MTBC

Third Quarter 2019 Earnings

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CORPORATE PARTICIPANTS

Shruti Patel – *General Counsel and Corporate Secretary*

Stephen Snyder – *CEO and Director*

A. Hadi Chaudhry – *President and Director*

Bill Korn – *Chief Financial Officer*

Mahmud Haq –*Founder and Executive Chairman*

PRESENTATION

Operator
Good day, and welcome to the MTBC Third Quarter 2019 Earnings conference call and webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

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

Shruti Patel
Thank you and good morning, everyone. Welcome to the MTBC 2019 third quarter conference call. On today's call are Mahmud Haq, our Founder and Executive Chairman; Stephen Snyder, our Chief Executive Officer and a Director; A. Hadi Chaudhry, our President and a Director; and Bill Korn, our Chief Financial Officer.

Before we begin, I would like to remind you that certain statements made during this conference call are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities 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, 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 those dialed into the call by telephone, you may download our Third Quarter 2019 Earnings Presentation by visiting our Investor Relations site, ir.mtbc.com, click on Events, and there you will find a link to 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 third quarter 2019 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, Shruti. And thank you everyone for joining us on our Third Quarter 2019 Earnings call. We are very pleased to report that the first nine months of 2019 marked another period of strong growth. In

fact, we increased our year-to-date revenues by 43%, year-over-year, to $48.7 million, validating the strength of our unique integrated offering and growth strategy.

If you're an investor who has been following MTBC since we went public, you know that a high rate of growth is not a new phenomenon for us. In fact, our CAGR for the period of 2013 through 2018 was approximately 37%. We've been able to achieve this growth through our parallel growth strategy that focuses on acquiring customers through traditional organic growth, together with purchasing them from our competitors. Over the last few years, we've acquired customers from three distressed groups of companies, each of which lacked the technology, team and experience needed to meet their customers' needs. We were able to acquire these companies at very attractive average multiples of approximately one half times revenue. These acquisitions, like the prior transactions before them, played an important role in helping us grow our revenue and expand margins.

Today we're better positioned than ever to move forward as and when we have the right buying opportunities. During this year, we're pleased to report that our inflow of transaction opportunities is moving at an accelerated pace, as we now review an average of one new opportunity per week. We've broadened our network of bankers and intermediaries to nearly 20, who have identified and provided us with acquisition leads year-to-date. In fact, these inbound leads now represent approximately three quarters of our new leads. This heightened volume of leads increases our likelihood of acquiring the very best targets at the optimal valuations and structures, as we remain steadfastly committed to our disciplined and persistent, yet patient, approach to acquiring customer relationships.

While we remain focused on the larger opportunities, we have added a new element of optionality to our strategy as well, which is already beginning to yield fruit. Approximately two-thirds of our 2019 targets have estimated revenues below $10 million, making them sub-optimal acquisition targets. However, we have begun to offer smaller targets the opportunity to leverage our team and technology to support their existing operations through partnerships with them, and this strategy has been gaining traction. Our first new revenue cycle management company customer went live last month, and we are in active discussions with other revenue cycle management companies regarding similar partnerships.

The conversion of revenue cycle management company acquisition targets into customers represents only one aspect of MTBC's organic growth strategy. As we've scaled, we have been steadily increasing our focus on organic growth initiatives and the launch of telemedicine, both of which will further fuel our industry leading revenue growth rate and margin expansion during 2020 and beyond. During the third quarter, we added marketing managers to our team who are primarily focused on cross-promoting and selling our wide array of solutions to our existing customer base and generating new business leads. We've also reoriented the role and revamped the bonus structure of our customer success team members such that cross-selling and generating referrals is a core focus. Finally, we've broadened the scope of our offerings to include things like co-sourcing and other solutions that are attractive to larger groups. All these efforts are beginning to gain traction, and we believe that they will continue to do so in the year ahead and beyond.

