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# Zacks Small-Cap Research

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## MTBC, Inc. (MTBC-NASDAQ)

### MTBC Reaffirms Guidance: COVID-19 Impact Expected to Be Offset By Telehealth, New Partnerships/M&A

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 $9.75share

| | |
|---|---|
| Current Price (04/16/20) | $6.70 |
| **Valuation** | **$9.75** |

## OUTLOOK

MTBC announced that they expect to meet their prior revenue and adjusted EBITDA guidance despite anticipated meaningful adverse impact from a decline in patient visits due to the COVID-19 pandemic.

The wild card relative to whether MTBC achieves (or beats, for that matter) their 2020 financial guidance, in our opinion, is the level, significance and size of new partnerships and/or M&A activity. We note that their guidance, when initially announced, did not include expectations of any large mergers or acquisitions (but did include the likelihood of small, 'tuck-in' deals). The recent reiteration of guidance obviously does assume greater incremental growth coming from partnerships or M&A than what had previously been expected. Given the greater risk of unknowns associated with non-organic growth, this adds meaningful risk that MTBC falls short of guidance – although it may also imply a greater chance that they exceed guidance. That additional risk is factored into our financial model and valuation.

Perhaps a mitigating factor is the company's history of finding under-valued acquisition targets and quickly and profitably integrating them. Part of the strategy to buy at depressed prices is to come with cash-in-hand (MTBC just filed S-1 for up to $17M of (current) Series A 11% preferred) and to find targets that are at or near the point of insolvency.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$7.75** |
| **52-Week Low** | **$3.25** |
| **One-Year Return (%)** | **42.46** |
| **Beta** | **1.18** |
| **Average Daily Volume (sh)** | **197,872** |
| **Shares Outstanding (mil)** | **12** |
| **Market Capitalization ($mil)** | **$83** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **14** |
| **Insider Ownership (%)** | **46** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **28.4** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2020 Estimate** | **N/A** |
| **P/E using 2021 Estimate** | **N/A** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **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) |
|---|---|---|---|---|---|
| 2018 | 8.3 A | 8.7 A | 17.0 A | 16.5 A | 50.6 A |
| 2019 | 15.1 A | 16.8 A | 16.9 A | 15.8 A | 64.4 A |
| 2020 | 21.0 E | 20.6 E | 24.5 E | 29.6 E | 95.7 E |
| 2021 | | | | | 103.3 E |

**EPS (GAAP)**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2018 | -$0.06 A | -$0.09 A | -$0.25 A | -$0.20 A | -$0.59 A |
| 2019 | -$0.15 A | -$0.19 A | -$0.14 A | -$0.12 A | -$0.60 A |
| 2020 | -$0.65 E | -$0.54 E | -$0.05 E | $0.15 E | -$1.09 E |
| 2021 | | | | | -$0.38 E |

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

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**MTBC Reaffirms Guidance:** *COVID-19 Impact Expected to Be Offset By Telehealth, New Partnerships/M&A…*

Last week MTBC announced that they continue to expect to meet their prior revenue and adjusted EBITDA guidance despite anticipated meaningful adverse impact from a decline in patient visits (where ~60% of MTBC's revenue is generated) due to the COVID-19 pandemic. While the company anticipates a significant decline in doctor visits, they expect a.) a small portion of that related financial contribution to be offset by an increase in telehealth patient engagements and b). a relatively large portion to be offset by increased partnership and/or M&A activity. As such, MTBC is reiterating their revenue and adjusted EBITDA guidance of $100M - $102M and $12M - $13M, implying growth of at least 55% and 48%, respectively.

With telehealth volume throughout the U.S. healthcare system having already ramped, in part to favorable modifications to reimbursement policies, we think there is little doubt that MTBC will see a significant increase in related financial contribution. In fact, based on MTBC's (via CareCloud) analytics, telehealth appointments have increased by more than 200x and 67% of practices increased telehealth usage due to the pandemic. In order to help facilitate the move to telehealth, MTBC rolled out a reimbursement helpline and telehealth provider licensing. However, given that telehealth still accounts for a relatively small portion of all patient interactions, we do not anticipate that significant increase in these visits will be offset much more than 25% of in-person generated revenue, at least in the very near term (we, however do expect that this pandemic is likely to be a catalyst to driving overall adoption of telehealth, especially based on payers' policy changes, in place of in-office visits for the long-term).

