May 10, 2019

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

MTBC, Inc. (MTBC-NASDAQ)

Revenue Growth and Synergies Results in Record Adjusted EBITDA. 2019 Guidance Affirmed

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

Current Price (05/10/19)	$5.10
Valuation	**$11.00**

OUTLOOK

Q1'19 was the third quarter with inclusion of Orion, the acquisition of which closed on July 1st. As a reminder, financial performance immediately benefitted from the transaction, which included revenue setting record highs in Q3 and two of the three acquired business segments, namely Practice Management and the GPO, adding to profitability in that period. Even better, that transaction has continued to bolster MTBC's financial performance, significantly contributing to growth in all of the major financial metrics – including revenue, net and adjusted income, and adjusted EBITDA. Particularly noteworthy (given that this metric is used to value EHR / RCM companies) is that adjusted EBITDA came in at the third best in history in Q4'18 and at an all-time high in Q1'19.

Adjusted EBITDA was $1.58M. This is up 62% from Q1'18 ($974k) and 12% better than the $1.4M of adjusted EBITDA generated in Q4'18. While Q1 benefitted from synergies realized from integration of Orion, we think there remains some additional related cost-savings going into Q2. We now look for FY'19 revenue and adjusted EBITDA of $63.9M and $8.2M, updated from $64.1M and $8.0M. Our FY'20 revenue and adjusted EBITDA are now $69.7M and $11.3M, revised from $70.2M and $11.0M. Our calculated fair value remains at $11.0/share.

SUMMARY DATA

52-Week High	**$5.65**
52-Week Low	**$3.25**
One-Year Return (%)	**36.34**
Beta	**1.72**
Average Daily Volume (sh)	**80,725**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$61**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**50**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**19.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2019 Estimate	**N/A**
P/E using 2020 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	8.2 A	7.8 A	7.5 A	8.3 A	31.8 A
2018	8.3 A	8.7 A	17.0 A	16.5 A	50.6 A
2019	15.1 A	15.7 E	16.5 E	16.6 E	63.9 E
2020					69.7 E

EPS (GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.29 A	-$0.20 A	-$0.14 A	-$0.08 A	-$0.69 A
2018	-$0.06 A	-$0.09 A	-$0.25 A	-$0.20 A	-$0.59 A
2019	-$0.15 A	-$0.13 E	-$0.09 E	-$0.05 E	-$0.42 E
2020					-$0.09 E

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

© Copyright 2019, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW…

Q1 2018 Results:
MTBC reported financial results for their first quarter 2019 and provided a business update. This was the third quarter with inclusion of Orion, the acquisition of which closed on July 1st. As a reminder, financial performance immediately benefitted from the transaction, which included revenue setting record highs in Q3 and two of the three acquired business segments, namely Practice Management and the GPO, adding to profitability in that period.

Even better, that transaction has continued to bolster MTBC's financial performance, significantly contributing to growth in all of the major financial metrics – including revenue, net and adjusted income, and adjusted EBITDA. Particularly noteworthy (given that this metric is used to value EHR / RCM companies) is that adjusted EBITDA came in at the third best in history in Q4'18 and at an all-time high in Q1'19.

And based on management's 2019 guidance, which remains unchanged from its initial issuance (with the reporting of Q4'18 results in March), the benefits of that transaction are expected to continue to incrementally increase (at least as it relates to profitability and cash flow metrics). As a reminder, management expects 2019 revenue and adjusted EBITDA in the ranges of $63M - $65M and $8M - $10M, implying yoy growth of approximately 27% and 87% (based on mid-range of guidance), respectively.

Driving much of the anticipated growth in adjusted EBITDA (and operating leverage) is significant expense reduction of Orion's operating costs. MTBC indicated that they have already made substantial progress in this regard, noting that they rapidly shed costs of Orion's RCM business by replacing (relatively expensive) third-party subcontractors with their own (Pakistan and Sri Lanka-based) employees, shuttering some of Orion's offices and improved efficiencies by moving clients to their own platform. To-date, MTBC has reduced Orion's RCM-related operating expenses by 59%.

