

MTBC

Q1 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Kimberly Grant - *General Counsel*

Mahmud Haq - *Founder and Executive Chairman*

Stephen Snyder - *Chief Executive Officer and Director*

A. Hadi Chaudhry - *President and Director*

Bill Korn - *Chief Financial Officer*

Juan Molina - *President, CareCloud Division*

Karl Johnson - *President, MTBC Force Division*

PRESENTATION

Operator

Good morning. Welcome to the MTBC First Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Kim Grant, General Counsel. Please go ahead.

Kim Grant

Thank you, and good morning, everyone. Welcome to the MTBC First Quarter 2020 Conference Call. On today's call are Mahmud Haq, our Founder and Executive Chairman; Stephen Snyder, our Chief Executive Officer and a Director; A. Hadi Chaudhry, our President and a Director; and Bill Korn, our Chief Financial Officer.

Before we begin, I would like to remind you that certain statements made during this conference call are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended.

All statements, other than statements of historical fact, made during this conference call are forward-looking statements, including, without limitation, statements regarding our expectations and guidance for future financial and operational performance, expected growth, business outlook and potential organic growth and acquisitions.

Forward-looking statements may sometimes be identified with words such as *will*, *may*, *expect*, *plan*, *anticipate*, *upcoming*, *believe*, *estimate* or similar terminology, and the negative of these terms. Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. These statements reflect our opinions only as of the date of this presentation and we undertake no obligation to revise these forward-looking statements in light of new information or future events.

Please refer to our press release and our reports filed with the Securities and Exchange Commission, where you will find a more comprehensive discussion of our performance and factors that could cause actual results to differ materially from these forward-looking statements.

For anyone who dialed into the call by telephone, you may want to download our First Quarter 2020 Earnings Presentation. Please our Investor Relations' site ir.mtbc.com, click on Events, and download the Earnings Presentation.

Finally, on today's call, we may refer to certain non-GAAP financial measures. Please refer to today's press release announcing our first quarter 2020 results for a reconciliation of these non-GAAP performance measures to our GAAP financial results.

With that said, I'll now turn the call over to our Chief Executive Officer, Stephen Snyder. Steve?

Stephen Snyder

Thank you, Kim. And thank you everyone for joining us on our First Quarter 2020 Earnings Call. In addition to the regular members of our panel, I am pleased today to be joined by Juan Molina, the president of our CareCloud division; and Karl Johnson, who was recently promoted to the role of president of our MTBC Force division.

Today we are pleased to report a strong start to 2020, including a 45% year-over-year increase in first quarter revenue to \$21.9 million, which was driven in large part by our acquisition earlier this year of CareCloud.

CareCloud was the 15th acquisition that we have closed since our initial public offering in 2014, and like our other acquisitions, represented a good, but nevertheless distressed company serving the critical back office and technology needs of healthcare providers throughout the country.

We are very pleased to report that our adjusted EBITDA for the first quarter of 2020 was \$767,000. This reflected a planned year-over-year decline, driven by our acquisition of CareCloud during January of this year, but nevertheless, outperformed our internal model.

Consistent with our regular acquisition playbook, we have already substantially reduced CareCloud's operating expenses, having now reduced more than \$16 million of annualized, net expenses, since we acquired CareCloud at the beginning of the first quarter.

It goes without saying that our country and the world face an extraordinary challenge in COVID-19. As a company, we have never been stronger or better positioned from an operational, technological, and financial perspective to support our new and existing customers. And as a team, we have never felt such a profound sense of purpose in our work as we've been reminded time and time again of the privilege we have to support the heroic women and men who are serving as healthcare providers on the front lines of this important battle.

We are truly humbled by the reality that our support, as small as it may seem, enables them to focus on delivering care to those who need care, whether it is providing our top ranked cloud-based clinical charting tools, enabling touchless patient scheduling and check-in, ensuring appropriate telehealth, reimbursement, facilitating COVID cash advances from CMS, enabling patients to access their medical records online, or any one of the other countless ways we support our customers. We're energized by our mission of enabling physicians to devote the entirety of their focus to care delivery, while trusting us to support the day-to-day needs of their practices.

Those who have been tracking our growth over the years know that we have honed our turnkey approach to identifying, acquiring and turning around distressed companies that are providing critical back office support and healthcare technology solutions to physicians. As we have done so, we have become the leading acquirer of companies in our segment of the market.

