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Zacks Small-Cap Research

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MTBC, Inc. (MTBC-NASDAQ)

Largest Acquisition To-Date, New Revenue Guidance Implies 2020 Growth of 50%+

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 $11.7/share

Current Price (01/23/20)	$4.82
Valuation	**$11.7**

OUTLOOK

MTBC started 2020 with a bang, announcing and closing on their largest acquisition to-date less than two weeks into the new year. CareCloud Corporation brings a proprietary, relatively very well-known (revenue-based) EHR platform and a customer base of more than 7,000 providers. The acquisition closed on January 8, 2020.

The rationale for the deal and price paid appear sound and more than reasonable, in our opinion. We came away encouraged from our post-deal announcement call with management including their plans for integrating CareCloud into their existing infrastructure. While CareCloud marks their largest acquisition ever, it could prove a relatively simple integration process for MTBC, which has demonstrated a particular adeptness with quick and (largely) error-free corporate combinations.

The increase in fully-diluted share count nearly offsets the near-term valuation effects of the increase in financial estimates for the year 2020. But while our calculated fair value has moved up less than 5%, we think there is now greater potential for further steepening of profitability and adjusted EBITDA into 2021 (which will be added as our out-year in our next update) – and as such, our calculated valuation is now similarly more likely to further adjust upward. As it is now we calculate fair value of $11.7/share, revised up from $11.25/share.

SUMMARY DATA

52-Week High	**$5.39**
52-Week Low	**$3.51**
One-Year Return (%)	**15.09**
Beta	**1.71**
Average Daily Volume (sh)	**78,232**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$58**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**51**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**25.6**
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	**Average,**
Type of Stock	**Small-Value**
Industry	**Med Info Sys**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	8.2 A	7.8 A	7.5 A	8.3 A	31.8 A
2018	8.3 A	8.7 A	17.0 A	16.5 A	50.6 A
2019	15.1 A	16.8 A	16.9 A	15.9 E	64.5 E
2020					100.6 E

EPS (GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.29 A	-$0.20 A	-$0.14 A	-$0.08 A	-$0.69 A
2018	-$0.06 A	-$0.09 A	-$0.25 A	-$0.20 A	-$0.59 A
2019	-$0.15 A	-$0.19 A	-$0.14 A	-$0.08 E	-$0.56 E
2020					-$0.79 E

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

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Largest Acquisition To-Date, New Revenue Guidance Implies 2020 Growth of 50%+
MTBC started 2020 with a bang, announcing and closing on their largest acquisition to-date less than two weeks into the new year. CareCloud Corporation brings a proprietary, relatively very well-known (revenue-based) EHR platform and a customer base of more than 7,000 providers. The acquisition closed on January 8, 2020.

The rationale for the deal and price paid appear sound and more than reasonable, in our opinion. We also came away encouraged from our post-deal announcement call with management including their plans for integrating CareCloud into their existing infrastructure. While CareCloud marks their largest acquisition ever, it could prove a relatively simple integration process for MTBC, which has demonstrated a particular adeptness with quick and (largely) error-free corporate combinations.

For context, Orion, which MTBC acquired in 2018 was relatively complicated given its size (it had been their largest acquisition to-date at that time), two new operating segments (practice management and group purchasing organization, along with a significant RCM business) and challenges associated with buying a company in bankruptcy. This new acquisition should be more of a bolt-on for MTBC from a combination standpoint but, as CloudCource brings a highly-rated revenue-generating enterprise cloud platform, has the potential to significantly expand the company's core commercial market. As such, CareCloud has the makings of a best-of-both-worlds target – relatively straightforward integration and significant growth potential.

Terms of the deal…
Call for MTBC to pay $17M cash and 760k of the (current) Series A 11% preferred stock ($25/share par) – which implies a purchase price of $36M. Any pre-close outstanding debt or payables were to be satisfied, or netted against, a portion of the $17M cash at closing. As an additional safeguard to MTBC, 260k of the preferred shares are escrowed for 18 to 24 months, which can be used to satisfy any unforeseen obligations or liabilities associated with CareCloud in the context of the transaction. CareCloud shareholders also received warrants underlying 2M common shares ($7.50 strike price on 1M two-year warrants, $10.0 strike price on 1M three-year warrants) and are entitled to earn-outs of up to $3M if CareCloud's 2020 revenue exceeds $36M.

