



**MTBC, Inc.**

**Second Quarter 2020 Results Conference Call**

**August 13, 2020**

## CORPORATE PARTICIPANTS

**Kim Blanche**, *General Counsel*

**Stephen Snyder**, *Chief Executive Officer*

**Hadi Chaudhry**, *President*

**Bill Korn**, *Chief Financial Officer*

**Mahmud Haq**, *Founder and Executive Chairman*

**Juan Molina**, *President-CareCloud*

**Wes Stolp**, *Executive Vice President-Sales*

## CONFERENCE CALL PARTICIPANTS

**Richard Baldry**, *ROTH Capital*

**Jeffrey Cohen**, *Ladenburg*

**Allen Klee**, *National Securities Corporation*

**Gene Mannheimer**, *Colliers Research*

**Marc Wiesenberger**, *B. Riley*

## PRESENTATION

### Operator

Welcome to the MTBC Inc. Second Quarter 2020 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

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

**Kim Blanche**

Thank you, and good morning, everyone. Welcome to the MTBC second 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, and A. Hadi Chaudhry, our President and 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 Exchange Act of 1934 as amended.

All statements other than statements of historical facts 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. 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 second quarter 2020 earnings presentation. Please visit our Investor Relations site, [ir.mtbc.com](http://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 second 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 of MTBC, Stephen Snyder. Steve?

**Stephen Snyder**

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

It's our privilege today to review MTBC's first half 2020 performance and discuss our full-year outlook. We are pleased to report a truly historic first half of the year with record acquisitive and organic growth. In fact, based upon the acquisitions and the business already closed, we expect to exit 2020 with roughly two times the annualized revenue as compared to the year ended December 31, 2019. As to acquisitive growth, in January, we announced the closing of our acquisition of CareCloud, which we described as our largest acquisition to date.

During the second quarter, we were then pleased to announce an even larger acquisition, that of Meridian Medical Management and its affiliated entities. In addition to being our two largest acquisitions, they both enabled us to add attractive cloud-based digital assets including highly rated electronic health records,

patient experience management solutions, enterprise-level business analytics, robotic process automation, or RPA, and many more. These acquisitions also allowed us to expand our bench strength across the entire organization.

Our new team members are already playing critical roles in operations, research and development, sales, marketing, patient support, customer success, and many other areas. They helped us to become even stronger as a company and have better positioned us to succeed with future acquisitions and organic growth opportunities. Our team has been hard at work executing our standard integration playbook, which we've honed over the last decade of doing acquisitions. Our combined teams have now laid the foundation and are working to submit the building blocks that are already enhancing the service levels and technology capabilities of our newly added companies, while at the same time working to expand margins and pursue growth opportunities.

As our acquisitive growth strategy has continued to succeed, we have been grateful to also see our organic growth initiatives gain increased traction. Today, we have already closed approximately twice as much new organic business during 2020 alone than during all of 2019, and 2019 was one of our organic growth high watermarks as a company.

Moreover from a qualitative standpoint, our new business wins are more diversified and broadly based today driven by a renewed approach that we believe to be more systematic, repeatable, and scalable. Our organic growth team today is more than five times the size it was during Q2 2019.

As we have continued to grow, we have reinvested a portion of the capital in our organic growth strategy. While the level of our investment has grown, we are increasing it with a laser focus on achieving a strong return on our investment. To that end, we are managing to an internal target of an average customer acquisition cost of approximately 50% of anticipated annual recurring revenues, which compares favorably to prevailing industry customer acquisition costs. While we've been blessed to see healthcare providers respond favorably to our offering, we all know that the world continues to face an extraordinary challenge in COVID-19.

As we discussed during our last earnings call, we believe that we have never been stronger as a company nor have we been better positioned from an operational, technological, or finance perspective to support our new and existing clients. I know that I speak for our entire team when I say again that we feel a true sense of purpose in our work and 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 during this crisis.

As we turn to discuss our outlook for 2020, we continue to believe that we are positioned to grow revenues by a record of 63% to 66% year-over-year, while simultaneously increasing our adjusted EBITDA by 48% to 60%. In the midst of significantly reduced average provider volumes during quarter two, we were grateful that our growth strategy outpaced this temporary downward pressure enabling us to still grow our revenues year-over-year during quarter two by 17% to \$19.6 million while producing \$191,000 of adjusted EBITDA, which marked our 13th consecutive quarter of positive adjusted EBITDA. While average healthcare provider volumes across the country dropped by nearly one half in the darkest nights of the COVID-19 stay-at-home period, average volumes and charges have now recovered almost to their pre-pandemic levels in January and February of this year. This is a positive development for our outlook since approximately two-thirds of our revenues are directly driven by patient volumes.

As the industry has been pressure tested by the pandemic, we've been proud to see our team rise to the challenge of providing support to our clients and their patients as they've leveraged our technologies towards their mission. Our guidance for 2020 now implies a 49% compound annual rate of growth between 2017 and 2020 and we truly believe that our best days are still to come.

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

**Hadi Chaudhry**

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

As Steve mentioned earlier, we are encouraged about this first half of the year and excited about the acquisitions we have closed to date. In addition to these solid organizations, we have been able to continue to expand our teams with incredible talent and expand our products and services portfolio with additional technology assets. After the recent acquisitions, we are making great progress at executing our proven integration strategy. With regards to CareCloud in particular, we have already reduced operating costs by more than 44% and CareCloud is now accretive. Likewise, with Meridian, whose closing was more recent, we are on track and taking the necessary actions required in transitioning of third-party offshore BPOs onto MTBC's large scale operations team. That will improve quality and will expand margins in accordance with our plan. We believe that Meridian will be accretive during quarter three.