This growth vector has enabled us to achieve a six-year compound annual growth rate of 35%, and we believe that the current economic conditions will add further velocity to our acquisitive growth strategy in the quarters ahead.

Likewise, our MTBC Force offering has given us another avenue for partnering with other vendors in our space in a way that enables us to support their objectives, while providing great service to their customers and accelerating our growth. During the last 60 days alone, we have been selected by three industry leaders--an RCM company, a value-added EHR reseller, and EHR company, and we are only getting started with our MTBC Force go-to-market strategy.

Our most recent signing with Exscribe Orthopaedic Healthcare Solutions, which I'm proud to announce today, demonstrates the power and scope of our offering. In conjunction with this most recent relationship, we will be developing a customized practice management system for Exscribe and quality reporting modules for their EHR, which happens to be one of the most highly ranked EHRs in the orthopedic space.

We will also be Exscribe's integrated revenue cycle management partner and we'll work to sell our solutions to their provider base. This relationship will position Exscribe to gain additional market share in orthopedics, while increasing revenues, and it will enable us to do likewise.

We're hopeful that these increased opportunities across the board to add recurring revenue from acquisitions, and that MTBC Force and organic growth, will offset the temporary COVID-driven downward pressure on our revenue, related to a reduced number of patient/physician encounters across the country. Additionally, we have substantially increased our investment in sales and marketing, growing from a team of only a couple members this time last year to more than 20 team members today.

We have already closed more business year-to-date in 2020 than in all of 2019, and 2019 was one of our strongest years for organic growth in history. We expect to see our organic growth efforts begin to yield even more fruit during the second half of the year, as we target bookings of \$4 million to \$5 million in annual recurring revenues per quarter, starting in the third quarter.

Further, we are targeting an average customer acquisition cost of no more than 50% of annual recurring revenues, which would compare favorably to prevailing industry customer acquisition costs. We believe that our growth initiatives in MTBC Force, acquisitions, and organic growth will set us up to exit this year at a higher run rate than we had anticipated when we started 2020.

I'll now turn the floor over to Hadi. Hadi?

Hadi Chaudhry

Thank you, Steve. And thank you everyone for joining us on our First Quarter 2020 call. As Steve mentioned earlier, like others, we have seen a decrease in our customers' overall appointment volumes. More specifically, we did see patient visits trending downward beginning in first half of March. This decrease in appointment volume was roughly 40% and then began to stabilize by the end of March.

Based on the data that we are reviewing, we believe that the rebound has already started to take place. In fact, our numbers show that we have already made up close to half of the overall declines in appointment volumes since then.

While these declines were happening, we also saw an almost immediate and substantial increase in our customers' move toward virtual appointments. In fact, on March 1, 2020, telehealth consults represented less than 1% of all visit types. We then saw this spike tremendously and level out to approximately 21% of all visits being telehealth consults.

We have been following these reimbursement metrics and have seen a nice income stream for our customers from telehealth consults, especially as Medicaid provided flexibilities in telehealth reimbursement created by the Coronavirus Aid Relief and Economic Security, the CARES Act.

As a result, we immediately began an outreach to our customer base on a weekly or sometimes biweekly basis on different topics. We provided guidance via webinars and in-app announcements on how medical practices could navigate the federal programs available to them and to apply for specific programs that

would allow them to request federal assistance for payroll or request advanced Medicare payments, as an example.

We also began immediate training and best practice consultations with providers on how to effectively set up their practice to provide telehealth services. We reacted quickly and pivoted our roadmap and enhanced our technology, like rule-based engines, added COVID related codes to our financial and clinical systems, deployed our own telehealth solutions and released new contactless COVID intake questionnaires.

We focused the bulk of our efforts on leveraging our billing, coding, and collection expertise to help our customers manage and effectively bill and get paid for those telehealth services. With the regulations more relaxed, we have seen an overall increase in the amount of reimbursement for telehealth visits.

While we haven't been completely immune to the pandemic's effects on medical practices, we do feel that we are weathering the storm quite nicely. We have been able to stay on track and our global distributed workforce, both here in the U.S. and overseas, has played a tremendous role in allowing us to adapt and work with our customers in ways that other competitors simply cannot.

Our U.S. team members have continued their same output, even as they transitioned to remote work, and our overseas team members were able to remain operational to a host of several business continuity measures we instituted. This included remote working for certain team members, the ability for other employees to continue commuting to the office, adhering to the strict health and safety guidelines, and several hundred of our employees living at our onsite dormitories. These measures as well as our diligent cost management strategies and our technology-enabled solutions having given us a good footing into the next couple of quarters.

