



MTBC, Inc.

Fourth Quarter 2020 Results Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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A. Hadi Chaudhry, *President and Director*

Bill Korn, *Chief Financial Officer*

Mahmud Haq, *Founder and Executive Chairman*

Karl Johnson, *Chief Growth Officer*

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Jeffrey S. Cohen, *Ladenburg Thalmann Financial Services*

Marc Wiesenberger, *B. Riley Securities*

Allen Klee, *Maxim Group*

Richard Baldry, *ROTH Capital*

Gene Mannheimer, *Dougherty & Company*

Kevin Dede, *H.C. Wainwright*

David Larsen, *BTIG*

Bill Sutherland, *The Benchmark Company*

P R E S E N T A T I O N

Operator

Greetings, and welcome to MTBC Inc.'s Fourth Quarter 2020 Results Conference Call.

I would now like to turn the conference over to your host, Kim Blanche.

Kim Blanche

Thank you, and good morning, everyone. Welcome to the MTBC Fourth 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. Also joining us today are Karl Johnson, our Chief Growth Officer, and Juan Molina, Divisional President.

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 fourth quarter 2020 earnings presentation. Please visit 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 fourth 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 the Chief Executive Officer of MTBC, Stephen Snyder. Steve?

Stephen Snyder

Thank you, Kim, and thank you, everyone, for joining us on our fourth quarter 2020 earnings call.

We are pleased to report another record-breaking quarter and year. As we have remained focused on empowering healthcare providers and health systems with our technology-enabled solutions, we have continued to accelerate our growth.

For the fourth quarter, we are pleased to report revenue of \$32 million. This is a new record, and represents an increase of 103% year-over-year. Our full-year 2020 revenue of \$105.1 million also represents a new high, and an increase of 63% over full-year 2019.

Quarter four and full-year 2020 were also breakout periods for us in terms of adjusted EBITDA. As we have accelerated the velocity of our revenue growth, we have also increased our quarterly adjusted EBITDA to a record number of \$5.7 million during the quarter, which surpasses our prior quarterly record of \$4.2 million. We grew our adjusted EBITDA during the fourth quarter by 105% year-over-year. As to full-year adjusted EBITDA, we are also pleased to report a record of \$10.9 million.

Our record financial results were driven by successes on a variety of key fronts.

First, as to our base business, we were able to meet the unique needs of our clients during an extraordinary year in which the pandemic pressure-tested healthcare practices and systems. Our clients responded by granting us our strongest year yet as a public company in terms of retention, and others increased their commitment by opting to expand their use of our solutions.

Second, our acquisitive growth strategy reached new heights and success. Since our first acquisition in 2006, we have now acquired more than 20 companies, and 2020 represented our most transformative year yet in terms of acquisitions as we acquired CareCloud and Meridian. Both acquisitions have enabled us to add scale, further strengthen our product portfolio, and grow our customer base. Further, they have provided us with additional key team members who are contributing to our growth, as they play important roles in terms of operations, R&D, organic growth, patient support, customer success, and many other key areas. They've helped make us even stronger as a company and more capable of achieving our objectives.

Third, our increased investment in sales and marketing, combined with our expanded solution set, helped accelerate growth. During 2020, we increased our year-over-year investment in sales and marketing from approximately \$1.5 million in 2019 to approximately \$6.5 million during 2020, and we were pleased to see that each dollar invested yielded, on average, \$2 of bookings measured in terms of annual recurring revenues. We believe we are well-positioned to continue accelerating our organic growth in the year to come, and believe that this will continue to be a cost-effective way to enable our growth, in addition to our robust acquisition strategy.

With the backdrop of this historic year, let me shift gears for a moment to briefly preview something else we are very excited about; namely, our upcoming rebranding, or brand merger.

Since our founding 20 years ago, we have embraced a commitment to innovation and a focus on developing powerful and intuitive cloud-based solutions to help our healthcare customers streamline clinical and business workflows, while, at the same time, optimizing revenues and reducing operating costs. Our first generation components of the cloud platform were launched in 2003. Since then, our platform has evolved significantly and grown to include multiple cloud-based electronic health records, practice management, revenue cycle, and patient experience management solutions, together with business intelligence and much more. During the last two decades, our cloud-based tools have been increasingly leveraged by providers across the United States to manage their practices and deliver care to millions of patients.

In view of our legacy of innovation and continued strategic focus on empowering healthcare providers with powerful and intuitive cloud-based solutions, today, it is my pleasure to pre-announce that effective March 29, 2021, our Company's new name will be CareCloud, Inc. This change will reinforce our unified brand, and help further enable a seamless client experience. We look forward to officially announcing this change over the next week.

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

A. Hadi Chaudhry

Thank you, Steve, and thank you, everyone, for joining us on our fourth quarter 2020 earnings call.

Before I begin, I would like to first and foremost reiterate how excited I am about this rebranding and what it means for the future of the Company. As I think about this name change, two key components come to mind.

The first, as Steve mentioned, is that it better represents who we have become today in the market, and how we are positioned to continue to help our customers in the future; and second, it gives us a better foundation to create a more unified customer experience, and positions our products and services more strategically under a more streamlined go-to-market approach.

As always, we wanted to provide you a quick update on the transition work across our latest acquisitions.

2020 was a momentous year for us, as it brought us two incredibly important acquisitions; CareCloud and Meridian Medical Management. While these acquisitions were our two largest ever, they also played a strategic role in the evolution of our Company overall. More on that in a minute.

