THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MDRX - Q3 2017 Allscripts Healthcare Solutions Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2017 / 8:30PM GMT

OVERVIEW:

Co. reported 3Q17 non-GAAP revenues of $451m, non-GAAP net income attributable to Co. of $30m and non-GAAP EPS of $0.16. Expects 2017 non-GAAP revenues to be at high-end of prior range of $1.79-1.82b and non-GAAP diluted EPS to be $0.61-0.63.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dennis M. Olis *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

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

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

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

CONFERENCE CALL PARTICIPANTS

Charles Rhyee *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

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

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

Nicholas Michael Jansen *Raymond James & Associates, Inc., Research Division - Analyst*

Richard Collamer Close *Canaccord Genuity Limited, Research Division - MD and Senior Analyst*

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

Sean Wilfred Dodge *Jefferies LLC, Research Division - Equity Analyst*

Sean William Wieland *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Steven Paul Halper *Cantor Fitzgerald & Co., Research Division - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Allscripts Third Quarter 2017 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Seth Frank, Vice President of Investor Relations. Thank you, Mr. Frank, you may begin.

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

Thanks very much. Good afternoon, everyone. 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 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 third quarter details, please reference the GAAP and non-GAAP financial statements as well as the non-GAAP tables in our earnings release and the supplemental data book 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, Seth. Good afternoon, everybody, and thanks for joining our third quarter call. We've been very busy in the 3-month since we last talked to you. Before jumping into the details on numbers and client deals for the quarter, I want to catalog a few of the highlights that I'm most proud of during the quarter.

First, we finished restructuring and extending our contract with our largest colo hosting facility vendor, Atos. This will provide significant financial benefits to Allscripts over its 10-year term, and equally important, will provide a significant improvement to service level and performance standards for the benefits of our clients.

Second, we made significant inroads with clients, both through our Netsmart and CarePort subsidiaries, sharing and delivering on a vision of seamlessly connecting the traditional health care provider networks and the post-acute health care provider networks.

This is a challenge of ever increasing importance in the industry and nobody has the scale or market presence we do to make this a reality.

Third, at the MGMA industry show last month, we introduced our newest EHR platform for the ambulatory market. This true cloud offering reimagines the EHR and brings physician usability, clinical interoperability, ease of mobility and embedded AI tools to a whole new level.

With design and certification now complete, we look forward to making this generally available to the market next year.

Fourth, as I will discuss in more detail later, our Payer and Life Sciences group launched a new product line and continues to lead the industry in innovating new opportunities to bring real-time information to the point of care. This benefits both our ambulatory clients as well as their patients.

And finally, we closed on our acquisition for McKesson. This is an important transaction for the company as it doubles the number of hospital-based EHR clients that we now have in the U.S., and it greatly enhances our operational scale. Paul will discuss where we are with the acquisition from a perspective of clients and early integration efforts, but I want to spend a minute on the topic of scale.

The vendor universe for health care IT and provider solutions has been changing rapidly, and we expect it to continue to change in the years ahead. The industry will continue to expand globally and will need to continue to innovate and develop new solutions beyond the clinical record. Yet, with a tight and seamless connection to the patient and physician experience. This requires health care IT vendors with distribution scale, efficient overhead structures, reliable access to capital and an unambiguous staying power.

With the closing of this transaction, our pro forma annual revenue now exceeds $2 billion annually. This makes us the second largest standalone public health care IT vendor in the world. And it's by a wide margin. Our scale checks all the boxes I just outlined for long-term competitiveness, and we have never been better positioned in the history of the company to use that scale to deliver solutions of value to our clients, financial value to our shareholders, career opportunities for our associates and investment back to the communities that we operate in.

So with that backdrop, now let me briefly go through some of our financial highlights and client accomplishments during the quarter. The third quarter was a strong showing for Allscripts. Dennis will take you through the financial details, but in summary, we delivered double-digit revenue, adjusted EBITDA, non-GAAP income and EPS growth.

Total consolidated bookings of $304 million represents 4% year-over-year growth and is another third quarter record, and our consolidated bookings was split 1/3 from our new clients -- or 1/3 from new clients, and with the balance coming from expanded business with existing clients. This is a higher mix towards new clients than a year ago and it's consistent with the second quarter of 2017 mix. And we also had a very nice balance between software and services bookings.

Now let me drill down to our major end markets, starting with the U.S. hospitals and health systems. As we highlighted in the press release, we had several EHR clients expand their relationship with us.

For example, one of the largest state-based health care systems in the United States and longtime Allscripts partner across acute care, ambulatory care and population health management, increased its acute care investment in Sunrise by adding additional departmental-level solutions, including the emergency department and surgery across multiple hospitals and geographies.

Also, a teaching hospital in Brooklyn, New York, who has been a longtime Sunrise user in the acute setting, elected to take advantage of our fully integrated Sunrise ambulatory solution, electing to replace the standalone ambulatory physician EHR vendor. We also added a new Sunrise hospital logo in the quarter, Huggins Hospital in New Hampshire.

In evaluating its IT needs, Huggins considered the major integrated HIT vendors and concluded Allscripts was the right partners to support their vision of a connected community of health and advance their broader objectives. Huggins is replacing its standalone acute and ambulatory solutions, and will migrate to Sunrise and multiple other solutions including, the FollowMyHealth patient engagement platform.