In terms of customer retention, we are pleased to see that preliminary trends are in line with or exceeding our historic benchmarks. Additionally, these acquisitions have enabled us to onboard hundreds of individuals with industry experience and expertise. These are the sorts of individuals who are difficult and expensive to find in the open market, but through our acquisition strategy, we can bring them on to our team and begin rapidly contributing across the broader organization.

From experienced R&D and product management team members to individuals who have decades of experience with the payer world and talented professional services, customer success, and patient support professionals, our acquisition strategy enabled us to continue to build a world-class team. This team is already enabling us to exceed our clients' expectations, innovate, and win new business.

We continue to be humbled by the privilege of supporting our healthcare providers as they focus on delivering care to their patients while we support their day-to-day needs. Whether it is providing our cloud-based clinical charting tools, empowering their patients with touchless patient scheduling, check-in and access to clinical information, enabling telehealth, and ensuring that it is appropriately reimbursed, providing revenue cycle and analytics support, or any of the other countless ways we support our customers, we are 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. For us, this has never been more evident than over this first half of 2020. Along with the expensive technology offerings, we enabled our customer base.

During the peak of COVID-19, we were able to and continue to be in a tremendous position to strategically deploy our global workforce, both here in the U.S. to work remotely as needed and overseas across our various campuses. This global distributed workforce allowed us to mitigate the strong headwinds produced by the pandemic. Because of our strategic advantages and business continuity planning, our operations continued forward without the level of disruption experienced by other industry peers in the market that are reliant on third-party vendors to manage their back-office operations. This differentiator in fact allowed us to retain customers and accelerate growth. Again, we thank our employees worldwide for their hard work and dedication during this tough time.

Finally, in addition to these core software technology-enabled services I just mentioned, our latest acquisition of Meridian Medical Management has expanded the specialties and markets we can now service. We have also added additional technologies to our comprehensive product portfolio. Two examples of these new products include an enterprise-grade business intelligence platform, PrecisionBI, that is currently deployed across larger enterprises, powering data analytics for thousands of providers. We

believe there is opportunity to enable our current customer base with this tool, potentially upsell this product within our install base and effectively go to market after large enterprise accounts.

Additionally, Meridian also made a significant investment in development of Microbots. These are robotic processes automation bots (known as “RPA bots”), deployed to automate mundane or repetitive tasks associated with mostly financial workflows that medical practices conduct on a daily basis. We are exploring ways to integrate these RPA bots into our offerings to enable additional efficiencies and scale and drive better margin expansion in our business. These Microbots can also expand our value proposition with our customers. One such example of this is our recent inclusion of the bots as part of our MTBC Force offering. These virtual FTEs will allow MTBC Force customers to automate their own businesses and expand their margins even further. All in all, we are excited about our product and service portfolio, and we look forward to continuing the journey on behalf of our customers as we continue to innovate and bring solutions to market.

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

**Bill Korn**

Thank you, Hadi.

Revenue for second quarter 2020 was \$19.6 million, an increase of \$2.8 million, or 17% from the second quarter of 2019. Since approximately two thirds of our revenues are directly tied to our clients’ activity levels, the widespread COVID-19 lockdowns that reduced the number of patient encounters also negatively impacted our quarterly revenues. However, by July we saw the weekly volume of patient visits return to within 6% of the weekly averages during January and February.

Our second-quarter GAAP net loss was \$4.8 million as compared to a net loss of \$771,000 in the same period last year. The GAAP net loss reflects \$2.4 million of non-cash depreciation and amortization expenses, \$1.9 million of stock-based compensation, and \$456,000 of integration and transaction costs related to recent acquisitions. Our GAAP net loss was \$0.65 per share based on the net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the quarter.

The increase in our net loss was expected when we decided to acquire Meridian and CareCloud. We find it most economical to acquire businesses where we know we can improve profitability by using our technology, our offshore employees, or both. So we expected a negative profit contribution for one or two quarters. In addition, the businesses MTBC acquires do not have substantial tangible assets, so most of the value is assigned to intangible assets like the value of client relationships and technology. We amortize these intangible assets over an average life of four years, which reduces our GAAP profit. This amortization is not a cash charge, but it is an important non-cash line item in our GAAP net income or loss.

Our adjusted EBITDA for the second quarter of 2020 was \$191,000 compared to \$1.1 million in the same period last year. This was our 13<sup>th</sup> consecutive quarter of positive adjusted EBITDA, despite the fact that patient visits and our revenue were reduced due to COVID-19.

Revenue for the first half of 2020 was \$41.4 million, an increase of 30% as compared to \$31.8 million in the first half of 2019. We also signed new clients, including MTBC Force partnerships, which will yield annual recurring revenues of greater than \$8 million, which is more than we signed during the whole full year of 2019. For the first half of the year, our GAAP net loss was \$7.3 million or \$1.07 per share, compared to a GAAP net loss of \$1.1 million in the first half of 2019. Our GAAP net loss includes non-cash amortization and depreciation expense of \$3.7 million, stock-based compensation expense of \$3.2 million, and



transaction and integration costs of \$1.1 million. It also includes \$361,000 of impairment and unoccupied lease charges related to excess leased office space assumed during two recent acquisitions.

Non-cash depreciation and amortization expense increased by approximately \$2.1 million year-over-year and accounts for half our GAAP net loss. You can expect to see our amortization expense increase during the second half of the year, as we amortized the customer relationships, technology, and other intangible assets acquired as part of the Meridian acquisition in June. But remember, it's not cash; it's a small price to pay for 65% year-over-year growth.

Our first-half results included approximately \$562,000 of transaction costs related to Meridian and CareCloud, and we incurred \$538,000 of integration costs to achieve future efficiencies from acquisitions. This includes the cost of winding down subcontractors and reduction-in-force severance, as well as exiting from facilities we no longer need as we utilize our technology and cost-effective employees offshore. We expect to see the benefit of these cost savings during the third and fourth quarters, as indicated by our full-year adjusted EBITDA outlook.

