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Q3 2018 Allscripts Healthcare Solutions Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2018 / 8:30PM GMT

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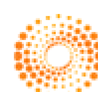

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PRESENTATION

Operator

Greetings, and welcome to Allscripts Third Quarter 2018 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Stephen Shulstein, Vice President, IR. Thank you. You may begin.

Stephen M. Shulstein ***Allscripts Healthcare Solutions, Inc. - VP of IR***

Thank you very much. Good afternoon, and welcome to the Allscripts Third Quarter 2018 Earnings Conference Call. Our speakers today are Paul Black, Allscripts' Chief Executive Officer; Rick Poulton, our President; and Dennis Olis, our Chief Financial Officer.

We'll be making a number of forward-looking statements during the presentation and the Q&A part of the call. These statements are based on current expectations and involve a number of risks and uncertainties that can cause our actual results to vary materially. We undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our earnings release and SEC filings for more detailed descriptions of the risk factors that may affect our results.

Please reference the GAAP and non-GAAP financial statements as well as the non-GAAP tables in our earnings release and the supplemental workbook that are both available on our Investor Relations website.

And with that, I'm going to hand the call over to Rick Poulton.

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Okay. Thanks, Stephen. Good afternoon, everybody, and as always, thanks for joining our call today. We appreciate both of your time and your interest in Allscripts.

We've received a lot of interest in this topic, so I want to start the call today where I left you at the end of our last earnings call where we discussed potentially monetizing our investment in Netsmart. As you may recall, we highlighted at that time that we were engaged in negotiations with multiple parties on the sale of our interest. And based on the work that have been accomplished to that point, expected that we would enter definitive documentation on the sale during the third quarter.

Since that call, we spent considerable time and the management team of Netsmart has spent a tremendous amount of time in working on a possible transaction. There was significant market interest in Netsmart before we made our comments at the last earnings call. And the public comments that we made at the call brought even more parties to the table, expressing interest in acquiring our ownership stake. So given the substantial interest and the complexity of the sale of our stake, we decided to hire financial advisers to run a more formal sale process to ensure we maximize value for shareholders.

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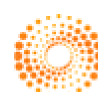

That complexity of our sales process has worked a little further color because it may have a bearing on what we ultimately decide to do. Unlike traditional corporate dispositions, we are not selling the full control and interest in Netsmart. In addition, the JV agreement we have with our current partner and some of the governance and liquidity provisions contained therein are difficult to some parties to accept without modification. However, modifying these provisions requires a negotiation not just with Allscripts but also our existing JV partner, and this complexity has created a lengthier process.

So notwithstanding these complexities, we remain more convinced than ever that Netsmart is a great company with a great team who have great vision for the future, and Allscripts shareholders deserve to get fairly rewarded for the value that we have collectively created there, whether it be in the near term or a little further down the road.

So with that backdrop, let me update you on where we stand right now. We've completed the formal auction process and are now engaged in final diligence and late-stage negotiations with a group of financial sponsors. We expect these negotiations to run over the next several weeks, and we will make a decision at the conclusion of these discussions on whether to transact or not.

So now let me turn to third quarter results. As I mentioned earlier, the leadership team of Netsmart spent a tremendous amount of time dedicated to the sale process. And as a consequence, business performance at Netsmart was wider than we expected during the third quarter. Bookings were down considerably year-over-year, albeit on a very soft year-over-year comp, and both their revenues and earnings came in below our expectations. Dennis will make some specific comments on this later, but suffice it to say, the performance weighed down our consolidated results for the quarter.

While our sale process clearly impacted their third quarter results, I want to repeat what I said earlier. We remain quite bullish about our outlook for Netsmart. Since the launch of their next-generation post-acute platform earlier this year, Netsmart has added more than 60 new clients and are also beginning to sign migrations of existing clients for this new platform. Additionally, recently, they have received two major vendor of choice selections, one by a large home care provider and one by a very large senior living and home care provider. When these VOC selections are memorialized in contracts, they will become part of reported bookings.

Netsmart expects to end the year with bookings up 35% year-over-year for the post-acute market segment. This is a solid proof point that the strategies that made Netsmart the leader in the behavioral health markets over the last decade are now starting to bear the same results in the post-acute market segment.

So on an overall basis for the quarter, we have consolidated double-digit growth in revenue and earnings per share. On a year-over-year basis, we reported 16% growth in GAAP revenue to $522 million, 19% growth in non-GAAP revenue to $536 million and 13% growth in non-GAAP EPS to $0.18 a share.

Turning to overall bookings. We continue to see the same trends that we saw last quarter in our bookings results as we spaced lengthening sales cycles due to what is now primarily ROI-driven demand in both our acute and ambulatory segments. Excluding Netsmart's contribution bookings in both the third quarter of 2018 and the third quarter of 2017, Allscripts core bookings grew slightly year-over-year, reflecting less volatility on our base businesses. And as I look ahead to Q4, excluding Netsmart, we expect that bookings will continue to increase year-over-year.