In terms of our transition work, we continue to make great progress, as evidenced by the record year we had in 2020. As we have stated in the past, both the CareCloud and Meridian Medical Management acquisitions are now accretive. Our teams have made great progress as we have focused on leveraging our proven integration strategy.

In terms of Meridian, we have transitioned substantially all the extensive third-party contractors and offshore business process outsourcers onto MTBC's large-scale operations. This has resulted in significant margin expansion, and reduced our overall operating expenses by 17% in the fourth quarter and 24% since the acquisition this summer.

With regards to the CareCloud acquisition, over the last year, we continued to optimize our spend and were able to improve overall operating costs by more than 50% for 2020. This hard work and dedication by all of our team members has enabled us to achieve record revenue and adjusted EBITDA in 2020. This, again, represents year-over-year increases of 63% and 34%, respectively.

During 2021, we expect to grow our revenue by 27% to 30%, with guidance of \$133 million to \$137 million. We expect to generate between \$22 million and \$25 million of adjusted EBITDA, which will represent growth of 102% to 130%. We believe our rate of revenue growth is a strong differentiator in the market, and we expect 2021 to be another record year.

As I mentioned on our last call, we have seen great opportunities for scale across several functional areas, including our operations, professional services, client success, and R&D teams.

We look forward to continuing to work with our global team as we forge ahead in 2021. In 2021, expect that we will continue to be disciplined with our operating costs, but know, too, that we are excited about our global team's expansion in support of our ever-growing customer base. This growing customer base, we believe, will be fueled by our continued focus on organic sales, coupled with our patient and disciplined approach to acquisitions in the market and further. We believe that the CareCloud brand gives us a much stronger foundation to accelerate our growth strategy.

Turning to our Robust Solutions, as I said earlier, the CareCloud and Meridian acquisitions were significant as they brought us a much broader set of products and services that we could go to market with. We have now grown our overall value proposition extensively, and expanded the main categories of products we offer from Revenue Cycle Management, Practice Management Software, and Electronic Health Records to now include an industry-leading healthcare business intelligence tool, PrecisionBI, an award-winning Patient Experience Management platform, Breeze, and incredibly exciting opportunities ahead with our Robotic Process Automation bots, just to name a few.

MTBC, soon to be CareCloud, did not only introduce new solutions in our product and services portfolio, add an incredible group of talented individuals, but through these acquisitions, we also grew our total

addressable market by being able to more effectively go after different market segments in both the ambulatory and health system space.

Today, we find ourselves in a position to be a trusted partner to help our customers succeed in this ever-changing market. We offer not only the software products that our clients require, but the services they need to continue to thrive with their businesses. For these reasons, we have continued to increase our sales velocity, including more than doubling our sales bookings year-over-year through our organic growth engine.

While increasing sales in 2020, we are also extremely pleased that, over this last year, we were able to achieve one of the best customer retention rates we have ever had. All this, despite of the pandemic, and why we foresee even more growth opportunities and customer expansion over the next several years.

We truly believe that we are now, more than ever, in a position to offer one of the industry's most comprehensive suite of cloud-based solutions and business services, including our unique MTBC Force; on-demand workforce capabilities positioning us as a truly differentiated market leader.

As part of this rebranding exercise, our immediate go-to-market approach will largely remain the same, as our products and services will continue to serve complementary go-to-markets, while others are more suited to different segments and specialties in both the ambulatory and health system space. However, with an eye towards our customers, we plan on continuing to unify our solutions over time and work diligently on crafting a more streamlined and seamless client experience.

We are excited about this new direction and what it will mean for customer prospects, our current clients, and how it defines the role we play as we continue to innovate over time. We look forward to keeping you updated on our progress and sharing with you some exciting innovations we have on the horizon, and providing specific details about our overall product strategy over the months ahead.

Before I turn the floor over to Bill, I would like to personally thank all of our employees for their incredible dedication and hard work. Our future is bright.

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

Bill Korn

Thank you, Hadi.

2020 was a challenging year for most of the world, so I'm excited to tell you that it was a year of record-breaking performance for MTBC.

As Stephen mentioned, our revenue for the full year of 2020 was a record \$105.1 million, an increase of 63% compared to \$64.4 million in 2019, and was in the upper half of our guidance range of \$104 million to \$106 million.

Revenue has grown at a compound annual rate of 39% per year since MTBC's IPO at a \$10 million revenue run rate in 2014.

While the largest portion of our 2020 revenue growth is attributable to the CareCloud and Meridian acquisitions, 2020 was also our best year ever for organic sales, with bookings that are expected to generate annual recurring revenues equal to more than 20% of our 2019 revenue. Organic bookings actually contributed 9% revenue growth in 2020 from a combination of new organic customers and growth in revenue from existing customers.

For the full-year 2020, our GAAP net loss was \$8.8 million, or \$1.79 per share, which included \$9.9 million in non-cash depreciation and amortization expense, and \$6.5 million in stock-based compensation expense. GAAP net loss per share is based on net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the year. Non-GAAP adjusted net income for 2020 was \$8.5 million, or \$0.63 per share, an improvement of \$1.7 million compared to last year and a new record. Non-GAAP adjusted net income per share is calculated using the end-of-period common shares outstanding.