I would now like to focus our attention on the important work we are doing towards the integration efforts of our latest acquisition. As we have said, CareCloud was unlike any other acquisition we have made in the past. With CareCloud, we acquired a leading SaaS platform in our space, which supports small, medium, and large groups providing fully integrated clinical, practice management and revenue cycle management solutions to the market.

We continue to make great strides, and I'm happy to report that the integration efforts are on track. This, of course, has been facilitated by our repeatable integration capabilities working in concert with our dedicated and talented teams at MTBC and CareCloud. We have already begun seeing the benefits of this integration in terms of cost reductions.

In Q1, we spoke about our move off of our third-party revenue cycle management BPO, and as of early April, we fully transitioned off of this vendor and are realizing significant cost savings associated with this move. In fact, this move, along with others, have yielded a cost reduction thus far of \$16 million, or more than 40% on an annualized basis. We are on track for positive contribution margin by the end of Q2.

While we have completed this fulsome migration, more work is required, of course, as we continue to operationalize these functions and drive even more efficiencies into our RCM service offering for CareCloud. As our overall integration progresses, our combined teams will continue to work closely to enable our ability to drive high-quality outcomes for our revenue cycle management customers and accelerate development capabilities and timelines.

We have also executed on our plans on driving costs out of the model by virtually eliminating the reliance on other third-party contractors and focusing our efforts on ramping up our offshore resources to accelerate even more capabilities.

Additionally, we are highly focused on vendor reconciliation projects that allow us to leverage this broader scale between the two organizations and eliminate the need for technology and other contracts that are redundant or duplicative in nature. We expect to see additional significant cost synergies over the course of next several quarters as we continue our integration efforts.

I will now turn the floor over to our Chief Financial Officer, Bill Korn. Bill?

Bill Korn

Thank you, Hadi. Revenue for the first quarter of 2020 was \$21.9 million, an increase of \$6.8 million, or 45% from the first quarter of 2019. Our first quarter of 2020 results included those of CareCloud subsequent to our acquisition on January 8, 2020.

We added 700 practices with over 5,000 providers to our client base, 75% of which pay monthly SaaS-fees to use CareCloud's award-winning cloud-based platform, and 25% of which also use revenue cycle management services in addition to SaaS.

Our first quarter 2020 GAAP net loss was \$2.5 million, as compared to a net loss of \$296,000 in the same period last year. The GAAP net loss reflects \$1.3 million of non-cash depreciation and amortization expenses, \$1.3 million of stock-based compensation, and \$645,000 of integration and transaction costs related to recent acquisitions.

Our GAAP net loss was \$0.42 per share, based on the net loss attributable to common shareholders, which considers the preferred stock dividends declared during the quarter. The short-term increase in our net loss was expected, when we decided to buy CareCloud. When MTBC acquires businesses, we typically buy companies which are losing money, knowing that we will reduce their expenses dramatically over the next 12 months. This lets us pay significantly less than we would for profitable businesses, and we can attain a similar or better level of profitability after two or three quarters of ownership. Our acquisition of CareCloud fits into this pattern. CareCloud's venture backers had invested well over \$100 million developing an industry-acclaimed technology platform, but CareCloud lost over \$21 million in 2019. We knew when we bought CareCloud that it would reduce MTBC's profitability during first quarter 2020, but we also knew we could reverse that trend quickly and turn this into a profitable acquisition as we've done many times before. As we've mentioned, we've already cut \$16 million of CareCloud's expenses. So, we are well on our way towards making this acquisition accretive to its earnings.

Our non-GAAP adjusted net income for first quarter 2020 was \$354,000, or \$0.03 per share, and is calculated using the end of period common shares outstanding. Non-GAAP adjusted net income excludes non-cash amortization to purchase intangible assets, stock-based compensation, and integration transaction, and impairment costs. Management finds that it better reflects our overall operational performance.

Adjusted EBITDA for first quarter 2020 was \$767,000, or 4% of revenue, compared to \$1.6 million in the same period last year. Our adjusted EBITDA declined by approximately \$813,000 from Q1 2019, in large part due to the CareCloud integration, but with the cost reductions which have already taken place, CareCloud should not significantly reduce MTBC's adjusted EBITDA during second quarter 2020.