Now let me highlight some trends in client activity in the quarter. In the hospital and health system market, we saw a lot of contract extensions during the quarter across both the Sunrise and Paragon customers. For example, we signed a seven-year extension for Sunrise clinicals, including the addition of Sunrise registration and scheduling modules at the hospital for special care in New Britain, Connecticut. We also signed a five-year managed services expansion agreement with South Nassau Communities Hospital on Long Island, New York.

In the Paragon base, we signed a five-year extension at Bingham Hospital. In addition, Bingham was the second client in the Paragon base that has bought dbMotion. So we use our dbMotion solution to connect 150 physicians in their community. Also, Mission Community Hospital agreed to a five-year extension of Paragon and also added FollowMyHealth as its patient engagement platform.

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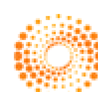

We're pleased with our attraction with Paragon clients and expect to continue our momentum with cross-selling solutions.

And finally, Northwell Health has extended their TouchWorks agreement for an additional five years and will double the number of providers from 1,100 to just shy of 2,200 users of this system. This is a great vote of confidence from our largest client.

In the ambulatory market, we had several competitive takeouts in the quarter. For example, premier orthopedics with 70 full licensed providers and over 100 mid-level providers in 30 locations was a replacement of multiple competitors and adopted our full suite of EHR, practice management, clearinghouse and patient engagement solutions. This deal not only demonstrates the value of our comprehensive offerings. But it also illustrates our cross-selling opportunities with other clients.

Additionally, Colorado physician partners selected Allscripts after an extensive market evaluation process, and they also adopted our EHR, clearinghouse and patient engagement solutions. This is a great start, but we believe there are further opportunities to expand our relationship with this client as well.

And lastly, our revenue cycle services continued to gain traction in the marketplace. We saw a number of cross-sell wins in the quarter, including a 25-provider group in California and a 20-provider group in Florida.

In our payer and life science business, we experience strong results for pharma and CRO activity. And we see this trend continuing for the foreseeable future. Our strategy to invest in this area is paying off, and we recently made some key hires to accelerate growth and focus on late-based clinical research and real-world evidence data and analytics solutions. We continue to expect strong growth from our payer and life science businesses. Our unique offerings provide compelling value to these clients as we reduce their costs and speed up inefficient processes that currently tether them to the point of care.

Overall, we remain confident in our go-forward strategy. We are eyes wide open and recognize the market for traditional EHR and revenue cycle solutions has matured here in the U.S. And replacement market opportunity causes some churn but likely only modest net profit growth in the near term for any of the industry participants. But our opportunities to expand wallet share with our existing clients and our opportunity to bring new, innovative, industry-leading solutions around important business areas like care coordination, patient engagement, asset utilization, financial decision support and precision medicine as well as our opportunity to expand internationally and, finally, our opportunity to leverage our extensive footprint across both inpatient and outpatient care for the payer and life science end markets all collectively provide Allscripts with a unique opportunity and an exciting platform to continue to grow earnings.

So with that, I'll now turn the call back over to Dennis to go through more financial details for the third quarter and our outlook for the balance of the year.

Dennis M. Olis *Allscripts Healthcare Solutions, Inc. - CFO*

Thanks, Rick. As we review this quarter's numbers, please reference the schedules and the earnings release as well as the supplemental data workbook available on the Allscripts Investor Relations website.

For clarity purposes, let me make a few opening remarks before diving into the results. First, my comments on the income statement will largely focus on non-GAAP metrics, unless otherwise stated. Full reconciliations of GAAP and non-GAAP figures are available in the earnings release.

Second, effective January first of this year, we adopted the new 606 revenue recognition standard in the modified retrospective approach. The adoption of the new standard resulted in a single-digit adjustment to revenue and, therefore, did not materially impact our third quarter results. As such, all references to our current results are made after applying the new revenue recognition standard. Please review our 10-Q for further disclosures around the new standard.

Third, as a reminder, we closed the Practice Fusion transaction on February 15 of this year and began consolidating the results as of that date. Q3 includes a full quarter contribution from both Practice Fusion and from EIS, which closed back in October of 2017.

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Fourth, the divestiture of our OneContent business closed on April second of this year. And therefore, our Q3 results do not include financial results from this business unit.

Now let's dive into the results for the quarter. Bookings totaled $246 million in the quarter. As Rick noted, while bookings are down from Q3 last year, if we exclude the impact of Netsmart's bookings, our bookings were up marginally year-over-year. Our backlog now stands at $4.7 billion, up 13% year-over-year. This reflects both the impacts of bookings as well as a substantial number of renewals in the quarter that are not included in the bookings metric.

Turning to the income statement. Third quarter non-GAAP revenue totaled $536 million, an increase of $85 million or 19% versus Q3 of 2017. Non-GAAP revenue reflects $14 million in acquisition-related deferred revenue adjustments in the third quarter of 2018. In the third quarter of 2017, such adjustments totaled $2 million, and therefore, the Q3 2018 GAAP revenue of $522 million represents a 16 -- 16% growth versus the third quarter of a year ago.