Their 2019 guidance also assumes organic growth from existing and new clients as well as potential additional 'tuck-in' deals (i.e. small transactions). As it relates to new clients, early in Q2 MTBC announced the signing of Houston-based The Heights Hospital (which is expected to begin operations this quarter) for their inpatient and outpatient RCM services and customized IT solutions. This is their facility billing client as MTBC begins to deliver on their recently implemented goal of expanding into the hospital segment.

MTBC is also delivering on scoring additional "tuck-in' deals, the most recent of which closed on April 1st when they acquired the assets of Etransmedia Technology, Inc. This could contribute as much as $3.5M (annualized) in revenue and, given MTBC's ability to very rapidly integrate operations (and leverage synergies), should quickly become accretive to earnings, adjusted EBITDA and operating cash flow.

While the 2019 guidance does not assume any meaningful acquisitions, it is clear that management remains on the look-out for another Orion or MediGain-type transaction. They exited Q1'19 with $12.5M in cash and $10M available under their untapped credit facility. Coupled with the fact that MTBC is now generating consistent positive cash flow (Q1 marked the 6th consecutive quarter of generating positive cash from operations), they have the resources to do another sizeable deal. And, as we have noted in the past, given their ability to identify undervalued assets and to quickly integrate (and cut costs) without significant disruption to their ongoing operations or to those of the acquired company, a near-term transaction could result in upside to their current guidance.

Q1 Financials
Revenue, at $15.1M was up 82% yoy and down 9% from Q4'18. Orion-related assets contributed approximately $7.7M, or about 51% of total revenue including $4.5M (30% of total) from RCM, $3.0M (20% of total) from practice management and $200k (1% of total) from the GPO.

Total revenue was a little more than 1% shy of our $15.3M estimate with almost all of the difference related to lower than anticipated RCM sales ($11.9M E vs $12.2M A). As anticipated RCM revenue fell from Q4. RCM has some seasonality, with Q1 typically lower due to patient insurance deductibles largely not yet met.

Meanwhile, we were relatively close in both the practice management ($3.0M A vs $2.9M E) and GPO ($200k A vs $163K E) segments. As a reminder, the practice management segment consists of managing three pediatric practices in five locations in Ohio and Illinois, whereby MTBC employs the medical personnel and administration

and owns the assets used in the business in return for a management fee. Financial performance of the PM segment should remain fairly consistent. The low variability of revenue and earnings of that business is due to the long contract terms (i.e. 40-year contracts, with ~20 years remaining).

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

Adjusted EBITDA…

Adjusted EBITDA was $1.58M. This is up 62% from Q1'18 ($974k) and 12% better than the $1.4M of adjusted EBITDA generated in Q4'18. While Q1 benefitted from synergies realized from integration of Orion, we think there remains some additional related cost-savings going into Q2.

Valuation

We now look for FY'19 revenue and adjusted EBITDA of $63.9M and $8.2M, updated from $64.1M and $8.0M. We note that our upwardly revised adjusted EBITDA estimate is still at the low end of management's guidance. Our FY'20 revenue and adjusted EBITDA are now $69.7M and $11.3M, revised from $70.2M and $11.0M. Our calculated fair value remains at $11.0/share.

	P/S		EV/EBITDA	EV/EBITDA	
	2019	2020	2019	2020	
Comparable Multiples	2.3x	2.1x	26.1x	20.4x	**Average**
MTBC Per Share Value	$10.5	$10.4	$11.1	$12.0	**$11.0**