Another example is Catholic Medical Center, also in New Hampshire, and a longtime Sunrise client, selected our care coordination tools as it strengthens its focus on population health. This agreement includes Allscripts' Care Management, Care Director and CarePort, to tightly manage its post-acute transitions of care.

And finally, within the managed services area, we signed new agreements for remote hosting and managed services during the quarter, with multiple clients. Health First, a Sunrise client, signed a managed services agreement for application management services across core systems and population health management. This enhanced relationship provides Health First optimized support levels to improve its operational efficiency and enables a consistent predictable cost structure for IT for them going forward.

Now I want to move to the independent ambulatory segment. Our Allscripts strategy there continues to focus on leveraging our significant installed base to drive cross-selling and add-on services to our physician clients. For example, we signed a hosting agreement with a large multi-specialty group practice consisting of hundreds of providers in the Northeast. This group also elected to replace its legacy practice management system with Allscripts' PM system.

Additionally, interest in Revenue Cycle Management Services among the TouchWorks and professional client base continues to be very robust. We signed multiple new agreements inside and outside Allscripts EHR practice management base.

Year-to-date, we have added almost $600 million in new annualized physician, a revenue that we are managing across provider groups, large and small as well as primary care and specialty.

Upgrades have progressed very well across our ambulatory client base, ahead of the mandated MACRA, MIPS, QPP programs. We continue to work proactively to educate our clients on the critical importance of staying ahead of the regulatory curve and provide market-leading support to the industry around maximizing the key benefits of the QPP program.

Finally, the Allscripts developer program continues to be a major differentiator for us as a company in the ambulatory arena. We currently have 6,500 registered developers using our intelligent APIs, and they are averaging 100 million API data shares per month. And right now, we have approximately 1,500 client activations of third party API solutions to-date.

Reflecting all this innovation in this area, Allscripts was honored to receive the top health IT honors at Microsoft during the quarter, at their Microsoft Inspire Conference.

Next, moving to the Payer and Life Sciences end market, we had excellent third quarter of new sales. There are several factors influencing this momentum, including the rising influence of value-based care and the need for payers to connect real time to the point of care, and also the 21st Century Cures Act is also acting as a tailwind for this business as life science companies look for new opportunities to efficiently recruit patients and providers for clinical trials.

During the quarter, we announced a partnership with eviCore Healthcare, a leading medical benefits management company, to develop and deploy pre-authorization solutions for medical procedures at the point of care. We will leverage the Allscripts API to accelerate solution development and adoption of this.

Now moving to international, our business -- our Q3 was very active. Earlier in the third quarter, we signed Bolton NHS Foundation Trust to adopt Sunrise as replacement for an aging legacy system. Bolton is an integrated care organizations serving patients from the 750-bed Royal Bolton Hospital and more than 20 health centers and clinics.

In Australia, we had an excellent quarter as well. South Western Sydney Primary Health Network selected dbMotion as its interoperability solution between primary and acute care settings. South Western Sydney Primary Health Network is a not-for-profit health organization that supports general practitioners, nurses and other primary health vendors -- primary health providers.

Primary health networks were established by the Australian government in 2015 to improve care coordination and support general practices to drive more integrated care. There are 31 of these primary health networks across the country, and we look forward to continuing our sales efforts across that base.

We also had success expanding Allscripts geographic reach for clinical systems beyond South Australia, with several sales of the Sunrise BOSSnet EHR platform to hospitals in Western Australia. These organizations are undergoing a transition from paper to electronic medical records, and the Sunrise BOSSnet platform is a value-based platform that helps them make this transition, and ease the move from paper to clinical records. We see BOSSnet as an outstanding on-ramp to EHRs, where they do not exist today, on evaluating additional geographic opportunity to deploy them.

We also achieved a major operational milestone in the quarter, with the official go-live at Royal Adelaide Hospital in South Australia. This is a brand-new, 800-bed, state-of-the-art facility, and the largest implementation of Sunrise in Australia. We're proud of the partnership and success we've built in South Australia health over the last 6 years.

Overall, I'd say our position and competitiveness outside the U.S. continues to strengthen, and we remain very enthusiastic about Allscripts' ability to continue to grow in the segments and geographies that we've invested in.

Lastly, in the post-acute segment, Netsmart had a very strong sales quarter, which continues recent trends. The company is hitting its stride and expanding its reach from behavioral health and social services into home health and long-term care as well. Netsmart added approximately 500 facilities year-to-date and is enjoying success with cross sales and the addition of these new clients.

In the quarter, the company had multiple large agreements for software and services. One example is Metro Care, a large multi-facility mental health service provider in the Southwest that serves tens of thousands of individuals with special needs. This organization signed a comprehensive long-term agreement for software and services, moving away from legacy and homegrown platforms to a commercial system, and selecting revenue cycle management and managed care services with it.

Netsmart also continued to add its footprint outside of behavioral health. In July, we acquired DeVero, a cloud-based platform to accelerate the company's offerings in home health care, and it brings with it some important strategic partnerships as well.

So with that, summary, I'd like to turn the call over to Dennis, to go through some of the financial highlights for the quarter.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

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

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.

With the enterprise information systems business acquisition closing on October 2, there was no impact from this transaction from a P&L perspective in Q3. The acquisition of NantHealth assets, which closed in late August, was immaterial in Q3.

Finally, all references to Allscripts' current or future results are made before considering the impact of industry-wide revenue changes in revenue recognition issued jointly by FASB and IASB as Topic 606 and IFRS 15, respectively. It is premature to discuss the impact of this change in detail to our results in 2018. We will provide perspective on the impact this accounting change will have an our 2018 financial forecast during our Q4 call in February of 2018.