Netsmart's Q3 non-GAAP revenue totaled $96 million, growing 13% year-over-year. EIS contributed non-GAAP revenue of $70 million in the quarter. As a reminder, this excludes OneContent and is in line with our expectations for the EIS business. This also includes the EIS portion of the acquisition-related deferred revenue adjustment of $8.5 million.

Looking at our total revenue split. Total recurring revenue grew 26% and nonrecurring revenue decreased 3% versus the same period a year ago, plus our total recurring revenue mix came in at 80%. As discussed in the previous couple of quarters, as we incorporate the 606 revenue recognition changes into our 2018 reporting, there will be some volatility in this measurement throughout the year. We continue to expect to trend in the high 70% to the low 80% range for the fourth quarter of 2018 and beyond.

Looking at revenue results by line item. Total software revenue in Q3 increased 17% year-over-year and now totals $339 million. Recurring software revenue consisting of subscriptions, recurring transactions, support and new maintenance increased 27% year-over-year. A large portion of this growth was driven by the consolidation of the EIS business. In the quarter, nonrecurring software revenue decreased 22% year-over-year.

Turning to client services. Consolidated non-GAAP revenue grew 22% year-over-year to $197 million in Q3. Recurring service revenue increased 24% year-over-year driven by revenue cycle services and other multiyear service offerings and the addition of the EIS business. Similar offerings from Netsmart such as hosting, revenue cycle services and managed services also contributed to this increase. Allscripts nonrecurring service revenue increased 19% year-over-year driven primarily by the EIS acquisition.

Moving to non-GAAP gross margin. Total gross margin was down 150 basis points year-over-year primarily attributed to the decrease in nonrecurring software license revenue.

Analyzing margin by component, software gross margin decreased by 280 basis points year-over-year and client software gross margin increased 210 points for the same period.

Looking at operating expenses. Non-GAAP SG&A totaled $113 million, a 14% increase year-over-year. Non-GAAP SG&A figure excludes transaction-related and other expenses. The increase in SG&A is primarily a function of the additional acquired expenses from EIS, Practice Fusion and HealthGrid. Compared to the second quarter of 2018, non-GAAP SG&A decreased by $9 million as we were successful in containing costs and driving additional synergies from our recent acquisition.

Non-GAAP gross R&D was $98 million, up 31% year-over-year, reflecting the additional R&D expenses attributed to the acquisitions at Netsmart and Allscripts. Sequentially, non-GAAP gross R&D was down slightly. Recall that non-GAAP gross R&D excludes transaction-related and other expenses.

Our software capitalization rate was 32% in the quarter, within our expectation to be in the low 30% range for 2018.

Adjusted EBITDA totaled $106 million, which equates to 20% adjusted EBITDA margin. This represents a 9% improvement both

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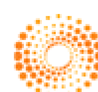

year-over-year and sequentially and is the highest margin since prior to the EIS acquisition.

To reiterate what we have stated since the acquisition, the EIS integration efforts will continue, and we would expect EBITDA margin to trend upward throughout the balance of the year and as we enter 2019.

Netsmart's adjusted EBITDA is trending in the mid-20% range as a percentage of Allscripts total reported EBITDA and came in slightly below our expectations for the third quarter due to the reasons Rick mentioned.

Looking below the line, total cash interest increased 33% to $24 million, which compares to $18 million from a year ago. This was driven by the financing required to fund EIS and Practice Fusion acquisitions and Netsmart's acquisition of Change Healthcare's home care business in early July of this year.

GAAP loss per share in the quarter was $0.20. Please note that the GAAP results this quarter included transaction-related costs, severance fees and other cost of $16 million.

Finally, excluding noncash adjustments and transaction-related and other expenses, non-GAAP net income attributed to Allscripts totaled $31 million and non-GAAP EPS was $0.18 for the quarter, representing a 13% year-over-year growth.

As a reminder, non-GAAP EPS is calculated net of noncontrolling interest to reflect Allscripts ownership portion of the partially owned, controlled and consolidated businesses.

Non-GAAP net income attributed to Allscripts Healthcare Solutions grew approximately 5% year-over-year. We ended the quarter with a principal balance of $709 million in secured debt and $345 million on convertible senior notes, a $15 million increase in long-term debt quarter-over-quarter. These amounts excludes Netsmart's total debt, which is nonrecourse to Allscripts.

Netsmart's total debt, which is nonrecourse to Allscripts but reported for consolidation purposes, totaled $810 million, up quarter-over-quarter primarily due to the Change Healthcare acquisition.

Turning to cash. Q3 operating cash flow totaled $15 million compared with $64 million a year ago. Q3 free cash flow totaled a loss of $27 million after adjusting for capital expenditures, capitalized software and purchased software. Our free cash flow was negatively impacted in the quarter due to the timing of certain receivables related to the EIS and Netsmart businesses as a substantial number of EIS and Netsmart contracts are structured to receive payment in the first and fourth quarters.

As we've noted in the past, cash flow will vary from quarter-to-quarter. As we move into the fourth quarter of 2018, we expect free cash flow to improve as contractually timed collections from the EIS and Netsmart businesses tend to increase in the fourth quarter.

