Orion deal closes, it also likely implies one or more additional meaningful acquisitions occur during the remainder of 2018.

INVESTMENT THESIS

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 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

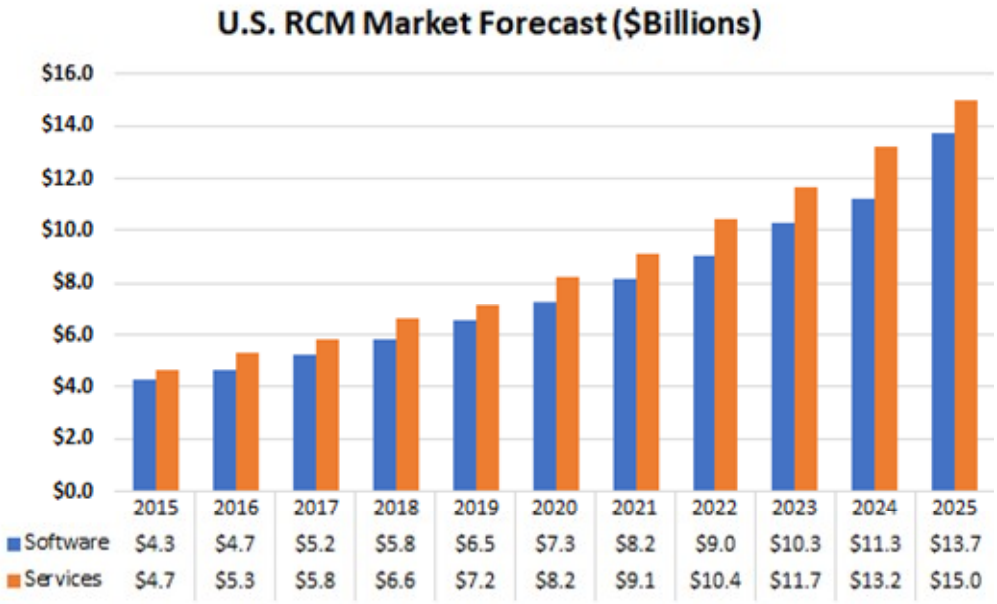
MTBC Provides Bundled EHR / Practice Management, Generates Revenue From Medical Billing Service…
As evidence from the above referenced clinical studies and surveys show, the cost, complexity and (over-) functionality of certified EHR systems means that they (and the meaningful use mandate) often don't 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[1], 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

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

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

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.