With Rick having covered bookings in detail, I will begin with backlog, which stood at $4.1 billion in September. This reflects both the impact of bookings as well as renewals in the quarter that are not included in the bookings metric. The software component of backlog comprises 58% of the total and services accounts for the remaining 42%.

Turning to the income statement. Third quarter non-GAAP revenue totaled $451 million, an increase of $47 million or 12% versus Q3 of 2018. Non-GAAP revenue excludes $2 million in acquisition-related deferred revenue adjustments in the third quarter of 2017. This adjustment was $12 million in the year ago quarter, which resulted in GAAP revenue growth of 15% in the third quarter. Netsmart's non-GAAP revenue totaled $85 million, growing 32% year-over-year.

Excluding the impact of acquisitions, Netsmart revenue was in the mid-teen range year-over-year, a strong performance consistent with our long-term expectations and an acceleration from the second quarter.

Looking at the recurring and nonrecurring mix. Total recurring revenue grew 7% and nonrecurring revenue grew 27% versus the same period a year ago. Thus our total recurring revenue mix came in at 75% in Q3, reflecting the relatively strong mix on nonrecurring revenue in the third quarter.

Looking at revenue results by line item. Total software revenue at Q3 increased 12% year-over-year, totaling $295 million. Recurring software revenue consisting of subscriptions, recurring transactions, support and new maintenance, increased 6% year-over-year. As discussed last quarter, we saw a return to recurring revenue growth quarter-over-quarter.

Nonrecurring software revenue increased 49% year-over-year, a very strong performance, driven by the mix of revenue recognized in Q3 as well as a stronger mix of one-time software bookings in the quarter. We anticipate quarterly fluctuations and nonrecurring software from quarter-to-quarter and would not view the Q3 results as necessarily sustainable for Q4, given the multiple variables in this metric.

Turning to client services. As a result of growth in recurring service revenue, consolidated non-GAAP revenue grew 10% year-over-year to $156 million in Q3. Recurring services revenue increased 11% year-over-year, driven by private cloud hosting, managed services, revenue cycle services and other multi-year service offerings. Similar offerings from Netsmart, such as hosting, RCMS and managed services, also contributed to this increase. Allscripts' nonrecurring service revenue increased 9% year-over-year, driven primarily by additional revenue from implementations and upgrades.

Results this quarter are encouraging. We have reported strong bookings for multiple quarters and indicated we expected -- we expect revenue growth to begin to accelerate. This quarter, with better software revenue growth across the board as well as continued strength in recurring services, we see Allscripts' underlying top line growth potential. Stability of nonrecurring services within Allscripts is also an important contributor to the results.

Looking at non-GAAP gross margin, total gross margin was up 80 basis points year-over-year. Analyzing revenue by component, software gross margin increased 150 basis points year-over-year, reflecting an increase in higher margin of Allscripts' software sales.

Client service margins for Q3 came in at 15.6% compared to 16.8% for the same period last year. Gross margins on services are trending consistently in the mid-teens as anticipated, with periodic quarterly variances.

Looking at operating expenses, non-GAAP SG&A totaled $101 million, a 12% increase year-over-year. The non-GAAP SG&A figure excludes noncash cost, transaction-related expense and other expenses for non-GAAP purposes. The increase in SG&A is a function of additional acquired expenses, higher variable compensation accruals given our year-to-date results and higher health care costs.

We have also increased headcount in key international markets where we see significant growth potential. Gross R&D was $80 million, up 17% year-over-year, reflecting acquired R&D expense at Netsmart and Allscripts. Allscripts' software capitalization rate was 36%, a step-down from Q2, consistent with our commentary on the Q2 call. We anticipate a similar rate going into Q4.

Given the Q3 software capitalization rate decrease, R&D expense as reported on the income statement was $51 million, up $5 million or 10% from Q2.

Adjusted EBITDA totaled $97 million, a 22% increase year-over-year and also equal to a 22% adjusted EBITDA margin. Netsmart's adjusted EBITDA was strong in the quarter and is trending in the high 20% range as a percentage of total Allscripts' total reported EBITDA, right in line with our expectations for the contribution in 2017 of between $90 million and $100 million.

Looking below the operating line, total cash interest increased to 18% -- to $18 million compared to $15 million a year ago. From higher non course debt at Netsmart through the acquisition discussed as well as slightly higher Allscripts debt.

Please note that GAAP results this quarter include a noncash loss of $20.7 million related to the sale of Allscripts' investment in NantHealth common stock. This additional amount represents a final amount of the loss on the sale based on the actual date of the close of the NantHealth transaction discussed last quarter.

In addition to the lost on sale, which is excluded from non-GAAP reporting purposes, GAAP net income included transaction related, and other cost of $11 million. Approximately half of these expenses are related to severance accruals listed at the bottom of Table 4 of the earnings release under legal and other costs.

Severance is attributed to our ongoing strategy to streamline cost in advance of the EIS acquisition. The remaining cost are associated with the transaction-related expenses, including approximately $1 million of transaction-related expense attributed to the McKesson transaction in Q3.

Finally, excluding noncash adjustments and transaction related and other expenses, non-GAAP net income attributed -- attributable to Allscripts' health care solutions totaled $30 million, and non-GAAP EPS was $0.16 for the quarter.

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 health care solutions grew approximately 14% year-over-year.