Turning to our outlook. We are maintaining our 2018 annual guidance. However, we now expect to come in at the lower end of the range for all guidance metrics based on the performance to date and our outlook for the fourth quarter. As a reminder, our previous annual guidance called for non-GAAP revenue of between $2.15 billion and $2.25 billion; adjusted EBITDA to be between $420 million and $460 million; and excluding Netsmart, adjusted EBITDA will be between $310 million and $340 million; and finally, non-GAAP earnings per share of between $0.72 and $0.82 per diluted share.

Finally, we continue to expect an effective tax rate of 27% for the full year.

And with that, I'll turn it over to Paul.

Paul M. Black ***Allscripts Healthcare Solutions, Inc. - CEO & Director***

Thanks, Dennis. My remarks will touch on Allscripts competitive positioning today and the opportunities we see going forward.

Allscripts portfolio has tremendous depth and breadth, and our formidable software and services offerings rivals any in the industry. Over

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the past few years, our investments in core EHR and surround solutions have allowed us to compete successfully across the acute and ambulatory markets around the world. Our large client base provides us opportunities to sell additional solutions and services more efficiently as we obtain the success proven out by the results from our continuous investment in R&D and our recent acquisitions.

The results have been a three-year compound annual growth rate of 15.5% in revenue, 18.8% in adjusted EBITDA and 14.2% in non-GAAP earnings per share. This has outpaced nearly every other public competitor in our sector. It is no accident that we are now well positioned in the payer and life sciences as well as the consumer marketplaces, two of the fastest-growing segments in our industry.

Five years ago, it was clear to us that the regulatory purchasing environment we saw during the Meaningful Use era would not continue indefinitely. As a result, we made the decision to expand and pursue other avenues of growth such as population health, payer and life sciences and consumer services. This has resulted in a payer and life science business is now approaching 10% of our revenues and is growing at a rapid clip. We have compelling offerings in the consumer and patient engagement space, particularly with the recent addition of HealthGrid. Our population health offerings are gaining traction, and we look forward to driving further growth through these solutions.

We have demonstrated success with expanding our solutions set through disciplined capital deployment, including McKesson EIS a year ago and most recently, Practice Fusion and HealthGrid. We would expect further investments to be focused in payer and life sciences and consumer solutions as we look to build up these high-growth areas.

As a part of our balanced capital allocation strategy, we have also returned more than $100 million to shareholders this year through share repurchases. Currently, we have a robust $250 million share repurchase authorization available to us.

As Rick mentioned, we are very bullish about Netsmart's prospects whether or not a transaction is ultimately consummated in the near term. If a transaction is not closed in the near term, we believe we will continue to benefit from a strong growth in post-acute sector. Ultimately, Allscripts shareholders will benefit from our investments in Netsmart.

Our solutions have been resonating with our clients. We have seen RFPs increasing from the pace that we saw last year. As our clients know, we focus a great deal on partnering with them towards innovation. And as solution seekers, we know that healthcare's future hinges on this meaningful innovation.

In early October, we hosted client -- the Allscripts Client Experience or ACE User Group for hospitals and health systems in St. Louis. During the event, we recognized client innovators with the first Allscripts Client Innovation Excellence awards. We also provided clients a closer look at the substantial investments we've made in our solutions and asked them to avail themselves of those enhancements by taking the upgrades. We conduct similar specific content meetings for our ambulatory client base in six regional -- ACE events during the year, we hosted clients to share with them our latest innovations, best practices. And we look forward to doing it all again next year.

I want to thank our associates for their hard work, our clients for their loyalty and our shareholders for your confidence.

With that, let's open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Michael Cherny with Bank of America.

Michael Aaron Cherny ***BofA Merrill Lynch, Research Division - Director***

If I could dive in on Netsmart results for the quarter a bit. You talked about the distraction for the management team is potentially driving some of the underperformance versus what you expected. Is there any way to give us a sense of maybe not necessarily numbers magnitude, but were there any large deals that were supposed to come through that didn't? Or just how did that manifest itself in terms of the underperformance given where you shook out versus where you had hoped to shake out?

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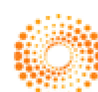

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Yes. So Mike, the biggest -- I mean, the big -- certainly, on bookings is a big piece of it and that would be definitely split deals. As you heard from my comments, the outlook for the full year is to have a very successful growth year-over-year in the post-acute segment. And I didn't specifically comment on the behavioral health segment, but that's doing quite well also. So it was a big departure on bookings growth. We felt that in the P&L as well, and it's -- I would say, that's just the trickle-down effect from some of the split deals.

Michael Aaron Cherny ***BofA Merrill Lynch, Research Division - Director***

Got it. And just quickly on Northwell and the extension on TouchWorks, any update on the timing of how long Sunrise and then some of the managed serviced contracts you have there?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Well, the managed service agreement we have with them, we're -- we have a pretty good augmentations at our IT staff. Still has more than a year in it, and it's a conversation we've started to talk to them about already. So we're continuing to do that. That said, I'll remind you, those managed services are not high-margin services. So while it's a renewal, we're quite interested in extending and expanding. It does not represent a material piece of our earnings.