Adjusted EBITDA for the first half of 2020 was \$958,000, as compared to \$2.7 million in the first half of 2019. Our first-half revenue was reduced, since there were less routine patient visits due to COVID-19. While we pursued the normal post-acquisition cost-cutting that we always do, we did not reduce our investments in R&D or sales and marketing, and did not furlough or downsize our offshore team, choosing to place ourselves in a position to take advantage of growth opportunities. So the increase in our GAAP net loss and the reduction of our adjusted EBITDA was anticipated.

Those who have followed MTBC in the past know our typical methodology of cost reductions after an acquisition, and this methodology works well even in times of COVID-19. 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 the third quarter 2020, as well as Meridian's expenses during the third and fourth quarters, which we anticipate will return MTBC back to GAAP profitability while significantly improving our non-GAAP profitability and cash flows.

Like most businesses we've acquired, both Meridian and CareCloud relied on offshore subcontractors for most of their revenue cycle management services. CareCloud also used offshore subcontractors for some of their product development work. In the first half of 2020, we wound down the expensive subcontractors hired by CareCloud, transitioning the work to our own offshore employees. That process is starting at Meridian, and we're also looking at ways to replace selected onshore employees with offshore employees, striving to maintain or improve service levels as we do this.

As of June 30, 2020, we had approximately \$12.5 million of cash. During July, we raised net proceeds of \$25.6 million by issuing approximately 1.1 million shares of our non-convertible redeemable Series A Preferred Stock. The 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 annum, and can be redeemed at our option at \$25 per share starting this November. This replenished the cash that we raised in April, a portion of which we used in Meridian acquisition.

I'd like to close by reaffirming our forward-looking guidance for the fiscal year ending December 31, 2020.

In July, we raised our guidance for the full-year revenue to \$105 million to \$107 million, which represents year-over-year growth of approximately 65%, almost twice as high as our six-year compound annual growth rate through 2019 of 35%. We have seen patient visits return to 94% of their pre-COVID levels during the

last six weeks, and while there continues to be a large number of new COVID-19 cases nationwide, at this point, we're not seeing a major impact on the volume of office visits as we did in April and May. We believe that we are on track to generate \$130 million to \$135 million in revenue on an annualized basis during the second half of 2020, which is significantly higher than we originally anticipated.

Meridian and CareCloud account for the majority of the growth, and we also signed more new business during the first half of 2020 than we signed in all of 2019. As this new business goes live, it will contribute to our record revenue during the second half of 2020. There is no way to estimate the impact that COVID-19 will have on the U.S. economy during the second half of the year, but even our most conservative assumption calls for revenue growth of at least 60% this year. We expect our adjusted EBITDA to be \$12 million to \$13 million for full-year 2020, representing growth of 48% to 60% over 2019 adjusted EBITDA, as we integrate the Meridian and CareCloud acquisitions.

The actions we have already taken significantly reduced CareCloud's operating expenses and should increase its adjusted EBITDA contribution for the second half of the year. We started on this process with Meridian in parallel.

We expect to see a steady, significant increase in adjusted EBITDA during the third and fourth quarters. Nationwide, we're seeing higher levels of economic activity than we did in April and May, and with patient visits closer to normal levels, revenues excluding Meridian will be higher than they were in the second quarter.

During the third quarter, you will see a reduction in CareCloud's expenses so the business is adding to our overall profitability, while Meridian will be neutral. During the fourth quarter, Meridian will be accretive to profits, and CareCloud will continue to achieve additional cost savings, so expect as big an increase in adjusted EBITDA from third to the fourth quarter as you'll see from second to third.

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 all of us due to COVID-19, MTBC is fortunate to be in a very strong position as we generate 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 floor for questions. Operator?

### **Operator**

Thank you. We will now begin the question and answer session.

To join the question queue you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. Please be aware, questions are limited to analysts. Each analyst should limit themselves to two questions and then get back in the queue if they have more. We'll pause for a moment as callers join the queue.

The first question comes from Jeffrey Cohen with Ladenburg Thalmann. Please go ahead.

### **Jeffrey Cohen**

Hi, Steve, Bill, how are you? Mahmud, how are you?



**Stephen Snyder**

Good. Thanks.

**Mahmud Haq**

Thank you.

**Bill Korn**

Good morning, Jeff.

**Jeffrey Cohen**

Fantastic readout and look, I appreciate that very much. I'll limit myself to just a couple. So could you talk a little bit about digesting these acquisitions as far as for your efficiencies internally. Is it getting easier, is it getting faster for you, and maybe a little more flavor on the types of practices and specialties in particular?

**Stephen Snyder**

Sure. It's a great question, Jeff. We would be happy to do that. I'll get started and then loop in Hadi.

CareCloud and Meridian represented the 15th and 16th acquisition since our IPO. As your questions suggest, keenly the overall processes that we follow on our playbook, we do believe it's continued to improve. It's been well-honed with each successive acquisition, both in terms of the technology that we continue to enhance and the team and the overall approach. Without a doubt, even with larger acquisitions, our two largest—our belief is that we're better equipped to be able to handle them today than we were three years ago or two years ago or one year ago for that matter.

Hadi, maybe you could provide a little bit of additional detail with regard to integration and what you're seeing with regard to the specialty mix?

**Hadi Chaudhry**

Sure. Thank you, Stephen. Thank you Jeff for the question.