Adjusted EBITDA for the full year of 2020 increased 34% to a record \$10.9 million as compared to \$8.1 million in 2019. Adjusted EBITDA was within our \$10 million to \$12 million guidance range. Adjusted EBITDA excludes \$9.9 million in non-cash depreciation and amortization expense, \$6.5 million in stock-based compensation expense, and \$2.7 million of integration and transaction costs related to recent acquisitions.

As we continue to scale our business through both organic and strategic means such as the CareCloud and Meridian acquisitions, we are able to spread our fixed expenses over a larger revenue base and generate larger adjusted EBITDA and adjusted net income than we ever have before.

Turning to the fourth quarter, our revenue in the fourth quarter was \$32 million, which was double the revenue in the corresponding quarter of 2019. We saw a small decline in patient volumes due to COVID-19 during the latter part of the fourth quarter, but the decline averaged approximately 5% of historical levels, which was much less significant than we saw during second quarter 2020.

Fourth quarter GAAP operating income was \$410,000, and non-GAAP adjusted operating income for fourth quarter was \$5.1 million, or 16% of revenue, which was a new record for MTBC. The fourth quarter 2020 adjusted operating income represents an improvement of \$1.5 million from adjusted operating income in third quarter 2020, and double the adjusted operating income in fourth quarter 2019.

Our fourth quarter 2020 GAAP net income was \$154,000 as compared to net income of \$332,000 in the same period last year. GAAP net income was positive despite \$3 million of non-cash depreciation and amortization expenses and \$1.6 million in stock-based compensation expense.

Non-GAAP adjusted net income for fourth quarter 2020 was \$4.9 million, or \$0.37 per share, one more new record. On a fully-diluted basis, non-GAAP adjusted diluted earnings per share was \$0.29. Adjusted earnings per share are computed using end-of-period shares outstanding, and adjusted diluted earnings per share includes common shares issuable upon the exercise of in-the-money warrants and vesting of outstanding restricted stock units.

Adjusted EBITDA for fourth quarter 2020 was \$5.7 million, or 18% of revenue, against \$2.8 million in the same period last year, and a final new record.

In fourth quarter 2020, cash flow provided by operations was \$3.4 million.

Here is an update to a slide I showed last quarter, in respond to investors' questions about what type of margins they should expect us to generate.

Looking at our annual results isn't very helpful, because we regularly buy additional businesses, and these businesses typically depress profits for up to four quarters as we wring out costs. The better way is to look at our quarterly results, and to look in the Segment note of our 10-K or 10-Q so you can focus on the healthcare IT segment, which excludes our \$12 million practice management business. Our gross margin was 43% during Q4, an increase of four percentage points from Q3. We have reported gross margins of up

to 50% in the past, but each time we do a major acquisition, our margins take a hit until we eliminate duplicative and unnecessary costs, but you should expect to see our gross margins return to 45% to 50% over the next few quarters unless we consummate another large acquisition. That's because more than half of our revenue is either pure software-as-a-service, or a bundled fee including SaaS as well as revenue cycle management.

Our adjusted EBITDA margin is a good estimate of our overall profitability and cash flow from operations. Adjusted EBITDA for our healthcare IT business was 22% during Q4, up six percentage points from Q3, and up 18 points from Q2. It was 25% in Q4 2019 before our acquisitions of CareCloud and Meridian. We have already taken many steps which will continue to increase our margins throughout 2021, so returning to 25% or more during 2021 is very realistic.

As of December 31, 2020, we had approximately \$20.9 million of cash, with nothing drawn on our \$10 million Silicon Valley Bank line of credit, and we had positive working capital, defined as current assets less current liabilities, of approximately \$16 million.

In addition to our common stock, we also have Series A Preferred Stock which trades on the Nasdaq Global Market under the ticker MTBCP. Our preferred stock pays monthly cash dividends at the rate of 11% per annum, and while it is perpetual, it can be redeemed at our option at \$25 per share. We have paid 63 consecutive monthly dividends. During 2020, we raised net proceeds of \$44.5 million by issuing 1.9 million shares of our non-convertible Series A Preferred Stock, some of which was later used for our acquisitions of CareCloud and Meridian.

I'd like to close by talking about our forward-looking guidance for the fiscal year ending December 31, 2021.

As Hadi mentioned, we anticipate full-year 2021 revenue of approximately \$133 million to \$137 million, which represents growth of 27% to 30% over 2020 revenue, and implies a compound annual growth rate from 2017 through 2021 of approximately 44%. This will be our fifth consecutive year with anticipated annual revenue growth of 25% or more, which is a record few public companies have been able to achieve. Revenue guidance is based on our expectations regarding revenue from existing clients, recent acquisitions, and new clients acquired through organic growth and/or tuck-ins, but excludes the effects of any additional material acquisitions.

Our adjusted EBITDA is expected to be \$22 million to \$25 million for full-year 2021, growth of 102% to 130% over 2020 adjusted EBITDA, as we continue to reduce expenses from the CareCloud and Meridian acquisitions completed during 2020.

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

Mahmud Haq

Thank you, Bill.

While 2020 has been a challenging year for the world, we are fortunate to be in our strongest position ever, as we generated another year of record-breaking growth with increased profitability. We thank our investors, customers and employees for their continued support.

We will now open the call to questions. Operator?

Operator

Our first question is from Jeffrey Cohen with Ladenburg Thalmann.

Jeffrey S. Cohen

Well, good morning. Hi, Mahmud, Steve, Hadi, and Bill. Can you hear me okay?

Mahmud Haq

Yes, we can.