Operator

Our next question comes from Jamie Stockton with Wells Fargo.

James John Stockton ***Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst***

I guess, maybe just one more on Netsmart and the bookings performance during the quarter. I think a couple of years ago, you guys had kind of weak bookings quarter for this business in the third quarter and said that there's some seasonal softness in the third quarter last year. The commentary in Q3 was that Netsmart had really strong bookings. Is there a component of this where it was just a difficult comp for that business in a period that is otherwise seasonally softer? Or I guess, is -- aside from just distraction around a potential deal, is there anything else environmental that seem like it had an impact on that business?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

I mean, the fundamentals in the space, Jamie, is -- are very good. They had -- I've said it in my comments but I'll repeat it. It's -- it had a very, very, very difficult year-over-year comp. They had a tremendous quarter a year ago in the third quarter. Some of their deals get lumpy with size, and in particular, there is -- I mentioned, they've been selected VOC in a couple of larger deals. We had a little bit of slippage, and I do attribute that, in large part, to the process. The management team invested a tremendous amount of time. And the management team is a big piece of their selling force so.

James John Stockton ***Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst***

Okay. The EIS business, I wanted to just touch on it and where things stand as far as the process of trying to drive the EBITDA margin improvement that you guys have been looking for there kind of in 2019 relative to what it looked like when you bought it. Having gotten the third quarter kind of behind us, are most of the actions that are required to drive the margin improvement also behind us? If you could just give us an update there, that'd be great.

Dennis M. Olis ***Allscripts Healthcare Solutions, Inc. - CFO***

Yes. Thanks, Jamie. This is Dennis. So as it relates to the top line, as I reported, the revenue for the third quarter was about $70 million. You'll note that last quarter is about $72 million. And we've said that it would stabilize around the $70 million mark, and we continue to believe that. So we believe that from a attrition standpoint, we're in a good place and actually better than we had originally modeled into our models when we did the acquisition. From a cost standpoint, we've done -- we're on track to meet our obligation of continuing to take costs out and drive the EIS business from a single-digit EBITDA margin where it wasn't when we acquired it in October of last year to something in the 18% to 20% range as we go into 2019. So while we're still pretty far down that path, there's still some work that we're doing in the fourth quarter to improve the overall margin of that business. And we'll continue to do that and complete the actions or maybe a little bit of the spill over into 2019, but I expect the majority of the actions to be completed by the end of the year.

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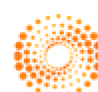

Operator

Our next question comes from Robert Jones with Goldman Sachs.

Unidentified Analyst

This is Jack, on for Bob. Can you guys update us on retention for Practice Fusion? And then maybe, can you give us a sense of how much of a contributor subscriptions revenue from that business were to margins in the quarter?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

The tension is very strong. We're very pleased with that after introducing a fee model. It's probably overperformed our expectations. And it's -- we're blending that in with a lot of our other efforts to expand in our payer and life science arena, so we can't give you an exact number on the EBITDA contribution. But it's certainly helped benefit and is a part of the story of why EBITDA margins grew during the quarter.

Dennis M. Olis ***Allscripts Healthcare Solutions, Inc. - CFO***

Yes, I'll add on to that. While the price adjustments went into effect on June first of last year, there were quite a few of their clients that actually went live in May and started -- we started receiving some revenue from them in May, so the impact from Q2 to Q3 was not a full quarter impact because some of the clients had started receiving revenue earlier in Q2.

Operator

Our next question comes from Ross Muken with Evercore.

Kim Yoon ***Evercore ISI Institutional Equities, Research Division - Associate***

It's Suzie Yoon, on for Ross. One of your competitors recently commented on seeing smaller deals in the market with less software versus prior years. Is this what you're seeing as well? And is there any change in the level of buying activity that you're seeing? And then as a quick follow-up, I think you mentioned last quarter that you expect some sizable deals over the course of, say, next four quarters or so. Does that still stand? And how are you feeling about the pipeline of opportunities?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Well, I'll start with the deals composition. Look, as I may -- as I acknowledged in my comments, I mean, the U.S. market is a relatively mature market for the traditional solutions, EHR, rev cycle, et cetera, the things that fuel a lot of people's growth over the last few years. So a lot of the new growth is coming by augmenting services, and that clearly stand in contrast to software. There are new software opportunities. I highlighted them in my comments as well. We think we're very well positioned for some of these new areas of business problems for -- the healthcare providers are experiencing. And we have great solutions for them, areas like care coordination, financial decision support, precision medicine and things like that. So you'll note that our bookings in software were up pretty decent in the quarter. We -- a lot of the fall-off was really around services more than software bookings. But I think it's true that growth is happening in services areas these days. As for the pipeline, I mean, Paul, may want to add to this. Yes, we have some -- I mean, particularly international opportunities are large in size, and we feel very good about some of the opportunities that are in our pipeline. They're difficult to predict timing, but nevertheless, we feel they're real opportunities, and we feel we're well positioned. Want to add anything to that, Paul?

