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MDRX - Q1 2016 Allscripts Healthcare Solutions Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2016 / 8:30PM GMT

OVERVIEW:

Co. reported 1Q16 total revenues of $346m, non-GAAP net income of $25m or $0.13 per share. Expects 2016 revenues to be $1.58-1.61b and non-GAAP diluted EPS to be $0.55-0.62.

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PRESENTATION

Operator

Greetings and welcome to Allscripts Q1 2016 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. Today's conference call will be one hour in duration.

It is now my pleasure to turn the call over to your host, Mr. Seth Frank, Vice President, Investor Relations. Thank you. You may begin.

Seth Frank - *Allscripts Healthcare Solutions, Inc. - VP of IR*

Thanks, Rob. Good afternoon. Our speakers today are Paul Black, Allscripts' Chief Executive Officer; Rick Poulton, Allscripts' President; and we welcome Melinda Whittington, our Chief Financial Officer.

A number of forward-looking statements will be made during the presentation and the Q&A portion of the call. These statements are based on current expectations and involve a number of risks and uncertainties that could cause our actual results to differ 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.

Also, as management reviews the first-quarter details, please reference both our non-GAAP and GAAP financial statements as well as non-GAAP tables in our earnings release and supplemental data book that are available on the investor relations section of our website.

And now, I'd like to hand the call over to Rick Poulton.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Okay, thanks, Seth, and thank you everybody for joining us this afternoon. With Melinda joining us, we're going to change things up a little bit. I will cover the business highlights for the first quarter; Melinda will discuss the financials in detail; and then Paul will close by discussing our market positioning, his outlook on the regulatory front, as well as some of our other long-term initiatives at the Company.

We're very pleased with the first-quarter results and believe that the year has started on a strong footing. Bookings were $252 million, a record for the first quarter of the year; and it's the fifth consecutive record bookings quarter for the Company. Our bookings growth was 7% year-over-year. And in addition, we had nice year-over-year growth across all financial metrics, including revenue, gross margins, EBITDA, net income, and free cash flow.

The quarter was solid across all end-user segments, including large health systems, community hospitals, and physician groups in the US as well as our global business. And I'd like to review a few highlights in each of these four areas.

Beginning in health systems, the highlight of the first quarter was the agreement we signed with University Hospitals in Cleveland. UH Cleveland significantly expanded and extended its commitment to Allscripts through 2024 for both patient care and population health management.

UH is installing the full Sunrise platform into five new hospitals, and they also added the CareInMotion population health management platform. Sunrise will displace several other vendors in this move, and we are most proud of this, as UH had evaluated all commercial options before making this additional long-term commitment to Allscripts.

Back at the HIMMS conference, we officially launched CareInMotion, which is Allscripts' single-solution platform for comprehensive population health management. We are leveraging existing point solutions in a modular, integrated platform, including dbMotion, Care Management, Care Director, FollowMyHealth, and Allscripts EPSi. And thus far, the reception has been very positive.

We added another large new academic health system in Southwest who will utilize the CareInMotion platform as the foundation for their population health strategy. This is another proof point regarding our ability to deploy CareInMotion across multiple non-Allscripts EHR systems.

In terms of delivery, we had another successful CareInMotion go-live in a health system just outside of Chicago. And a separate Sunrise academic medical center client is progressing nicely with their large project rollout across a large geographic region in Texas. In this instance, they are measuring impact to care from access to a single community patient record view, which is integrated into workflow. And they are gathering case studies that prove out accelerated decision-making as well as intervention times that benefit patients, providers, and health plans.

Moving to the community hospital market, we just executed a very successful go-live at Palo Verde Hospital, which was a contract we signed in the first quarter of 2015. We continue to demonstrate success with our managed services model that rapidly and successfully scale Sunrise implementations into the community hospital market. We continue to pursue new business opportunities in this market.

Allscripts' success within the Sunrise client base has been attributed to the significant investments we have made in the platform. Back in March, Black Book Rankings recognized the Sunrise platform as the top overall inpatient EHR for large hospitals and academic medical centers for the third year in a row. In addition to this honor, Black Book's loyalty index ranks Allscripts at the top of vendors, especially those who expand into adoption of population health and managed IT services.

Moving to the large ambulatory market, I'm pleased to announce that in the first quarter, George Washington Medical Faculty Associates, which is a TouchWorks client since 2000, renewed its relationship with Allscripts by signing a new long-term agreement that extends and expands the solutions that Medical Faculty Associates will utilize, thus cementing the basis for a highly strategic long-term relationship. George Washington Medical Faculty Associates is the largest independent physician practice in the Washington DC metro region, with more than 750 providers across 52 medical and surgical specialties.

In the smaller ambulatory market our professional EHR bookings grew year-over-year, and we added the largest number of new physicians and other providers in the last nine quarters. We're seeing solid improvements in client satisfaction within our professional EHR and similar to the trend we saw in Sunrise, and you should expect to see additional third-party validation of these improvements as the year progresses.

We continue to see strong demand for managed services across all market segments, and in particular, our ambulatory segment is very robust. These services include hosting, revenue cycle management, and chronic care management services. From an execution standpoint, we had a significant milestone during the quarter as we activated hosting at Catholic Health Initiatives. This is one of Allscripts' largest ambulatory clients, with over 500 locations and nearly 6,000 users.

On the international front, we signed an extension for Sunrise with Alberta Health Services through the year 2021. In the first quarter we also signed a significant add-on sale to SingHealth. This is a major client in Singapore. And we also had a very successful go-live with the Ministry of Defense in Singapore, which is a Sunrise client that we signed in 2014.