Jeffrey S. Cohen

Wonderful, so I'll keep my questions to just a couple.

Could you talk a little bit about more specific areas of growth over the past year and going forward as far as Revenue Cycle Management, Practice Management, Electronic Health Records, as well as MTBC Force? Where are you seeing strength or possible weakness, and organically, where would you expect those areas to grow during 2021?

Stephen Snyder

Thanks for the question, Jeff, and we also have with us Karl Johnson, who's our new Chief Growth Officer, so maybe Karl, I'll invite you to jump in as well, but let's just step back for a moment, Jeff, and think about the last couple of years. The investment, from an organic sales and marketing perspective, that we made in 2019 was about \$1.5 million, and we increased that in 2020 to about \$6.5 million, and this year, our plan is to increase that investment by another 40% to 60%. We've been managing to a CAC in the neighborhood of about \$1 of investment for every \$2 of recurring revenue or bookings, and that's the number that we think is extremely compelling. And if we can continue to achieve that, we'll continue to invest further.

That investment during the last year, as Bill had mentioned, enabled us to significantly accelerate our organic growth. Much of that organic growth came from up-selling. Probably about a quarter of that organic growth from a bookings perspective came from up-selling our existing base and acquired base, primarily up-selling to Revenue Cycle Management. Another part of that came from standalone SaaS solutions, and then additional amounts of that came from MTBC Force and from other bundled solutions.

We're focused now, in particular, on ramping up our large group in Enterprise Sales Group. That's a newer area of focus for us, but we believe as we look to the year ahead, that something close to 50% of our overall wins, we believe, will come from those larger groups and the Force deals.

Let me turn the floor over to Karl to provide a little bit more color.

Karl Johnson

Thank you, Stephen, and that is an excellent question.

As Stephen mentioned, managing that customer acquisition cost is critically important to us. I'm particularly pleased that we're at a two-to-one ratio—two-to-one recurring revenue to cost. That's very different than the industry standard. Most of our competitors are more on a one-to-one rate.

How do we do that? I think one of the real tools that we have is the ability to use global resources. We've expanded our Global Team that's doing sales to make up nearly one-third of our sales team of over 50 individuals. What we're doing with those teams is we're using them to support the onshore salesmen to

really have them working at the top of their skill sets, and those offshore resources are a tenth the cost of a person onshore.

It's really kind of the same play as we're doing in revenue cycle management and software development, using the right people in the right places, so where do these sales come from, and I think I would also like to state that I'm confident that our sales and marketing plan that we put together for 2021 will result in doubling of our organic growth rate by Q4 of '21, and so we're very excited about that prospect.

I think what's different today than it was a year or two ago, is we really have a lot more options to present to prospects. We have multiple software platforms between talkEHR and CareCloud. We have revenue cycle management services that are provided by our direct employees. We have the ability now to work on, what I call, host RCM systems, so if somebody is on a software platform and they don't want to change, but they need help in revenue cycle work, we can connect them there. Through the creation of MTBC Force, we can provide FTEs. Through the Meridian acquisition, we have business intelligence and robotic process automation that we didn't have before. All those things are extremely attractive to larger groups.

When we're looking at our large group sales, we went from basically not approaching those markets to now having seven dedicated salespeople to get into those marketplaces, and we're talking about hospitals, tremendous activities through private equity firms, rolling out practices and larger group practices as they're all struggling to be more competitive in the marketplace.

In addition to that, one common thread of our acquisitions is an opportunity to up-sell within the organization, and that's been very successful with CareCloud over the last year. We're going through the client base and looking for opportunities to provide additional services to those clients. Largely, that's focused around revenue cycle services, which, arguably, has a great ongoing revenue stream associated with it.

COVID-19 has created an opportunity as well, and Force has been going gangbusters, so great question. Thank you.

Jeffrey S. Cohen

Okay. Thanks, Karl.

Then, just secondly for me, could you talk about—so, should we be thinking about the business as far as the number of users and the increase in the number of users, or should we thinking more toward the large groups in enterprise, as well as, perhaps, the DTD business, i.e., the direct to docs, for smaller practices? Thanks. That does it for me. Thanks, guys.

Karl Johnson

Thanks, and to answer that question, it really is kind of all the above. So, we are looking to enhance our marketing activities to go directly with campaigns to smaller group practices and continue to grow that segment. We're not abandoning that, but also, at the same time, with our new tool sets, we can go after large-group practices. I hope that answers your question.

Jeffrey S. Cohen

Perfect. Thanks very much.

Operator

Our next question is from Marc Wiesenberger with B. Riley Securities.

Marc Wiesenberger

Yes. Good morning. Thanks for taking my question.

In your 2020 guidance, you're talking about, let's say, roughly 28% year-over-year growth. It looks like about \$13 million might be coming from the ARR derived in 2020, which leaves still maybe another \$17 million of implied growth. I'm wondering if you could talk about where you expect that to come from.

Bill Korn

Sure. Thanks for the question, Marc.

Growth is coming from a couple of different angles, so one of the things that happens is we sign up clients in 2020, and even if they go live during 2020, sometimes they're not fully live, and they're often not fully live for the whole 12 months, so you get to see a full year's worth of revenue. Then you get some growth from the clients we sign up in 2021.