Paul M. Black ***Allscripts Healthcare Solutions, Inc. - CEO & Director***

I would just add that we have -- as part of our process, we have a quarterly commit meeting where everybody comes in from all the different sectors of the business and forecast what they're going to have for the quarter, what they did last quarter and what to do on a rolling 12. So that process continues to go well, and we seem to have a fair amount in the pipeline for what we need to do in order to have a strong Q4. So I'm not seeing any weakness there. As Rick just mentioned, it's all about when things actually get signed and make it -- return it into revenue and turn it into an actual bookings. So pipeline is good, and that has been very helpful, continuing to be optimistic here.

Operator

Our next question is from Ricky Goldwasser with Morgan Stanley.

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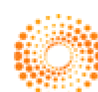

Rivka Regina Goldwasser ***Morgan Stanley, Research Division - MD***

Two questions here. First one is we think about the potential sale of Netsmart, how should we think about capital deployment within the context of buy back or the markets that you outlined to us before they are of interest? And secondly, if you can just help us get better understanding on when you think about the core booking growing slightly, what portion of it came from Practice Fusion and EIS versus the legacy business?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

First part of the question, as we said when we started the process around Netsmart, our near-term priorities will be to delever and opportunistically repurchase shares as we see fit in the market, so that will continue to be it. We have plenty of dry powder to invest in the business as we see fit, and this will just expand. If, in fact, we reached a transaction and the size to transact, then that will just free up even more dry powder. So those are our capital priorities. Dennis will take the second part of your question.

Dennis M. Olis ***Allscripts Healthcare Solutions, Inc. - CFO***

Yes. Thanks, Ricky. In terms of the core bookings growth year-over-year, that is -- both of those -- that number excludes any contribution from EIS or Practice Fusion. So when we talk about our core bookings, we're excluding -- that's an organic number and does not include the impact of any of the acquisitions that we've made over the last year. It also excludes Netsmart.

Operator

Our next question comes from Matthew Gillmor with Robert W. Baird.

Matthew Dale Gillmor ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Following up on the Netsmart discussion, can you help us understand what you meant by the timing? I think you said it'll take a couple more weeks to sort of sort through final diligence. So do you expect sort of an announcement before year-end? And then, can you give us some sense for the governance and liquidity constraints that are sort of part of the dialogue with some of the potential buyers?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Well, Matt, it's going to be largely repetitive with what I said earlier. We run a very traditional and formal auction-style process. And in the course of doing that, you eliminate a lot of people along the way. We're down to a group of financial sponsors that, as I said, we're in kind of very late-stage diligence and final negotiations. So my best crystal ball is it'll be a few weeks to play that out. But it's -- these processes are inherently difficult to be very precise about. So I would think sitting here today, we'll know something before the year is over. But certainly, if we make a decision, you guys will be the first to know. But if we don't make a decision, that means we're still working. As for what I just shared on what I characterize as generic-case complexities, all of this is in the public domain. I mean, the JV agreement, we live under with our current partners out there. But what I was alluding to is, again, it's not a controlling share that we're selling. So you step into a governance model where you're a participant in it but not the own driver of it. And again, what was outlined when we filed all the regional documents, there are liquidity provisions that our partner has that allows them to do certain things in the future. And those are things that we were fine with entering into it, but somebody who is potentially going to step into our shoes has a different perspective, particularly now that's two and a half years after we formed that JV. So that's what I'm talking about. I mean, there's details ad nauseum if you got -- if you really want to read up on it out there, but that's what I'm talking about.

Matthew Dale Gillmor ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Fair enough. And then wanted to also ask about the client services backlog. I saw that declined a bit sequentially. Just wanted to see if there's anything to call out with respect to that metric.

Dennis M. Olis ***Allscripts Healthcare Solutions, Inc. - CFO***

No. That's -- if you look at the combined metrics, there were some reclassifications that happened between the software and service line for backlog. As we're diving into the EIS backlog and making sure that we got consistent definitions across the product lines, we noticed some gaps, so we made that adjustment this quarter. Did not impact the total. It was just the split between service and software.

Operator

Our next question comes from Eric Percher with Nephron Research.

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Eric R. Percher ***Nephron Research LLC - Research Analyst***

As we entered the year, you had a fairly wide EBITDA, I would say, a wider EBITDA range than we had seen in the past, and we talked about the contingency or dependency on revenue. As we progressed now to the third quarter and we're now pointed at the low end of the range, I want to ask for help in understanding, what are the elements that have really impacted you the most relative to when you set guidance? I think the high end represent -- would represent a really material improvement in the business. But help me walk through some of the puts and takes that have impacted you throughout the year as you now make that determination.

Dennis M. Olis ***Allscripts Healthcare Solutions, Inc. - CFO***

I'll start, and then Rick or Paul can jump in. But I think the biggest item that we looked at, set the guidance at the beginning of the year, we said our financial plans dealt around the contribution that we were going to get from bookings in the quarter. So while we've seen a little bit of softness in our bookings, that's had some impact on the revenue during the course of the year. Now to offset that in part of the bottom end, we've been pretty aggressive by taking costs out and meeting our obligations in terms of the synergies that we were going to recognize. We also removed the OneContent business from our financial results, which was a very highly profitable business that we had at a portion of McKesson. So that had a bit of an impact on gross margins and EBITDA as we go down the P&L. But overall, I think the biggest contributor right now has been a little bit of softness in short-term bookings around services and on front software.