Also in the first quarter, Salford Royal NHS Foundation Trust expanded its partnership by selecting CareInMotion to initiate the transition to a new model with integrated care. Salford Royal is the first United Kingdom client to deploy dbMotion, which, again, is an important part of our CareInMotion platform. And we believe that this relationship we have establishes a beachhead with the core population health platform in the UK, a market that is just now starting to gather momentum for consideration of population health solutions.

New client activity and pipeline in the international markets is strong, and we look forward to continuing momentum from the multiple large UK sales that we had in 2015.

I want to conclude with comments on the Netsmart transaction that closed a couple of weeks ago. We are very excited about this announcement. First of all, we have taken Allscripts Homecare and placed it into the hands of world-class management team, creating the technology solution leader in human services and post-acute market. Homecare will flourish and scale much faster than we would have been able to do on our own.

Second, behavioral health, human services, and post-acute care are highly strategic markets for most of our clients. The Netsmart JV creates a platform to manage patients across the entire spectrum of the lifecycle, including health maintenance, acute and chronic illness, and mental health. And these are connected and essential to achieving the ultimate goal of managing healthy communities and populations. So together, we have added additional capabilities that round out Allscripts' offering to be the most comprehensive in the industry.

Finally, we believe the Netsmart JV creates value and allows Allscripts to participate in a strategic growth platform which will unlock long-term shareholder value for Allscripts shareholders, in addition to the near-term benefits of lifting our top line and giving us direct exposure to the additional growth market opportunity.

So on that note, I'd like to hand the call over to Melinda to discuss our first-quarter financials.

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Thanks, Rick. I'll focus my comments on the first-quarter financial results and provide updated guidance for 2016. Please consult the tables in the back of the press release and the supplemental data workbook to reference the numbers we will be reviewing.

Overall, first-quarter results are in line with our expectations with respect to growth in bookings, revenue, adjusted EBITDA, and non-GAAP EPS. Bookings grew to $252 million, a 7% increase compared to the $236 million a year ago. In terms of mix, services bookings grew 61% year-over-year, while software delivery bookings decreased 25%.

Let's put these metrics in context. First, both acute and ambulatory bookings increased year over year, but bookings mix can be inherently lumpy, as execution of multiyear contracts varies in timing and by solution type quarter to quarter. Specifically, in Q1 2015, we had a new-footprint Sunrise win, as well as significant new bookings activity in the Payer and life sciences business, while in the current quarter we had a higher mix of services bookings.

Moving to backlog, we are at $3.65 billion as of the end of Q1, which is flat versus the end of last quarter. Transitioning to the P&L, I'll break my revenue comments down by our two reported types: software delivery support and maintenance and client services, as well as by recurring and nonrecurring revenue within those two types. Note: beginning this quarter, we have aligned our supplemental data book and SEC disclosures along this same structure to better reflect how we think about our business.

First-quarter total revenue increased 3% year-over-year to $346 million. Client services revenue grew 9% while software delivery, support, and maintenance grew 1%. Looking more closely, software delivery, support, and maintenance grew 1% in total to $229 million, driven by a slight decline in recurring software, partially offset by growth in the nonrecurring component. On a sequential basis, both recurring and nonrecurring software revenue grew slightly versus Q4.

As you know, the vast majority of Allscripts' new software sales are made under a subscription model, a journey we aggressively pursued beginning over three years ago. Subscription revenue continues to be an important growth engine for the Company, and we expect software recurring revenue to shift back to positive growth going forward. And finally, the nonrecurring portion of software and related revenue grew 15% year-over-year. This strong performance was driven by increased third-party software and hardware revenue.

Turning to client services revenue, growth was 9% to $116 million. As you have seen in prior quarters and as indicated in the bookings trends, demand for recurring managed services and population health services continues to be robust. The recurring portion of services revenue increased 22% in Q1, driven by hosting, outsourcing, and population health and revenue cycle management services. The nonrecurring portion of services, consisting of project-based, on-site client work, was down $4 million or 9% year-over-year, consistent with our expectations and with the trends we discussed last quarter.

Finally, stepping back to look at total Allscripts revenue on a recurring and nonrecurring basis, total recurring was $268 million. That's growth of 4% year-over-year and up to 78% of total revenue, the highest level we have ever recorded. Importantly, Allscripts continues to make progress transitioning to subscription-based software revenue and recurring services. You will see that the continued year-over-year growth in recurring revenue.

Total Allscripts nonrecurring revenue was essentially flat at $78 million as the year-over-year declines are flattening out, consistent with our discussion last quarter and within the $75 million to $85 million range we called out at that time.

Moving to margins, we had a nice lift versus year-ago, as anticipated, with non-GAAP gross margin of 46.9%, up from 42.3% a year ago, a 460 basis point improvement year-over-year. Within software delivery support maintenance, we posted gross margin of 63.2%, up from 61.9% or 130 basis points, helped by mix and improved efficiency within the support organization, which we believe is a sustainable benefit to margins.

Moving to operating expenses, first-quarter non-GAAP SG&A increased 6% from year-ago, primarily due to timing of marketing spend and other expenses. Going forward, we expect spending levels for non-GAAP SG&A to remain fairly consistent with Q4 expense levels. Note that GAAP SG&A in this quarter also includes a $3.7 million one-time charge for fees and expenses associated with the Netsmart transaction.

