

# Mossberg's Investor Digest

## Best Idea Profile

## MedQuist (Nasdaq:MEDQ)

### DESCRIPTION:

Headquartered in Mount Laurel, NJ, MedQuist provides medical transcription services to hospitals, clinics, physician offices and other medical practices throughout the U.S. With over 5,000 medical transcriptionists, the company is one of the largest Medical Transcription Service Organizations (MTSO) in the world. In August, 2008, CBaySystems Holdings acquired 70% of the company from Phillips for \$287 million (\$11 per share). CBaySystems is a holding company (controlled by S.A.C.) with a portfolio of medical transcription businesses including CBaySystems Pvt. Ltd. (the largest MTSO in India), and Mirrus Systems.

### KEY INVESTMENT CONSIDERATIONS:

**Litigation issues resolved** – As a result of an internal review of billing practices in 2004, the SEC and DOJ opened investigations, which also led to shareholder litigation and class action lawsuits. No evidence emerged to support wrongdoing. The SEC and DOJ have closed their investigations and class action suits have been dismissed (in one case with prejudice), and/or settled. Now that the company has resolved all issues related to the billing review, the company's legal bills should be substantially reduced. In addition, the uncertainty of the outcome of the litigation has been removed, which makes the stock investible to a larger base of prospective shareholders and analyst coverage.

#### (Nasdaq: MEDQ)

Investment Data (as of 6/18/09)

<b>Recent Price</b>	<b>\$5.17</b>
52-Week Range	0.87 - 8.26
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	37.5 MM
Average Trading Volume (3 mos)	28,000
Market Capitalization	194 MM
Cash	52 MM
Long Term Debt	N/A
Enterprise Value (EV)	142 MM
LT Debt/ Equity	N/A
BV/ Share	1.84
TTM Revenue	322 MM
P/ Revenue	0.6x
TTM EPS (non-GAAP)	-1.53
P/ EPS	N/A
TTM adjusted EBITDA	34.5 M
EV/ TTM EBITDA	4.1x

**High returns with recurring revenue streams** – With retention rates as high as 95%, the medical transcription business creates long-term recurring revenue streams. This business can produce net margins of approximately 10% and the company has limited need to finance working capital or fixed asset expenditures. MEDQ's financial performance over the last several years has been substandard. However, now that litigation issues have been resolved, the company appears to be on track to return to historic profitability levels. During the first quarter of 2009, EBITDA and net margin were 15.3% and 8.6%, respectively. At these levels the company is producing ROIC in the high teens. With continued improvement in profitability this business can produce returns in the low to mid 30's.

**Outsourcing trends will drive secular growth** – Only 40% of the \$12 billion medical transcription market is outsourced to transcription companies. The remaining 60% is done in-house by the hospitals, clinics and physicians offices. Outsourcing this function saves money and can improve productivity, two value propositions that are clearly in demand for healthcare providers.

**Larger players will gain share in highly fragmented market** – There are several thousand companies that provide medical transcription services, most of which have less than \$1 million in revenue. There are only a handful of other players (TRCR, NUAN, Webmedx) with a revenue base greater than \$20 million. With efficiency of scale and scope and greater ability to consistently delivery high quality, larger players, like MedQuist, are in better position to gain market share.

### KEY RISK:

A small group of investors, CBaySystems, along with two large institutional holders, control about 80% of the stock. The concentrated ownership could be a turnoff to prospective holders. In addition, the interests of CBay might not always align with that of all shareholders.

### VALUATION:

Shares trade at an EV/ EBITDA multiple of just 4X. Given the company's leadership position in the medical transcription business, potential to improve profitability and returns, shares appear to be a bargain at these levels. Also, with \$1.39 per share in cash and no debt, there is a considerable margin of safety.

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.