Allscripts ended the quarter with a principal balance of $470 million in secured debt and $345 million on our convertible senior notes, a $17 million increase in long-term debt quarter-over-quarter. Netsmart's total debt, which is nonrecourse to Allscripts, but reported for consolidation purposes, totaled $647 million, a $59 million increase reflecting the DeVero acquisition.

Turning to cash. Operating cash flow improved to $64 million, up from Q3 of 2016, an improved working capital management. Free cash flow totaled $13 million after adjusting for capital expenditures, capitalized software and purchased software. As we've noted in the past, cash flow will vary from quarter-to-quarter. And as stated in Q2, we expect improvements in both operating and free cash flow throughout the second half of the year.

Turning to our outlook. Given our year-to-date performance, we are adjusting our 2017 financial outlook as follows: the company anticipates non-GAAP revenue to be at the high end of our prior range of $1.79 billion to $1.82 billion; the company anticipates adjusted EBITDA to also be at the high end of our prior range of between $345 million and $365 million; and finally, we are reaffirming Allscripts' non-GAAP earnings per share growth target of between 10% to 15%, or $0.61 to $0.63 per diluted share, respectively.

Looking to the fourth quarter, we will report additional revenue and expenses attributed to the Horizon Clinical business, which will wind down by March of 2018 as discontinued operations. Our outlook for the year excludes the impact of discontinued operations.

As discussed last quarter, we expect to incur charges attributed to severance and transaction costs in the fourth quarter from the EIS transaction. We continue to expect the total of these charges to be in the $50 million range, with the majority recognized in Q4 of 2017 and the first half of 2018.

Finally as previously disclosed, we closed the NantHealth transaction during the third quarter. We will file the required pro forma disclosures on Form 8-K/A next week prior to Thursday, November 9. Since the 10-Q requires references to the Nant pro forma results, we will file our 10-Q simultaneously next week, with the 8-K/A.

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

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

Thanks, Dennis. My comments will focus primarily on the positive reception to the acquisition of McKesson's Enterprise Information Solutions business.

Since announcing this acquisition early in August, reception from the client base and associates, plus the market at large, has exceeded our expectations. Paragon clients and prospects have expressed to us their optimism, and candidly, relief dedicated health care information technology leader now owns and will invest and innovate in this important solutions. Allscripts' reputation as a trusted open solutions provider focused on interoperability and our client success resonates among EIS health care executives and clinicians.

In October, we held multiple client welcome event all over the country. In these sessions, we have reinforced clarity regarding key areas of client interest. They are: we're investing in Paragon, and it will excel from a strong history and foundation to emerge as a preferred integrated EHR and revenue cycle management solution for the community hospital segment. STAR and HealthQuest revenue cycle management solutions will continue to be supported and maintained to meet regulatory requirements. Allscripts maintains a parallel commitment to Sunrise as the preferred platform for large health systems and smaller hospitals with complex service lines.

Sunrise and Paragon clients and prospects will benefit from the enhanced collective offerings we now provide across key ancillary areas including enterprise content management, laboratory, tissue tracking and ERP. Our CareInMotion post-acute consumer engagement and precision medicine platforms are brand-new opportunities for Paragon and other EIS clients. These solutions are of keen interest based on direct feedback I've had from our customers.

Supporting this feedback are the results published by the largest survey of Paragon clients conducted by Black Book research, who invited 1,200 leaders to the poll from 216 McKesson Paragon organizations and determined that 96% of the board and executive financial leaders are confidently optimistic that the Allscripts acquisition will improve Paragon client processes and technologies, and benefit their organizations. 100% of the Paragon client hospital boards confirmed they have not approved capital expenditures for a replacement EHR. A proof point on that is that 4 health care organizations extended their Paragon agreements with McKesson in September prior to the acquisition.

From a corporate integration standpoint, we began the important work to seamlessly integrate McKesson EIS organization into Allscripts' existing hospital and health systems business on October 2. Allscripts and EIS leadership were on-site the day we closed to answer questions and to introduce EIS associates to Allscripts.

We have also begun to take the required actions to eliminate corporate overhead redundancy, particularly in non-client facing areas. These actions will ultimately yield much of the significant cost synergy benefits we've outlined. We are on track with our integration objectives, and we'll execute on the next phases of the plan in the coming quarters. A significant benefit of this asset has been the identification of talent within EIS that will help drive better results from the combined organization. We move forward with the most engaged, talented associate pool we have ever had.

So as we work to finish the year on a strong note, I like our positioning at a turbulent time in health care. There are no shortage of challenges within the health care industry attributed to uncertainty given these deliberations in Washington and the hands on issues, clients continue to face from the 3 natural disasters that impacted millions during Q3.

We are proud that Allscripts could help health care providers, giving back to communities in Texas, Florida and Puerto Rico during unprecedented challenges and disruptions from the hurricanes. During power outages and flooding, we worked with hospital clients in Texas and Florida, utilizing dbMotion to provide access to critical medical information in lieu of spotty EHR access. We also partnered with Surescripts, providing free access to patient-specific medication history to pharmacists across Texas and Louisiana.

In Puerto Rico, which is struggling one month after Hurricane Maria hit the island, we are working to provide much-needed direct act assistance to Auxilio Mutuo, an Allscripts hospital client based in San Juan. We are indebted to Northwell Health for their leadership in sending medical supplies, personnel and emergency aid to Puerto Rico, and for introducing us to MedShare. We partnered with MedShare to directly deliver critical medical supplies that will help our client provide essential medical services to the people of Puerto Rico. We're honored to help medical care in Puerto Rico as a by-product of our coming together with Northwell within days of Hurricane Maria.