We're very pleased that our growth strategy has enabled us to achieve such strong topline growth. However, we're equally excited to see that our actions have resulted also in expanded margins. Year-to-date, we have increased our adjusted EBITDA by 57% to $5.3 million. In fact, nine months into the year, our adjusted EBITDA already exceeds the amount we reported for the full year of 2018. As you unpack our margin story even further, you'll notice that our adjusted EBITDA for the third quarter, alone, was $2.6 million, which is a new record for MTBC. But we're not stopping there; we expect our adjusted EBITDA in Q4 to reflect another new record high as we remain on track for growing our full year adjusted EBITDA to $8 million to $10 million, which represents growth of more than 85% at the midpoint of our guidance range. Also, we remain virtually debt-free and ended the third quarter with positive working capital of nearly $15 million together with an untapped $10 million line of credit.

With such strong year-to-date performance, we're very pleased to reaffirm our full year 2019 guidance of $63 million to $65 million in revenue, and $8 million to $10 million in adjusted EBITDA.

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

A. Hadi Chaudhry
Thank you, Steve. And thank you everyone for joining us on our third quarter 2019 call.

Since our last call, we have made significant progress on the integration of our acquisition of Etransmedia in April. We have reduced overall expenses by more than 71% and over 30% of Etransmedia clients are leveraging the MTBC technology platform, ultimately helping us outperform our clients' retention goals. We believe that the steps we have taken have positioned us to achieve our full year revenue and adjusted EBITDA guidance.

We are also pleased to state that we are on track to launch the first phase of our new telemedicine solution during the fourth quarter. We have reached out to a subset of 500 providers from our existing client base to gauge their interest in our telehealth solutions and have received interest from 150 providers. We have also received interest from 65 providers who have opted to be beta testers and use the beta version of the product. This overwhelming response from our existing client base reassures us that we are pointed in the direction by embracing the telemedicine industry. We look forward to providing more details regarding the next phases of our telemedicine solution as we announce the full launch next month.

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

Bill Korn
Thank you, Hadi. As Stephen and Hadi said, we had a great quarter, and I'm pleased to give you some details. Our revenue for the first nine months of 2019 was $48.7 million, an increase of 43% or $14.7 million, compared to $34 million in the same period last year.

Revenues for the first nine months of 2019 were almost equal to our full year revenue of $50.5 million in 2018. Our revenues grew at a compound annual growth rate of 37% from 2013 through 2018, and our 43% year-over-year growth demonstrates that our business is continuing to grow at a rate that far outpaces the rest of the industry.

Our GAAP net loss for the first nine months 2019 was $1.2 million, an improvement of $358,000 from the first nine months of 2018. GAAP net loss includes non-cash amortization and depreciation expense of $2.4 million, stock-based compensation expense of $2.3 million, and transaction and integration costs of $1.4 million. GAAP net loss per share of $0.48 is calculated using the net loss attributable to common shareholders, which takes into account the preferred stock dividends declared during the quarter divided by the weighted average number of common shares outstanding.

Our non-GAAP adjusted net income for the first nine months of 2019 was $4.3 million, an increase of $1.8 million or 75%, compared to adjusted net income of $2.5 million in the same period of last year. Non-GAAP adjusted net income was $0.35 per share, calculated using the end of period common shares outstanding.

Adjusted EBITDA for the first nine months of 2019 was $5.3 million, or 11% of revenue, compared to adjusted EBITDA of $3.4 million in the same period last year. Year-to-date, adjusted EBITDA increased by $1.9 million or 57% compared to the corresponding period in 2018, and already exceeds the 2018 full year adjusted EBITDA of $4.8 million.

During the first nine months of 2019, we generated $4.8 million in cash from operations. Third quarter was MTBC's eighth consecutive quarter with positive cash flow from operations. Management uses non-GAAP measures of profitability, such as adjusted EBITDA, adjusted net income and adjusted operating income in part because they better approximate the cash impact of our operations.

Revenue for the third quarter of 2019 was $16.9 million, an increase of 1% compared to the second quarter of 2019 and a decrease of 1% compared to third quarter of 2018. This decrease was expected. We purchased Orion on July 1, 2018, with full knowledge that the third quarter of 2018 would include some one-time revenue which would not be recurring. This is normal when we complete an acquisition of a distressed target company. Third quarter 2018 included residual revenue from certain clients who were in the process of terminating their relationships with Orion at the time of the acquisition.