I'd like to talk about MTBC's typical methodology of cost reductions after an acquisition. We go through a proven process of replacing offshore subcontractors and some U.S. employees with MTBC's global team, using MTBC's technology to streamline workflows and reducing the administrative burden of the U.S. team, so they can focus on the client experience. We are employing a similar approach to reduce CareCloud's expenses during second and third quarter of 2020, which we anticipate will return MTBC

back to GAAP profitability, while improving our non-GAAP profitability and cash flows.

First, like most businesses we've acquired, CareCloud relied on offshore subcontractors for most of their revenue cycle management services. They also used offshore subcontractors for some of that product development work. In the last four months, we've wound down the expensive subcontractors hired by CareCloud, transitioning the work to our own offshore employees, which will generate savings of approximately \$800,000 in CareCloud's subcontractor costs during the second quarter.

Second, we make a careful assessment of the U.S. employees to determine who would contribute the most to long-term client relationships, client retention and growth, consolidating the U.S. employee base and moving selected activities offshore, where we will perform the same tasks for one-tenth the cost, using our offshore employees. While we have achieved over \$1.5 million reduction in CareCloud's quarterly payroll from Q4 2019 to Q1 2020, the actions we've already taken we anticipate will reduce quarterly payroll costs by another \$600,000 during the second quarter.

The largest reduction was G&A payroll, where existing MTBC employees can handle the tasks needed to keep this new business running. We also reduced their R&D payroll in the U.S. and have added 35 employees to our offshore technology team and plan to more than double this amount, to maintain the excellence that CareCloud's platform has been known for, at a much lower cost. CareCloud's total R&D expense was 16 times MTBC's in 2019. Even after the reductions which are reflected in our financial statements, you'll see that MTBC's Q1 R&D expense increased 800% year-over-year. There will be steady reductions over the next few quarters.

Third, CareCloud outspent MTBC by 4:1 in sales and marketing during 2019. In this case, we have decided to leverage their sales and marketing capabilities, even rehiring a former star of their sales team. So, we anticipate that the \$1.2 million increase in selling and marketing expense that you see from Q4 2019 to Q1 2020 will continue in future quarters and that it will drive higher organic growth in the future.

Finally, like all our acquisitions, CareCloud had few tangible assets. So, from an accounting perspective, the majority of the purchase price is allocated to intangible assets and goodwill. Intangible assets are amortized, and we tend to use fairly short lives to get them off the books, so you'll see a 75% increase in depreciation and amortization expense from Q4 2019 to Q1 2020. This is not a cash expense and does not impact our adjusted net income or adjusted EBITDA, but it does reduce our GAAP net income and will persist throughout the year.

As of March 31, 2020, we had approximately \$8.4 million of cash. MTBC used approximately \$17 million of our year-end 2019 cash balance for the purchase of CareCloud, including approximately \$5.1 million which was held back from the purchase price to fund CareCloud's negative working capital. This money was used to pay down some of CareCloud's accounts payable during Q1, but in doing so, even though it was part of the purchase price, it is considered cash used in operations. That's why our overall cash flow from operations is shown as negative \$3.9 million during Q1 2020.

During April 2020, we raised net proceeds of \$19.1 million by reopening our non-convertible Series A preferred stock and issuing 828,000 additional shares. Our Series A preferred stock is perpetual, trades on the NASDAQ Global Market under the ticker MTBCP, pays monthly cash dividends at the rate of 11% per year, and can be redeemed at our option at \$25 per share, starting in November 2020.

I'd like to close by reaffirming our forward-looking guidance for fiscal year December 2020. We still anticipate full-year 2020 revenue of approximately \$100 million to \$102 million, which represents growth of 55% to 58% over 2019 revenue. Most of this growth is due to revenue from CareCloud customers. But now that we have a much stronger marketing and sales team, as well as more cross-selling

opportunities, we anticipate stronger organic growth than in the past.

We had always planned for revenue to grow each quarter as we added new clients, but with COVID-19 and the whole U.S. economy running at half speed during Q2, we are planning for lower revenues in Q2 than we reported in Q1, as approximately 60% of our revenue relates to patient visits. We expect that Q2 will receive the bulk of the impact from COVID-19 and that we will see a return closer to normal levels of patient visits during Q3 and Q4. However, we believe the current environment presents multiple avenues to achieve our annual revenue target, including additional MTBC Force relationships and potential acquisitions during the second half of the year.

Let me just wrap up the revenue guidance portion by saying that our prospects for organic growth via MTBC Force, as well as additional acquisitions, have never been better, and we now expect to exit 2020 at a higher revenue run rate than recently anticipated. This gives us confidence that we can meet or exceed our \$100 million to \$102 million revenue guidance.