We are more optimistic than ever about the prospects for Allscripts realizing its full potential in the industry we steadfastly serve.

The year-to-date 2017 results support this view. Per Black Book Rankings, Allscripts is #1 in the large hospitals over 245-beds category and has held this first place ranking for 4 consecutive years.

In the mid-year 2017 report with nearly 5,000 respondents, Black Book Rankings validates that Allscripts will hold on to the #1 spot again for another year. Of their 18 operational excellence indicators, we rank #1 in 13 of them.

Allscripts continuously ranks #1 in the category of trust, which we believe solidly demonstrates our obligation to our clients and the patients they serve. Putting together these important observations, plus our enhanced scale from EIS, I believe elevates Allscripts standing in health care globally.

As Rick highlighted, we are now one of the 3 largest vendors in the world, solely dedicated to this industry, with the critical mass, resources and scale of offerings to go the distance.

And with that, we'll turn it over to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Matthew Gillmor from Robert W. Baird.

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

Let me start with McKesson and the corporate overhead expenses you mentioned. Any initial observations about your ability to take out costs and how quickly that can be achieved relative to your initial expectations? And do you have any updated commentary you can share in terms of the margin ramp we should be thinking about that asset?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

Yes. Thanks for the question, Matt. So we did take some actions immediately upon acquisition. There were some headcount reductions that we had taken within the McKesson base. We had done a similar project within the Allscripts base in the third quarter, which is what resulted in some of the one-time severance charges that we had in the third quarter. So we did take some actions on headcount as Paul mentioned for noncustomer facing people. We have completed the facility actions that we had planned in the quarter, which was to shut down a number of their smaller sites and actually shut down a Allscripts site in Atlanta and consolidate it into the McKesson's Alpharetta site. Regarding future plans to reduce cost, I think we're on track according to where we plan to be in Q4, we've got -- we're integrating the teams into the Allscripts existing teams at a functional level and a product level. So we feel good about where that integration has begun. They were on track for the reductions and the plans this quarter, and we will continue to provide guidance as we progress throughout 2018.

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

Yes. Matt, I just want to pile on one thing to that because it was at the end of your question. Recognize that the reason and the way we get some of the benefits of scale is by deeply integrating this business with Allscripts. So it will probably be only a couple quarters before it loses its standalone identity. And we'll just be talking of progress as one entity, not separate component.

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

Got it, that's helpful. And then, Rick, you'd also talk about a new cloud platform, and I was hoping to see if you could provide some more details on that. Where does it fit in the market in terms of the types of physicians that it serves? And is there any comments you can make about how it's differentiated versus maybe some of the other cloud competitors?

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

Well, I mean, I don't want to be overly repetitive, Matt, with what I said earlier and at the same time, there's not a lot more to add. I mean, we introduced the solution at the MGMA show last month, so think of that as the beginning of what will be a progressive story from us on it. But rather than just be a me-too replication of what you see today and some of the other real cloud and some kind of faux cloud solutions that are out there, this is architected in the cloud and it -- but it's built with a completely different approach to, again, usability, the embeddedness of AI in the platform and the way that clinical interoperability will occur. So we're excited about it because it's unique, very differentiated, and it will be an alternative for ambulatory clients that we have today, and it will be a selling point to ambulatory clients that we'll acquire in the future.

Operator

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

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Question on the revenue growth. Obviously, a strong growth in the recurring -- sorry, the nonrecurring business. Just wanted to get your sense here. Obviously, last year with Netsmart, that kind of skewed sort of the visible results. Can you talk about some of your comfort with -- what do you think we should think about the run-rate, obviously, gave us guidance for the rest of the year. And I understand there's maybe some onetime things that doesn't repeat next quarter. But as we think about the model as we go out, and I know you gave the 3-year targets, but maybe in terms of a ramp on the underlying sort of core Allscripts business, how do you see sort of the trajectory? How should we think about the trajectory there?

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

Charles, I'll start, and then, Dennis can go. Look, we said strong recurring revenue growth and pretty strong nonrecurring revenue growth, right? And you've followed us long enough to know that what we had out there as guidance for revenue growth, I think that recurring revenue we saw this quarter is very much in line with that. And frankly, it's the high end of what we would have said for recurring. So there's a reason Dennis updated you on our outlook for the balance of the year and guided you toward the high end of the range. So that gives you some indication of what you should expect for the balance of the year. But all in all, we would say, this is just executing on the plan we outlined in fair amount of detail back in March.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Right. And then -- okay, that's helpful. And then, with EIS just, I might have missed it earlier, the -- all the Horizon part of the business goes into discontinued ops, and all we're going to really just see is the Paragon business?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

Yes, the Horizon clinicals will go into the discontinued operation, correct. That will start in Q4, continue through Q1 of next year.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

And is there anything in the corporate piece in terms of the cost? How are you allocating sort of the corporate costs related between the 2 businesses within EIS?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

Any cost that are specific to the Horizon clinical business will be captured in the discontinued operation P&L. The other cost will flow through the standard EIS business, and those exactly are the cost that we're going after and attacking and trying to get some synergies and reductions out of -- over the course of the next 9 months or so.