Additionally, third quarter 2018 included some one-time revenue as our team completed processing our clients' claims at a faster pace than Orion had done previously. Since most of our revenue comes from fees that are a percentage of what our clients collect, processing claims faster means that our clients, doctors' practices and hospitals, are paid faster, and therefore, we recognize revenue faster. The small reduction of revenue year-over-year is consistent with the trends from other acquisitions.

Our third quarter 2019 GAAP operating income was a record $669,000, compared to a GAAP operating loss of $1.8 million for third quarter 2018. During the quarter, we reduced our direct operating costs by $1.6 million and our general and administrative expenses by $679,000 compared to third quarter 2018, which resulted in a $2.5 million improvement in GAAP operating income, compared to the third quarter of 2018 and a $1.9 million improvement compared to second quarter 2019.

Non-GAAP adjusted operating income for third quarter was $2.3 million, or 14% of revenue compared to $594,000 in third quarter 2018. This was our tenth consecutive quarter of positive adjusted operating income. It represents 283% growth over last year, and is a record for MTBC.

Our GAAP net loss for the third quarter 2019 was $138,000 or $0.14 per share, compared to a GAAP net loss of $1.8 million or $0.25 per share for third quarter 2018. This represents a $1.7 million improvement in the GAAP net loss. GAAP net loss includes non-cash amortization and depreciation expense of $814,000, stock-based compensation of $775,000 with foreign exchange losses of $704,000, as well as, transaction and integration costs of $464,000.

Non-GAAP adjusted net income for third quarter 2019 was $2.2 million, an increase of $1.7 million compared to net income of $507,000 in the same period last year, and was our eighth consecutive quarter of positive adjusted net income. Non-GAAP adjusted income was $0.18 per share, an increase of $0.14 compared to $0.04 per share during third quarter 2018.

Adjusted EBITDA for the third quarter of 2019 was a record $2.6 million, or 15% of revenue, compared to adjusted EBITDA of $865,000 in the same period last year. This was our tenth consecutive quarter of positive adjusted EBITDA, and our third quarter 2019 adjusted EBITDA by itself was almost as large as our total adjusted EBITDA for the first two quarters of 2019 put together. This acceleration demonstrates that we are on track to achieve our guidance of $8 million to $10 million of adjusted EBITDA for the full year of 2019, driven by the investments we made while integrating the Orion and Etransmedia acquisitions. We reduced quarterly costs and operating expenses by $1.8 million, while maintaining our focus on long-term revenue growth.

The difference of $2.7 million between adjusted EBITDA and the GAAP net loss in the third quarter of 2019 reflects $814,000 of non-cash amortization and depreciation expense, $775,000 of stock-based compensation, $704,000 of foreign exchange losses, and $464,000 of integration and transaction costs related to acquisitions.

As of September 30th we had approximately $14 million in cash and positive working capital, which is current assets less current liabilities, of approximately $15 million. We have an untapped $10 million revolving line of credit for Silicon Valley Bank to help finance growth initiatives, including potential future acquisitions with the bank's approval.

In addition to common stock, we have non-convertible Series A Preferred Stock, which 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 in November 2020. We can choose whether to redeem shares, choosing the quantity of shares and setting timing for any actions that we deem most beneficial. We also have the option of issuing more shares of preferred stock if needed for an attractive acquisition opportunity, and can wait until the price of our common stock reaches levels we consider attractive to raise capital to retire a portion or all the preferred stock.

Our balance sheet reflects that we adopted ASC 842, the new accounting standard for leased assets, on January 1, 2019. This new standard requires all leased assets, including those that were previously categorized as operating leases, to be recorded on the balance sheet as “right-of-use assets,” and the corresponding discounted future lease payments to be included as liabilities. Our consolidated balance sheet on September 30, 2019 includes approximately $4.3 million of such assets and $4.5 million of such liabilities under this new accounting standard. The new standard affects our balance sheet but does not materially impact our statements of operations or cash flows, and does not change our actual payments on these leases or any other contractual relationships.