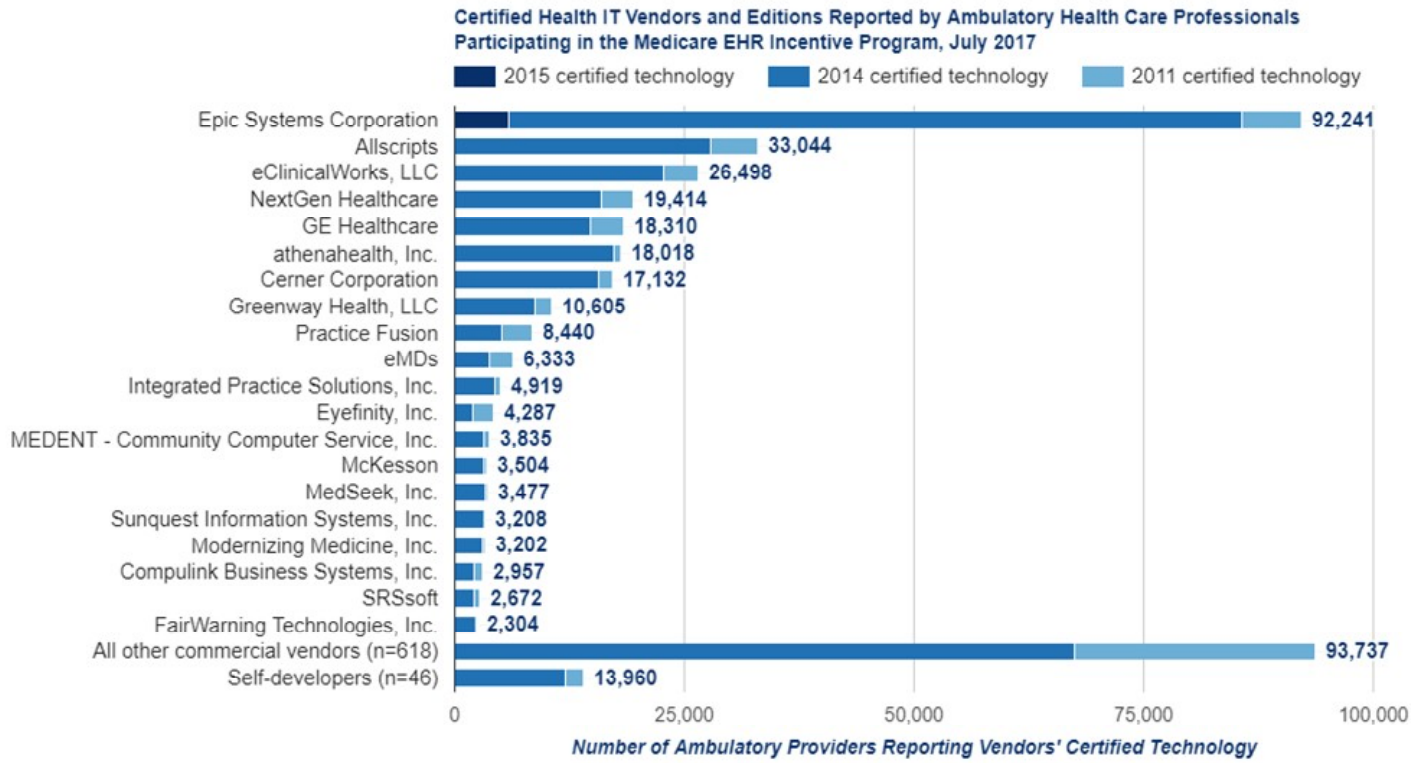
EHR Market and Vendors

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).