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

Cost we expect to go away, Charles, will be in disco, and the cost we expect to stay with us will be in continuing ops.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

And I guess, just causes it's in GAAP, I mean, I know that we're looking at non-GAAP, but in terms of sort of the use of cash to support the Horizon clinicals business, do you have a sense on time frame that you're kind of thinking about supporting this group of customers? Or is there sort of a transition plan that's been -- that you've kind of communicated to these clients?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

Well, the decision to discontinue the product was made by McKesson quite some time ago. And we're continuing with that plan to access the Horizon clinicals business by March of 2018.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

So then, clients -- do all clients have to make a decision to -- like a -- some type of decision by next year is what you're saying?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

Yes. And that was the plans that McKesson had rolled out. If they wish to remain on Horizon clinicals, it will not be supported by Allscripts.

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

It won't be supported by us, but there are third parties out there that will provide some level of support for clients who have not yet made the transition.

Operator

Our next question comes from the line of Nick Jansen with Raymond James.

Nicholas Michael Jansen - *Raymond James & Associates, Inc., Research Division - Analyst*

Just wanted to talk a little bit about kind of the EBITDA guidance for the full year. It looks like, if my math is correct, that you're not really going to see much of an EBITDA. A sequential improvement to hit that high end of the range. So just wanted to get your thoughts on will EIS actually be accretive to EBITDA? And if it will be, maybe just the puts and takes with regards to the strong performance in 3Q, what wouldn't recur next year -- or excuse me, next quarter in the core?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

So as we guided at the end of Q3, the impact from EIS in fourth quarter, there won't be any impact on EPS or EBITDA going into Q4. And if you look at then the -- some of the items that will affect earnings per share, the EPS, below-the-line items, we will see an increase in interest expense in Q4 as it relates to the acquisition of McKesson, and as well as the investments that Netsmart's made in DeVero and other companies. So that will have an impact on our EPS and will be an adjustment that will be made below EBITDA. You also need to recall that because we fully consolidate all of Netsmart into our EBITDA figures when we do our EPS calculation, we're eliminating the minority interest in that company. So those are a couple of adjusting items that would be made in the EBITDA going into Q4.

Nicholas Michael Jansen - *Raymond James & Associates, Inc., Research Division - Analyst*

Great. And then, my second question is as you guys delivered another quarter of bookings growth. It looks like some of your peers are challenging to grow bookings right now, so I just wanted to kind of get your thoughts on kind of the broader drivers within your business. You have a tough fourth quarter comparison, just trying to get a sense of what you're seeing in the marketplace as we exit 2017.

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

This is Paul. The strategy in what we've been doing over the course of last, fundamentally, 5 years has brought us to a point where we've made some investments that are absolutely paying off. So the diversity of what we have to sell and the diversity of the marketplace that we sell to allows us to be able to take into the market a number of different, the breadth and depth of what we offer, has been met well in the marketplace. So those investments, specifically in our Payer and Life Sciences, our global, our population health, our post-acute care and revenue recycle, those are all things that have been selling quite well as we've said, a pretty balanced performance across what we're doing. Secondly, what we do and what I think the rest of the industry does is we're selling mission-critical applications, and so it's not like the clients can't continue to expand, can't continue to upgrade, can't continue to think about other things that we could help them out with. When clients are in trouble, they actually -- that creates an opportunity for us, and I mean that in a positive way for both of us and that when they have financial pressures, they look at certain line items, they say, perhaps somebody else should run these computers for me, that's something we do well, and we can do it more cost-effectively, maybe somebody should operate these things for us. That's something else we do well. That's total outsourcing. And maybe somebody else can help me with my revenue cycle capture, and that's another thing that we do well. So from a services standpoint, when in times of trouble or times of financial pressure, that actually creates opportunities for us. And to the extent that we are a trusted supplier and that we are -- that we will align with them in a partnership way, I think that allows us to take a different position that, perhaps, what we would have been in 2012 and '13. And quite frankly, that I think helps to distinguish us in the marketplace from '17 and beyond.

Operator

Our next question comes from the line of Richard Close with Canaccord Genuity.

Richard Collamer Close - *Canaccord Genuity Limited, Research Division - MD and Senior Analyst*

Just, I guess, to tag along on that. With respect to bookings and now that you have EIS, you had a great bookings quarter in the fourth quarter of 2016. You were able to show some growth here in the most recent third quarter. Do you think you'll be able to show bookings growth in the fourth quarter?

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

It's a tough comp, Richard, as you know. Nick's question pointed that out. And frankly, it's a little early in the quarter to say a whole lot definitively about that. We would encourage everybody -- the EIS business didn't measure bookings the way we did, and so it will do, and so we're going to have to get a consistent approach. We're still working through that, and so we don't really have the ability to guide anybody on what to expect for EIS. I think what we would suggest to everybody is don't change your models or outlooks for EIS. And then, when we get to the end of the quarter, we'll just tell everybody what the impact was because we just don't even have a relative basis to guide on that right now. But it's a tough comp, we're working hard. There's nice -- Paul can elaborate, but there's a lot of stuff in the pipeline, and I think it just depends on timing of deals and getting people -- seeing the same kind of behavior where fourth quarter tends to end strong. If we see that same seasonal behavior, then I think we feel good about where we stand. But as you know, lots of uncertainty in the market right now.

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

Yes, we're not forecasting any more hurricanes, thank goodness. But the -- historically, Q4 is strong. And historically, Q3 is very, very light, which is another reason why we're very proud of the results that we posted. There's nothing there to lead us to believe that there's going to be something else that's going to be out there that's a bad guy. But we're giving you the guidance we have given you and we've given that guidance in March and we continue to hit it. That's probably where I would lead that discussion. I have not been nor has anybody on this -- around this table been to every single one of the largest EIS clients and there's a lot of them, a lot of large IDNs that are out there that we expect to have really important partnership discussions with soon and that will also, I expect, to bear fruit.