MTBC also recently announced new partnerships including with Titan Health Management Solutions in support of their RCM efforts. And, today MTBC announced the addition of three new suppliers to their existing group purchasing organization.

The wild card relative to whether MTBC achieves (or beats, for that matter) their 2020 financial guidance, in our opinion, is the level, significance and size of new partnerships and/or M&A activity. We note that their guidance, when initially announced, did not include expectations of any large mergers or acquisitions (but did include the likelihood of small, 'tuck-in' deals). The recent reiteration of guidance obviously does assume greater incremental growth coming from partnerships or M&A than what had previously been expected. Given the greater risk of unknowns associated with non-organic growth, this adds meaningful risk that MTBC falls short of guidance – although it may also imply a greater chance that they exceed guidance. That additional risk is factored into our financial model and valuation.

Perhaps a mitigating factor is the company's history of finding under-valued acquisition targets and quickly and profitably integrating them. Part of the strategy to buy at depressed prices is to come with cash-in-hand (MTBC just filed S-1 for up to $17M of (current) Series A 11% preferred) and to find targets that are at or near the point of insolvency.

We think that this COVID-19 pandemic has the potential to push many weaker players to that point and, with public and private financial markets in turmoil (and resultant flight to safer investments), their options could be highly limited. As such, MTBC could find themselves in an enviable position as it relates to buying (or partnering with) quality, yet distressed, assets at bargain basement prices. So while we think there is now meaningfully greater risk MTBC does not achieve their 2020 guidance, we also think that, based on the likelihood of more attractive M&A and partnering opportunities, the likely range of post-2020 growth is now much wider than what may have otherwise been the case.

We have updated our model to reflect lower volumes of patient visits – the net effect of which mostly is in 1H - as well as the increased likelihood of more than previously anticipated partnership/M&A activity. Our revenue and adjusted EBITDA estimates (vs prior) are now: $95.7M / $10.6M (vs $100.8M / $12.0M) in 2020 and $103.3M / $18.5M (vs $104.3M / $21.0M) in 2021

**Valuation**

Our updated model moves our calculated fair value, based on current P/S and EV/EBITDA industry multiples from $11.0 to $9.60/share (round to $9.75).

| | P/S | | EV/EBITDA | EV/EBITDA | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2020 | 2021 | | |
| Comparable Multiples | 1.6x | 1.4x | 16.5x | 13.9x | Average | |
| MTBC Per Share Value | $10.4 | $9.7 | $9.8 | $8.5 | $9.75 | |