Our adjusted EBITDA is still expected to be \$12 million to \$13 million for full-year 2020, growth of 48% to 60% over 2019 adjusted EBITDA, as we integrate the CareCloud acquisition. The actions we've already taken will significantly reduce CareCloud's operating expenses, consistent with what we achieved in previous acquisitions.

We anticipate that CareCloud will add to our overall adjusted EBITDA during Q3 to Q4 at a sufficient level for the impact of full-year 2020 operating results to be accretive. However, with lower revenue anticipated during the second quarter, we are not counting on generating positive adjusted EBITDA during this quarter, but we plan to exit 2020 with CareCloud, as well as additional second half strategic initiatives contributing significantly to our growth and profitability in future years.

I'll now turn the floor over to our Chairman, Mahmud, for his concluding comments.

Mahmud Haq

Thank you, Bill. While 2020 is a challenging year for the world, we are fortunate to be in a very strong position and we anticipate another year of record-breaking growth with increasing profitability. We thank our investors, our customers, and our employees for their support.

We will now open the call to the questions. Operator?

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Please limit to two questions. If you have more questions please re-enter the queue. We will pause at this time to momentarily assemble our roster.

Our first question is from Gene Mannheimer from Dougherty & Company. Go ahead.

Gene Mannheimer

Thanks. Good morning and great start to the year guys. I wanted to ask you, with respect to your sense that visits are going to return to normal in the back half, as I think that's contemplated in your outlook. What gives you that confidence? I mean, I know you saw a little bit of a pickup here, since the March

lows, but why do you feel that we're going to return to a normal cadence of doctor visits and utilization?

Mahmud Haq

Yes. Gene, your question, as Hadi mentioned, we have seen about half of the volume already came back in month of April, and I think we're tracking it on a daily basis and we are seeing the trajectory to be back in the third quarter, as Hadi mentioned. So, it's based on our actual tracking of patient encounters today. And again, there could be the second wave if there's other issues, things could change, but at this point we believe that the third quarter will be back to normal.

Gene Mannheimer

Okay. Alright. Very helpful. And then my follow-up would be in your outlook, I think you said you're tracking an exit rate higher than what you thought previously, what level of acquired growth, if any, is contemplated in your 2020 outlook? Thanks.

Stephen Snyder

To answer your question, Gene, as we look at the year, there is no doubt that the COVID impact will be there in terms of the full-year.

So, for us, if you look at the year there are multiple paths for us in order to achieve guidance. And as we think about the ways of doing that through two potential primary avenues, one being MTBC Force deals and the other being through acquisitions. And we see an opportunity to add additional revenue above and beyond what we had anticipated on January 1, of probably \$8 million or \$9 million for the year, through one of those two avenues or through a combination of those avenues.

Gene Mannheimer

That's great. So \$8 million to \$9 million above your current outlook or is that contemplated in the outlook?

Stephen Snyder

That's already contemplated in the outlook. That's right.

Gene Mannheimer

Got you.

Stephen Snyder

Yes. Right.

Gene Mannheimer

Thank you, Steve.

Stephen Snyder

For sure. Thank you, Gene.

Operator

Our next question is from Allen Klee from National Securities Corporation. Go ahead.

Allen Klee

Yes. Hi. For your offshore centers, can you talk about what you're doing and your confidence that they can continue to run, as well as they have, given COVID?

Hadi Chaudhry

Okay. Sure. Thank you and this is Hadi. Good question. As I mentioned earlier, first of all, one of the

advantage that we have over many of our competitors, we have a global workforce. We are over 400-plus team members on the U.S. side and about 2,500 between the different offices offshore.

With the different measures that we have taken, there is about 30% of the workforce that are working from home. We already have set them up and they are working directly from home. There are roughly about 30% that are commuting to the office on a daily basis and working under strict health safety guidelines and we are working closely with the health agencies there. They are commuting to work and are working from there. And then, the rest of the employees, they are literally living in the onsite dormitories that we have in our back office at one of the locations.

So, between those three, we have been able to provide the turnaround time, which was far better than any of the competitors out there. And right now, virtually, our team is completely caught up, nothing pending and we have a lot of excess capacity. And that's why we also have started, as Steve mentioned, the other opportunities that are providing these partnership where our back office facilities and support can be provided to the other vendors.