As Steve mentioned, Meridian is the most recent acquisition, but we already have started making significant progress from the integration standpoint. The first integration focus to date has been the shift from Meridian's current revenue cycle BPOs to our employees at our wholly-owned offshore subsidiary, which is currently in progress. Then similar to CareCloud, we have also been working on reducing the reliance on offshore engineering contractors. As with any of our previous acquisitions, we are working on consolidating facilities that were acquired as part of the transaction, and in the same way, aligning their sales organization with ours as we did with CareCloud.

In this case and also in the CareCloud case, aside from significant cost improvements, our plan is also to provide greater resources to our talented product and engineering teams at Meridian with our own offshore employees and give us an ability to scale faster than we could have otherwise. One example is, such as the RPAs, the Microbots, with the help of our engineering team, we can increase the pace with which the new bots can be added.

If I talk for a minute about CareCloud, from the integration standpoint there are a number of things that have already been completed, and there are certain things which are still going on. The RCM BPO transition has

been completed, the nearshore and offshore engineering contractors, that transition has also been completed.

There are a number of other departments such as professional services, onboarding, and client success. We are currently in the process of utilizing CareCloud's leadership in these areas and also their proven best practices across our entire organization. Steve can talk more on the alignment of the sales and marketing organization that has been significantly working together and has been improved. This is the same between CareCloud and Meridian, there's still more work that needs to be done, and we are making great progress.

**Jeffrey Cohen**

Okay, got it. Then secondly for me, talk a little bit about—further about the Microbots, on the integration, as far as the RPAs that came from Meridian and how that's affecting your current customer base, and if that assists you with practices and what trends you're seeing on practices, as far as—are sizes increasing or about the same? Thanks.

**Hadi Chaudhry**

Sure. Thank you.

I can start and then Juan can jump in for some more details. So, let me talk about the Microbots. Two things, one, we already have started adding more engineering resources to increase the pace with which the Microbots are being developed. The second thing was the integration with the existing MTBC's platform, MTBC's technology, whether that's MTBC proprietary or from our previous acquisition of CareCloud. That piece is currently in the analysis and the design in that phase. We are currently working on it as we speak. We already have included the Microbots as part of our MTBC Force offering.

There are two ways, of accomplishing the integration. One is with the help of the APIs if the vendor's platform offers functionality that can be integrated with that platform using the API. The second part is just using screen scraping technology. Of course, the preferred way, an API interface, if the vendor offers that, and in some cases where API integration is not available, we go with screen scraping technology up to the level possible.

In addition to that, there are many other platforms with which the RPA integration already exists. As we start moving forward with MTBC Force, for example, when a new opportunity comes in, either if the integration already exists, we can get that live quickly, literally going live in a matter of weeks. In other cases, if it's a new platform, it can be done between either the API or using the screen scraping technology.

Juan, would you like to add anything here?

**Juan Molina**

Yes. Thanks, Hadi.

I think you covered it well. Steve, I think the question around RPA can really be looked at across two vectors? When you think about vectors, vector one would be what I think of as a last-mile software features. I think of that as where third-party PMs or EHR systems either have not built up full functionality that's required to support a very specific customer need, or had built this functionality, but the functionality perhaps is clunky or doesn't work effectively.

We're able to deploy these Microbots to service these particular use cases and make up that last mile for customers, think of things like eligibility checks or referral authorization management, automated payment appliers, etc., and we're also able to connect these things directly to our open APIs, both on the CareCloud side and on the talkEHR platforms, to enable additional capabilities that customers don't have enough workforce to perform. That's really where vector two comes in, which is centered around "workforce enablement." This is where we're able to take these highly repetitive tasks and train and program these bots to execute these routines, allowing our customers or partners to deploy staff and have them work on more meaningful activities that help them reduce FTEs and drive profitability.

**Jeffrey Cohen**

Okay. Got it. That's super helpful. Thanks for taking my questions.

**Operator**

The next question comes from Richard Baldry with ROTH Capital. Please go ahead.

**Richard Baldry**

Thanks. Could you maybe look a little deeper into the strength of signings in the quarter? I would have assumed that a lot of prospects would have been very much sort of 'deer in headlights.' Now don't want to change anything to try to figure out what's happening in the very chaotic world, the backdrop we have right now. Could you talk about, was that really headcount driven? Maybe the productivity per headcount was still below average because of the macro conditions, or how did you get that strength in bookings, and how do you see that trending in the second half when I would believe that people's bandwidth to address sort of changes like this will improve versus the June quarter? Thanks.

**Stephen Snyder**

Well, thanks, Rich. Thanks for the question.

I also loop in, we have Wes Stolp on the phone call with us. He's our EVP of Sales, joined us during the end of the first quarter. He can provide some additional color, but as you alluded to during Q2 and maybe even kind of talk more broadly as we think about where we stand today, year-to-date, we've closed twice as much business year-to-date from an ACB perspective as compared to all of 2019. For us, 2019 was a strong year of growth. While we don't publicly disclose full booking details, you may recall from our last earnings call, we spoke about an aspirational goal of by Q3 being at a point where we've been able to close \$4 million to \$5 million in bookings from an ACV perspective during Q3. I can tell you, we were pleased to be able to have achieved that even earlier, we achieved that during Q2.

I think there are maybe a couple of things and you alluded to one of those. Clearly, part of it is our increased investment. In terms of the size of that team, we have roughly 35 individuals today focused on sales and marketing. That's a significant night and day difference from the amount of investments that we made in prior years because as we've had increasing cash from operations, we've looked for ways to invest that in our continued growth. That's exactly what we've done. Having said that, when we look at the overall metrics and the cost of acquiring those customer relationships, we're managing to a CAC of about 50% which when we look at some of our peers, you'll see one time, or greater oftentimes spoken of as kind of acceptable parameters with regard to the cost. We think we're still doing this in a very cost-efficient way.