Our comments: as CareCloud was privately held and pro formas have yet to be filed, our comments today are based on what MTBC has publicly communicated. Assuming the $36M 2020 revenue earn-out trigger is reasonably close to what CareCloud generated in 2019 sales, MTBC is paying 1x sales. While this is roughly inline with recent industry take-out multiples, considering that development of CareCloud's award-winning technology consumed ~$150M+ of capital, the ~$36M price tag looks like a potential steal.

MTBC has demonstrated a knack for identifying attractive distressed acquisition targets and quickly integrating and generating accretive returns. Prior to CareCloud, Orion and MediGain had been their largest deals to-date(s). Assuming MTBC can apply a similar blueprint to CareCloud as they did with those other acquisitions, this latest transaction should be another major win for the company. While MTBC paid only ~0.4x revenue (based on our estimates) for Orion, 1x sales is similar to what they paid for MediGain (September 2016), based on trailing revenue (on a forward basis, MTBC paid ~0.5x sales).

MediGain has proven to be a wildly successful acquisition and is credited for driving the vast majority of revenue and adjusted EBITDA growth in 2017 and through the first half of 2018. Over those periods, MTBC's sales increased 30% (2016 – 2017) and 6% (1H'17 – 1H'18) and adjusted EBITDA went from ($605)k to $2.3M (2016 – 2017) and $155k to $2.5M (1H'17 – 1H'18).

Orion closed on July 1, 2018 and became almost immediately accretable. It nearly doubled MTBC's revenue in the second half of 2018 as compared to the first six months of that year and was the major growth engine in 2019. We have MTBC generating $64.5M of sales for the full-year 2019, yoy growth of 28%, or $14.0M. We estimate Orion will account for $11.6M, or ~83% of that total growth. Meanwhile, we estimate adjusted EBITDA will increase to $8.2M in 2019, up 71% from the prior year.

Guidance: 2020 Revenue of $100M - $102M (55%+ yoy growth), Adj-EBITDA of $12M - $13M…
The latest acquisition also comes with new company financial guidance. MTBC is now looking for 2020 total revenue and adjusted EBITDA of $100M - $102M and $12M - $13M, respectively. Prior to the announced CareCloud acquisition we had forecast 2020 revenue and adjusted EBITDA of $68.5M and $10.8M. While our 2019 estimates remain unchanged, we now look for 2020 revenue and adjusted EBITDA of $100.6M and $12.2M (our estimates should always be assumed to updating).

As integration and other front-loaded expenses (eg efficiency and synergy objectives) should largely be completed by the end of this year, we think GAAP profitability and adjusted EBITDA growth could steepen even further into 2021. We will begin modeling 2021 after MTBC reports fiscal 2019 full year results.

Valuation

The increase in fully-diluted share count nearly offsets the near-term valuation effects of the increase in financial estimates for the year 2020 (related to the CareCloud acquisition). But while our calculated fair value has moved up less than 5%, we think there is now greater potential for further steepening of profitability and adjusted EBITDA into 2021 (which will be added as our out-year in our next update) – and as such, our calculated valuation is now similarly more likely to further adjust upward.

As it is now we calculate fair value of $11.7/share, revised up from $11.25/share.

	P/S		EV/EBITDA	EV/EBITDA		
	2019	2020	2019	2020		
Comparable Multiples	2.2x	1.8x	18.1x	14.0x	Average	
MTBC Per Share Value	$9.7	$12.3	$12.4	$12.5	$11.7	