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Yes. I mean, Eric, I'm not -- I'm going to start at the top of your question. I mean, the range that we had, I don't actually think is that big. Maybe it's bigger in dollar terms because we're a bigger company. But if you do EBITDA, implied EBITDA margin at the top end of the range and the bottom end of the range, that's not a very big spread on margin. And what was reflected of is, look, we're integrating a much-to-do businesses. We had cost-saving actions that we're taking, and there's a certain amount of unpredictability you have in these businesses. So I think the EBITDA guidance range comported pretty tightly with the revenues range that we get. So I don't want to sound defensive, but I just -- I'm not sure if I am missing something in the beginning of your question. But what we're doing now is we got three quarters under our belt, and we're just telling you that with what's happened to date, Dennis is pointing you down toward the lower end of those ranges.

Eric R. Percher ***Nephron Research LLC - Research Analyst***

So does it feel like with that acquisition, it looks like organic growth is in that 3% to 4% range. I know you talked about strength in payer and the fact that you need to drove -- drive growth via ROI, which, I assume, also means financial management. Maybe what I'm looking for is your perspective on how well those businesses are running. And are they running well, and 3% to 4% is a reasonable expectation? Or are they running well, and there's more opportunity there?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

The -- A: they're running well. We are very happy with the way we've structured the organization and the leadership teams that we've put inside some of these solution sets and the ability around them. I think as we look ahead to the new year, we'll try to create a little more transparency about how we think about the different chunks of the business and what our expected growth profile is for those different chunks. But suffice it to say, the heart of the business today is still that legacy core that we've built over the Meaningful Use era. And as I acknowledged in my comments, I think it's appropriate for people to have relatively modest growth expectations in profits around that business. But we have solutions today that are relevant not only to our EHR clients but the entire market at large, and they have a very robust client set across other people's EHRs. And those areas are areas that have good fundamentals and have better growth prospects. And when you combine that with our payer and life science, which we think has very strong growth prospects, the composite of that is really behind the statement that I made at the end of my comments, as I think we have a platform that can still deliver good growth in earnings as we look out ahead. So we're very happy with what we've compiled and how we're managing it today.

Operator

Our next question comes from Charles Rhyee with Cowen and Company.

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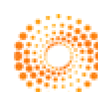

Samantha Rose Warman ***Cowen and Company, LLC, Research Division - Research Associate***

This is Samantha, on for Charles. I guess, I want to switch gears a little bit and talk about the payer and life sciences segment. Can you talk about some of the opportunities you see there, maybe what the sales cycle looks like and what the competitive landscape has been in that business as you start to compete in it?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Well, again, so there's -- we've combined it in one group, but it's two very different end markets. The payers have -- they're a different set of needs and interests than some of the life science companies and the life science company partners, the CROs. In both cases, though, they -- I would say, the common element is they have a lot of inefficiencies with intersecting with point of care. And we can eliminate a lot of those efficiencies. That's very valuable to them, helps them lower costs, helps them speed up things. And in an emerging area of real-world evidence as part of the clinical research process is an area that we think has a lot of growth. So there's a lot of not EHR companies that play in that space. But it is a big market and even a small segment or small slice of these markets can represent a nice opportunity for Allscripts.

Operator

Our next question is from George Hill with RBC Capital Markets.

George Robert Hill ***RBC Capital Markets, LLC, Research Division - Analyst***

I have a question for Paul. Paul, I know you traffic with a lot of health systems executives. And I'm wondering if you can talk about the conversations you're having with those guys around where healthcare IT is now ranking on the hospital CapEx priority list. And are we at the point in the cycle where healthcare IT, given the investment that's been made over the last seven to eight years, is now falling down the priority list and hospitals now need to spend money on other CapEx priorities, which has been neglected? And I guess, the follow-up question to that is, from a macro perspective, do we feel like demand has kind of troughed? Or could there be another kind of like down here?