Then the question is, well, why have we been going to rate that growth and succeed? How much of it relates to the size of the team? How much of it relates to the time that we find ourselves in right now in the midst

of COVID, how much it relates to the new products and solutions? I think candidly, it's probably a combination of all of those things together.

But the overall closing approach, the overall kind of organic growth strategy that we have today is allowing us to be—and our overall focus is focused on a more diversified, raw based, scalable approach, as opposed to relying more so on larger outliers. We have what we think to be really—we're getting traction on really developing an overall approach, a system that's repeatable, broad-based, scalable. As we continue to look for and actively work on closing those larger outliers, the Fox rehabs, and likely we've closed in past years, those will be additive to the overall strategy. But Wes, maybe you can walk us through a little bit some of the areas where you and the team have been having success, whether it'd be in the cross-selling or other key parts of your overall strategy.

### **Wes Stolp**

Will do Stephen. Hey, Rich, let me give you some color on Q2, which I think is a validation of this new approach of sales and marketing working together. Those first few days of COVID in the quarter, success was not a guarantee. It was great to see our marketing team out amongst our clients and our prospects, doing surveys, understanding their key problems and needs. We pivoted fast to be able to communicate our products and services would fix those problems in this uncertain time. I think that fast execution of sales and marketing working together, that allowed us to get ahead of where maybe other competitors were waiting for the market of Q1 to come back, when we knew it likely wasn't.

I think that there are some other tailwinds that are helping us. When you think about the core value props of the RCM service, where the work is done away from the place of care, and then the fact that the economics of RCM services typically a variable cost, not a fixed cost, I think that that's a helpful value prop to bring back up in this environment.

Then Steve mentioned the upsell campaigns that we're embarking on right now. We see tremendous opportunity with these acquisitions to go into the current client base and educate them on the additional products and services that the MTBC family of companies now has, and how that's going to help them, not only now, but into the future. We've been very laser-focused on that upsell campaign and trying to create a relationship with every one of the clients that's now under our portfolio.

### **Mahmud Haq**

Rich, sorry, Rich this is Mahmud. Just to answer the last point on this. We've been very fortunate that the location of our offshore offices, Sri Lanka and Pakistan has been significantly less impacted than the Indian locations, and most of this has helped us because the people who face the challenges because of India being locked down came over. That's the last factor that contributed to an increase in our second quarter sales.

### **Richard Baldry**

Okay. Thanks. When we look out, have you seen, and maybe it's too early to know any change in the pipeline of potential acquisitions. Have the COVID pressures maybe put more people willing to consider, selling if valuations or people's expectations are down, maybe more affordable, whatever you want to call it in an acquisition scenario, given the challenges externally?

### **Stephen Snyder**

Good question, Rich, and I think you're right. It'll be interesting to see how things develop over the next couple of quarters, and that's anyone's I guess at the end of the day, but I can share with you what we've seen so far.

I think if we think about, even if we think about the Meridian acquisition from the perspective of the overall dynamics of that acquisition, I believe that COVID was helpful overall in terms of the evaluation. I believe as Mahmud described when all was said and done, our ability as an organization using our distributed workforce with employees throughout the United States, coast-to-coast employees in Sri Lanka and Pakistan, that ability to continue to serve our existing clients needs and also that excess capacity for growth enabled us to be able to step in and to be able to very confidently and quickly go from a first discussion with the shareholders at Meridian. Do a closing going through due diligence and the like, and feeling very comfortable that we were ready to be able to hit the ground running. We'd be in a position to be able to add value using our technology, using our team and that we'd be able to achieve another one plus one equals three, four, or five type transactions.

But coming back to what we were talking about, I think that as we look at the landscape today, our thesis holds true, the same thesis we've had candidly for the last 12, 13 years, maybe even longer than that, which is that the healthcare IT and RCM space remain highly fragmented. They're right for consolidation. I think that's more true today than it was last year or 3 years or 5 or 10 years ago. That just continues to—that continues to be even more obvious to us today. I think as we think about the—even more broadly than COVID, the two transactions we closed this year, the two largest transactions in our history, we believe the reality is we have really gotten to the—we have been able as a team to get to the point where increasingly we're able to acquire larger companies and acquire them at a faster pace, or we're able to be able to integrate them.

Whether valuations long term remain at lower levels is anyone's guess. What I can tell you is that right now, when we look at the CAC associated with buying customers from companies that are good companies but experiencing some element of financial distress, we think it continues to be very attractive today. As we move forward, we would expect that to remain the case.

**Richard Baldry**

Great. Thank you.

**Stephen Snyder**

Thank you.

**Operator**

The next question comes from Marc Wiesenberger with B. Riley. Please go ahead.

**Marc Wiesenberger**

Good morning. I'm hoping you can provide a little more granularity contrasting the operations of CareCloud and Meridian, maybe the ultimate go-to-market strategy in terms of integrating under unified MTBC banner and the normalized run rate expectations for these businesses.

**Stephen Snyder**

For sure. Absolutely. We'd be happy to—maybe we can break that into a couple of different sections, and maybe Hadi from the perspective of the operations, would you mind speaking a little bit about from an

operational perspective, some of the differences and similarities that we see at CareCloud and also at Meridian?

**Hadi Chaudhry**

Sure. Thank you, Steve.

One is the operation side and then the second piece will be the technology part of it. When it comes to RCM, there are some standard things which are, from the claim processing standpoint, there are BPOs involved, third-party BPOs that have to be transitioned. That's the same as what we have always seen—whether that was CareCloud or Meridian, there were third-party contractors involved. That work is being transitioned to MTBC's own employees. We already have the relevant specialties' skill sets available, and our team either has already taken it over or are in the process of taking over that work.