Looking at R&D, expense was $47 million -- flat versus year-ago. Total R&D spending also remains generally on trend, with gross research and development spending of $62 million, essentially flat with the fourth quarter. Roughly one-fourth of total spending was capitalized, consistent with Q4 levels and with our prior commentary on this trend.

Also in Q1 we recorded $4.7 million in impairment charges. These included a charge for impairment of capitalized software and impairment of one of our cost method investments. These amounts are non-cash and are excluded for purposes of calculating our non-GAAP metrics.

In addition, as in prior quarters, we apply equity accounting methods to Allscripts' investment in NantHealth, which resulted in a non-cash charge of $2.6 million to GAAP pretax earnings in the quarter. This amount is also added back for purposes of calculating our non-GAAP measures.

Regarding profitability, adjusted EBITDA, as illustrated in table 5 of our earnings release, was $62 million, a 23% increase year-over-year. This represents an 18% EBITDA margin for the quarter, similar to Q4 levels, and a significant prepayment from 15% in Q1 last year. This is strong performance, owing to our gross margin expansion from actions taken over last year to remove costs as well as leverage created from our revenue lift.

Non-GAAP net income for the quarter totaled $25 million. That's a 68% increase year-over-year. And non-GAAP EPS came in at $0.13 for the quarter. Cash flow for 2016 also began on a strong note, as we generated $53 million of free cash flow, growth of 23% year-over-year.

With regard to share repurchase, we bought 2.9 million shares for a total of $37.5 million in Q1. Shares were repurchased at an average price of $12.70 per share. As of the end of Q1, there was $112.5 million remaining under our current authorization.

And now I'll wrap up the financial discussion with our annual guidance for 2016. Recall we closed the Netsmart Technologies transaction last month, and as a reminder, Allscripts contributed 100% of its Homecare business to Netsmart as partial consideration in the formation of a Netsmart joint venture.

Beginning in Q2, our financial statements will reflect 100% of the result of our combined entities and then deduct our JV partner share of earnings from the earnings numbers. As a result, we are adjusting Allscripts' guidance to reflect the consolidation of Netsmart into Allscripts' financial statements beginning in the second quarter of 2016.

We are increasing revenue guidance to between $1.58 billion and $1.61 billion. That's midpoint growth of about 15% year-over-year. We are adjusting -- we are increasing adjusted EBITDA guidance to between $280 million and $300 million. That's midpoint growth of 20% year-over-year. And we reiterate our non-GAAP earnings-per-share of between $0.55 and $0.62 per diluted share, a midpoint of 24% growth year-over-year.

This guidance is consistent with our stand-alone Allscripts guidance provided in February for the full-year 2016, plus our expectations for the partial-year Netsmart impact, as shared in April when we announced the transaction. The Company plans to provide pro forma historical financial statements as well as additional detail on the impact of the Netsmart joint venture's impact on Allscripts' consolidated financial statements in July.

And with that, I'll hand the call over to Paul.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thanks, Melinda. As you can see, we had a strong first quarter, and we're off to an excellent start for the year, carrying the momentum created last year into 2016. Looking back over the last three years and taking into account the investments we made, the partnerships created, and the client relationships we've strengthened, I believe the Company is as strongly positioned as it has ever been to ensure our clients' success. We have increased the breadth and depth of solution offerings, substantially enhancing our competitive position in the global markets of healthcare IT. The external environment is primed for Allscripts' success.

From a regulatory standpoint, ICD-10 is behind us. It was generally a smooth transition. The market is moving ahead to focus on the next wave of regulatory requirements -- specifically, Meaningful Use 3 and the massive reimbursement changes from CMS under the MACRA legislation.

This is a game changer. The manner in which Medicare pays clinicians will favor value and quality over volume. This is no longer a theme. It's a reality, and it's permanent.

The first rule linking cost and quality were issued last week. MACRA creates a merit-based incentive payment system built on quality measurement and reporting. In addition, providers will have the opportunity for bonus payments for participation in eligible alternative payment models. This equals challenges and opportunities for Allscripts clients.

We anticipate significant opportunities to educate and support clients during this transition. Allscripts has a critical role to play during this next wave of change. We will lead the industry to ensure a successful navigation, transitioning clients to the new CMS programs. We will accomplish this through additional education programs, quality improvement initiatives, workflow optimization, and consulting services: all to deliver the highest-quality care, increase efficiency, and maintain physician independence.

MACRA replaces the Meaningful Use program. The new program is called the Advancing Care Information. The certification requirements for EHRs continues to grow and evolve. As we did for MU2, we are full steam ahead doing the work necessary to certify MU3 and deliver upgrades in a timely manner.

Beyond regulatory change, Allscripts has strategically been investing in precision medicine as a long-term foundation for innovation and additional growth. We've had a dedicated team focused on creating pharmacogenomics and molecular diagnostics. This initiative is in sync with other investments underway in personalized medicine. We are building a precision medicine knowledge hub, bringing together clinical, genomic, and consumer-based information to a centralized database. In addition, we are engineering clinical workflows and research-based predictive screening and treatment regimens.

We are partnering with the National Institutes of Health, a Sunrise client and HIMSS Stage 7 award winner, on a Sync for Science initiative. This pilot will allow individuals to access their health data and send it to researchers in support of the goals of the precision medicine initiative.

We are well positioned with the FollowMyHealth platform, which is architected to capture every variable on the data collection map, including family history. We also grant consent at the consumer level. Both of these features are important for patients and to researchers alike. This development work will be beneficial to all clients and prospects as precision medicine becomes more widely adopted.