Financial Model

MTBC	Q1A	Q2A	Q3A	Q4A	2018 A	Q1A	Q2E	Q3E	Q4E	2019 E	2020 E
RCM Total	**$8,307.3**	**$8,682.9**	**$13,252.9**	**$13,146.7**	**$43,389.9**	**$11,919.7**	**$12,446.2**	**$12,766.2**	**$13,311.8**	**$50,443.99**	**$54,955.9**
% of total revenue	*100.0%*	*100.0%*	*77.8%*	*79.6%*	*85.8%*	*79.0%*	*79.5%*	*77.4%*	*80.1%*	*79.0%*	*78.9%*
yoy growth	*1.1%*	*11.5%*	*76.4%*	*58.5%*	*36.4%*	*43.5%*	*43.3%*	*-3.7%*	*1.3%*	*16.3%*	*8.9%*
Practice mgmt Total	**$0.0**	**$0.0**	**$3,314.4**	**$3,186.7**	**$6,501.1**	**$2,960.5**	**$3,022.0**	**$3,247.5**	**$3,123.4**	**$12,353.3**	**$13,279.8**
% of total revenue	*0.0%*	*0.0%*	*19.4%*	*19.3%*	*12.9%*	*19.6%*	*19.3%*	*19.7%*	*18.8%*	*19.3%*	*19.1%*
yoy growth	-	-	-	-	-	-	-	*-2.0%*	*-2.0%*	*90.0%*	*7.5%*
GPO Total	**$0.0**	**$0.0**	**$477.2**	**$177.6**	**$654.8**	**$200.0**	**$181.6**	**$488.9**	**$191.2**	**$1,061.8**	**$1,421.0**
% of total revenue	*0.0%*	*0.0%*	*2.8%*	*1.1%*	*1.3%*	*1.3%*	*1.2%*	*3.0%*	*1.1%*	*1.7%*	*2.0%*
yoy growth	-	-	-	-	-	-	-	*2.5%*	*7.6%*	*62.2%*	*33.8%*
MTBC Total Revenue	**$8,307.3**	**$8,682.9**	**$7,646.2**	**$8,111.0**	**$32,747.4**	**$7,419.7**	-	-	-	-	-
% of total revenue	*100.0%*	*100.0%*	*44.9%*	*49.1%*	*64.8%*	-	-	-	-	-	-
yoy growth	*1.1%*	*11.5%*	*1.8%*	*-2.2%*	*2.9%*	-	-	-	-	-	-
Orion Total Revenue	**$0.0**	**$0.0**	**$9,398.4**	**$8,400.0**	**$17,798.4**	**$7,660.5**	-	-	-	-	-
% of total revenue	-	-	-	-	-	-	-	-	-	-	-
yoy growth	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	$8,307.3	$8,682.9	$17,044.5	$16,511.0	$50,545.8	$15,080.2	$15,649.8	$16,502.7	$16,626.4	$63,859.1	$69,656.6
YOY Growth	*1.1%*	*11.5%*	*126.8%*	*99.1%*	*58.9%*	*81.5%*	*80.2%*	*-3.2%*	*0.7%*	*26.3%*	*9.1%*
Direct operating costs	$4,484.1	$4,333.6	$12,123.9	$10,311.0	$31,252.6	$9,847.5	$9,327.3	$9,439.5	$8,978.3	$37,592.6	$38,659.4
% direct op costs	*54.0%*	*49.9%*	*71.1%*	*62.4%*	*95.4%*	*65.3%*	*59.6%*	*57.2%*	*54.0%*	*58.9%*	*55.5%*
Selling & mktg	$305.0	$403.1	$461.5	$442.4	$1,612.0	$361.4	$406.9	$462.1	$465.5	$1,695.9	$1,741.4
% S&M	*3.7%*	*4.6%*	*2.7%*	*2.7%*	*4.9%*	*2.4%*	*2.6%*	*2.8%*	*2.8%*	*2.7%*	*2.5%*
General & admin	$2,600.7	$3,054.2	$5,131.3	$5,478.3	$16,264.5	$4,162.1	$4,914.0	$5,214.8	$5,387.0	$19,677.9	$21,454.2
% G&A	*31.3%*	*35.2%*	*30.1%*	*33.2%*	*49.7%*	*27.6%*	*31.4%*	*31.6%*	*32.4%*	*30.8%*	*30.8%*