As I mentioned earlier in my last question, there are the departments or areas such as the client success side, or the onboarding process that CareCloud team used to follow. There are some good practices they were following and with the talented leadership that we onboarded, we have started to implement some of those procedures all across our enterprise, to help us improve the efficiency of onboarding new clients, for example. From the client success standpoint, the surveys, the way those need to be conducted, and then closing the loop on those things. There are many things operationally we are taking care of.

When it comes to the technology side, Juan can talk about from the roadmap standpoint. But our team has already started to take over. As you know, we have about 400 IT, R&D team members. We already have started to include those team members to take over the different elements, for example, adding more modules into the current software system, the current platforms. We started working on the integration from the Meridian system to MTBC's platform, to CareCloud to MTBC and vice versa, and interoperability between those systems. Our team has already started to look at and work on those integrations to provide one kind of standard platform, and also if one feature is not available on one platform, with the help of that integration, that additional feature can be utilized. For example, if I take an example of Breeze, we can start using Breeze, the patient front end application of CareCloud, across the other platforms.

I hope I'm answering it in the right direction, or Juan, you can fill in any gaps here, please.

**Juan Molina**

No, I think that you covered it, however when we think about kind of a unified banner, I'm not sure if your question was more specific around kind of a unified platform. Do you want to clarify that?

**Marc Wiesenberger**

Sure. Unified platform kind of is at the ultimate goal, kind of, and then the go-to-market strategy is maybe a one MTBC or how is that going to evolve.

**Juan Molina**

Sure, go ahead, Steve.

**Stephen Snyder**

No, Juan, please you go for it, and then I will jump in.

**Juan Molina**



Okay, great. Yes, when you think about our overall go-to-market strategy and really our product strategy, I think it's important to first take a step back and help you understand how we think about the overall product and services. At the end of the day, we're focused on trying to meet our customers exactly where their needs are. We address these problems that they're trying to solve through what we think of as very comprehensive, curated solution sets.

At a high level, when you look at our product and services portfolio, we built a framework where we categorize these across four general pillars. The four pillars are really kind of what we think about as core practice software-. These are the core systems that power medical practices across clinical financial and patient workflows, traditionally known as EHRs, where you think about practice management, or as Hadi mentioned Breeze, which is what we categorize as our patient experience management platform.

Secondarily, we think of the second pillar as these core technology-enabled service offerings, which you would think about as revenue cycle management, coding and credentialing, and so forth. Then thirdly, our on-demand workforce. Because we have, as Mahmud mentioned, a distributed global workforce, we have all this capacity that enables our own core business. We're able to sell this at scale directly to partners and to customers. That's where from a go-to-market perspective, we productize that as MTBC Force. That's a combination of both operational FTEs offshore and engineering capacity offshore.

Then lastly, our platform extension. These are technologies that are either built by us, whether you think about mobile applications or microbots, analytics, and so forth, or apps that are built by the industry that connect into our platforms, these are specialized apps that serve very niche problems. What this approach does is that this provides us a product and strategy framework that allows us to continue to acquire companies of which we'll see various different products and services and expand our own capabilities, but this also enables us to combine key aspects of these pillars to build the appropriate go-to-market approaches and create these unique solution sets that either service very different markets, segments or specialties.

But, as we continue to innovate across all of these pillars and we'll continue to launch new and breakthrough products on behalf of our customers, and many by the way are currently under development. We're incredibly excited by what they mean for our customers and the market when we released these next-generation solutions over time. But naturally, we may end up collapsing multiple products and applications into unified solutions that continue to win and serve these specific segments or specialties in the market.

### **Stephen Snyder**

To Juan's point—sorry, Marc, I was just going to mention to Juan's point, when we think about unification, whether it would be with regard to products and integration or brand, we step back a little bit for a moment. We just kind of think about the reality of the last five, six months. Our focus really—as you would expect has really during COVID-19 in particular, especially during the second quarter, has really been on pulling out all the stops to support our clients through one of the most difficult times, many of them will experience potentially during their professional lives.

We believe that our work has gone on and recognized all the efforts that we've put in, the team has really gone above and beyond, has been passionate about the way that we're able to support our clients. We've done the right thing as we've prioritized the needs of our clients. We think that by extension, just naturally holistically, that's generated additional goodwill. It's enhanced our relationships with our customers and the market and just by extension naturally enhanced our overall brand equity. If we take that and we also then factor in the reality that since the beginning of the year, from a revenue perspective on a run-rate annualized basis, we've doubled. The number of digital assets that we've added has been significant. Our team has significantly grown. The client base has doubled roughly as well. We think about all of these things together

and say, wow, it's been an exciting beginning of the year. We think that the second half of the year will also be very exciting.

During the second half of the year, one of the things that we're excited about is beginning to talk more about our overall brand unification, our overall strategy when it comes to product unification, and the like. Those are things that we've been very focused on as a team.

I think the reality is at least it's our sense that from the perspective of the market, our client base, potential clients, there's kind of a limit to how much can be digested at one point in time. We think we're at that point where during the second half of the year, we can begin fleshing out our strategy and thoughts on those fronts.

If you stay tuned, we're really looking forward to continuing those conversations during the balance of the year.

**Marc Wiesenberger**

Great. I will stay tuned and look forward to hearing that. Then just a final one for me. Can you talk about the stickiness of the telehealth offering as the economy has opened in late May, early June, and interesting trends that might indicate some behavioral changes, and then progress on the international development of the telehealth offering? Thank you.

**Stephen Snyder**

For sure, yes, we'd be very happy to do that.

As we think about it, our belief more generally or more broadly is that companies that will be the leaders long-term playing a long game in the healthcare IT, or those who deliver the comprehensive integrated solution throughout the last 20 years, folks who have followed the healthcare space can rattle off probably a dozen pure plays kind of single product offerings, whether they be patient portals or clearinghouse, or you can kind of go down your entire list, standalone PMs and the like, particular parts or particular aspects of the overall kind of ecosystem of healthcare IT applications that were exciting to the market at one point in time.