This initiative also syncs with the Company's open strategy through the Allscripts Developer Program. Allscripts' leadership in the interoperability in Open continues to distinguish us in the market. Only recently are we seeing a few other vendors embrace open APIs, a strategy we have invested in for nearly a decade.

We have 3,600 developers using Allscripts Open APIs and working on just under 1,550 applications. There are 135 certified solutions in the Allscripts application store. Year to date 2016, we have executed over 223.6 million data shares, and it continues to grow every quarter.

To connect it all, consumer health and consumer engagement are top of mind for the executives at our largest clients. We expect increasing demand by consumers with mobile apps who are connected to their electronic health record. These are critical components of population health management: driving patient engagement.

As a result, demand for open interoperable solutions will grow rapidly. We are making additional investments in Allscripts' consumer strategy. We hired Tess Coody-Anders as a Senior Vice President and General Manager, Allscripts Consumer Health. Tess will have responsibility for the FollowMyHealth platform and will drive the Company's consumer health strategy.

Finally, Black Book released a new study last week that is truly sobering for C-suite executives considering a rip-and-replace strategy for the sake of one platform. A few highlights of the numbers from the survey: 87% of those financially threatened hospitals now regret the executive conclusion to change systems; 90% of nurses reported EHR process changes diminish their ability to deliver hands-on care at the same level of effectiveness.

63% of executives say they or their peers were in employment jeopardy through the EHR replacement process. And 78% of non-exec physicians admit the clinical buy-in they were sold never materialized after the replacement was launched.

With statistics like these, it's not surprising clients are making incremental investments with existing suppliers and only replacing systems when there is no alternative.

So with that, I'd like to open up for questions. Rob?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Zack Sopcak, Morgan Stanley.

Zack Sopcak - *Morgan Stanley - Analyst*

Good afternoon and welcome, Melinda. Thanks for the question. First question I just wanted to ask was on the booking mix. As you indicated, there's a little bit more weighted toward client services. It seems like you have about one quarter each year that that happens. Is there anything in particular about the quarter that drove that? And do you expect that to normalize more over the year?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes, Zack, I appreciate the observation you made, because that's right. There is a lumpiness that can happen, particularly when you think about Sunrise sales. Sunrise deals tend to have a lot of lumpiness to them. And in this first quarter we didn't have any that closed. So that's partly why you see a little bit of falloff on the software side.

But, you know, there is a lumpiness. We still feel very good about the pipeline for Sunrise. And so I would just look at it the way you started, is -- you know, you're going to get your lumps every now and then. And I wouldn't read any more than that into it.

Zack Sopcak - *Morgan Stanley - Analyst*

Got it, thanks. And then just a quick one on free cash flow. It was a solid -- another good quarter in free cash flow growth. Your expectations for the year: are they changed at all? And does Netsmart impact your free cash flow expectations at all?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes, I'll start, and then I'll let Melinda finish. It was a great quarter. You have to start by recognizing you do have seasonality sometimes in the cash flows. We send out a lot of maintenance bills in the first quarter.

But with Netsmart, you know the details around the transaction and what we invested in the venture. And when we report free cash flow going forward, we won't report the cash flow -- or we'll separate the cash flow from that entity, because that -- obviously, that cash flow will help grow that entity and service the debt inside that entity, et cetera. So we'll separate that for you.

But beyond that, we don't expect any changes. I think free cash flow has been a major theme from us for over a year now, and we feel pretty good about our efficiency in that area.

Zack Sopcak - *Morgan Stanley - Analyst*

Okay, great. Thank you.

Operator

Richard Close, Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

My question relates around bookings. Obviously, a solid first quarter. I think on the fourth-quarter call, we asked about the growth opportunity in bookings year-over-year. And you said a little bit easier to post growth in the first half of the year versus the back half of 2016. Just wondering if you could give us an update on that -- whether you think you'll be able to post growth in the second quarter?

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

This is Paul. We were asked those questions last year. They said, you know, is 2016 going to be a hard comp? And -- or hard to beat the comps from 2015? And we said that we expect that will always be the case, and we -- you know, our goal is to strive to set bookings records every single quarter.

Our expectation -- it's not the guidance, necessarily, but our expectation is that we are going to set consecutive quarterly records. So I'm not seeing anything from the forecasts or anything from the pipeline that suggests some sort of trailing weakness or some other macro environment in 2016 that's going to be much different than what we saw last year.

Richard Close - *Canaccord Genuity - Analyst*

Okay, thank you.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Sure.

Operator

Matt Gillmor, Robert W. Baird.

Matt Gillmor - *Robert W. Baird & Company, Inc. - Analyst*

I wanted to ask about the software subscription revenue. I think Melinda said that the software subscription revenues declined slightly year-over-year. Can you maybe just give us a sense of what the factors were that contributed to that? Or was that just sort of the normal fluctuation you see in that revenue bucket?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

For the most part, you really have normal fluctuation. You're going to have a little bit of just fluctuation, as we talked about, based on timing of when certain activities start up and so forth.

So I wouldn't -- as we said, we expect to see those numbers really -- the growth trends start to pick up more. And as we confirmed our guidance, we are expecting overall revenue growth in line with the expectations we talked about before, plus Netsmart. So I think we'll see that pick back up.

Matt Gillmor - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then maybe one follow-up -- oh, sorry.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

I'm sorry, Matt. I was just going to add to Melinda's -- it was up sequentially, so I think that helps illustrate. We had a little bit of a one-time blip. First-quarter last year we had some maintenance credits and whatnot that came in. And so your comp was a little bit unusual.