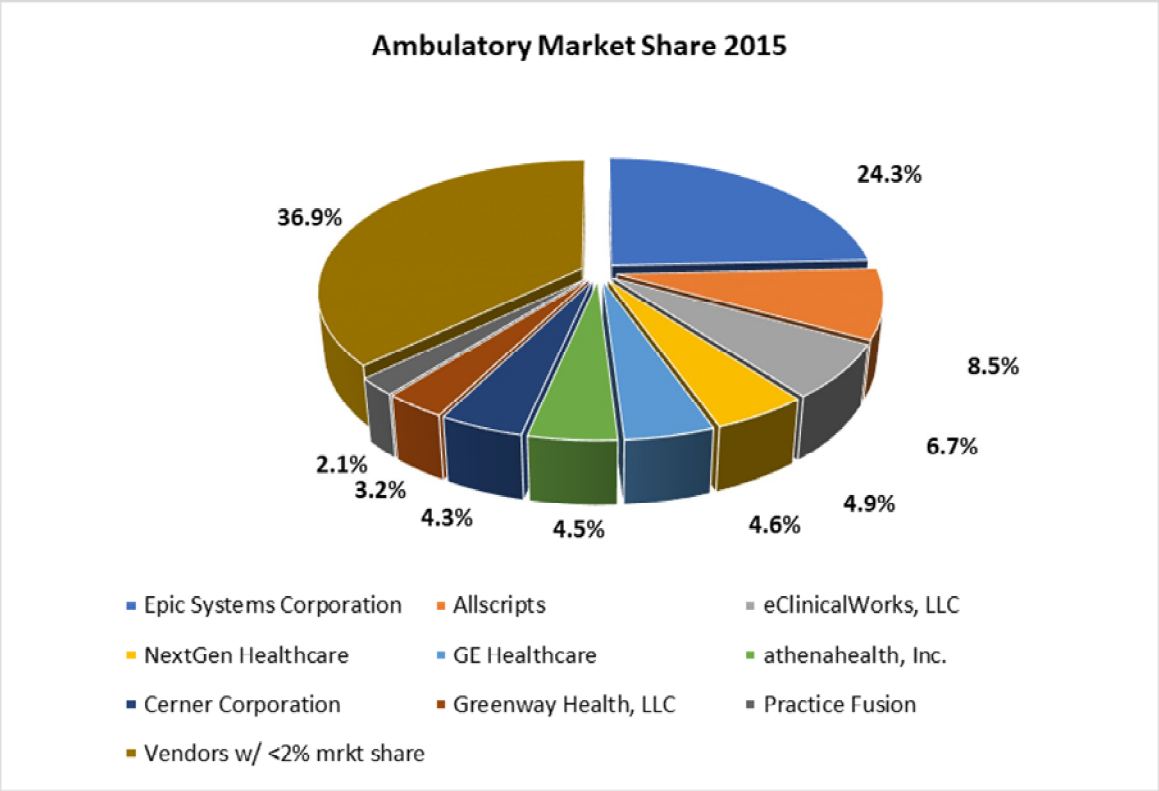


SOURCE: ONC, Health IT Dashboard

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[2] 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[3], 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.

[2] HIT Consultant.net: KLAS Report: Cerner & athenahealth Stumbling in Small Practice Ambulatory EMR/PM Market
[3] 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[4] 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[5], 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."

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.

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

[5] 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.

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[6] 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[7] 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.
    - 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

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

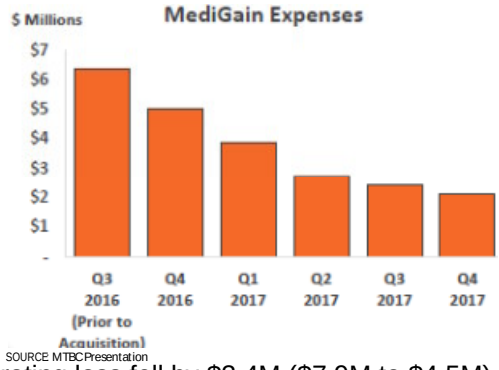
that Practice Fusion was doing away with free EHR and will instead charge users $100 per month. While not exorbitant, if recent history (of hospital EHR vendors' acquisitions of ambulatory EHR vendors) is a guide, customer experience may suffer in the event that Allscripts looks to further monetize their 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.

Valuation

We have updated our model following Q1 results, which beat our estimates on revenue, operating income, net income and adjusted EBITDA. Our model does not include contribution from Orion but will be updated if the transaction closes – if that happens, it would likely positively affect our calculated valuation of MTBC common stock.

We now look for revenue of $33.9M (from $32.7M) in 2018 and $35.9M (from $35.4) in 2019. We now have 2018 adjusted EBITDA at approximately $3.6M, up significantly from $2.6M – much of the upward revision due to the beat in Q1. Again, this does not include Orion.

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. Given MTBC's growth-oriented nature, we are no longer incorporating TTM valuation comps. Based on a fully diluted share count of 15.6M, we calculate fair value of MTBC at approximately $5.70/share.

	P/S		EV/EBITDA	
	2018	2019	2018	
Comparable Multiples	2.8x	2.5x	28.5x	**Average**
MTBC Per Share Value	$6.1	$6.0	$4.9	**$5.7**