I'd like to close by reaffirming our 2019 guidance. 2019 revenue will be in the guidance range of $63 million to $65 million, which represents growth of 24% to 29% over 2018 revenue. With revenue of $48.7 million during the first three quarters, including $16.9 million during the most recent quarter, we are very well positioned to achieve our revenue guidance. We anticipate adjusted EBITDA will be $8 million to $10 million for 2019, representing growth of 67% to 108% over 2018 adjusted EBITDA. This follows a record 2018 when our adjusted EBITDA was double 2017’s adjusted EBITDA.

Our third quarter adjusted EBITDA was $2.6 million, which was almost equal to the $2.7 million of adjusted EBITDA we achieved during the first six months of 2019. Our efforts integrating the Orion and Etransmedia acquisitions are bearing fruit. The elimination of third-party subcontractors, leveraging our technology to improve operational efficiency, and moving our work to offshore employees gives us confidence that we will achieve our adjusted EBITDA guidance.

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

Mahmud Haq
Thank you, Bill. 2019 will be another year of record-breaking growth and profitability. We thank our investors, customers, employees for their support.

We will now open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the key. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. As a courtesy, we please ask that you limit yourself to no more than three questions at a time. If you have further questions you may re-enter the question queue. We will pause momentarily to assemble our roster.

The first question comes from the line of Gene Mannheimer with Dougherty. Please go ahead.

Gene Mannheimer
Thank you, gentlemen. Good morning. Congrats on all the great progress this quarter. Steve or Bill or Hadi, I wanted to ask a question on your new strategy to partner with customers. What do the economics look like under those circumstances? Maybe you can share with us how you get paid there, is it that you collect a percent of their charges? And the partner strategy, is this to suggest that the pipeline line of deals is perhaps slowing in the market? Thank you.

Stephen Snyder
Absolutely. Thank you, Gene, and thank you for your question. So first of all, addressing the overall strategy and the rationale behind it. From the perspective of the opportunities that we see in the market, what we've seen in 2019, candidly, is not dissimilar from what we've seen in prior periods. But there's a significant percentage - in fact, roughly two-thirds - of the opportunities that relate to RCM companies with revenues below $10 million.

From the perspective of the dynamics and everything that's involved in acquiring a company, we believe that the most beneficial way to be able to add value to MTBC and our shareholders with regard to those smaller companies, unless the valuation is a rock bottom valuation like Etransmedia, but absent that scenario, the most beneficial way is through partnerships.

These companies typically will need two things that we have, either technology or leveraging offshore team members to assist their onshore team members. So there are really two different prongs to this model and two different motivating factors that are drawing these billing companies that seek a partner like MTBC. One would be the labor component. From the perspective of being able to assist billing companies, what we're providing them and offering is an FTE-based cost structure where billing companies who need a minimum of 10 full-time employees per month, can leverage our experienced team members offshore who are acting as support for their onshore operations, helping to perform things like charge entry and payment posting and follow up and the like, and we're charging a monthly fee for each one of those individuals.

The second rationale why some of these companies would be seeking out a partner like MTBC is our technology. And from a pricing perspective of the technology, right now, the model that we're using is a percentage of collections, where we're charging a percentage of collections and then providing that billing company with our platform that's private labeled for their particular company. And then we're also providing the clearinghouse services on the back end that facilitates the submission of claims and follow-up and the like. And frankly, some companies may choose both of those. The first relationship that I mentioned that went live is only focused on the personnel support aspect of that, so it's a per-FTE model. But we're in active discussions with two other billing companies, and one of those discussions revolves around the private label solution related to our technology. And the other one revolves primarily around FTEs, but also has a technology component.