Matt Gillmor - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Okay. That makes a lot of sense. And then on the Netsmart JV, I just wanted to -- I know you are going to give some more details in July, but can you maybe give us a sense for how it impacts the P&L presentation in terms of how the revenues fall into your revenue buckets?

And then, second, will you be consolidating the debt from the JV on the balance sheet? How should we be thinking about the treatment there?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes. So this will be a full GAAP consolidation. And so you'll have 100% of the balance sheet and income statement consolidated, and then a one-line adjustment to take out our partner's fair share. So the debt will be on the balance sheet for presentation purposes, but we do intend to split that out, given that the Netsmart debt is not ultimately recoursed back to us.

Matt Gillmor - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thanks. Appreciate all the color.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

So, Matt, full transparency on Netsmart, right? You'll see it on the P&L, and you'll see it on the balance sheet.

Operator

Nina Deka, Piper Jaffray.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Can you share some insight on the workflow element of your population health platform, and maybe how that strengthens your value proposition versus (technical difficulty) players who aren't as focused on workflow?

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Yes, this is Paul. So when you do a side-by-side demonstration of what we do and what our capabilities are, it's the little things that are, if you will, tricky to do that -- as I've said in the past -- have taken us seven or eight years to perfect. And that is specifically, if I have allergies that are represented in multiple different electronic medical records, one in ours; one in Athena; one in eClin, one in some other third-party solutions that are out there, what clinicians do not like to see is the same allergy represented in the electronic medical records six different times.

So what we do is we actually -- when we talk about harmonization of the data and normalization of the data, we actually check and see that that allergy is actually the same allergy, it just comes from different systems. And it may be inside of that system represented in a different nomenclature differently. And I've seen demonstrations of other systems where you actually see, again, the same allergy represented six times. Docs look at that, and they say, that's a lot of noise; there's a lot of clutter; and I'm not sure that I really like using the system.

The second thing is they don't like logging in and logging out of systems to get to the HIE data and that's why our concept and construct of the agent, which shows them in the top right-hand-side of the screen, there is new information that they want to see based on their specialty type. And the only time that that flashes is when there's new information. So we show them a delta view.

So those are two examples of reasons why we are actually getting a fair amount of uptake and fair amount of -- you know, just in the raw demonstrations, people saying: this is really great. We like it; we like it better than the other things we are seeing. And it actually is providing me value as a clinician.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Great. That's really helpful. And then for my follow-up question: can you quantify the JV contribution to the guidance adjustments? Is it -- does it make up 100% of what was adjusted, or were there potentially some other adjustments made?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes. If you go back -- I mean, the math follows pretty closely -- to look at our guidance for Allscripts back in February, plus what we indicated would be the net impact of Netsmart when we announced that arrangement.

So two things, though, to keep in mind: that net impact of Netsmart will involve both -- we contributed our Homecare business into the business. And then we'll get our fair share of portion of that back on an earnings line. So important to keep that in mind. And, again, just to reiterate that you're looking at 100% contribution of that new Netsmart entity to revenue, with only our fair share on the profitability lines, like EBITDA and EPS.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Great. That's helpful. Thank you so much.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thanks for the question.

Operator

Greg Bolan, Avondale Partners.

Steven Couche - *Avondale Partners - Analyst*

Hi, this is Steven Couche on for Greg. I know you mentioned that contract renewal with George Washington earlier. But can we talk a little bit more about your positioning in ambulatory? There's some speculation out there that you've lost some market share in the independent physician market. Would you mind to address that?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

It's hard to comment on rumors and innuendo, but I guess let me reiterate a couple of things we did say, which is -- you know, this is a very well-known, respected practice, GW. So they are significant, that they reupped with us for a long time. I also made the comment earlier that we added the most new accounts on our Pro business that we have in 9 quarters. So I think those are directional indicators of -- you know, things feel a lot better than perhaps the speculators are speculating to you.

I think every vendor in the market has some level of churn. But I would just tell you, from our standpoint, churn is within our expectations. And we continue to feel very good about our ambulatory business.

Steven Couche - *Avondale Partners - Analyst*

Great, thanks. And then just a quick follow-up. There's been some additional entrants into the rural, kind of 100-bed-and-less space. How would you describe that market in general, speaking of churn? And have you bumped into any of these new entrants during the procurement process? And thanks for taking the questions.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes, I mean, that's not -- we don't have a lot of target down at that small of the market. But we certainly have picked up a few accounts down there. I would just tell you, the business that we have in that small slice of the market has not been challenged by any of the new names I think you're referring to.

So that's a relatively new area for us as well. So we have sort of drifted into that segment as well for clients who appreciate the clinical sophistication that we bring them. And so we picked up accounts. That's relatively new for us. We didn't grow up in that segment of the market.

So right now it's kind of just a net positive for us but we don't see -- we don't bump into a lot of who I think you're referring to.

Steven Couche - *Avondale Partners - Analyst*

Great, thank you.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thanks, Steven.

Operator

(Operator Instructions) Vijay Kumar, Evercore.

Elizabeth Anderson - *Evercore ISI - Analyst*

Hi, this is Elizabeth Anderson. I have a question about CareInMotion sales. Can you give a little bit more color on the type of interest you're seeing for that sort of new compilation of that? Like, what types of institutions? You know, is it people who generally have dbMotion, not, et cetera? Thanks.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes, sure. Again, so CareInMotion is our integrated platform for population health. And it really pulls together a lot of point solutions that we've had, some of which we've had for a long time, some of which we've had for a shorter amount of time. But it's -- as we pull them together to a comprehensive suite, we are marketing them under that umbrella brand.

