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Zacks Small-Cap Research

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MTBC, Inc. (MTBC-NASDAQ)

MTBC Weathering COVID Storm, Reaffirms 2020 Guidance. Growth Should Re-Materialize in 2H

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 (05/27/20)	$6.38
Valuation	**$9.75**

OUTLOOK

Q1 2020 revenue and adjusted EBITDA were both well ahead of our respective estimates. In addition, management reiterated full-year guidance of revenue between $100M and $102M and adjusted EBITDA of $12M to $13M. While we expect to see a significant decline in sales and profitability in Q2 as a result of adverse impacts from the COVID-19 pandemic, we think the second half of the year could show a significant rebound from MTBC's growth initiatives. And while a substantial decline in on-site patient visits will hamper growth for at least the very near-term, significant growth in virtual visits (via telehealth) should help to stem some of the coronavirus-related financial impact. MTBC has also been very active in building out its partnership-related growth initiatives and continues to close new deals on a regular basis.

We have updated our model following reporting of Q1 2020 results. Our revenue and adjusted EBITDA estimates (vs prior) are now: $95.2M / $10.8M (vs $95.7M / $11.2M) in 2020 and $102.7M / $18.0M (vs $103.3M / $18.5M) in 2021. The minor updates to our model have no significant effect on our price target, which remains static at $9.75/share.

SUMMARY DATA

52-Week High	**$7.75**
52-Week Low	**$3.25**
One-Year Return (%)	**29.55**
Beta	**1.12**
Average Daily Volume (sh)	**181,548**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$79**
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	21.9 A	18.3 E	24.5 E	30.5 E	95.2 E
2021					102.7 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	-$0.42 A	-$0.49 E	-$0.23 E	$0.19 E	-$0.96 E
2021					-$0.68 E

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

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Q1 2020 Results, Operational Update
Q1 2020 revenue and adjusted EBITDA were both well ahead of our respective estimates. In addition, management reiterated full-year guidance of revenue between $100M and $102M and adjusted EBITDA of $12M to $13M. While we expect to see a significant decline in sales and profitability in Q2 as a result of adverse impacts from the COVID-19 pandemic, we think the second half of the year could show a significant rebound from MTBC's growth initiatives. And while a substantial decline in on-site patient visits will hamper growth for at least the very near-term, significant growth in virtual visits (via telehealth) should help to stem some of the coronavirus-related financial impact. MTBC has also been very active in building out its partnership-related growth initiatives and continues to close new deals on a regular basis.

Noteworthy, management mentioned on the Q1 call that while patient visits fell about 40% through mid-March that that decline largely stabilized buy the end of that same month and that ~50% of that decline had already been recouped by around mid-May. Moreover, telehealth visits have ramped (on a relative basis) – accounting for just 1% of visits in the past to over 20% by the end of Q1.

Telehealth volume has been buoyed by changes in CMS reimbursement policy as well as MTBC's efforts in informing and guiding clientele in how to leverage the platform. In order to help facilitate the move to telehealth, MTBC rolled out a reimbursement helpline and telehealth provider licensing. However and as we noted in our prior update, 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 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).

Meanwhile, MTBC Force, the companies' partnering strategic initiative has been very active signing several new clients to its RCM outsourcing services in just the last few months. MTBC Force, along with potential near-term acquisitions is where much of the near-term growth is expected to come from and help stem the COVID-19 related losses. And as management is already seeing some resurgence in activity as coronavirus fears wane, we think results could show a fairly quick and decided turnaround beginning as soon as the second half of the year.

Q1 revenue and adjusted EBITDA of $21.9M and $767k were well ahead of our $21.0M and -$204k estimates.

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. MTBC has also built-out their sales and marketing capabilities – expanding their team to approximately 20 people, from only around 2 the year prior. The company retained talent from CareCloud which should afford greater opportunity to expand organically. MTBC hopes to add another $4M to $5M in recurring annualized revenue during 2H 2020.

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. Moreover, the company has been very active on the partnering front (i.e. MTBC Force) and the pandemic could very well increase the opportunities in this space.

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.

Valuation

We have updated our model following reporting of Q1 2020 results. Our revenue and adjusted EBITDA estimates (vs prior) are now: $95.2M / $10.8M (vs $95.7M / $11.2M) in 2020 and $102.7M / $18.0M (vs $103.3M / $18.5M) in 2021. The minor updates to our model have no significant effect on our price target, which remains static at $9.75/share.