Mahmud Haq

Right. Allen, this is Mahmud. And if you look at Pakistan, where our major back office is, whether it is a temperature difference with it being much hotter over there or whether it's the malaria-type discussions, the infection rate is low for a country of 200 million people. I think the cases reported are less than 35,000 today. So, we believe that the epidemic will not affect Pakistan as much as it has other countries.

Allen Klee

Okay. Thank you very much. Then I was trying to understand a little better the organic growth rate from your legacy business. And maybe you said it and I missed it. When you said 40% volume declines, maybe could you help with what the patient volume declines were in the first quarter, and maybe how the legacy business did on a standalone, and how you would think about how the legacy business—by legacy I mean excluding CareCloud — in the following quarters? Thank you.

Bill Korn

Thanks, Allen. During Q1, there was a small decline in patient volumes, but remember COVID wasn't a big deal in January, wasn't a big deal in February, and even in March in most of the country people were still basically going about normal activities, going to their doctors. So, we saw a decline in patient volumes during the last two weeks of March in certain areas. That reduced our revenue by a little bit, but not a very large amount during Q1.

Again, we think most of the impact from COVID that you're going to see is during Q2. When we see 40% less visits to the doctor, and again, we've seen other people talk about numbers ranging from 40% to 50% to maybe even a 60% decline, depending on the specialties they're serving. Only about 60% of our revenue is tied to the value of the doctor encounters. So, for some of Q2, and again, we don't have a crystal ball, we know that the country is starting to reopen, we've seen many doctors starting to see patients in-house, and of course, many of our doctors were already using telehealth. So, the fact that there were less in-person visits didn't hurt revenue significantly in Q1.

If you're trying to think about Q2 revenue, I would look at Q2 revenue being a little less than it was in Q1. And I'm sorry, I can't be a lot more specific, because I can't tell you whether on June 1st everyone is going to declare a victory and start going back to bringing their children in for well-baby visits or whether we'll start to see a second rebound in certain areas. So, given that, I think, we can't really be as specific on the short-term.

What we can do is we can look at the whole year, and say, there are a lot of paths by which we can hit

our \$100 million to \$102 million guidance. And candidly, we see a lot of opportunities to significantly exceed our guidance. And we feel totally confident that with the various things that we could do, we have a way to hit the overall numbers, but telling you how much will come from each piece, especially during second quarter, without a crystal ball, it's hard to predict.

Allen Klee

Okay. Thank you. That's help—my last question and then I'll get back in queue is, two areas of growth that you highlighted were telemedicine and Force. You made an interesting comment on how you were seeing an increase in reimbursements for telehealth. I was wondering if maybe you could just expand on that, that I could get educated on that. And is this something that is likely to be longer term post the economy getting back to normal? And then on Force maybe if you could just go into a little of what you're seeing and your thoughts about that? Thank you again.

Stephen Snyder

Okay. Absolutely. Thank you for the question. I'll start with Force, and then I'll loop Hadi in to talk some more about telehealth. MTBC Force, as you may recall, is an outgrowth of our longstanding acquisition strategy. So we think there is and there remains a significant addressable market.

Some of the opportunities that we're pursuing today are opportunities that initially came to us through our acquisition pipeline and for a variety of reasons, whether its insufficient alignment regarding valuations, or structure, or timing, or size, they weren't necessarily good candidates for our acquisition growth, but were phenomenal candidates potentially for MTBC Force.

So, we launched MTBC Force in the second half of 2019 in an effort to be able to benefit from and provide benefits to other vendors through this alternate arrangement of working with them. MTBC Force, if we just kind of level set in terms of the overall offering, what it includes is workforce augmentation, revenue cycle management back office services, administrative support, R&D support for other vendors in our space, generally speaking at a 50% or greater reduction or discount compared to similarly situated and educated U.S.-based resources with similar output. It also includes some variations to offerings, such as white labeled healthcare IT solutions, and also sometimes an aspect of a customer referral, that's part and parcel of that overall opportunity.

Since our launching of MTBC Force, we've signed close to a half dozen of these relationships. About half of those are revenue cycle management companies and the other half are either EHRs or in one case, an EHR value-added reseller.

I also have Karl on the phone, and Karl was promoted to the role of president to MTBC Force, and has already been doing a great job in terms of helping us drive business and helping to take many of the deal opportunities to the next level, and to launch them.