It is modular, so many clients can start with one or just a couple of the modules as opposed to a whole platform. But then our goal is obviously to progress the client through to the full suite over time. So we've had very warm -- as I mentioned earlier, very positive reception to it so far. And I think by, again, positioning it as a platform and giving our client base a broader view as to how it all hangs together allows us to create a good go-forward path with those clients.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay, great. Thank you very much. And then also just a question on the guidance. I know that you said that in the comments you made before that the guidance, particularly on the revenue side, was consistent with your prior guidance. And then obviously you added Netsmart. So are you saying -- are you making any changes on that guidance on the basis of the core business?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

No.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

No. It's our old guidance plus the impact of Netsmart. That's what you're looking at.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay. Perfect. Yes, yes, yes. Thank you for the clarification. That's really helpful.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thanks, Elizabeth.

Operator

Mike Ott, Oppenheimer.

Mike Ott - *Oppenheimer & Co. - Analyst*

Paul, appreciate your comments on MACRA. And I know it's still early, and it's obviously a complex proposal, but can you share any additional thoughts on potential impacts, specifically on the replacement market or your services business in particular?

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

The complexity of this thing is somewhat staggering for both us as well as our clients from the standpoint of what needs to be captured. And so the government knows, quite frankly -- you know, they spent $30 billion on the investment through the -- on the HITECH Act. And I know that most of the platform is now digital, and they are asking for a lot of quality information. So the payment for performance and the payment for quality is -- you know, this is the front end of what's going to be, I think, a very large and long-term trend.

The issues will be in getting the quality data assimilated in a way that -- very quickly on behalf of our clients, so that they don't have to spend a lot of time in either chart abstraction or in writing report -- writing, if you will, reporting systems in order to do that themselves. So we'll want to be a report generator for them.

We have collected a lot of that data as a result of the way that we collect data in the cloud today for MU2 certification. So we think we have a head start on it. But getting those data presented in a way that is consumable with the new standards is going to be important.

We see it as an opportunity not only, of course, to go back to our client base, to help them to not -- you know, if you will, build a stronger relationship with them. There will be some consulting opportunities; there will be some services opportunities around that.

And importantly, I do think that some people that are in the business, some of which have already raised their hand and said, I'm out -- it will create some EMR suppliers. Of the 492 that were certified for Meaningful Use 1 and Meaningful Use 2, I expect that they will not be 492 that also get certified for MU3 and for these MACRA legislation, which will create opportunities for us to go replace those that are no longer in the business.

Mike Ott - *Oppenheimer & Co. - Analyst*

That's very helpful. Thank you. And in the past, you guys have discussed improving services margins throughout 2016. I wonder if that is still a good assumption going forward?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes, we do intend to continue to see that improvement. I think over time we have called that we thought we could see those get as high as 20% over time. Not saying that we would be able to achieve that all this year, but we are at 15% currently, so we continue to expect improvement.

Mike Ott - *Oppenheimer & Co. - Analyst*

All right. Thanks, Melinda, and welcome.

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Thank you.

Operator

(Operator Instructions) Nina Deka, Piper Jaffray.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Just wondering if you could maybe provide a little bit of information on this new refill partnership with Imprivata, and maybe how that might contribute to the value proposition offer to your TouchWorks base?

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Yes, we have a lot of relationships with multiple third parties as part of our Application Development Program. And the Imprivata folks provide a single sign-on set of capabilities that I think are important for not only, obviously, our solution, but for multiple other suppliers that might be in a centralized environment.

So if you're running a large shop and you don't yet have CareInMotion installed, this gives you the capability to go to a single sign-on set of capabilities. But you know, it's emblematic of, I think, the other things we're doing with the other 152 different suppliers that are out there that resell their solutions on top of ours. And it's, again, something we encourage the marketplace. If they can find a solution that sits on top that's great for our clients and great for them, we welcome that innovation.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Great, thank you. And then just one more question about -- are there any new milestones achieved with your partnership with NantHealth?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes, I would say that the progress there has been great. I have a lot of clients, Allscripts does, that are Sunrise clients that are already doing some sort of cancer treatment. And the ability to quickly bring in the protocols that NantHealth has as part of their Eviti program -- it's something that we are integrating inside of two or three of our clients. And those are going to be going live pretty soon.

We're also seeing some new business opportunities, both in the United States and outside the United States, that would not only be a NantHealth-driven or an Allscripts-driven initiative, but it would potentially deliver some new EMR placements for us as a result of a holistic approach to either a city, country, or region.

Nina Deka - *Piper Jaffray & Co. - Analyst*

Great, thank you. That's really helpful. Thanks again.

Operator

Charles Rhyee, Cowen Group.

Zach Wachter - *Cowen and Company - Analyst*

This is actually Zach Wachter on for Charles. Just a quick question off of the revenue guidance question from before. I know you are saying that the core revenue is still the same. I'm just wondering if the mix has changed at all, given the mix in software was probably a bit different than we expected in 1Q. And you had previously said you expect recurring revenue growth of 5% to 7% and nonrecurring to decline at a rate of 2% to 4%. And I'm wondering if that's still -- if we should still think about it that way going forward. Thanks.