I think that right now we're seeing that volumes of patient visits are probably about 5% depressed from where they were at the start of the year, two years, three years ago. So a steady state on a per-doctor basis, and it's our expectation, although we don't have a crystal ball, is that some of that decline is going to go away as the year progresses; certainly not in the first or second quarter, but maybe as we get to the second half. Of course, some of that decline—kids not playing close to other kids or wearing a mask and not picking up colds, maybe that piece of the decline doesn't come back. And finally, when we've given our expectation, we've excluded major acquisitions, but we always reserve the right to do some minor tuck-ins during the year to the extent that we see a business that looks attractive that could be acquired at a good rate. It may not be big and material in terms of strategic importance like a CareCloud or Meridian, but look at that as sort of “wholesale customer acquisition” that gets added to the work that's done by our great sales and marketing team.

Marc Wiesenberger

Understood. Thanks, and then can you talk about where you are in terms of the cost rationalizations from Meridian? I think that had been below kind of your trend levels. Wondering if those are back on kind of the normalized track, and how much we—more in cost-cutting we should expect from there going forward.

Bill Korn

Yes, good question.

With Meridian, I'd say the cost-cutting was a little different than most acquisitions because of the fact that in 2019, long before we bought them, they brought on new management and they were focused on trying to return to profitability. So I'd say, the good news, is they embarked on the beginnings of cost-cutting even before we bought them, so, in fact, once somebody has started reducing costs, there isn't quite as much room to move, but nonetheless, I would say that, yes, we are on track.

We're doing a good job of reducing the costs, and we also recognize that Meridian, on average, brought bigger clients. In some cases, with big hospital systems, there's some contractual obligations to do work onshore or to do things in a particular way, and that means we need to be sensitive to that and not win the skirmish on cost reductions, but lose the war in terms of losing the client, but I'd say the cost reductions are very much on track with our expectations.

Marc Weisenberger

Great, and then just one final one for me. Can you talk about the cadence of activity in 2021, and are you anticipating any changes to the normal seasonality of the business, and maybe, is there some pent-up demand from delayed services in 2020 that might alter the kind of normal cadence that we see? Thank you.

Bill Korn

Our normal cadence is that Q1 for us, and for everybody in this industry, Q1 is always cyclically low. Lots of people have deductibles in their healthcare plans, so when they see the doctor in Q1, even when the claim is within the bounds, the insurance doesn't pay anything, and then we wait for the patient to pay, and sometimes they pay a little slowly and sometimes they pay very slowly. So I guess I'd say, in a typical year, you see 5% decline in Q1, and I remember Jonathan Bush answering that question, I don't know, five, seven years ago at athenahealth, and it's no different for us as well.

I think you're going to see the same thing in 2021, but I also think that, as a country, we're sort of facing some of these headwinds—partly from COVID and partly from the second order effect of COVID-19. Pediatric visits are down a lot, and if half the pediatricians' normal patient volume is either the result of colds, or the second-order effects of colds like the ear infections and the exacerbation of asthma, if a kid's not sick, they're not sick, and you're not going to see them. So I expect you're going to see probably a little more back-end loading to the revenue cadence in 2021 than we usually see.

Marc Weisenberger

Okay. Thank you very much.

Operator

Our next question is from Allen Klee with Maxim Group.

Allen Klee

Yes. Good morning.

Could you tell us what the bookings were in the fourth quarter, and you're—you had a comment that you—and did I hear you say that whatever that number is, it could potentially be double that by 4Q of '21? Thank you.

Stephen Snyder

Allen, thanks for the question.

We don't release publicly on a granular basis quarter-by-quarter bookings numbers, but I can tell you for full year, total bookings were approximately \$15 million. And Karl had mentioned that we continue—as we invest in that growth – we continue to be managing towards that CAC [customer acquisition cost] of roughly signing \$2 worth of recurring revenue for every \$1 invested. So if we invest another 40% to 60% in sales and marketing this year, we'd anticipate, all things being equal, being able to likewise increase the overall bookings accordingly. Candidly, if we're able to invest and see a return on the investment in that area, we'll continue to increase that investment as the year progresses.

If you think about \$15 million for the full year, and if we break that down and we look at what was that on average per quarter as we were ramping up the sales and marketing team during 2020, it was \$3.5 million to \$4 million on average per quarter. And if we think about where we hope to be by the fourth quarter of 2021, we think, based upon our investment and the trajectory and speed that we anticipate in terms of the ramp-up of the newly-hired sales team members who've been added to our existing team, we do think it's realistic that we could be closing by the fourth quarter at a rate of twice that average from 2020.

Allen Klee

Great, and just so I understand, when you say you want to increase 40% to 60%, you're talking about your sales and marketing spend?

Stephen Snyder

That's correct. Yes, approximately. If we think about the baseline from 2020, having invested about \$6.5 million roughly in sales and marketing during 2020, which far surpassed the \$1.5 million that we invested the prior year, as we think about 2021, we anticipate taking that \$6.5 million of investment, increasing that by 40% to 60% based upon the results that we see that we're getting as the year progresses. And we'd be very excited to see that sort of result, because we contrast that to the market norms, which we believe are roughly \$1 of investment yielding \$1 or less of recurring revenue in a SaaS or SaaS-enabled, tech-enabled service company like ours. So, we'd be very excited to see that sort of investment, and we believe it's achievable, and the year, as it progresses, will tell us whether we're correct or incorrect, I suppose. But even if we are wildly successful in terms of that overall strategy and the return on investment, we still look at our historical growth, our current growth, and our future growth, and continue to believe that the majority of that growth in the future, just as in the past, will come through acquiring customers through wholesale - through these acquisitions.