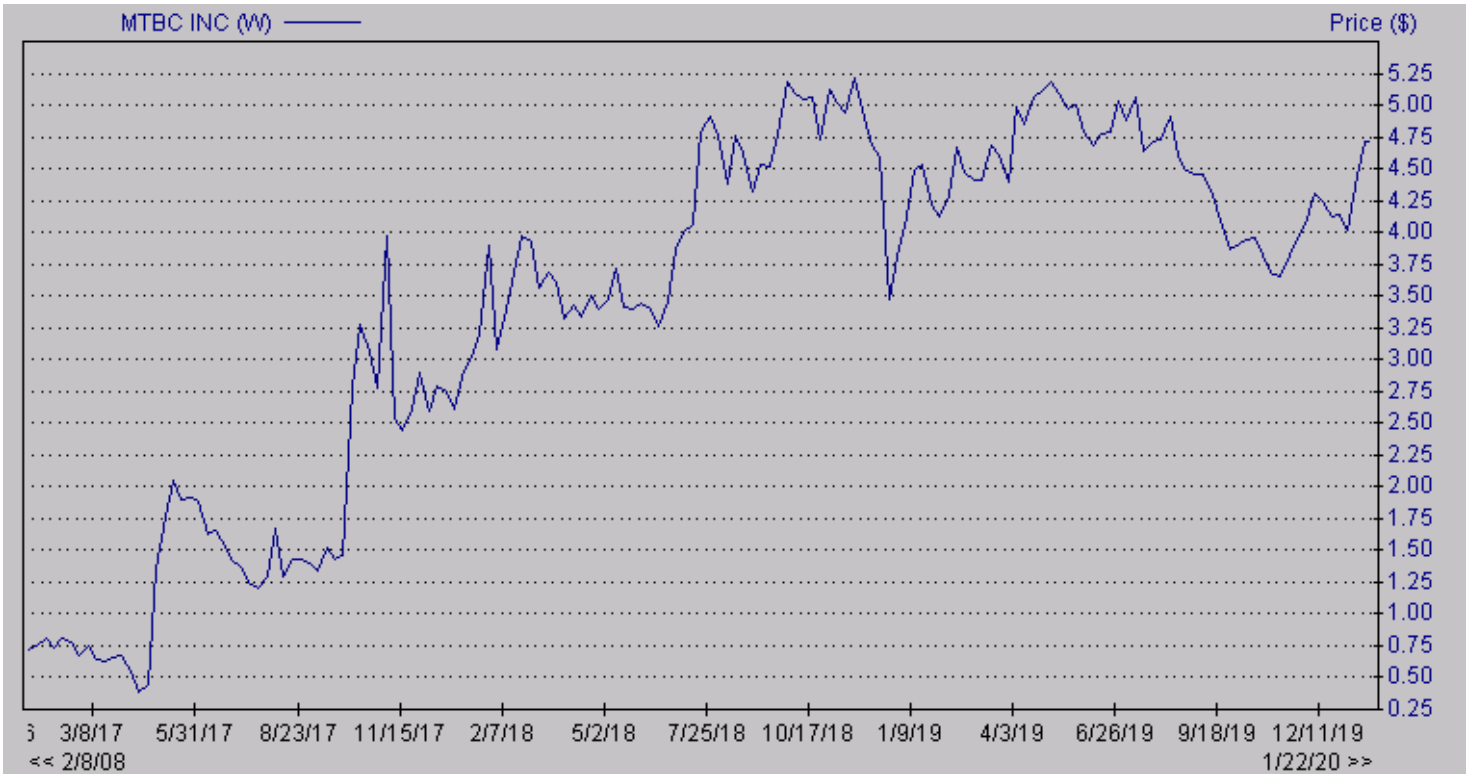
Financial Model

MTBC	Q1A	Q2A	Q3A	Q4A	2018 A	Q1A	Q2A	Q3A	Q4E	2019 E	2020 E
RCM Total	$8,307.3	$8,682.9	$13,252.9	$13,146.7	$43,389.9	$11,919.7	$13,255.5	$12,642.2	$12,214.0	$50,031.42	$53,334.8
% of total revenue	*100.0%*	*100.0%*	*77.8%*	*79.6%*	*85.8%*	*79.0%*	*79.1%*	*75.0%*	*77.1%*	*77.5%*	*53.0%*
yoy growth	*1.1%*	*11.5%*	*76.4%*	*58.5%*	*36.4%*	*43.5%*	*52.7%*	*-4.6%*	*-7.1%*	*15.3%*	*6.6%*
Practice mgmt Total	$0.0	$0.0	$3,314.4	$3,186.7	$6,501.1	$2,960.5	$3,288.9	$3,913.3	$3,452.2	$13,614.9	$13,926.4
% of total revenue	*0.0%*	*0.0%*	*19.4%*	*19.3%*	*12.9%*	*19.6%*	*19.6%*	*23.2%*	*21.8%*	*21.1%*	*13.8%*
yoy growth	-	-	-	-	-	-	-	*18.1%*	*8.3%*	*109.4%*	*2.3%*
GPO Total	$0.0	$0.0	$477.2	$177.6	$654.8	$200.0	$205.1	$295.9	$182.7	$883.7	$1,207.4
% of total revenue	*0.0%*	*0.0%*	*2.8%*	*1.1%*	*1.3%*	*1.3%*	*1.2%*	*1.8%*	*1.2%*	*1.4%*	*1.2%*
yoy growth	-	-	-	-	-	-	-	*-38.0%*	*2.9%*	*35.0%*	*36.6%*
MTBC Total Revenue	$8,307.3	$8,682.9	$7,646.2	$8,111.0	$32,747.4	$7,419.7	$7,605.5	$7,751.2	$7,841.7	$30,618.1	$33,067.6
% of total revenue	*100.0%*	*100.0%*	*44.9%*	*49.1%*	*64.8%*	*49.2%*	*45.4%*	*46.0%*	*49.5%*	*47.4%*	*32.9%*
yoy growth	*1.1%*	*11.5%*	*1.8%*	*-2.2%*	*2.9%*	*-10.7%*	*-12.4%*	*1.4%*	-	-	-
Etransmedia Total Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$2,067.3	$1,999.4	$1,700.0	$860.0	$4,559.4	$3,933.4
% of total revenue	-	-	-	-	-	-	*11.9%*	*10.1%*	*5.4%*	*7.1%*	*3.9%*
yoy growth	-	-	-	-	-	-	-	-	-	-	-
Orion Total Revenue	$0.0	$0.0	$9,398.4	$8,400.0	$17,798.4	$7,660.5	$7,144.6	$7,400.1	$7,147.2	$29,352.5	$31,467.6
% of total revenue	-	-	*55.1%*	*50.9%*	-	*50.8%*	*42.7%*	*43.9%*	*45.1%*	*45.5%*	*31.3%*
yoy growth	-	-	-	-	-	-	-	*-21.3%*	-	-	-