So for us, as opposed to simply passing by some of these smaller acquisition opportunities, we see it as a way to be able to convert them into attractive, high margin organic growth adds. Secondly, from the perspective of the deal flow, really quite to contrary actually, we're seeing more deals today than we've seen historically. I would say significantly more deals. I'm not sure candidly, if that is more related to the fact that we've significantly broadened our network of intermediaries and bankers who we’re working with. We're now known as the leading acquirer in the space, so deals are coming to us perhaps in a way that they didn't get onto our radar screen a few years ago. That might be part of it. But part of it, we also think, relates to what's happening in the industry overall.

With regard to those acquisitions, we're really very discriminating and want to make sure that the deal is an appropriate size. And also that it fits very squarely within our model and that it will be accretive to MTBC.

Gene Mannheimer
Steve, very good explanation. Thank you. Very helpful.

Stephen Snyder
Thank you.

Operator
The next question comes from the line of Matthew Galinko with National Securities. Please go ahead.

Matthew Galinko
Hi, thanks for taking my question. I guess the follow-up to that sort of new strategy for the smaller RCM participants. Do you see competitors that you bring to your platform, either with labor, technology or both, sort of a qualified mechanism? So if you sort of fast-forward a couple of years, do you see those as sort of being lower cost of entry to roll them into your P&L entirely?

Stephen Snyder
We definitely see that as a possibility long term. It's much easier to go ahead and to complete an acquisition when we're already very well acquainted with a company and already actively managing their operations. So for sure, that's an option. And candidly, the companies that we're speaking with actually have an interest, at least two out of three of those, in exactly that scenario. So without a doubt, there's a possibility for that long term.

And candidly, as we give them the tools that they need in terms of the personnel and the technology, we're really equipping them to grow. Growth in this space is heavily driven by leveraging existing relationships - one professional referring his or her colleague to the company - so this really enables us to assist local billing companies to be able to grow. And down the road, acquisitions of those companies is a possibility.

Matthew Galinko
Great, and one follow-up from me. With respect to the 500 providers in your network that you're engaging with for your telemedicine platform, I'm curious how you selected that initial group and if you're finding that any patterns, and the sorts of customers that return with an interest that could help you with follow-up targeting with the telemedicine platform, whether it's in network or sort of beyond your network?

Hadi Chaudhry
Thank you for the question. It's one subset out of the 5,000 providers that we have. So we picked up a certain subset there. They were using MTBC's technology at a certain percent level. So there was more

probability from their perspective quickly going through and adapting to that workflow, to start using telemedicine.

So this 500 provider subset of our 5,000 provider base that we have selected is more focused in terms of primary care and psychiatry practices. They showed their interest in using the products either today, in the beta testing phase, or when the full product will be launched. So we already have started conducting demonstrations, webinars, and 60 to 65 providers already have started the process of getting on board from the beta testing perspective. So they will be helping us out in the beta test and there are certain providers who already started to use the product, out of those 65 beta testers.

So, from the in-network perspective, these are existing RCM clients who are using some part of the MTBC product today.

Matthew Galinko
Great, thank you

Operator
The next question comes from the line of Kevin Dede with H.C. Wainwright. Please go ahead.

Kevin Dede
Good morning, guys. Just on this telemedicine, could you go through the rollout you expect? You have 65 on beta now and 500 ultimately targeted at some level at some point. You mentioned something about rolling it out next month. I just was hoping you could drill in a little bit on the timeline.

Hadi Chaudhry
Absolutely and thank you, Kevin, and thank you for your question. So we will push it to the entire MTBC client base. We picked a subset from two perspectives; one is to find out and to understand the overall interest how the existing client base will respond to it, and the second purpose was to find the right initial beta testers who can help us fix the issues and improve the product.

So we are working at the same time for both of those two things. And we have not stopped here, just by sending it out to 500 providers. Along with of the launch, it will be communicated to the rest of our client base, which we expect before the end of the year, when we will do a full launch of this first phase of telemedicine products.

And in this first phase, this is primarily the SaaS-based model, which is being integrated into the existing platform. It will be part of the scheduling process, it will be part of the practice management suite, and will be part of the EHR. On the patient side, they can continue to use the current, existing PHR [personal health record] through the app or the desktop version, and it's one of the additional features being added into the existing EHR portal and the app.