That's where we believe we have a strategic advantage vis-à-vis the competition, because of our experience and the technology we've built that facilitates that growth strategy and the significant fragmentation that exists in the market. We believe we can add real value, and we believe that that's the most attractive way to continue to grow and scale, and that the majority of that growth will continue to come from that strategy.

Allen Klee

Great. Thank you so much.

Stephen Snyder

Thank you.

Operator

Our next question is from Richard Baldry with ROTH Capital.

Richard Baldry

Thanks.

Given how efficient that sales and marketing ROI is, does that create a sort of a natural cap on what you'd be willing to pay in an M&A situation? It seems like as those multiples would expand, those dollars would

naturally sort of look more attractive built into organic growth, so I'm sort of curious if you've done that breakeven point, or even a ballpark of that process around maybe multiples to revenues there.

Stephen Snyder

Rich, thanks for the question. It's a great question, and if we think about historically, the cost for acquiring customer relationships for MTBC has been somewhere in the neighborhood of 0.5 times to 0.7 times the sales associated with customers in good standing.

If we look at some of the other acquisitions that we've done more recently, CareCloud and Meridian, you'll see that overall cost as a percentage of revenue was a bit higher, but that's higher because, in addition to the revenue base and the customers that we acquired, we were also acquiring add-ons to our product portfolio in terms of those digital assets, and also brand equity that came with those larger acquisitions.

So, to your—back to your question, if we can continue at a CAC of about \$1 invested yielding \$2 of recurring revenue, why not solely focus on that if, in fact, it's going to be slightly more expensive to acquire those relationships in some scenarios and acquisitions? I think the answer to that would be when we look at it, there's another element at play, and that's scale. How quickly can we scale, and the reality is, from an organic growth perspective, there's just a more natural limiting factor that applies in that model that we can, essentially, override or we can accelerate or we can bypass through a combination of both organic growth, and also through acquisitions.

In terms of the acquisitions, they continue to be a very cost-efficient way to grow -- far more cost-efficient than the norms in the market in terms of customer acquisition costs – and they give us the ability to quickly scale. Also, we're uniquely capable by virtue of our experience and our technology and the processes we've honed over the last two decades to be able to grow effectively through these acquisitions.

Richard Baldry

In terms of the pipeline for acquisitions, sort of curious how COVID has impacted that. Historically, people would have looked at things like patient visits as a pretty steady, easy to plan, maybe easier to execute than in this market, given COVID's challenges and the disruptions people might have seen. Has that created more opportunities where people are more willing to either look at partnering with maybe MTBC Force, or outright sell—willingness to look at selling the company at a fair price because of the disruptions they've seen and sort of less appetite to face those battles again going forward? Thanks.

Stephen Snyder

Rich, I would say virtually every year for the last five or six years, our pipeline has grown year-over-year, and I would say that continues to be the case today. Part of it could very well be COVID, but it also candidly, is consistent with the overall trend.

Richard Baldry

Great. Thanks.

Stephen Snyder

Thank you.

Operator

Our next question is from Gene Mannheimer with Dougherty & Co.

Gene Mannheimer

Thanks. Good morning, and congrats on a strong finish to 2020.

Guys, I wanted to ask a couple of things. One is, as your revenue profile has gotten so much bigger, how has the rate of natural attrition in the business changed over that time?

A. Hadi Chaudhry

Thanks for the question, Gene. This is Hadi, and a good question.

In our industry, like we have been talking about this before, any number around 12% or 13% attrition due to a number of factors in this industry is considered to be an acceptable number, because of the mergers, because of the practices being bought by other larger groups, integration, and so on, and many times there are practices when they end up finding some other solutions; but even two years back, we were retaining about the same 87% kind of the number in terms of the client retention, and this year, we are even slightly below 10% attrition for 2020, and we anticipate to even improve that number further in the year to come, so we are happy to report that even we were able to surpass our own expectations.

Gene Mannheimer

Oh, that's really great, Hadi. Thank you. Good trends there.

How about with respect to the CareCloud acquisition, I believe there were some earn-out targets at that time that hinged on their revenue, and I'm going to assume that they were not achieved given the pandemic. Can you provide any color on that, and how the ultimate purchase price played out there? Thanks.

Bill Korn

Gene, you're correct that there was no earn-out earned by the CareCloud sellers, and I'd say, candidly, when we set the earn-out parameters, as we usually do, we were pretty aggressive, and they would have needed a year probably 10% better than their best year ever to have earned \$1 of earn-out, so therefore, in the best of times, without COVID, earning a real earn-out would have been very difficult. Of course, then they lost a little bit of revenue, so there was nothing paid in terms of the earn-out, which candidly, that was pretty much our expectation from the beginning.

Gene Mannheimer

Yes. Okay. Makes sense, and with respect to the acquisition pipeline, guys, I imagine there are—they're even more robust now given the struggles from the pandemic; smaller vendors that have been struggling. You did two very large deals last year. I mean, is it reasonable that we would see at least one more this year? Any color there would be great.

Stephen Snyder

Gene, I think, absolutely, the insight is correct that the—especially the acquisition strategy that we pursue where the majority of the targets that we focus in on our targets that have an element in their business model that we think we can strengthen, that we can address, that we'd be stronger together as a combined company. So there's an element of stress that usually exists in the business models of the companies we're acquiring, and there's no doubt that COVID increased that stress.

