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Zacks Small-Cap Research

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MTBC, Inc. (MTBC-NASDAQ)

MTBC In Growth Mode w/ Meridian acq and Pre-COVID Patient Visits Strongly Rebounding. Reiterating $12/share PT

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 $12.0share

Current Price (08/26/20)	$10.03
Valuation	**$12.00**

OUTLOOK

Similar to Q1 of this year, Q2 2020 revenue and adjusted EBITDA were both well ahead of our respective estimates. In addition, management reiterated (i.e. post-Meridian) full-year guidance of revenue between $105M and $107M and adjusted EBITDA of $12M to $13M, implying respective growth of at least 63% and 48%. Results through 1H'20 and, assuming it's hit, current year guidance is particularly impressive given the massive headwind that COVD-19 has had on healthcare and reduction in patient visits. Patient visits account for roughly two-thirds of MTBC's revenue and, per management's comments, have recently come back to 94% of pre-COVID levels. This, coupled with the recent Meridian acquisition and MTBC's proven ability to quickly integrate and slash operating costs from acquisitions, has us ever-more optimistic in the revenue and profitability growth prospects of the company.

Updates to our model have not material effect on our valuation. We continue to calculate fair value of MTBC at $12.0/share.

SUMMARY DATA

52-Week High	**$13.40**
52-Week Low	**$3.25**
One-Year Return (%)	**136.57**
Beta	**1.19**
Average Daily Volume (sh)	**197,017**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$126**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**17**
Insider Ownership (%)	**46**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**33.7**
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	19.6 A	30.0 E	34.4 E	105.9 E
2021					125.2 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	-$0.65 A	-$0.53 E	$0.16 E	-$1.75 E
2021					-$0.88 E

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

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Q2 2020 Results, Operational Update

Similar to Q1 of this year, Q2 2020 revenue and adjusted EBITDA were both well ahead of our respective estimates. In addition, management reiterated (i.e. post-Meridian) full-year guidance of revenue between $105M and $107M and adjusted EBITDA of $12M to $13M, implying respective growth of at least 63% and 48%. Results through 1H'20 and, assuming it's hit, current year guidance is particularly impressive given the massive headwind that COVD-19 has had on healthcare and reduction in patient visits. Patient visits account for roughly two-thirds of MTBC's revenue and, per management's comments, have recently come back to 94% of pre-COVID levels. This, coupled with the recent Meridian acquisition and MTBC's proven ability to quickly integrate and slash operating costs from acquisitions, has us ever-more optimistic in the revenue and profitability growth prospects of the company.

As a reminder and as it relates to Meridian….

MTBC made its largest acquisition to-date, closing on its purchase of Meridian Medical Management Co., on June 16th. CareCloud which MTBC acquired in early January of this year and which had an LTM revenue run rate of approximately $33M, had been (up until now) the company's biggest purchase in history.

The addition of Meridian prompted management to upwardly revise revenue guidance for 2020 – announcing that, with the new acquisition, they expected full-year 2020 revenue of $105M - $107M (from prior $100M - $102M) while adjusted EBITDA guidance remained at $12M - $13M. More specifically as it relates to current-year guidance, MTBC now looks for 2H 2020 revenue at an annualized run rate of between $130M and $135M (i.e. averaging $65M - $67.5M per quarter in Q3 and Q4) and annualized adjusted EBITDA of $24M - $25M over the same period. MTBC also noted that they believe Meridian will also positively influence growth and margins into 2021 and beyond.

Previously owned by GE Healthcare, Meridian provides leading edge IT solutions to physician practices as well as a number of hospitals. The transaction appears to fit with MTBC's playbook of acquiring assets that can be relatively easily integrated with its existing operations and where significant synergies can be realized within a short period of time. MTBC's has shown adeptness at finding and acquiring (what have proven to be) underpriced, and oftentimes distressed, companies and quickly wringing out costs which has resulted in rapid growth in revenue and profitability (i.e. adjusted EBITDA). For context, MTBC's revenue more than doubled between 2017 ($31.8M) and 2019 ($64.4M) while adjusted EBITDA grew by more than 250% ($2.5M to $8.1M) over the same period.