So MTBC Force, we believe, is a really promising avenue for additional growth. And I'll loop in Hadi to talk some about telehealth and in particular, I think we were talking about the fact that as we see in our practice management system, as we look at the scheduled encounters, and if we look at the pre- and post-COVID percentage of overall scheduled encounters, where there is some indication that those encounters were anticipated to occur through telehealth, not necessarily our telehealth but a telehealth platform of some type. Pre-COVID, if you look at, for instance, the end of February, the first week of March, less than one-tenth of 1% of those scheduled encounters had any suggestion that the encounter would occur through telehealth. If you fast forward four weeks or five weeks later, more than 20% of those encounters appear to be scheduled with an anticipation of leveraging agent telehealth technologies; in some instances ours, in many instances other telehealth technologies, in order to complete those encounters.

And as a company, you'll recall that the key part of our offering is ensuring that healthcare providers receive appropriate reimbursement for their encounters. And as Bill mentioned, much of our revenues, the majority of our revenue comes as a percentage of the overall collections received by our healthcare providers.

And Hadi will talk a little bit about some of the changes that were made as COVID became a reality unfortunately in mid-March, but actually very helpful changes that were made through an executive order and through subsequent changes from CMS that related both to reimbursement levels and also that expanded the universe of technologies above and beyond the traditional HIPAA-compliant technologies that could be leveraged by healthcare providers and then, by extension generated additional capabilities of healthcare providers to use telehealth technologies.

So over to Hadi on this point.

Hadi Chaudhry

Thank you, Steve. To add to Steve's point, at a number of different levels it's going to be a new norm, there will be more and more encounters that will transition towards telehealth even post-COVID.

So, during this public health emergency, under the executive order, as they have announced, as an example, that the reimbursement levels will be at the same level as they would have been otherwise in the regular course of business. So, for how long this will continue, we are not sure yet. But for now, in terms of reimbursements, the telehealth encounters are also being paid at the same amount that otherwise would have been paid in an in-office or at-home visit. So that's one.

And the second thing is, even using a non-HIPPA compliant mode initially during the public health emergency, such as using the FaceTime or some of the other methods of connectivity. There are new codes that have been added for audio-only treatments, for example, audio-only calls. So, all of those have started to add to the revenue for the client.

From the MTBC standpoint, we launched our first telehealth product in the last year and we continue to focus on the SaaS. And as we are going through nowadays more focusing on making sure that the right coding is being done for those encounters, the right rules have been created in the system, guiding the practices and providers to make sure that they achieve the right level of reimbursement.

And then, in the next coming quarters, we will continue to provide updates and launch the second phase of our telehealth solution called talkMD, which we have talked about in the earlier quarters and we are making progress on those lines as well.

Allen Klee

Thank you so much.

Hadi Chaudhry

Thank you.

Operator

Our next question is from Marc Wieszenberger from B. Riley, FBR. Go ahead.

Marc Wieszenberger

Thank you. Good morning. Can you talk about your ability to move customers up through the value added services you offer, for example, on CareCloud going from Concierge to Concierge Pro and how

did the economics differ there? And maybe help us think about what types of practices would use the respective tiers of service that you offer?

Stephen Snyder

Thanks, Marc, for the question. Great question. I'll get it first and then loop in Juan, who is the President of our CareCloud division. Big picture, exactly as you alluded to, as we think about the average revenue associated with a SaaS-only client versus a SaaS plus billing or as you said, Concierge client.

The difference is a one to three difference. So as we take for argument's sake, as you take \$400 and the price varies, but let's use \$400, just take a \$400 SaaS-only provider to billing, you're going to, generally speaking, take that overall revenue per provider from \$400 per month to \$1,200 per month to \$1,300 per month. These are monthly numbers I'm talking about.

So, for us, a key part of our focus in terms of organic growth has been that upsell campaign, and we've completely revamped the overall structure of the sales team. At CareCloud, we brought in another individual who has significant experience on the RCM upsell within technology companies to come and lead that effort. And he has been working on launching that upsell campaign. We have special promotions.

So, more news to come on that in subsequent quarters. But that's where we really see a significant amount of that promise, even as we're talking about the CAC, a natural question would be, why do you, MTBC, believe and why are you targeting a CAC that's so much more favorable vis-à-vis the competition. That's largely because we see the opportunity, a very cost efficient way to be able to grow through upselling and also through leveraging our global team.

But over Juan to talk a little bit more about the upsell opportunities, please.