On the flip side, some of the mitigating factors that have enabled some of these companies to nevertheless avoid—from an investor's perspective, avoid an exit for a period of time. For example, the very effective strategy from the federal government's perspective, in particular with regard to the PPP and other incentives under The CARES Act that have—in our estimation, have done a very good job in terms of helping to sure up companies, and enable companies that otherwise would have been exiting, to temporarily delay that exit. That, combined with a more broad-based understanding amongst creditors that the COVID impact is real, and that has—we believe, has caused lenders, and has also caused landlords and the like to provide forbearance and extend grace in terms of the overall payment terms. Again, that's only for a period of time.

In addition to that, if you're an equity holder, you are very cognizant of the fact that this is probably not the ideal time to exit if you can avoid it. So, I think all three of those factors haven't changed the fundamental dynamics per se. In fact, COVID has, if anything, enlarged the universe of opportunities, we believe, and we'll see what that does relative to the overall valuations.

However, those three elements have created some additional time that's built into the overall exit strategy, we believe, in terms of many of these companies.

So, back to your question in particular, will there be a larger acquisition this year? We certainly hope so. It might be this year. It could be next year, but what I can tell you is that the pipeline today is bigger than it was last year at this time, and that was—that was bigger than it was the year before, and that's the trend.

Gene Mannheimer

Great. Very helpful color. Thank you.

Stephen Snyder

Thank you.

Operator

Our next question is from Kevin Dede with H.C. Wainwright.

Kevin Dede

Steve, could you just give us a little more color on the brand change or amalgamation, or however you'd like to look at it? Do you see MTBC going away? How do you see addressing larger practices versus smaller ones, and maybe just some insight on—I mean, it's a pretty dynamic shift, right, in the base of your business over the course of the year, so maybe you could just talk to the brand and how you see it addressing your clientele and future clientele?

Stephen Snyder

Yes. Good morning, Kevin, and thanks, again, for your question. Great question, and you're right, a pretty significant shift, and we're very excited about it, and in the months ahead, we'll provide some more granular details, but let me just briefly address your question, and maybe we think about the what and the why in terms of the overall change.

With regard to what are we doing, what we're doing is, as you alluded to, we're changing the name of the parent company and the brand more broadly throughout the organization from MTBC, Inc., which is the acronym that we've leveraged more recently, and that initially came from Medical Transcription Billing Corp.

from 20 years ago. We're changing that name from MTBC, Inc. to CareCloud, Inc. We're not planning on changing our stock ticker. That will continue to be MTBC for our common shares, MTBCP for our preferred. The solution set and the services remain unchanged. The values that have steered us from the very beginning when Mahmud founded the Company continue to steer us today, so those fundamental things haven't changed.

Instead, really, it's this rebranding, or the brand merger, and again, from the beginning, the focus of Mahmud, and then, by extension, the rest of us, has been on building something that will last, delivering value, and meeting the evolving needs of healthcare providers throughout the market. And doing that in a way that leverages our proprietary technology, which has grown and evolved, and also our global team.

Over the last couple of decades, though it's been increasingly going in this direction. There's been this expansion of our overall healthcare platform, the scope of the solutions, the power of the solutions, and the elegance of the solutions, and as a Company, we've grown—we've long since grown, well past simply billing and the transcription. So it's a real focus on the technology, and our belief, increasingly, has been that the name "MTBC" itself doesn't fully embody or doesn't fully convey the overall value proposition that we're offering today to the market in terms of being able to provide assistance with regard to delivering care to patients through our cloud-based platform.

So, from the perspective of a go-forward and a go-to-market, we'll go to market—after the official date at the end of March, we'll go to market under CareCloud, Inc., and in terms of our existing customers, for the overwhelming majority of those customer relationships, we'll be working with those customers under a unified brand that will also help us create a more seamless client experience, and that'll be CareCloud.

Kevin Dede

Yes. Okay. That sounds great, Steve.

Hadi, the big question falls on your shoulders, my friend. Can you talk a little bit about what you're going to have to do on the ops side in order to project this amalgamated image to your customers?

A. Hadi Chaudhry

Thank you, Kevin. Thank you for the question.

No, you're right, so we—as Steve mentioned, we have—over the next 30 days, we have a number of things lined up to keep working on, in terms of the internal communication even to the employees and how they will start representing the Company as a CareCloud to their clients, instead of MTBC or any one of our other subsidiaries, so we have a plan in place. We will be working, we did one announcement we had in the first round of conversations, but over the next 30 days, there are much more in plan to make sure that the representation is done properly. There is a client communication that we are working on with some individual one-on-one conversations with the enterprise-level clients, so we have—in short, we have a plan in place over the next 30 days to address internal communication and external communication.

Kevin Dede

Just indulge me a little bit. What about just in terms of systems? I mean, I think basically what you're talking about is that I'd expect everything to be integrated on the back end, too, whereas—I mean, at least as I understood it, you had packaged CareCloud's offering while continuing to offer MTBC's, and I guess I'm just kind of wondering how the full execution of that business goes through on the back end.

A. Hadi Chaudhry

Sure, Kevin. A few things.

Number one, as Steve mentioned and I mentioned in our earning call, that there will be a more detailed press release coming up in the coming week, and then we have some more things planned over the next couple of weeks and months where we will—talk about which products we anticipate or we plan strategically to address which type of customers. Let's say for talkEHR, what is the right group of clients or the category of the clients we will be going forward with? So, I think I'll leave that for the much detail that we will be relaying, because some of those things are still being worked on.