R&D	$255.9	$248.9	$263.7	$261.0	$1,029.5	$254.6	$266.0	$264.0	$266.0	$1,050.8	$1,323.5
%R&D	*3.1%*	*2.9%*	*1.5%*	*1.6%*	*3.1%*	*1.7%*	*1.7%*	*1.6%*	*1.6%*	*1.6%*	*1.9%*
Change in contingent consideration	$31.7	$11.0	$25.5	$5.0	$73.2	($64.2)	$0.0	$0.0	$0.0	($64.2)	$0.0
Depreciation & amort	$590.8	$559.7	$822.1	$881.2	$2,853.8	$756.7	$816.6	$697.2	$619.7	$2,890.2	$1,600.0
Restructuring charges	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OpEx	**$8,268.2**	**$8,610.5**	**$18,828.0**	**$17,378.9**	**$53,085.6**	**$15,318.2**	**$15,730.8**	**$16,077.7**	**$15,716.5**	**$62,843.2**	**$64,778.6**
% Total OpEx	*99.5%*	*99.2%*	*110.5%*	*105.3%*	*105.0%*	*101.6%*	*100.5%*	*97.4%*	*94.5%*	*98.4%*	*93.0%*
Operating Income	$39.1	$72.5	($1,783.5)	($867.9)	($2,539.8)	($238.0)	($81.1)	$425.0	$909.9	$1,015.9	$4,878.1
Operating Margin	*0.5%*	*0.8%*	*-10.5%*	*-5.3%*	*-5.0%*	*-1.6%*	*-0.5%*	*2.6%*	*5.5%*	*1.6%*	*7.0%*
Total Other Income (Expense)	$82.6	$174.4	($299.0)	$286.2	$244.0	($98.2)	($2.0)	($48.0)	($44.0)	($192.2)	$25.0
Pre-Tax Income	$121.7	$246.8	($2,082.5)	($581.8)	($2,295.8)	($336.2)	($83.1)	$377.0	$865.9	$823.6	$4,903.1
Tax expense (benefit)	$46.7	$51.5	($250.1)	($5.5)	($157.4)	($40.5)	$0.0	$0.0	$0.0	($40.5)	$789.4
Tax Rate	*38.3%*	*20.9%*	*12.0%*	*0.9%*	*6.9%*	*12.1%*	-	-	-	*10.8%*	*16.1%*
Preferred dividends	$775.3	$1,248.7	$1,056.2	$1,743.7	$4,824.0	$1,492.7	$1,486.0	$1,486.0	$1,486.0	$5,950.7	$5,500.0
Net Income (to common SH)	($700.3)	($1,053.4)	($2,888.7)	($2,320.0)	($6,962.4)	($1,788.4)	($1,569.1)	($1,109.0)	($620.1)	($5,086.5)	($1,386.3)
YOY Growth	*-75.9%*	*-50.4%*	*76.9%*	*149.6%*	*-8.3%*	*155.4%*	*48.9%*	*-61.6%*	*-73.3%*	*-26.9%*	*-72.7%*
Net Margin	*-8.4%*	*-261.4%*	*-16.9%*	*-14.1%*	*-13.8%*	*-11.9%*	*-10.0%*	*-6.7%*	*-3.7%*	*-8.0%*	*-2.0%*
EPS (GAAP)	($0.06)	($0.09)	($0.25)	($0.20)	($0.59)	($0.15)	($0.13)	($0.09)	($0.05)	($0.42)	($0.09)
YOY Growth	*-78.9%*	*-53.9%*	*72.6%*	*143.6%*	*-13.9%*	*148.3%*	*44.7%*	*-62.6%*	*-73.9%*	*-28.8%*	*-78.5%*
Shares O/S	11,617	11,665	11,770	11,833	11,721	11,946	12,010	12,080	12,100	12,034	15,260

Brian Marckx, CFA

© Copyright 2019, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2019, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Marckx, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.