And the growth curve should steepen with the addition of Meridian. While management had been (i.e. pre-Meridian) guiding for revenue in the current year to grow by at least 55% (as compared to 2019), this is now expected to be at least 63% (our current estimate, which is unchanged from our July 8 'Meridian acq' Investor Note is 64%). We did upwardly adjust our revenue projections through the out year (2021) in our model based on contribution from Meridian. As it is now, we look for revenue and adjusted EBITDA of $105.9M and $12.0M in 2020 and $125.5M and $19.6M in 2021 (all largely unchanged from our July 8th post-Meridian update).

The $24.8M cost of the Meridian transaction will be satisfied with $15.0M cash, 200k series A (current series) preferred shares (aggregate value $5M) and assumption of $4.8M of Meridian's lease liabilities. While MTBC did not disclose the historical revenue run rate or purchase multiple, their characterization of Meridian as the largest acquisition in company history indicates that the it generated in excess of $33M (i.e. CareCloud LTM revenue prior to the Meridian acquisition) and implies a price to sales multiple of 0.75x or less. This is a meaningful discount to the average ~1.0 P/S multiple of acquisitions in the industry.

Current outlook appears to be as attractive as ever in our opinion with management noting on the Q2 call that they feel they have never been better positioned strategically or financially (cash balance at 6/30/20 was $12.5M and, subsequent to qtr end, MTBC raised $25.6M via Series A preferred issuance) for growth. In addition, the company closed 2x as much organic business during just the first 6 months of 2020 than they had in all of 2019. And, with the company presumably remaining on the hunt for attractive acquisitions (which we think are almost certain to be more prevalent now with COVID-19 taking tolls on the industry), we are more positive on MTBC's non-organic growth opportunities than ever.

And while CareCloud and Meridian integration have stunted GAAP EPS growth, we are confident, given the company's proven ability to quickly integrate acquisitions, wring out costs (i.e. move functions from U.S. to low-cost overseas labor and synergize like-kind ops) that even GAAP EPS growth is destined to massively accelerate over the long term (timing of which is likely dependent mostly on size and cadence of future acquisitions). Importantly, management noted that the both CareCloud and Meridian integrations are going as planned and as expected and

that we should see a commensurate continued significant reduction on operating expenses through the end of this year.

Valuation

We have updated our model for Q2 results (and the Meridian acquisition). Our revenue and adjusted EBITDA forecasts, which are largely unchanged from our July 8th (i.e. Meridian Investor Note), are $105.9M and $11.4M in 2020 (from $105.7M and $11.2M previously) and $125.5M and $19.6M in 2021.

Updates to our model have not material effect on our valuation. We continue to calculate fair value of MTBC at $12.0/share.

	P/S		EV/EBITDA	EV/EBITDA		
	2020	2021	2020	2021		
Comparable Multiples	1.6x	1.4x	16.5x	14.1x	Average	
MTBC Per Share Value	$13.6	$14.0	$10.4	$10.1	$12.0	