Operator

Our next question comes from the line of George Hill with RBC.

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

Paul, I'm going to assume that you have met with some of the EIS customers who maybe on the fence about whether they stay and partner with Allscripts or whether they look for another vendor. I guess, from your perspective, what do those customers need to see from you guys to stay? And then, as we think about that customer base, what do you figure are the most fertile cross-sells opportunities? Either from the McKesson footprint into Allscripts customers or Allscripts into McKesson and dbMotion, obviously, jumps out? But any other comment will be great.

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

Sure. On the -- what is going to take stay. They have been in purgatory as Rick would say this business from at a minimum of June 30 of 2016 when it was announced it was going to be for sale. So these folks have been on pause and that has caused them a little bit of consternation. So the fact is that it's off pause, there's clarity about who owns them and they're owned by an HIT supplier, they have told me directly that, that makes them feel a lot better. The fact that we own them, quite frankly, and have given them, if you will, a path with their current platforms, versus we're going to buy it, but please behind door #2 is a real solution we want you to go to versus the one you're currently on is also given them I think a breadth of fresh air. We're going to continue to invest specifically in the ones that I talked about today, George, which they also like even some of the Medipac clients that I've seen, the large patient accounting things and some of the very larger IDNs. When I met with those guys, I've only met with a couple, but the face-to-face reaction there was quite positive. The other thing that I'm getting, universally, is what are you going to do with the people that support us today? So they have a pretty good, which is reassuring to me that they like the McKesson people, they like them, they respect them, and those people have been operating in a trusted manner for the course of that relationship, and they are worried that we're going to come in, and if you will, let those people go, that's not the plan. So they are worried about the future of the product, what's the future of the people, and then, lastly, just, if you will, taking your finger off the pause button. Now moving on to the cross-sell piece. I'm surprised positively at the feedback I'm getting, especially from the large organizations about this one content solution, and that is the enterprise content management component, and they're saying that something that they rely on pretty heavily. These are large IDNs. I've also got a fair number of people that are pretty excited about the fact that they now have access to an interoperability platform that's proven, and they also have access to a consumer engagement platform that's proven, which are not things that they've, quite frankly, have enjoyed other than some success with things that are specifically tied to a McKesson platform. So they like that. I haven't looked, George, had a direct feedback yet on the lab system, but I'm very interested in getting to know more about that. And the last thing I'll say, as I'm rambling here, is I'm getting calls from some of the bigger organizations and say, before you as Allscripts, you are an important player, but you actually didn't quite make it to the top of my, if you will, window, if you are Horizon, on my dashboard, because you were somewhat of a smaller player in our accounts payable profile. Now with Allscripts plus McKesson, you're actually one of the top 2 or 3 people we're doing business with and we actually should have a deeper, broader discussion. Those are discussions I'm exceptionally interested in having with those people and our teams are.

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

No, that's great commentary. If I could sneak one more in for Rick. I mean, Rick, if there's been any resident theme this selling season from the health care IT vendors, it's been to move away from stimulus-driven spending and the move towards spending driven by return on investment. I guess, which are the key products that you guys are focused on right now as driving key ROI for clients that should be showing the best? And what seems to be a lumpier, more challenging sales environment?

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

Well, I think everything in the services category, George, is an ROI investment. Fundamentally, I think everything we do or we offer, either drives efficiency at a client or lowers their direct cost. So certainly, the services, it's the easiest, and probably shortest term payback, so that would include outsourcing, any kind of form of posting operation, Revenue Cycle Management Services, et cetera. On the software side, I think, depending on where a client is on the risk curve that has a lot to do with how interested they are in talking about op health type solutions. But almost everybody has some form of risk, the need to connect to the post-acute market which was a theme I talked about earlier is important to them. So we have some solutions, I think, software solutions that are more or near term ROI-based than others. But there's action happening across the whole portfolio right now, George. So I mean, we feel good about the diversity of the solution set and the client base and the end markets, where you invested in and exist in right now. So we're seeing action all over the place.

Operator

Our next question comes from the line of Ricky Goldwasser from Morgan Stanley.

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

So most of our questions have been answered. But just a macro question around utilization. Some of your competitors talked about some slowdown in utilization environment. What trends are you seeing?

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

Yes, we're seeing some of that with the hospitals. And again, the ones we're talking to, the ones I've been talking to, as recently as last night, I was surprised, quite frankly, Ricky, when I -- especially to some of the folks in the West Coast, I expected them to tell me the lows of what was going on. The ones that I talked to are actually pretty good sized integrated delivery networks in California that are almost fully at risk or full cap. And they were still talking about making 4% operating -- or 4% margins, which I was surprised and pleasantly surprised that while they're -- if you will batten down the hatches a smidge, it's not killing them. The other parts of the country may be getting hurt if they're really, really small organization or they haven't been preparing for this. But quite frankly, there are a lot of people that we do business with that have been looking at and forecasting, if you will, a tightening of the belt on how they're going to get reimbursed for a long period of time, and they have been focused on ROI-based solutions. They have been focused on not over spending on IT. They've been focusing on getting value for the dollar that they do spend. They've been focusing on looking at each one of their service lines to make sure that they might be able to -- could they outsource that to somebody else? And if so, they're looking at that. So I'm not broadly seeing this, if you will, trend that people -- other people reporting. We don't talk to every single health care organization out there in the world, but I think a lot of the folks we work with have been preparing for this and are battling through it.