TTL Revenue ex-CareCloud						$15,080.2	$16,749.5	$16,851.3	$15,848.9	$64,530.0	$68,468.6
% of total revenue	-	-	*0.0%*	*0.0%*	-	*754.0%*	*837.5%*	*842.6%*	*792.4%*	*#DIV/0!*	*#DIV/0!*
yoy growth	-	-	-	-	-	-	-	*#DIV/0!*	-	-	-
CareCloud Revenue						$0.0	$0.0	$0.0	$0.0	$0.0	$32,144.0
% of total revenue	-	-	*0.0%*	*0.0%*	-	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*#DIV/0!*	*#DIV/0!*
yoy growth	-	-	-	-	-	-	-	*#DIV/0!*	-	-	-
Total Revenue	$8,307.3	$8,682.9	$17,044.5	$16,511.0	$50,545.8	$15,080.2	$16,749.5	$16,851.3	$15,848.9	$64,530.0	$100,612.6
YOY Growth	*1.1%*	*11.5%*	*126.8%*	*99.1%*	*58.9%*	*81.5%*	*92.9%*	*-1.1%*	*-4.0%*	*27.7%*	*55.9%*
Direct operating costs	$4,484.1	$4,333.6	$12,123.9	$10,311.0	$31,252.6	$9,847.5	$11,396.4	$10,535.6	$9,620.3	$41,399.9	$63,184.7
% direct op costs	*54.0%*	*49.9%*	*71.1%*	*62.4%*	*95.4%*	*65.3%*	*68.0%*	*62.5%*	*60.7%*	*64.2%*	*62.8%*
Selling & mktg	$305.0	$403.1	$461.5	$442.4	$1,612.0	$361.4	$382.6	$347.6	$348.7	$1,440.2	$4,266.0
% S&M	*3.7%*	*4.6%*	*2.7%*	*2.7%*	*4.9%*	*2.4%*	*2.3%*	*2.1%*	*2.2%*	*2.2%*	*4.2%*
General & admin	$2,600.7	$3,054.2	$5,131.3	$5,478.3	$16,264.5	$4,162.1	$5,143.8	$4,452.0	$4,202.3	$17,960.1	$29,378.9
% G&A	*31.3%*	*35.2%*	*30.1%*	*33.2%*	*32.2%*	*27.6%*	*30.7%*	*26.4%*	*26.5%*	*27.8%*	*29.2%*
R&D	$255.9	$248.9	$263.7	$261.0	$1,029.5	$254.6	$218.4	$175.8	$221.9	$870.7	$1,408.6
%R&D	*3.1%*	*2.9%*	*1.5%*	*1.6%*	*3.1%*	*1.7%*	*1.3%*	*1.0%*	*1.4%*	*1.3%*	*1.4%*
Change in contingent consideration	$31.7	$11.0	$25.5	$5.0	$73.2	($64.2)	$0.0	($279.6)	$0.0	($343.8)	$0.0
Depreciation & amort	$590.8	$559.7	$822.1	$881.2	$2,853.8	$756.7	$836.2	$814.2	$745.7	$3,152.8	$6,625.2
Restructuring charges	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$136.3	$0.0	$136.3	$421.2