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes, I think that the general guidance is still right. We'll have, on any given quarter, a bit of a shift between. But I think still planning in line with the guidance; and, obviously, the overall 3% to 5% that we have talked about is still the right planning model, plus Netsmart, of course.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes. Remember also, recurring revenue is software and services. We have recurring in both buckets. So it's a little bit of apples and oranges to compare the software bookings to recurring revenue.

So just want to make sure you're clear on that. But yes, reiterate what Melinda said -- we had a 5% to 7% up on recurring, 2% to 4% down on nonrecurring was really embedded in our guidance. And we still feel pretty good about that.

Operator

Richard Close, Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

Thanks for the follow-up here. Talk a little bit about international. You mention SingHealth and another client -- I think the Department of Defense over there. You obviously had your first population health client in the UK. There's been some noise, I guess, maybe on the implementation in Australia. So if you could just talk a little bit about all those things happening on the international front, update on some of the implementations over there and new wins -- but also what you see in the pipeline.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Sure. Let's go to the non-lay-ups first. So the noise going on in South Australia -- I talked to the executive down there this week on just the normal cadence that we have. But they're getting ready to go live with a very large, brand-new hospital, and that's called Royal Adelaide. And that project is on plan, and we've not had major issues with regard to that or, quite frankly, with the success of the rest of the rollout down there.

There's been pockets of clinicians who, perhaps, have had issues that -- in our opinion, and I think the client would support -- may have gotten a little bit more press than either of us had expected or wanted to. And we obviously take any discontent very seriously. But on a macro basis, that is not something that is causing is any issues, either from a relationship standpoint, from a product clinician adoption standpoint, nor from a rollout process.

In the United Kingdom, there's a lot of activity over there in many different trusts where we've been successful. And then we are doing the deployment there, and our clients that are there are buying more from us, which is always a wonderful sign of client satisfaction. People that pay their bills are happy, spread the news, and buy more. That's a great business model for us in any country, and it's certainly working for us over there. They also are acting as a great set of references for us as we are expanding other initiatives in that marketplace.

And in Singapore there's a lot of very heavy lifting going on with regard to deployment of some solutions that were sold over the course of 2000 -- into 2014 and beginning of 2015 that had a lot of very specific country requirements that -- we're quite pleased that because of not only in-country engineering that we have, but the relationships we have with executives that are there and client teams that are focused on this, as well as our client team that's there and our engineers that are there, that we're getting really good uptake on the deployment of some really interesting and exciting new functionality for Sunrise in that marketplace.

So broadly, there's always -- we're never perfect, and -- but from the standpoint of how we feel about business outside the United States, in every geography we had clients purchase something new over the course of 2015 going into 2016. And we had a lot of new client additions or new footprints that were implemented -- either purchased and/or implemented, not only on the Sunrise side, but as we broadly talked about, working into the population health management piece as well. So we're pleased with the business outside the US.

Richard Close - *Canaccord Genuity - Analyst*

Okay. And just one more. With respect to Netsmart, just to be clear, when you say transparency, is the revenue going into the individual buckets currently on your income statement; and then you'll say how much revenue was in each of those line items? Or just exactly how is it going to be presented?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

I mean, specifically to Netsmart, they'll retain their own organization. And so it will be a top-line reporting, so we'll have those buckets. If your question was more to revenue across all of our business lines, no -- I mean, that's all centralized. And then we do break out reporting below that.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Yes. But I think, Richard, if you're asking are we going to change the format, the answer is no. The four-line -- you know, the kind of breakdown of revenue you see today Netsmart will fit into. So you'll see a consolidated total. What you'll also see, though, is a separate stand-alone kind of results for the entity itself. Okay? And so we will give you transparency.

Richard Close - *Canaccord Genuity - Analyst*

So let me try to -- try it this way, then. So of the incremental revenue that we're adding in for Netsmart, can you give us, in terms of modeling guidance, in terms of the percentage that would go into software delivery and maintenance, and then the percentage that goes into client services?

Melinda Whittington - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes. You'll have a lot more of that perspective in July. At this point, as we're working through -- I mean, we have 8-K filing requirements that will even include historical audited financials and everything for Netsmart. And then we'll provide a lot more detail on how to model the elements.

And then, of course, there's going to be purchase accounting adjustments, and transactional noise, and so forth as well. So we'll be able to take you through a lot more of that in detail with real exhibits in July.

Richard Close - *Canaccord Genuity - Analyst*

Okay. Thank you.

Operator

Gene Mannheimer, Topeka Capital.

Gene Mannheimer - *Topeka Capital Markets - Analyst*

You used to put some numbers around your pop health bookings, either in absolute figures or as a percent of total. And I'm not sure that you're still doing that, insofar as you are selling more of a platform. But can you quantify or even speak qualitatively about the traction you're seeing of CareInMotion? Is it stronger than, say, a year ago? And, finally, are you selling that primarily to your own base? Or are you seeing success across competitors' EHRs as well? Thanks.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Thanks, Gene. The answer is -- the short answer is population health continues to be quite strong for us. I would note we do still have it as a segment in our SEC filings. So you see the P&L impact from it when you look at that. So there's still a lot of transparency.

We had good success with CareInMotion. We've seen different pieces of the platform ebb and flow in terms of popularity. So, obviously, patient engagement platform was a big driver of activity a year and a half or two years ago, with MU2 requirements. Now, we're seeing a lot more of the action come on the dbMotion side. So people are focused on different modules at different times, Gene. But in general it is still a good source of momentum and activity for us.