Juan Molina

Thank you, Steve, and appreciate the question. I think you're absolutely right, Steve. We do see a huge opportunity for our sales teams to be able to upsell our customer bases. In particular, with the new expanded services and offerings that we're able to offer now because of the MTBC capabilities and scale, including things like significant coding capabilities, we think about referral and authorization management, preauthorization work, the ability for us to dive deep into other specific specialties like orthopedics and worker's comp and PIP claims. We see a huge opportunity to be able to upsell these practices, where we normally wouldn't have been able to do this in the past.

When I think about surgical subspecialties like ortho and others and folks that are required to bill off of actual transcriptions or off of reading notes, the ability for us to do this poses a unique opportunity for us versus some of our other competitors that really don't offer the depth or breadth of these types of revenue cycle management services.

So, we see that as organizations are moving and really thinking through what this new normal looks like, they're really looking to see how you outsource a lot of these non-clinical operations and ensure really kind of a more streamlined approach and a more streamlined organizational footprint themselves. And we see that happening through a myriad of ways, whether they're adopting new technologies like our electronic healthcare records or practice management systems, or also the revenue cycle management solutions that we can now offer.

Marc Wiesenberger

That's really helpful. Thank you. Prior to the pandemic, you guys had a very busy conference schedule lined up, presumably with your new reps going out with the new offering and the combined company, a

lot of buzz. Can you, maybe, talking about some of the things you're doing to kind of mitigate the loss of the conferences and get out there in front of clients to get new wins?

Stephen Snyder

Good question. And as you correctly allude to, those conferences have either been canceled by the conference holders or converted to electronic conferences. We don't actually see a whole lot of promise in most of the electronic versions of those conferences. And even the conferences themselves were never anticipated to be one of the key drivers of opportunities. So, we've doubled down on the avenues that we thought frankly pre-COVID and continue to think will be the key drivers of growth.

The upsell campaign—through building referral relationships with other industry vendors, which have been really critical to our growth and also through driving referrals from our existing clients —there's really no more powerful and successful lead from a conversion perspective than a lead that's coming from a satisfied client who's recommending a colleague of his or hers, who that particular physician customer knows or believes may benefit from our service. Those leads are golden to us and our efforts have really been oriented towards driving those referrals, and then executing all those and closing those.

So, those are the key things that we're doing. And frankly, the approach is really not that much different than pre-COVID. And in fact, if anything, I would submit that this has actually allowed us to focus our energies even more so in a laser-like way on the types of activities that are most oriented towards driving new business.

Marc Wiesenberger

That's helpful as well. And one more from me, and then I'll jump back in the queue. We're hearing a lot about disruption and dislocation in some of the smaller medical practices around the country, as they're shutdown and they're unable to have cash flows and maybe potentially survive.

As you think about maybe potential consolidation of these smaller practices and/or going out of business, how do you think about that evolving through the back half of the year and maybe into '21, and then the impact on your business, if there is consolidation?

Stephen Snyder

Great question, Marc. And maybe Juan, maybe you can jump on that if you would, please?

Juan Molina

Sure. Thanks, Steve. Yes, great question, Marc. One can argue—I would say that smaller medical practices are probably most impacted by the pandemic as they were probably the least likely or the organizations that were at least likely to weather this financial storm. However, as we've indicated before, we are seeing kind of this bounce back and we're even seeing smaller medical practices that are starting to bounce back on their appointment volumes and regain their footing as they continue to expand and start seeing patients again.

We do think, however, though, that we'll see larger, probably more well-funded medical groups likely to start acquiring some of these struggling practices over the next couple of quarters. But regardless of the fact, I think that and we believe that the independent medical group space is very strong and will continue to thrive.

We do feel that, regardless of size though, both because of our breadth and our depth of technology tools, we're able to really work very closely with the larger groups that are acquiring these smaller practices or these smaller groups as they need new technologies. So, as a new normal begins to take shape, I would say that our conversations with prospects are really shifting. And as I mentioned, they're

really looking at how do they drive some more sophistication and some better leverage and margins in their business.

So, we do see that these, medical practices, even smaller ones, will likely thrive. But if they do get consolidated by these larger groups, we're perfectly positioned I think to help both segments of that market space.

Marc Wiesenberger

Very good. Thank you. Appreciate it.

CONCLUSION

Operator

Again, if you have a question please press star, then one. At this time, there are no more questions so we'll conclude our question and answer session. I would now like to turn the conference back over to Kim Grant for closing remarks.

Kim Grant

Thank you. And we would like to thank everyone for joining today and for your continued support. We look forward to speaking to you again in the near future. Take care and have a great day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.