TOTAL OpEx	$8,268.2	$8,610.5	$18,828.0	$17,378.9	$53,085.6	$15,318.2	$17,977.3	$16,181.9	$15,138.9	$64,616.2	$105,284.5
% Total OpEx	*99.5%*	*99.2%*	*110.5%*	*105.3%*	*105.0%*	*101.6%*	*107.3%*	*96.0%*	*95.5%*	*100.1%*	*104.6%*
Operating Income	$39.1	$72.5	($1,783.5)	($867.9)	($2,539.8)	($238.0)	($1,227.8)	$669.4	$710.1	($86.3)	($4,671.9)
Operating Margin	*0.5%*	*0.8%*	*-10.5%*	*-5.3%*	*-5.0%*	*-1.6%*	*-7.3%*	*4.0%*	*4.5%*	*-0.1%*	*-4.6%*
Total Other Income (Expense)	$82.6	$174.4	($299.0)	$286.2	$244.0	($98.2)	$512.2	($720.0)	($30.0)	($336.1)	$2.8
Pre-Tax Income	$121.7	$246.8	($2,082.5)	($581.8)	($2,295.8)	($336.2)	($715.6)	($50.6)	$680.1	($422.3)	($4,669.1)
Tax expense (benefit)	$46.7	$51.5	($250.1)	($5.5)	($157.4)	($40.5)	$55.4	$87.0	$82.3	$184.1	($197.5)
Tax Rate	*38.3%*	*20.9%*	*12.0%*	*0.9%*	*6.9%*	*12.1%*	*-7.7%*	*-172.0%*	*12.1%*	*-43.6%*	*4.2%*
Preferred dividends	$775.3	$1,248.7	$1,056.2	$1,743.7	$4,824.0	$1,492.7	$1,486.7	$1,602.8	$1,611.1	$6,193.4	$8,302.0
Net Income (to common SH)	($700.3)	($1,053.4)	($2,888.7)	($2,320.0)	($6,962.4)	($1,788.4)	($2,257.7)	($1,740.4)	($1,013.4)	($6,799.8)	($12,773.6)
YOY Growth	*-75.9%*	*-50.4%*	*76.9%*	*149.6%*	*-8.3%*	*155.4%*	*114.3%*	*-39.8%*	*-56.3%*	*-2.3%*	*87.9%*
Net Margin	*-8.4%*	*-261.4%*	*-16.9%*	*-14.1%*	*-13.8%*	*-11.9%*	*-13.5%*	*-10.3%*	*-6.4%*	*-10.5%*	*-12.7%*
EPS (GAAP)	($0.06)	($0.09)	($0.25)	($0.20)	($0.59)	($0.15)	($0.19)	($0.14)	($0.08)	($0.56)	($0.79)
YOY Growth	*-78.9%*	*-53.9%*	*72.6%*	*143.6%*	*-13.9%*	*148.3%*	*108.0%*	*-41.6%*	*-57.6%*	*-5.2%*	*40.0%*
Shares O/S	11,617	11,665	11,770	11,833	11,721	11,946	12,022	12,146	12,200	12,079	16,210

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