So when it comes to the next phase, we will communicate the details along with the launch at the end of this year, or in the first quarter of next year, of how we are planning to launch it even beyond the US perspective in the developing world, and in countries like Pakistan, India and Sri Lanka. And we believe that we are very uniquely situated to succeed in this launch because of our existing presence in these countries. And also, we already have the 5,000 providers in the primary care and the psychiatry specialties using one of the solutions.

So, this is a very high level timeline. I hope this answered some of your questions.

Kevin Dede

Okay. Just to summarize, Hadi, make sure I have it through my thick skull. You've got 65 beta testers running now, but 500 of your 5,000 total client base have been introduced to it, and then by the end of the year, you're expecting to have it rolled out to the entire 5,000 client base that you have, is that the way to look at it?

Hadi Chaudhry
Yes, it will be a communication in some shape or form along with the official announcement to all the 5,000 providers. And when I say all the 5,000 providers, some of those, due to the nature of the specialty or the hospital settings, may not be the right population to use it. But it will be a communication to a subset of the 5,000 provider base.

Kevin Dede
Very good. Okay. And you're saying SaaS based model, my understanding was it was just an adjunct of a full RCM service that you already offer. Am I not thinking about that correctly, either?

Hadi Chaudhry
Kevin, I'm sorry, can you repeat that, please?

Kevin Dede
Yes, sorry, Hadi. Sorry, I apologize. You mentioned a SaaS based model, but my thought was and course I probably had it wrong, my thinking was that this was just an adjunct to the full RCM service that you are offering your clients and that there were additional fees involved, am I not looking at that correctly?

Hadi Chaudhry
Yes, very right, Kevin, you're looking at it correctly. When I say this is a SaaS based model, it is becoming a part of the existing SaaS based Practice Management System or the EHR system, so it's being added in the existing workflow. And yes, to your point, they will be paying their same contract percent currently, if they are paying a certain percentage for the RCM services. So they will continue to pay the same fees to us and there could be some additional credit card processing fees for the self-pays and the like.

Kevin Dede
Perfect. Thanks, Hadi. Steve, before I go, two quick little things. Number one, in your partnership scenario, I get the first one where you're sort of assisting folks on an FTE basis. I get that. The second model on tech pricing, what's to prevent you, MTBC, from just taking those customers from your billing clients? I mean once they're sucked into your tech platform, there's really no difference. And you can easily cut out a middleman and they'd probably be happy to go along with that.

Stephen Snyder
Good question, Kevin. And probably that same risk exists in both scenarios whether we're simply providing the human capital that's making the revenue cycle management actually function or whether they're on our technology platform. We're certainly in a position where we are essential to the day-to-day operations of the billing company and also we’re a key part of the engine that will enable their future growth.

So the way that we're making sure that we do the right thing and protect the billing companies is we're having standard non-solicitation provisions in the agreements to ensure that we're not ever in a position where we could be perceived as a risk in terms of poaching those accounts. Needless to say, in an acquisition context there’d be a natural transition whether we're handling this from human capital perspective or technology, it puts us in a great position to be able to take the next step with regard to a transaction. But absent that scenario, we have a contractual commitment that we're making that we're not going to solicit those clients.

Kevin Dede
Alright. One quick last thing for, Bill. So Bill at your current guidance, you only need to hit $16 million this quarter to hit the high end of your guidance? I think you're okay on the EBITDA side. But I think you're being ultraconservative on the top-line. I just wanted to hear your thinking behind that.

Bill Korn
We like to be ultra-conservative. We like people to know that we are totally confident that we're going to hit our numbers.

Kevin Dede
Yes, I think that's my point, though. You're not going to hit them; you're going to you're going to beat them.

Bill Korn
Let's hope.

Kevin Dede
Okay. I guess it's all perception, right? I get it. Thank you very much for answering all my questions, gentlemen.

Stephen Snyder
Thank you, Kevin.

Operator
The next question comes from my line of Marc Wiesenberger with B. Riley. Please go ahead.