We will continue though, to sell almost all the products that we have today, with maybe just few exceptions, which we will end up merging into another—let's say, talking about Breeze probably will take the precedence in terms of patient experience management over some of the existing products that we have.

On the other side, we continue to work on the integrations between our products such as PrecisionBI, our analytics tool engine. Already, we have completed the integration with MTBC's product, and already have rolled out to one of our enterprise-level clients containing over 1,800-plus providers, so they already have started to use it in production.

So, in the same way, if I step back, so it's a number of things.

One, we are working on integrating the different products, so you don't need—they don't need to go and work—the clients have to work between isolated products.

And second, we are addressing which product is right for which target market or size or type of client. That communication will be done with the proper press release, along with some other announcement in the right way over the next couple of weeks and the months.

The third thing is nothing will change day one for the clients. We are not going to eliminate any of the existing products in the short term, so if someone is using, let's say, the CareCloud system or the talkEHR system or another system, none of that is going to go away. They will be, based on the direction, can be and may be an over the time transition.

Kevin Dede

Very good, Hadi. Thank you so much for the detail. I appreciate it, gentlemen. Thank you.

A. Hadi Chaudhry

Thank you, Kevin.

Operator

Our next question is from David Larsen with BTIG.

David Larsen

Hi. Congratulations on a good quarter.

Can you talk about the utilization rates for Telehealth and how that's impacting your revenue? What proportion of your revenue is coming from Telehealth as related to your client base, and what are your expectations for that going forward? Thank you.

A. Hadi Chaudhry

Thank you, David, for that question. This is Hadi.

First, we do not specifically disclose the revenue stream from the different types of products that we have, but I'll be happy to share some of the trends and the numbers.

As we have even mentioned before, if we go back to January 2020 and try to look at the Telehealth encounters, the total utilization was literally one-tenth of 1% of the total encounters. The pandemic started in the late first quarter. That number went up to about over 20% of the encounters. That now seems to have settled down. Somewhere around 7% of the total encounters now seem to be Telehealth-related encounters.

We did do a survey at the end of 2020, and the details of that survey are available on the CareCloud website, and what we tried to ask for is what the practice is, how they look at, from the technology adaption perspective post-COVID in the year to come, and about 78% of the participants, first of all, noted that they either relied on the technology more since the pandemic, and then they continue to see that they will be utilizing more and more technology, and the topmost number was, out of the entire survey, that 73% of the participants believe that they will be utilizing more and more Telehealth-related services in the future. There are others, too, but the Telehealth number seems to be, about 73% of the participants believe that there will be adaption towards more on the Telehealth side. So, we see a tremendous opportunity in the year to come.

David Larsen

Great. Thank you.

Stephen Snyder

Thank you.

Operator

Our next and final question is from Bill Sutherland with The Benchmark Company.

Bill Sutherland

Thanks. Good morning, everybody.

I think maybe a quick question for Karl focused on the enterprise initiatives. Do you think your product sets—will there be the same customer—the same mix of products that will resonate with this customer base as you get into that, and then I'm also curious if you believe the CAC in that area will be similar or maybe better than the new traditional customer profile? Thanks.

Karl Johnson

Certainly, so let me address the product section first.

I think, particularly, the CareCloud product, enhanced by PrecisionBI, becomes extremely attractive to a larger enterprise practices, and we think that's really a good resonating fit with them.

As far as the CAC goes, that kind of 2-to-1, \$2 of revenue, \$1 spend, we're continuing to match to that. Certainly, we always look to make incremental improvements along the way, but we think that that's a worthwhile investment by the Company. Thank you.

Juan Molina

Maybe Bill, if I can just add to Karl—this is Juan, so as you think about our products and how we go to market, right, and you really kind of take a step back and look at the different markets, not only in the ambulatory space and in the health system space, but when you specifically try to understand the segments in which we operate in those spaces, the differences between a small one to two doctor practice and a 20 to 25 doctor practice that, let's say, where 50 or 100 physician practices comes together under a consolidated tax ID or are being bought by private equity, etc., the needs of those particular segments are very unique, and I think what differentiates us in the market is that we have kind of purpose-built technologies or purpose-built products that can really address those capabilities well.

We don't necessarily have to go or need to go into every single specialty segment, but because of the way that the products are architected, the ability for us to have kind of a very broad solution across multiple specialties, and we can go up and down that segment stack, so to speak, gives us a very unique opportunity, I think, versus some of our peers in the market. So, I think where Karl mentioned earlier, that we have an opportunity to now kind of—to make it simple, carry more in our bag. That, combined with the ability to have kind of those three legs of the stool, a patient experience management solution that really attacks kind of what patients need, in Breeze, and then you have the financial systems in the Practice Management and Revenue Cycle Management solutions, and the clinical systems in our clinical EHRs, coupled with our other ancillary services, whether it's apps that are built by us like the PrecisionBI or RPA, or even MTBC Force, I think it really gives us an incredibly strong value proposition as we go out into the market, and specifically as we go out into these larger, more complex enterprise deals.

Bill Sutherland

Interesting. Thanks for the color, and everyone have a great day.

Juan Molina

You, too.

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session, and I would like to turn the call back over to Kim Blanche for closing remarks.

Kim Blanche

We'd like to extend our thanks to everyone who joined us today. We appreciate your participation and interest in us as a company, and we look forward to speaking to you again next quarter.

Thank you, and have a great day.