Paul M. Black ***Allscripts Healthcare Solutions, Inc. - CEO & Director***

The folks that I talked to, George, they continue to understand that while historically having an IT system might have been nice to have, it's now mandatory and it's now mission-critical. Not only for the clinical processes that they have to report on and the patients to take care of, and the quality reporting that's mandatory, but also from the financial standpoint of the complexity of getting paid and getting reimbursed not only in the historical fee-for-service marketplaces but also venturing into the value-based care. So many of these people either have ventured into value-based or at-risk payment schedule or they're doing some form of an ACO or they're doing some sort of an employee-based capitated model or depending upon what part of the country you're in. So the ability for them to be able to have a system that can accommodate both the clinical side as well as the financial side has been increasingly important to them. They also are looking at this as a platform by which they can be competitive in their marketplaces for consumers, and they really look at that as a competitive offensive weapon that they are using to brand themselves versus other folks in the marketplace. So I see, George, the new normal as being a percentage spend that's quite a bit more than what it was pre-MU2. And that Meaningful Use expense is not really dissipating, it's kind of a new expectation what that's going to be. Do they wish that they had additional capital to go spend towards aging buildings and potentially some other acquisitions? Sure. In some cases, they're doing that. That's also why they're rotating to an operating expense model, and that's why the cloud or recurring revenue models are important to them, which we have a line in that regard over the course of the last five years as well. So I would say, all in all, a new normal for what they spend on is -- and they will continue to spend at that level. I don't expect that to go up necessarily, but I also don't expect it to retreat back to levels that pre -- that were historical in the pre-2009 era. At the macro level, I see from a demand standpoint, as Rick pointed out, there's a reality in the United States anyway with regards to the fact that if, in fact, anybody does have an electronic medical record, there's going to be a replacement market opportunity there. From a standpoint of all the other solutions that we have that are fundamentally new, whether it's the telemedicine or the voice recognition or the artificial intelligence work that we're doing, cloud-based applications, what we're doing on population health, precision medicine, those are all new markets for them and new opportunities. Those transactions or the size of those deals may not be as big as perhaps what a solution cost for new electronic medical record, let's say, in 2009 timeframe. But you add all those up, and you can see some pretty interesting long-term deals that are out there that we're being able to take off the market that are very good-sized transaction for us.

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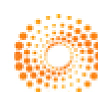

George Robert Hill ***RBC Capital Markets, LLC, Research Division - Analyst***

That was a comprehensive answer. Can I throw a follow-up into Rick, which is, I guess, Rick, on Netsmart, I wanted to see if I'm reading between the lines here correctly, which is, is the rate of returns kind of required at the sponsor on the other hand for the Netsmart transaction from the prior deal? Is that becoming an impetus to the execution of this transaction? Or is that not really an issue? Or is that just something that gets flushed out the evaluation when we get to the end of the process?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

I want to answer your question, George, but I might have to keep asking it. I mean, are you saying is the expected IRR that the -- our current partner is looking for an issue in our process?

George Robert Hill ***RBC Capital Markets, LLC, Research Division - Analyst***

Yes. So like there's kind of minimum rate of return that's required to the sponsor as part of the transaction that you guys originally entered into. What I'm asking is are people are looking at that? And is that causing people to be cautious as they look to a part -- your part of the asset?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Yes. It's not -- you might be referring to the liquidation pref that they have in their current deal. That's not a problem. That's -- I wouldn't say that's the issue at all. It was just -- it's just it's other issues around governance and, again, liquidity provisions, but not the liquidation pref. I mean, the value of the company has gone up significantly that such that, that liquidation process is not really an issue at all right now.

Paul M. Black ***Allscripts Healthcare Solutions, Inc. - CEO & Director***

And as you know, George, that's a really strong team and that the growth that they've experienced over the last three to five years has been pretty -- have been very impressive. It's an extremely attractive asset.

Operator

Our next question is from Stephanie Demko with Citi.

Stephanie July Demko ***Citigroup Inc, Research Division - VP & Senior Analyst***

Just thinking about the business post-Netsmart, could you help walk us through growth in the core business and kind of the contributions from each end market such core EHR versus payer and life sciences?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Yes. Look, I think we're starting to help people transition in that, some of the thinking there with some of the comments we've made today. We've made a bunch of comments that kind of with and without Netsmart. But I think we should. The right progression is let's take what we've told you so far about Q4. Let's see what happens on the transaction front, if anything. And then as we get closer into the new year and closer to the time when we typically start to set expectations for the future, that's when we'll set it up a little better.

Stephanie July Demko ***Citigroup Inc, Research Division - VP & Senior Analyst***

Understood. And then, as a follow-up on that one, assuming Netsmart does the potential to stay at its owned entity for you guys, how should we think about your go-forward thoughts for that business, if you do retain it?

Richard J. Poulton ***Allscripts Healthcare Solutions, Inc. - President***

Well, again, I think we shouldn't get ahead of ourselves, right? I mean, we -- what we're telling you is we're actively looking to modify it still. We're in discussions. We're in negotiations, an active process, so we shouldn't get ahead of ourselves. It is true that it's a possible outcome, as we'll decide to retain ownership. I think if we do that, that'll trigger us to have to do a whole bunch of other decisions around how we account for it and things like that. But look, it's a great team that's operating in a great segment of the market right now. And they -- it's growing value every day as far as we're concerned. So that's good for our shareholders.

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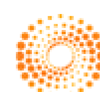

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back to Stephen Shulstein for closing comments.

Stephen M. Shulstein ***Allscripts Healthcare Solutions, Inc. - VP of IR***

Thank you. As a reminder, we've made a number of forward-looking statements during this call. These statements include but aren't limited to our outlook related to non-GAAP revenue, adjusted EBITDA, non-GAAP EPS as well as statements related to growth outside of our core businesses and in our international footprint, the timing of new client deal and the potential sale of our ownership in the Netsmart joint venture, including whether we will enter into and complete the transaction and the potential timing and proceeds of the transaction.

Thanks, everyone, for joining, and have a great night.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

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