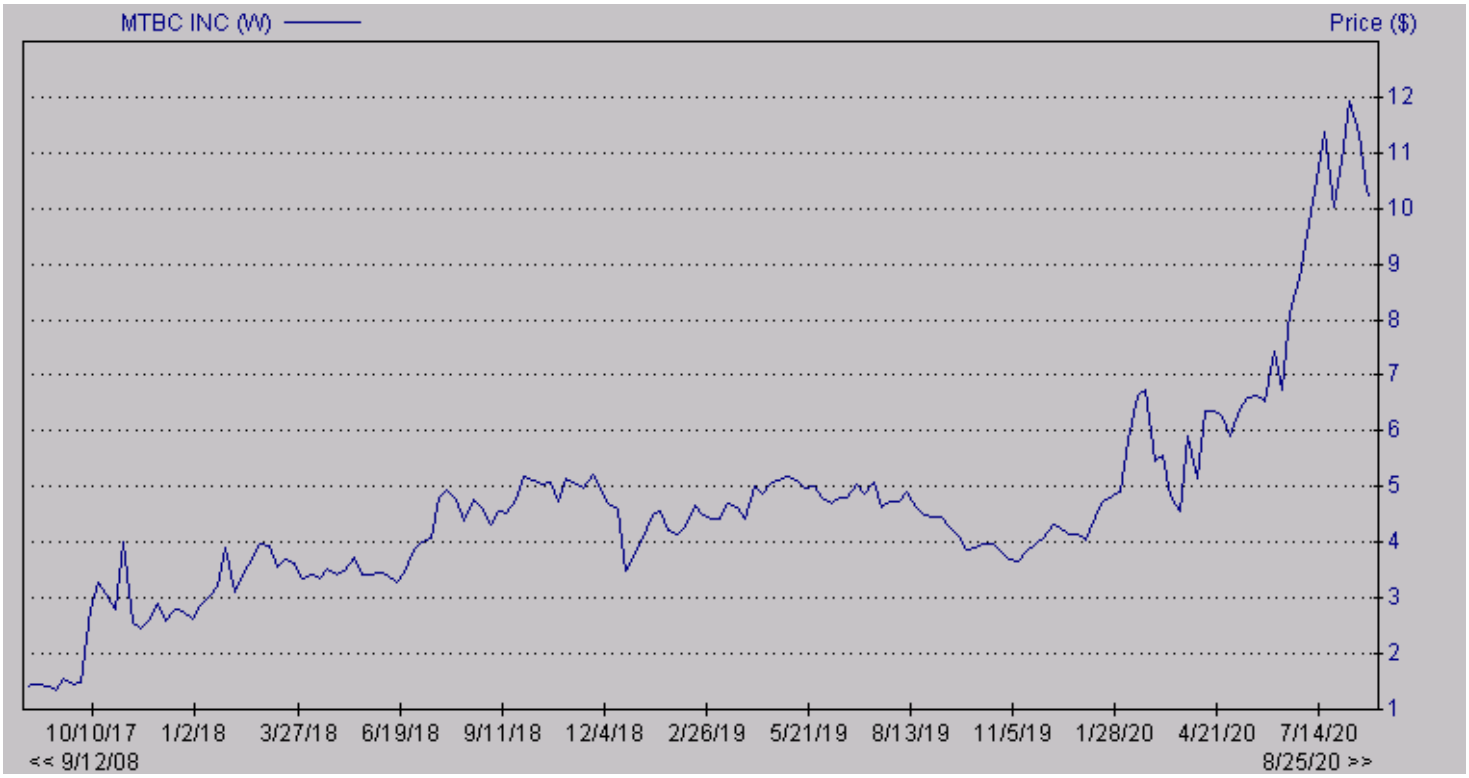
MTBC Financial Model

MTBC	Q1A	Q2A	Q3A	Q4A	2019 A	Q1A	Q2A	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	$19,578.8	$29,977.3	$34,422.9	$105,846.1	$125,446.6
YOY Growth	*81.5%*	*92.9%*	*-1.1%*	*-4.6%*	*27.5%*	*-56.7%*	*29.8%*	*79.0%*	*104.3%*	*64.3%*	*18.5%*
Direct operating costs	$9,847.5	$11,396.4	$10,535.6	$9,406.5	$41,186.0	$13,566.7	$12,556.7	$18,436.0	$19,070.3	$63,629.7	$68,995.6
% direct op costs	*65.3%*	*68.0%*	*62.5%*	*59.7%*	*63.9%*	*62.0%*	*64.1%*	*61.5%*	*55.4%*	*60.1%*	*55.0%*
Selling & mktg	$361.4	$382.6	$347.6	$430.3	$1,521.8	$1,581.4	$1,625.0	$2,080.4	$2,099.8	$7,386.6	$7,526.8
% S&M	*2.4%*	*2.3%*	*2.1%*	*2.7%*	*2.4%*	*7.2%*	*8.3%*	*6.9%*	*6.1%*	*7.0%*	*6.0%*
General & admin	$4,162.1	$5,143.8	$4,452.0	$4,154.0	$17,911.8	$5,592.7	$5,392.9	$6,145.3	$5,920.7	$23,051.7	$24,963.9
% G&A	*27.6%*	*30.7%*	*26.4%*	*26.4%*	*27.8%*	*25.6%*	*27.5%*	*20.5%*	*17.2%*	*21.8%*	*19.9%*
R&D	$254.6	$218.4	$175.8	$222.0	$870.8	$2,333.1	$2,146.3	$2,310.0	$2,377.0	$9,166.5	$9,784.8
%R&D	*1.7%*	*1.3%*	*1.0%*	*1.4%*	*1.4%*	*10.7%*	*11.0%*	*7.7%*	*6.9%*	*8.7%*	*7.8%*
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	$2,404.9	$3,212.0	$3,191.0	$10,140.7	$11,356.0
Restructuring charges	$0.0	$0.0	$136.3	$82.7	$219.0	$297.7	$63.2	$0.0	$0.0	$360.8	$0.0
TOTAL OpEx	**$15,318.2**	**$17,977.3**	**$16,181.9**	**$14,893.9**	**$64,371.3**	**$24,704.4**	**$24,189.0**	**$32,183.8**	**$32,658.8**	**$113,736.0**	**$122,627.1**
% Total OpEx	*101.6%*	*107.3%*	*96.0%*	*94.5%*	*99.9%*	*113.0%*	*123.5%*	*107.4%*	*94.9%*	*107.5%*	*97.8%*