Financial Model

MTBC	2017 A	Q1A	Q2E	Q3E	Q4E	2018 E	2019 E	2020 E
Total RCM		$7,641.0	$7,555.5	$7,718.2	$8,373.8	$31,288.5	$33,216.2	$36,371.8
YOY Growth		0.3%	-	-	-	-	8.4%	9.5%
% of total sales		92.0%	92.4%	92.0%	93.0%	92.4%	92.4%	92.3%
Total EDI/Clringhse Revenue		$234.4	$252.4	$272.1	$281.2	$1,040.1	$1,097.3	$1,288.2
YOY Growth		-8.8%	10.0%	12.0%	12.0%	#DIV/0!	5.5%	17.4%
% of total sales		2.8%	3.1%	3.2%	3.1%	3.1%	3.1%	3.3%
Printing & mailing		$348.2	$367.8	$398.2	$345.4	$1,459.7	$1,620.2	$1,749.8
YOY Growth		0.4%	18.1%	6.0%	44.8%	14.7%	11.0%	8.0%
% of total sales		4.2%	4.5%	4.7%	3.8%	4.3%	4.5%	4.4%
EnrolmentPlus		$83.7	$92.1	$94.4	$101.7	$371.9	$412.8	$445.8
YOY Growth		-	-	-	-	-	11.0%	8.0%
% of total sales		1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Total Revenue	$31,810.6	$8,307.3	$8,175.7	$8,388.5	$9,000.4	$33,871.9	$35,933.7	$39,409.8
YOY Growth	29.9%	1.1%	5.0%	11.6%	8.5%	6.5%	6.1%	9.7%
Direct operating costs	$17,679.1	$4,484.1	$4,431.2	$4,538.2	$4,500.2	$17,953.6	$18,398.1	$19,704.9
% direct op costs	55.6%	54.0%	54.2%	54.1%	50.0%	53.0%	51.2%	50.0%
Selling & mktg	$1,106.7	$305.0	$286.1	$335.5	$360.0	$1,286.7	$1,760.8	$1,891.7
% S&M	3.5%	3.7%	3.5%	4.0%	4.0%	3.8%	4.9%	4.8%
General & admin	$11,738.2	$2,600.7	$2,616.2	$2,684.3	$3,690.2	$11,591.4	$12,289.3	$12,808.2
% G&A	36.9%	31.3%	32.0%	32.0%	41.0%	34.2%	34.2%	32.5%
R&D	$1,081.8	$255.9	$261.6	$260.0	$279.0	$1,056.6	$1,257.7	$1,379.3
%R&D	3.4%	3.1%	3.2%	3.1%	3.1%	3.1%	3.5%	3.5%
Change in contingent consideration	$151.4	$31.7	$0.0	$0.0	$0.0	$31.7	$0.0	$0.0
	0.5%	0.4%				0.1%		
Intangible amortization	$3,665.9		$397.0	$397.0	$397.0	$1,191.0	$1,212.0	$888.0
Depreciation	$634.0		$181.0	$160.0	$152.0	$493.0	$350.0	$300.0
Depreciation & amort	$4,299.9	$590.8	$578.0	$557.0	$549.0	$2,274.8	$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	$8,268.2	$8,173.2	$8,375.1	$9,378.4	$34,194.9	$35,267.9	$36,972.1
% Total OpEx	114.2%	99.5%	100.0%	99.8%	104.2%	101.0%	98.1%	93.8%
Operating Income	($4,522.2)	$39.1	$2.5	$13.4	($378.0)	($323.0)	$665.9	$2,437.7
Operating Margin	-14.2%	0.5%	0.0%	0.2%	-4.2%	-1.0%	1.9%	6.2%
Total Other Income (Expense)	($975.2)	$82.6	$11.0	$0.0	($20.0)	$73.6	$55.0	$25.0
Pre-Tax Income	($5,497.4)	$121.7	$13.5	$13.4	($398.0)	($249.4)	$720.9	$2,462.7
Tax expense (benefit)	$67.8	$46.7	$1.4	$0.5	$39.8	$88.4	$77.9	$396.5
Tax Rate	-1.2%	38.3%	10.2%	4.0%	-10.0%	-35.4%	10.8%	16.1%
Preferred dividends	$2,030.3	$775.3	$1,030.0	$1,036.0	$1,036.0	$3,877.3	$3,900.0	$3,650.0
Net Income (to common SH)	($7,595.5)	($700.3)	($1,017.9)	($1,023.1)	($1,473.8)	($4,215.1)	($3,257.0)	($1,583.8)
YOY Growth	-20.5%	-75.9%	-52.0%	-37.3%	58.5%	-44.5%	-22.7%	-51.4%

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Net Margin	-23.9%	-8.4%	-12.5%	-12.2%	-16.4%	-12.4%	-9.1%	-4.0%
EPS (GAAP)	($0.69)	($0.06)	($0.09)	($0.09)	($0.12)	($0.36)	($0.22)	($0.10)
YOY Growth	-27.5%	-78.9%	-55.5%	-40.0%	51.3%	-48.4%	-38.6%	-55.8%
Shares O/S	11,010	11,617	11,665	12,000	12,100	11,845	14,900	16,400

Brian Marckx, CFA

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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