Gene Mannheimer - *Topeka Capital Markets - Analyst*

And you're selling that across competitors' EHRs, or primarily to your interior base?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Both, both. So every module on the platform is EHR-agnostic. So it has a mix of both Allscripts EHR clients and non-EHR clients. And as I alluded to in my remarks earlier, we had a nice acute win outside our base during the quarter.

Gene Mannheimer - *Topeka Capital Markets - Analyst*

Great. Thank you.

Operator

Garen Sarafian, Citi.

Allen Lutz - *Citigroup - Analyst*

This is Allan in for Garen. Thanks for taking the questions. With regard to the ambulatory replacement market, can you just speak to whether or not churn in RFP activity is increasing or decreasing year-over-year? And to that point, can you talk about sort of what's driving practices to switch vendors? And is that changing against, maybe, one or two years ago?

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

Well, you have on the horizon -- the answer is I think there is more activity, and there's more activity both in terms of additional services but also more activity in terms of, potentially, EHR churn. Because on the horizon you've got MU3 requirements, and now you have a whole new book of MACRA reimbursement rules. And it's a fairly fragmented market, and not all the providers in the space are showing the interest or the willingness to kind of invest for these new book of requirements.

So that's creating some level of action. and I think it's no small coincidence that that's why we had our best quarter in 9 quarters with respect to our Pro base.

Allen Lutz - *Citigroup - Analyst*

Got it. Thank you very much.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

I think most of my questions have been answered. Paul, Rick -- and welcome aboard, Melinda -- I kind of just wanted to talk about the precision medicine initiatives that you guys have made an announcement about. And I ask only because as we hear from a lot of the clinical research companies precision medicine from a therapy perspective is really starting to take off, I'm wondering if you can just talk about how long do you think it is before it kicks off from a technology perspective, and if you have the opportunity for more partnerships or transaction opportunities beyond NantHealth?

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thanks, George. There's a lot of activity going on. If you look at all the different initiatives, the MoonShot; the National Immunotherapy Coalition; the Sync for Science; precision medicine initiative. I mean, there's a ton of things that are going on, which all create a lot of goodness.

The conversion -- the convergence, if you will, of the science of the technology platforms; of the fact that there is an entire digital platform out there today that there wasn't out there in the past; the capability to connect that last mile, which is what we do to clinicians that out there, both in larger academic medical centers as well as out into rural America, all create this very exciting time for us from my perspective.

I think that the amount of change that is going to occur in the level of clinical efficacy, meaning the right people around the right meds that we have talked about for such a long period of time -- but now that we're going to know at a genomic level whether or not they are on the right regimen, in the right chemotherapy routine. That is all quite exciting.

And it really hasn't gone under anybody's radar. Pharma is interested in it; the FDA's interested in it; the payors are interested in it. Our large clients are interested in it. And consumers are interested in it. People are going to start demanding it.

That's why we have made such a large investment thus far, and we'll continue to do so both organically and inorganically to stay ahead of that. The work that we are doing with Nant is -- I have said it in the past -- quite exciting, not only because of the breadth and depth of what they bring to what we do, but also because of the relationship that we have and the doors that that opens for us. But you know, we're not completely relying upon that -- specifically the work we are doing with the National Institute of Health. They've been doing precision medicine and sequencing there for a long time.

The pharma entrance to this -- and when we talk about the pharmacogenomics -- that's where they are extraordinarily interested in making sure that medications they have are matched up with the people who have the right kind of profile for those medications to deliver a better outcome. So they are keenly interested in getting access to, at a genomic level, a larger group of people that actually should be on the medications that they have worked so hard to develop the currently are not on it.

So that will -- you know, if you will, take time. But over time I think we'll see a huge shift in the way that things are prescribed, administered, paid for. And hopefully the results of all that will come out with people that we all know that may have an extraordinarily rare or debilitating disease having a cure for it. And that's the Holy Grail behind what this is all about, from my opinion.

George Hill - *Deutsche Bank - Analyst*

That's a better answer that I was hoping for. Thanks, Paul.

Rick Poulton - *Allscripts Healthcare Solutions, Inc. - President*

George, just specifically on your partnering question. I mean, just -- NIH we talk about a lot. That's a meaningful partnership that we've added as well. And then there's another important partnership we'll close in the next week. So the answer is: yes, we continue to broaden that network of partnerships.

George Hill - *Deutsche Bank - Analyst*

All right. We'll keep our eyes peeled.

Operator

There are no further questions. I'd like to turn the call back to Paul Black for closing remarks.

Paul Black - *Allscripts Healthcare Solutions, Inc. - CEO*

Thank you very much for joining us today. The momentum we have created, as I said earlier, carries us into 2016. We had a very good and very solid Q1 in EPS, bookings, revenue, and cash. Those are all, obviously, very important metrics of how we're measured on a 90-day basis.

But importantly, we also have got a lot of clients implemented, installed, and new functionality delivered to them, which is -- their success is something that will bode well for our Company over a long period of time. We are not sitting still. We're adding additional capabilities to our organization and creating a competitive advantage, both from open systems, from interoperability, from precision medicine, and from our global reach.

So as I said in my comments earlier, and I'll leave you with those comments as we close the call this evening: we think this Company is extraordinarily well positioned throughout the balance of 2016. And it's been a lot of hard work, a lot of effort that's gone on to get us to where we are today.

Thank you very much for your time.

Operator

This concludes today's teleconference. We thank you for your participation. You may disconnect your lines at this time.