Marc Wiesenberger
Thank you. Good morning. Earlier this year, you talked about how you're in the process of on-boarding your first facility billing hospital client. I'm wondering if you could update us on that and if that's potentially leading to maybe some additional opportunities in the hospital space?

Stephen Snyder
When we think about the overall opportunities, frankly, with regard to the facility billing, that probably is not going to be part of our long-term strategy. We've actually begun assisting another existing practice with some of their facility billing from a follow-up perspective. But in terms of the technology platform, in terms of that existing relationship, we’re in the process of actually winding that down. Again, we didn't build any revenue into our model for the year relative to that relationship that you're referencing. And we're really testing it out on a beta basis.

And frankly, as we look at all the other opportunities such as telemedicine, RCM, GPO and the other opportunities from an acquisition perspective, our belief is that this one that doesn't have a favorable return on the investment.

Marc Wiesenberger
Understood, fair enough. And maybe if you could update or provide a little more insight into where you're seeing some of the best cross-selling results coming from?

Stephen Snyder
Certainly. We're really seeing the best cross-selling results right now coming from a GPO perspective. But overall, I would say our team is just doing a phenomenal job laying the foundation for that cross-

selling, a great deal of activity in terms of getting everything up and running. And the results will follow, I think across the board from a cross-selling perspective, with the variety of solutions that we have today, many of which we frankly didn't have the ability to extend just a few years ago. And we look forward to providing additional insight in terms of how we're making out when we provide our year-end results.

But really what that team has been doing is working on developing collateral and training all of our client-facing team members on our solutions. They've been working on doing things like collecting and filtering internal data in order to create customer profiles. Things like the specialty and size and workflow patterns and the like. That in turn enables our team to target the appropriate customers within our existing base for cross selling.

So along those lines, we have laid the foundation and the outbound communications are occurring. There's messaging in places, for instance, like within our proprietary platform that's being leveraged, for instance, by our EHR clients. The platform now has messaging regarding the GPO. And that same sort of dynamic is really rippling throughout our entire ecosystem of applications and is finding its way into the various communications that we have with our clients on a day to day basis.

Marc Wiesenberger
That's very helpful. Thank you. One final one for me, with regards to telemedicine, you've talked about the international opportunities and maybe early next year in Pakistan, Sri Lanka and India. I'm wondering, could you tell us what you're kind of doing now to get ready for that launch next year? And what will that look like in those international markets?

Hadi Chaudhry
Okay, sure. And thank you, Marc for the question. Two things, from the technology platform perspective, we don't have to go through a lot of technological changes, because it's going to be the same, or the core product with some minor modifications that will be needed. So the first and the most important part for us was to get that product ready, start to put it in place with the providers in the US starting using it, and then in order to go and launch it to patients in these developing countries like Pakistan, India, or Sri Lanka.

We will communicate more details as we get to this launch of the first phase. We may end up creating an entity and from a revenue or a bookkeeping perspective, and it could even be considered as a VIE model. So we can leverage all those 5,000 providers on the US side, and the patients in those countries can connect to the US physician using our app to get those services.

So that's kind of the initial thought process or the idea, because there are many instances where the patients in those countries look for an expert opinion or a second opinion from providers or doctors from the U.S. or similar other countries. So we believe since we already have a presence there, we already understand the culture and the different moving parts there, this will put us in a very unique situation to have success in that implementation.

Marc Wiesenberger
Great, thank you very much.

Operator
Next question comes from the line of Brian Marckx with Zacks. Please go ahead.

Brian Marckx
Good morning guys and congrats on the quarter. One question on revenue, Bill, revenue was about $800,000 stronger than we were expecting, just kind of wondering if there was any new acquisitions or

tuck-in deals that contributed in the quarter? And can you give us what Etransmedia's contribution was in Q3?

Bill Korn
Thanks, Brian. So in answer to the first part of the question, there were no new acquisitions, no new tuck-ins. So this is a combination of additional revenue from existing clients, and a little bit stronger revenue on the practice management side. So this was just business as usual. Our largest client continues to grow and set new records for revenue each month.