Operator

Our next question comes from the line of Sean Dodge with Jefferies.

Sean Wilfred Dodge - *Jefferies LLC, Research Division - Equity Analyst*

Rick, maybe going back to your comments on the plans for the McKesson platform. How should we think about how extensive of an undertaking that the software integration there is going to be? I know you said you don't intend to keep it standalone much longer. How heavy of a lift is that? Is that a project that can largely be completed in the 2018 timeframe? Or does it potentially stretch a bit longer?

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

Yes, Sean. Just to be clear, so when I say it's going to kind of lose its identity, think of that more from an operational standpoint as opposed to technical. I think one of the themes you've heard from us since we announced the deal and why this we're excited about this acquisition is very complementary on a solutions portfolio basis. So think of it from catalog of solutions, there's very little that has to be kind of reasoned out, or edited out. So Paragon as we said from the beginning is the right resolution for community health or community hospital market. Paul alluded to that in his comments as well, whereas, Sunrise is really built for the larger health system, larger IDN, and or maybe community hospital, but with running some sophisticated service lines in it. So that's on the EHR side, the -- some of rev cycle systems and clients they have know we're no problem continuing to support those systems. So there's really not a technical overlap, if you will, that has to be reasoned out very far. So the -- okay, so maybe I'll just leave it there. It's more on the (inaudible).

Sean Wilfred Dodge - *Jefferies LLC, Research Division - Equity Analyst*

Yes. Good to know. And then, maybe one on bookings. Lots of activity there. Can you give us some idea of what proportion of what you did in the third quarters came from outside of your existing client base? So from new clients, and which solutions are resonating most strongly there?

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

Well, on the first question, I made some comment earlier in my script or my prepared comments, which was that we had 1/3 of our overall bookings came from new clients, and about the balance came from the existing client base. And that mix is skewing a little more towards new than it had been a year ago. So we feel very good about where the business is coming from. What's resonating? Again, if you go across the major end markets, I'll go in reverse order, Netsmart continues to have a very robust demand growth. So they're bringing solutions to post-acute providers, and that runs the gamut of EHR solutions through revenue cycle solutions through some level of what you'd think of as population health type solutions as well. So they're pretty complete portfolio that they bring to that base. Our Payer and Life Science end market as I shared earlier is very robust. The payers are quite anxious to get closer to the clinical point of care with real-time data and solutions, and we are -- again, we think we're the industry innovators in that space right now. So we feel really good about our momentum there. And I think in the international markets, I shared a couple of our wins and stories there. Those tend to be full EHR, almost full catalog of EHR. Certainly, they're EHR-centric and then they usually come with it with some degree of the pop out stack on top of it. And then, here in the U.S., both the ambulatory and the hospital markets, it's a pretty good mix between software and services. And some of that's replacement, some of it is expansions, some of our larger clients get bigger, you name it. So again, I don't want to drone on it, but is a pretty broad mix when we start talking about where the bookings are coming from.

Operator

Our next question comes from the line of Steve Halper with Cantor Fitzgerald.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Just a follow-up on the ambulatory cloud product. What market is that in terms of physician group size that targeted? And then, is there a transition path from your existing customers say from your midsize groups?

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

Yes. So Steve, it's very -- it's all cloud, so it's pretty scalable. So it can be an effective tool for smaller physicians as well as larger multi-group practices. I think, to have all workflows for all specialties, it'll -- that will be a little longer before we have probably large multigroup practices, but not significant, not outside a reasonable planning scope. So we feel it has brought applicability. And we're excited about it. You asked about transition. Here's the way we think about it right now, Steve. We're just -- it's a tool that is meant to continue to penetrate and grow our presence in the ambulatory or independent ambulatory markets, first and foremost. To the extent our existing clients want to avail themselves of that tool, we will make it very easy or as easy as possible for them to transition. But that's not going to be a requirement. I mean, we're not going to spend in investment in the Pro and TouchWorks platform, in effect.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Right. So no intention to sunset Pro or TouchWorks anytime soon?

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

Unequivocally, no intention.

Operator

Our last question comes from the line of Sean Wieland from Piper Jaffray.

Sean William Wieland - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

So my question is around the strong nonrecurring software revenues. Can you talk a little bit about the factors that contributed to that? Was it, specifically, is it a lot of little things? Was it a few big things? And how much of that was booked in the quarter?

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

A lot of little things, Sean. And it would all have been -- or preponderance of it would have been, probably, bookings in the quarter.

Sean William Wieland - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. So not a big fish. That's good. And then, quickly, what's the software capitalization rate in the quarter?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - Interim CFO and SVP of Strategic Initiatives*

The software cap was 36% in the quarter, so down from 40% last quarter.

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

Thanks, everybody, for joining the call today. We are pleased to have delivered a solid quarter of double-digit revenue earnings growth and a number of other metrics. We're pleased to adjust our outlook for revenue and adjusted EBITDA to the high end of our range. We introduced this outlook back in January despite the regulatory uncertainty and complexities in the industry. We feel good about achieving the commitments we make to Allscripts clients, and to you, and to our shareholders.

Please remember, we just closed the EIS business, and look forward to the integration of this business into Allscripts. And with that, we'll say good night. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.