But, the reality at least as we see the market, we believe that ultimately it's really going to be in our estimation, the vendors who are able to provide a comprehensive integrated solution and the integrated solution that's broad enough, it's easy enough to use and to understand, it's intuitive and usable by the healthcare provider that it really becomes part and parcel of the daily workflows of practice from a clinical perspective, from a business workflow perspective, from the back office perspective and the like. We believe that will be the solution that continues to prevail when all is said and done as the industry continues to move towards more complex payment models and towards greater integration across the system and the focus on reducing costs and the like.

If we come back now to telehealth, we believe that telehealth is an important and an increasingly necessary component of any comprehensive solution, which is why we've now included that at no additional costs within our CareCloud platform. It's included and has been included for some time as part of our standard offering on the MTBC talkEHR and the like. Whether it's providers leveraging our platform or providers leveraging another platform that ideally is integrated with our platform, we think that telehealth is here to stay in our estimation.

Now, if we talk a little bit more specifically and granularly with regard to the actual utilization, we go back to the beginning of the year, and I'll just use as a frame of reference, if we look at our CareCloud platform and

we look at scheduled encounters, less than 1% of all the scheduled encounters of our thousands of CareCloud providers were scheduled for telehealth. We advance and we then look at and use as a frame of reference the end of March, beginning of April, that number goes to close to one quarter, 20%, 25% of all encounters as the stay-at-home orders are promulgated and as individuals are looking for ways to be able to continue care from remote locations.

Now, as we continue to fast forward, what we've seen since that point in time is the overall percentage of those encounters as you would expect, as individuals are no longer required to stay-at-home, the overall percentage of the telehealth encounters decline.

Today, when we look at our numbers roughly again, it's just a snapshot in time. Don't know what it will look like tomorrow or a week or a month or a year from now, but what we see is that the level of the percentage of the overall encounters that are scheduled through telehealth, whether it would be our solution or another solution remains seven, eight, nine times as high today as it was pre-COVID, but still is a fraction of what it was at the height of the stay-at-home orders, or to maybe say it more simply those numbers are somewhere between 5% and 10% of all encounters today as is using a snapshot in time are occurring through telehealth, at least relative to our CareCloud population and I just use that as a point of reference. I believe that our larger base is similar in terms of that percentage.

**Marc Wiesenberger**

That's great. Just the final piece on international development and thank you very much.

**Stephen Snyder**

I'm sorry. I missed that. In terms of international development?

**Marc Wiesenberger**

Yes, for the telehealth rollout, I think, you had plans to kind of have some international expansion or offerings there.

**Stephen Snyder**

Okay, understood. Sorry about that. Yes, so, there (inaudible) for a moment, there are two parts to it. One is the SaaS component and the other one is what we've spoken about and continue to be focused on albeit that rollout will be something that we'll make a final decision on and would be probably not for another couple of quarters. That would relate to providing not only the SaaS solution but also providing the actual care, a model that it would be more akin to what we see sometimes in the marketplace from companies like Teladoc and the like.

As we began the year, our focus was on deploying that and rolling that out in devoting time and energy and resources to a rollout during the second or third quarter of 2020. (Inaudible) we fast forward in time, what none of us could foresee in January was the reality is there would be COVID-19 and we quickly shifted our resources and focused on doing things like making sure that the CareCloud platform, which we had just acquired had its own telehealth component that was integrated, and we worked on making sure that the SaaS solution that was then tied into—integrated with our overall platform was completely ready to support the needs of our practices since we saw the utilization rates go from less than 1% to a quarter of all encounters almost. We wanted to make sure that we were meeting our clients' needs and meeting them where they were at.

We quickly reprioritized, and we think that was the right thing to do, which is to reprioritize our focus, our energies, our R&D resources to supporting our existing clients so they can make it through and be effective in seeing their patients during the midst of COVID-19, that pushback, that other part of the overall telehealth strategy. Frankly, even that rollout, the international rollouts that remain to be seen. We'll make final decisions in terms of directionally where to go. We think COVID-19 had a change in terms of the overall telehealth has really been a game-changer. As we think about where we are today, again, more than twice the size of where we were at the beginning of the year and we think about the other solutions that we have today, the RPA, and we think about our enterprise-level business intelligence.

We think about the fact that today as we look at healthcare providers leveraging one component of our platform (inaudible), we would estimate that one out of every 30, 35 providers—healthcare providers, physicians in the U.S. is in some way shape or form managing one component of our platform, whether it would be business intelligence or the RCM or the EHR or the PM. We have this significant opportunity today to really cross-sell and we continue to build on the other platforms. That was one of the things that we will continue to talk about as the year progresses. We talk more about our overall strategy in terms of how do we keep the rate of growth into the future that we've been able to experience now, what are the best avenues for doing that and having us meet our clients' needs.

**Marc Wiesenberger**

Excellent. Thank you very much.

**Stephen Snyder**

Thank you.

**Operator**

The next question comes from Allen Klee with National Securities Corporation. Please go ahead.

**Allen Klee**

Yes, hi. Can you tell us how much the doctor visits were down on an organic basis in 2Q? Then for the new enterprise business intelligence software that you're going to cross-sell, can you tell us a little bit about the value-add of that? Why you think that that can be attractive? Thank you.

**Stephen Snyder**

For sure. From the enterprise level, and then I'll loop in Bill, and Bill can provide some more color in terms of physician volumes.