Operating Income	($238.0)	($1,227.8)	$669.4	$863.7	$67.3	($2,837.2)	($4,610.2)	($2,206.5)	$1,764.1	($7,889.8)	$2,819.5
Operating Margin	*-1.6%*	*-7.3%*	*4.0%*	*5.5%*	*0.1%*	*-13.0%*	*-23.5%*	*-7.4%*	*5.1%*	*-7.5%*	*2.2%*
Total Other Income (Expense)	($98.2)	$512.2	($720.0)	($440.3)	($746.3)	$365.4	($256.6)	($54.1)	($18.7)	$35.9	($271.4)
Pre-Tax Income	($336.2)	($715.6)	($50.6)	$423.4	($679.0)	($2,471.8)	($4,866.8)	($2,260.6)	$1,745.4	($7,853.9)	$2,548.1
Tax expense (benefit)	($40.5)	$55.4	$87.0	$91.0	$192.8	$29.9	($74.3)	$0.0	$0.0	($44.4)	$0.0
Tax Rate	*12.1%*	*-7.7%*	*-172.0%*	*12.1%*	*-28.4%*	*-1.2%*	*1.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred dividends	$1,492.7	$1,486.7	$1,602.8	$1,803.9	$6,386.2	$2,642.9	$3,276.9	$4,322.0	$3,814.0	$14,055.8	$15,290.0
Net Income (to common SH)	($1,788.4)	($2,257.7)	($1,740.4)	($1,471.5)	($7,257.9)	($5,144.7)	($8,069.4)	($6,582.6)	($2,068.6)	($21,865.3)	($12,741.9)
YOY Growth	*155.4%*	*114.3%*	*-39.8%*	*-36.6%*	*4.2%*	*-26.1%*	*351.2%*	*191.6%*	*18.9%*	*201.3%*	*-41.7%*
Net Margin	*-11.9%*	*-13.5%*	*-10.3%*	*-9.3%*	*-11.3%*	*-23.5%*	*-41.2%*	*-22.0%*	*-6.0%*	*-20.7%*	*-10.2%*
EPS (GAAP)	($0.15)	($0.19)	($0.14)	($0.12)	($0.60)	($0.42)	($0.65)	($0.53)	($0.16)	($1.75)	($0.88)
YOY Growth	*148.3%*	*108.0%*	*-41.6%*	*-38.7%*	*1.1%*	*-29.6%*	*334.9%*	*180.2%*	*13.7%*	*191.8%*	*-49.8%*
Shares O/S	11,946	12,022	12,146	12,239	12,088	12,311	12,395	12,512	12,700	12,480	14,500

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