# MTBC Financial Model

## Brian Marckx, CFA

| MTBC | Q1A | Q2A | Q3A | Q4A | 2019 A | Q1E | Q2E | Q3E | Q4E | 2020 E | 2021 E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | $15,080.2 | $16,749.5 | $16,851.3 | $15,757.6 | $64,438.6 | $21,028.9 | $20,563.2 | $24,477.3 | $29,632.6 | $95,702.0 | $103,250.6 |
| *YOY Growth* | *81.5%* | *92.9%* | *-1.1%* | *-4.6%* | *27.5%* | *-58.4%* | *36.4%* | *46.1%* | *75.8%* | *48.5%* | *7.9%* |
| Direct operating costs | $9,847.5 | $11,396.4 | $10,535.6 | $9,406.5 | $41,186.0 | $16,528.7 | $14,805.5 | $11,847.0 | $12,919.8 | $56,101.1 | $50,592.8 |
| *% direct op costs* | *65.3%* | *68.0%* | *62.5%* | *59.7%* | *63.9%* | *78.6%* | *72.0%* | *48.4%* | *43.6%* | *58.6%* | *49.0%* |
| Selling & mktg | $361.4 | $382.6 | $347.6 | $430.3 | $1,521.8 | $567.8 | $493.5 | $611.9 | $889.0 | $2,562.2 | $2,684.5 |
| *% S&M* | *2.4%* | *2.3%* | *2.1%* | *2.7%* | *2.4%* | *2.7%* | *2.4%* | *2.5%* | *3.0%* | *2.7%* | *2.6%* |
| General & admin | $4,162.1 | $5,143.8 | $4,452.0 | $4,154.0 | $17,911.8 | $6,897.5 | $6,580.2 | $6,951.6 | $8,000.8 | $28,430.1 | $28,910.2 |
| *% G&A* | *27.6%* | *30.7%* | *26.4%* | *26.4%* | *27.8%* | *32.8%* | *32.0%* | *28.4%* | *27.0%* | *29.7%* | *28.0%* |
| R&D | $254.6 | $218.4 | $175.8 | $222.0 | $870.8 | $294.4 | $287.9 | $342.7 | $414.9 | $1,339.8 | $1,548.8 |
| *%R&D* | *1.7%* | *1.3%* | *1.0%* | *1.4%* | *1.4%* | *1.4%* | *1.4%* | *1.4%* | *1.4%* | *1.4%* | *1.5%* |
| Change in contingent consideration | ($64.2) | $0.0 | ($279.6) | $0.0 | ($343.8) | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Depreciation & amort | $756.7 | $836.2 | $814.2 | $598.5 | $3,005.6 | $2,835.0 | $3,050.0 | $3,000.0 | $3,000.0 | $11,885.0 | $19,523.0 |
| Restructuring charges | $0.0 | $0.0 | $136.3 | $82.7 | $219.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| **TOTAL OpEx** | **$15,318.2** | **$17,977.3** | **$16,181.9** | **$14,893.9** | **$64,371.3** | **$27,123.3** | **$25,217.2** | **$22,753.2** | **$25,224.5** | **$100,318.2** | **$103,259.3** |
| *% Total OpEx* | *101.6%* | *107.3%* | *96.0%* | *94.5%* | *99.9%* | *129.0%* | *122.6%* | *93.0%* | *85.1%* | *104.8%* | *100.0%* |
| Operating Income | ($238.0) | ($1,227.8) | $669.4 | $863.7 | $67.3 | ($6,094.5) | ($4,653.9) | $1,724.1 | $4,408.2 | ($4,616.1) | ($8.6) |
| *Operating Margin* | *-1.6%* | *-7.3%* | *4.0%* | *5.5%* | *0.1%* | *-29.0%* | *-22.6%* | *7.0%* | *14.9%* | *-4.8%* | *0.0%* |
| Total Other Income (Expense) | ($98.2) | $512.2 | ($720.0) | ($440.3) | ($746.3) | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $50.0 |
| Pre-Tax Income | ($336.2) | ($715.6) | ($50.6) | $423.4 | ($679.0) | ($6,094.5) | ($4,653.9) | $1,724.1 | $4,408.2 | ($4,616.1) | $41.4 |
| Tax expense (benefit) | ($40.5) | $55.4 | $87.0 | $91.0 | $192.8 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $7.2 |
| *Tax Rate* | *12.1%* | *-7.7%* | *-172.0%* | *12.1%* | *-28.4%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *17.5%* |
| Preferred dividends | $1,492.7 | $1,486.7 | $1,602.8 | $1,803.9 | $6,386.2 | $1,910.0 | $2,104.0 | $2,335.0 | $2,541.0 | $8,890.0 | $6,440.0 |
| Net Income (to common SH) | ($1,788.4) | ($2,257.7) | ($1,740.4) | ($1,471.5) | ($7,257.9) | ($8,004.5) | ($6,757.9) | ($610.9) | $1,867.2 | ($13,506.1) | ($6,405.9) |
| *YOY Growth* | *155.4%* | *114.3%* | *-39.8%* | *-36.6%* | *4.2%* | *15.0%* | *277.9%* | *-72.9%* | *-207.3%* | *86.1%* | *-52.6%* |
| *Net Margin* | *-11.9%* | *-13.5%* | *-10.3%* | *-9.3%* | *-11.3%* | *-38.1%* | *-32.9%* | *-2.5%* | *6.3%* | *-14.1%* | *-6.2%* |
| EPS (GAAP) | ($0.15) | ($0.19) | ($0.14) | ($0.12) | ($0.60) | ($0.65) | ($0.54) | ($0.05) | $0.15 | ($1.09) | ($0.38) |
| *YOY Growth* | *148.3%* | *108.0%* | *-41.6%* | *-38.7%* | *1.1%* | *9.2%* | *264.0%* | *-73.9%* | *-204.2%* | *81.1%* | *-65.3%* |
| Shares O/S | 11,946 | 12,022 | 12,146 | 12,239 | 12,088 | 12,340 | 12,400 | 12,450 | 12,500 | 12,423 | 17,000 |



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