From an enterprise-level business intelligence solution, we see the opportunity being able to continue to partner with other vendors in the way that we've been increasingly doing over the last number of years, partnering with other vendors, being able to round out their solutions with our business intelligence with part of the strategy or the end game or the objective being to be able to win the RCM business and being able to cross-sell and up-sell. The solution we think is a phenomenal solution that gives larger practices, which increasingly are our sales targets, that's where Wes and the team increasingly are focusing. It gives us an ability to be able to start a relationship with some of the larger practices and to generate revenue from that business intelligence relationship, but then having as the ultimate objective being able to leverage that relationship with larger groups, in particular, to be able to cross-sell and up-sell to higher revenue-generating solutions.

Bill, if you can provide a little additional color with regard to physician volumes and the decrease that we saw during Q2, please.

**Bill Korn**

Sure. Thanks, Steve. Obviously what we saw sort of mirrored what we were seeing in the country as a whole. As the COVID pandemic spread, first there was a decrease in volumes in New York, New Jersey, California, Washington, Now, obviously, the decrease is more in the south and west. But I think overall, during April and May, the value of the visits conducted by our doctors was down about 33% compared to the volume in January, February, and again, it differs by specialty, differs by geography, differs over time. By the time you fast forward to June, and let's exclude Meridian that joined us in mid-June, at that point the overall volumes were about 94% of what we saw in January and February.

Things certainly have—as the country has gotten a lot better at dealing with COVID, patients feel more confident, and as doctors have figured out how to schedule, we've seen volumes come up. Now that's an overall number and it includes telehealth visits as well as in-person visits. Because from our perspective, if the doctor is seeing the patient and providing services, the patient's getting what they need, the doctor's getting reimbursed, and there's no real difference to us in terms of the fee. I guess I'd say, in some ways, we're indifferent on the level of telehealth going forward, as long as doctors can continue to see patients and continue to get paid.

**Allen Klee**

Thank you very much.

**Bill Korn**

Thanks, Allen.

**Operator**

Once again, if you have a question, please press star, then one.

Our next question comes from Gene Mannheimer with Colliers Research. Please go ahead.

**Gene Mannheimer**

Thanks. Good morning. Congrats on all the good progress here.

I wanted to follow-up on an earlier question on your acquisition strategy. I mean, with your two largest purchases ever in the first half, what do you do for an encore? In other words, are there still many large RCM like opportunities in the market? Or, would you consider veering from your traditional sweet spot of RCM and get into new markets? Thanks.

**Stephen Snyder**

Thanks, Gene. To your point, if we step back for a moment, just think more broadly about the acquisition strategy, why do we acquire, what's our overall approach; as we think about it, we believe it continues to be a very cost-efficient means of customer acquisition. It enables us to grow at rates that are unheard of in our space through a sole focus on organic growth. The two-pronged strategy with a heavy focus on acquiring customer basis for acquisitions, we believe is a strategy that makes a lot of sense and is the strategy that has enabled us to be able to consistently grow at the rates we've been able to grow at. It's

also a great way for us to be able to hire talent, retain talent with experience and expertise that then enables us to continue to be best positioned for the next organic growth win, or for the next acquisition. It's a phenomenal way, as Hadi alluded to before in our estimation to build a world-class team.

In fact, for us having been through other means of hiring and trying to build a team for us, we think it's a hands-down winner. I think if you even think about asking the folks on this call and our leadership that attests to that, the talent we've been able to bring on board through that strategy.

As we think about it, you're right, it's been a busy and exciting first half of the year. But from our perspective, as we sit here today, we believe the industry is every bit as ripe for consolidation today as it ever was. I think the two largest acquisitions occurring this year really reinforce that point.

We obviously don't publicly disclose our acquisition pipeline, but again, if we think about the acquisitions year-to-date, and if I add to that, I assure everyone that we're continuing to actively work on identifying appropriate companies and target companies, and we'll continue to deploy the same kind of patient and disciplined approach and only move forward, obviously on the acquisitions that we think are the best use of capital. But, from a capital perspective today, we have more capital to deploy virtually than ever before, and close to \$25 million of cash, untapped credit line of \$10 million, have other means to being able to move forward in creative ways on acquisitions.

We're excited, as excited if not more so than we've ever been in terms of the opportunities we see in the market, whether they be RCM, healthcare, IT, or related industries, to the extent that we can find companies where we believe we can add value with our technology, with our team, with our expertise. Then we're interested in having a conversation and exploring whether or not our thesis relative to that particular company holds water or not. Whether it'll be six quarters from now or four quarters or two quarters, only time will tell that, but in terms of the overall opportunity set, we remain very bullish and excited.

**Gene Mannheimer**

Very good, Steve. Thanks. Just quick follow-ups, I know it's getting late is how much revenue came from MTBC Force in the second quarter?

**Stephen Snyder**

We don't separately break out revenue relative to MTBC Force. But, what I could tell you is that as we think about the bookings year-to-date, out of those overall bookings from an ACV perspective as they're ramped up, roughly about a third of that, of those bookings in terms of ACV were MTBC Force-driven. Somewhere between about roughly 30% of that. If we think about the recognized revenue during Q2 again, we don't break that up separately, but I can tell you that, that was minimal. It's an increasing share overall, but in terms of the overall revenue mix, we're getting a lot of traction on MTBC Force. It's something we weren't offering nine months ago. It represented zero percentage of revenue, and it's much more than that today, but still, it's a relatively small percentage of the overall revenue, but increasing.

**Gene Mannheimer**

Very good. Thank you.

**Stephen Snyder**

Thank you. Gene.

**Operator**



This concludes the question-and-answer session. I would like to turn the conference back over to Kim Blanche for any closing remarks.

**Kim Blanche**

We'd like to thank everyone who's joined today for your continued support. We look forward to speaking to you again in the near future. We hope you all take care and have a great day.

**Stephen Snyder**

Thanks, everyone.

**Operator**

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.