	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

MTBC	Q1A	Q2A	Q3A	Q4A	2019 A	Q1A	Q2E	Q3E	Q4E	2020 E	2021 E
Total Revenue	$15,080.2	$16,749.5	$16,851.3	$15,757.6	$64,438.6	$21,867.2	$18,296.8	$24,477.3	$30,526.7	$95,168.0	$102,693.4
YOY Growth	*81.5%*	*92.9%*	*-1.1%*	*-4.6%*	*27.5%*	*-56.7%*	*21.3%*	*46.1%*	*81.2%*	*47.7%*	*7.9%*
Direct operating costs	$9,847.5	$11,396.4	$10,535.6	$9,406.5	$41,186.0	$13,566.7	$11,624.6	$12,581.3	$13,187.6	$50,960.2	$50,319.8
% direct op costs	*65.3%*	*68.0%*	*62.5%*	*59.7%*	*63.9%*	*62.0%*	*63.5%*	*51.4%*	*43.2%*	*53.5%*	*49.0%*
Selling & mktg	$361.4	$382.6	$347.6	$430.3	$1,521.8	$1,581.4	$1,646.7	$1,835.8	$2,197.9	$7,261.8	$7,599.3
% S&M	*2.4%*	*2.3%*	*2.1%*	*2.7%*	*2.4%*	*7.2%*	*9.0%*	*7.5%*	*7.2%*	*7.6%*	*7.4%*
General & admin	$4,162.1	$5,143.8	$4,452.0	$4,154.0	$17,911.8	$5,592.7	$4,976.7	$5,140.2	$5,250.6	$20,960.3	$22,079.1
% G&A	*27.6%*	*30.7%*	*26.4%*	*26.4%*	*27.8%*	*25.6%*	*27.2%*	*21.0%*	*17.2%*	*22.0%*	*21.5%*
R&D	$254.6	$218.4	$175.8	$222.0	$870.8	$2,333.1	$2,109.0	$1,944.0	$1,706.0	$8,092.1	$7,085.8
%R&D	*1.7%*	*1.3%*	*1.0%*	*1.4%*	*1.4%*	*10.7%*	*1.4%*	*1.4%*	*1.4%*	*8.5%*	*6.9%*
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	$1,332.8	$1,436.0	$3,000.0	$3,000.0	$8,768.8	$19,523.0
Restructuring charges	$0.0	$0.0	$136.3	$82.7	$219.0	$297.7	$0.0	$0.0	$0.0	$297.7	$0.0
TOTAL OpEx	**$15,318.2**	**$17,977.3**	**$16,181.9**	**$14,893.9**	**$64,371.3**	**$24,704.4**	**$21,793.0**	**$24,501.4**	**$25,342.1**	**$96,340.9**	**$106,607.0**
% Total OpEx	*101.6%*	*107.3%*	*96.0%*	*94.5%*	*99.9%*	*113.0%*	*119.1%*	*100.1%*	*83.0%*	*101.2%*	*103.8%*
Operating Income	($238.0)	($1,227.8)	$669.4	$863.7	$67.3	($2,837.2)	($3,496.2)	($24.1)	$5,184.7	($1,172.8)	($3,913.6)
Operating Margin	*-1.6%*	*-7.3%*	*4.0%*	*5.5%*	*0.1%*	*-13.0%*	*-19.1%*	*-0.1%*	*17.0%*	*-1.2%*	*-3.8%*
Total Other Income (Expense)	($98.2)	$512.2	($720.0)	($440.3)	($746.3)	$365.4	$224.8	($54.1)	($18.7)	$365.4	$421.7
Pre-Tax Income	($336.2)	($715.6)	($50.6)	$423.4	($679.0)	($2,471.8)	($3,271.4)	($78.2)	$5,166.0	($807.5)	($3,491.9)
Tax expense (benefit)	($40.5)	$55.4	$87.0	$91.0	$192.8	$29.9	$0.0	$0.0	$0.0	$29.9	($611.1)
Tax Rate	*12.1%*	*-7.7%*	*-172.0%*	*12.1%*	*-28.4%*	*-1.2%*	*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	$2,642.9	$2,765.2	$2,801.5	$2,844.0	$11,053.6	$8,714.0
Net Income (to common SH)	($1,788.4)	($2,257.7)	($1,740.4)	($1,471.5)	($7,257.9)	($5,144.7)	($6,036.6)	($2,879.7)	$2,322.0	($11,891.0)	($11,594.8)
YOY Growth	*155.4%*	*114.3%*	*-39.8%*	*-36.6%*	*4.2%*	*-26.1%*	*237.5%*	*27.5%*	*-233.4%*	*63.8%*	*-2.5%*
Net Margin	*-11.9%*	*-13.5%*	*-10.3%*	*-9.3%*	*-11.3%*	*-23.5%*	*-33.0%*	*-11.8%*	*7.6%*	*-12.5%*	*-11.3%*
EPS (GAAP)	($0.15)	($0.19)	($0.14)	($0.12)	($0.60)	($0.42)	($0.49)	($0.23)	$0.19	($0.96)	($0.68)
YOY Growth	*148.3%*	*108.0%*	*-41.6%*	*-38.7%*	*1.1%*	*-29.6%*	*225.2%*	*23.2%*	*-229.6%*	*59.5%*	*-28.8%*
Shares O/S	11,946	12,022	12,146	12,239	12,088	12,311	12,400	12,450	12,500	12,415	17,000

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