And, in terms of Etransmedia, we try not to break out a lot of the details. There will be some information that comes out in the 10-Q. But I'll say that we've actually been really pleased that the retention of that business is a lot better than what we had initially anticipated. We understood their history from before we bought them. And I'd say we've kept far more of the business than we originally thought; we turned around a couple clients who were thinking about canceling. So we had sort of modeled that, and it was going to be shrinking and it's actually pretty much stabilized, so we're really happy about that.

Brian Marckx
Okay. That's great to hear. One question on the partnership strategy, I wonder if you can kind of help frame for us what your expectations are for upfront costs to set up a new client? And then do you have kind of an idea of payback period to cover those upfront costs? And then the second part of the question relates to capacity and whether you might have to add capacity offshore to take on a partnership client?

Stephen Snyder
Absolutely. Thanks for the question, Brian. So from a capacity perspective, we have the capacity today to handle all three of those opportunities, assuming they go live as I mentioned. And we're in the process right now, we have a team member who's spending roughly 70% - 80% of his time focused solely on outreach to billing companies pitching this model that we're talking about, together with the possibility of acquisitions. So there are 1,500-plus billing companies, and we would estimate that out of those 1,500-plus, at least 1,000 would fall into this category and would be prospects for this sort of solution.

From an upfront cost perspective, the upfront costs are very de minimis in the context of providing FTEs, it's simply providing the training to the extent that they're not leveraging our platform, but leveraging another platform. We already have individuals who are working on close to 30 other unique platforms which cover the overwhelming majority of the scenarios that we'll see with regard to these billing companies.

So we already have the experienced team members who we can deploy on most of these sorts of relationships. The upfront costs are negligible from a software perspective. Again, with our business model, it puts us in a very unique position. We have more than 300 IT / R&D team members offshore. And for us, there's very little involved in terms of white labeling the software itself and the software scenario, with a 1 to 10 labor cost arbitrage when we look at Pakistan versus the US, the costs associated with that are de minimis.

So there are advantages to partnering with rather than acquiring in the context of smaller target companies. In the acquisition of a smaller revenue cycle management company, there will still be some fixed legal costs, there will still be some accounting costs, there will still be due-diligence efforts that have to go into a purchase. There'll be costs associated with redundancy as we're rolling their operations into ours. And all those sorts of things that go into any acquisition, but in relative terms, they place even more stress on the model. Those downsides don't exist in the partnership scenario.

Brian Marckx

Okay. One more related to that and it has to do with the due-diligence period and how much access you might get if a competitor is going to work with you, and you see that as a potential area of risk if you couldn't get enough depth of due-diligence to look at one of these opportunities?

Stephen Snyder
We really don't see any material risk associated with that scenario. We have the ability going into the relationship and of course, we'll make sure that any partner we're working with, we feel comfortable with their overall business practices going into that relationship. And typically, in these relationships, either party has the ability to terminate that relationship upon a relatively short period of notice.

Of course, that becomes a little bit more difficult for a customer of ours because they have to find a new group of individuals who can take over the operations. It can be even more difficult from a software perspective. They'd have to be able to migrate the data. But from our end, it's relatively straightforward being able to terminate those relationships.

So as we go into these relationships, we're ensuring we're choosing the right partners to work with much like in the acquisition scenarios. We're making sure that we feel comfortable from a business ethics perspective. And that we have a partner who is going to pay our invoice on a timely basis, incorporating good business practices going forward. Things like automatic payment through ACH as a key part of that relationship. So there's very limited downside candidly in terms of these relationships.

Brian Marckx
Okay, great. Thanks a lot, guys. Appreciate it.

Stephen Snyder
Thank you.

CONCLUSION

Operator
In the interest of time, we will now conclude our question and answer session. I would now like to turn the conference back over to Ms. Shruti Patel for any closing remarks. Thank you.

Shruti Patel
Thank you. We'd like to thank everyone for joining today and your continued support. We look forward to speaking again in the near future. Thank you.

Stephen Snyder
Thank you, everyone.

Bill Korn
Goodbye.

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