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EDITED TRANSCRIPT

MDRX - Q3 2016 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

MDRX reported 3Q16 GAAP revenues of $392m. Expects 4Q16 non-GAAP revenues to be $420-435m and non-GAAP diluted EPS to be $0.14-0.16.

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CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Robert Jones *Goldman Sachs - Analyst*

George Hill *Deutsche Bank - Analyst*

Charles Rhyee *Cowen and Company - Analyst*

Eric Percher *Barclays Capital - Analsyt*

Jeff Garro *William Blair & Company - Analyst*

Greg Bolan *Avondale Partners - Analyst*

Sean Dodge *Jefferies LLC - Analyst*

Ross Muken *Evercore ISI - Analyst*

David Larsen *Leerink Partners - Analyst*

Jamie Stockton *Wells Fargo Securities, LLC - Analyst*

Sean Wieland *Piper Jaffray - Analyst*

Garen Sarafian *Citigroup - Analyst*

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

Richard Close *Canaccord Genuity - Analyst*

Stephanie Davis *JPMorgan - Analyst*

Mike Ott *Oppenheimer & Co. - Analyst*

PRESENTATION

Editor

Please stand by for streaming text.

Operator

Greetings and welcome to the Allscripts third-quarter 2016 earnings conference call. We have allotted one hour for this conference today. At this time all participants are in a listen-only mode. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Seth Frank, Vice President of Investor Relations. Thank you, Mr. Frank, you may begin.

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

Thanks, Dara, and good afternoon, everyone. Our speakers on today's call are Paul Black, Allscripts Chief Executive Officer; Rick Poulton, our President; and Melinda Whittington, our Chief Financial Officer. We will be making a number of forward-looking statements today 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 results please reference both 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 available on the investor relations section of Allscripts website. And with that, I would love to turn the call over to Rick Poulton, President of Allscripts.

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

Okay. Thanks, Seth. And thanks, everyone, for joining the call today. It's a great day to be here in Chicago, home of the now world champion Chicago Cubs. And culminating with last night's very exciting win, we think this week shows that the best days in Kansas City are now officially in the past, and Chicago is ready to assume the role of industry leaders.

So, as we did last quarter, I'll cover the business highlights for the quarter, Melinda will discuss the financials and then Paul will close with his perspective on our current position as well as our focus areas as we look forward.

As an overview, total bookings were $291 million, or 7% year-over-year growth on a consolidated basis. Excluding Netsmart, standalone Allscripts bookings totaled $270 million, in line with our record performance in the third quarter of last year.

The quality of our bookings were very strong and well-represented across almost all of our portfolio. We had new additional Sunrise agreements, including one international win, and we also saw an acceleration in population health management and our payer life sciences businesses. Additionally, emerging growth areas such as revenue cycle management services are gaining momentum and beginning to make a more significant contribution to our results.

Netsmart had a smaller contribution to bookings than we saw last quarter due to an even heavier seasonality effect in their markets than we experience in our core markets, and also due to some deal slippage in Q4. As we look ahead, Allscripts momentum in the marketplace remains very strong. There are both new client and add-on opportunities in the U.S. and abroad that are in our pipeline, and it gives us a lot of confidence that we'll close 2016 on a strong note.

Now let's look at the key market starting with ambulatory. We saw excellent traction in our rapidly growing revenue cycle management services offering, where we had a record bookings quarter. We saw demand increase for these services beyond our [Pro EHR] base and into our larger TouchWorks client base during the quarter. As a result, revenue cycle management services bookings increased almost 90% from last year's third quarter.

As an example, during the quarter we signed a multi-year agreement with Cardiovascular Consultants Limited, or CVC, who is the largest provider of cardiovascular medicine in Arizona. CVC was looking to replace an antiquated closed PM system with an open platform for comprehensive and robust revenue cycle management services, and they wanted it integrated with their TouchWorks EHR and FollowMyHealth consumer engagement solution. After evaluating options in the market, CVC determined they could best accomplish their business objectives by implementing Allscripts private cloud-based RCM services.

We see evidence in the market of our enhanced competitive position in the revenue cycle arena. We are seeing multiple head-to-head competitive situations where Allscripts differentiated offering is being selected. And we've also seen clients come back after testing some competitor solutions. Allscripts investments and progress in revenue cycle management services was recognized as the class organization recently published an annual evaluation of revenue cycle management services vendors. We're very proud that Allscripts ranked highest in overall satisfaction in the 1 to 10 physician segment, and we also ranked second highest in overall satisfaction in the greater than 10 position space.

These results are encouraging, and it illustrates that Allscripts investments in revenue cycle have excellent long-term potential as a growth driver for us.

Beyond revenue cycle services, the quarter was strong for ambulatory software sales as well. Notable agreements include Walla Walla Clinic, a large multispecialty practice in Washington state chose Allscripts PM over a large private competitor in order to meet their strategic plans to effectively manage the cost and quality of care provision to their community and ensure a common platform for both EHR and practice management.

We recorded another win with an independent physician group at Affiliated Community Medical Center in Minnesota. This organization needed to replace a legacy PM system. They looked closely at a large private company and determined an integrated EHR and a PM system, along with the Allscripts vision and strategy for open systems and interoperability, was the best fit for their long-term strategic goals.

Also in Minnesota, at Mankato Clinic, a large multispecialty independent physician organization, they evaluated multiple supplier options for new integrated PM and EHR. After they completed their diligence, Mankato renewed their TouchWorks agreement and replaced their legacy PM system with an integrated solution provided by Allscripts.

Turning to our US-based health systems, Sunrise had an excellent quarter, and our population health management suite, CareInMotion, had a great quarter both inside and outside the Allscripts core EHR client base.

Wise Health Systems selected Sunrise and CareInMotion to strengthen its strategic focus on improving patient care and transitioning to new models of integrated care. Wise is a two-hospital system in the Dallas-Fort Worth area. This was a highly competitive situation to replace an enterprise legacy system, and we were particularly pleased that clinicians selected Allscripts solution as superior to the available alternatives for them.

Another new health system client this quarter is with the County of Los Angeles Department of Health Services. This is the second largest county health system in the United States. This is an exciting example of Allscripts ability to export our advanced industry-leading population health management technology outside the traditional EHR market and enabling major health care organizations to build open, connected communities of health.

LA County will utilize Allscripts value-based care technology to bring health benefit administration claims and other health care transactions together on one management platform to effectively support the administration of managed care contracts and population health strategies.

Our solution will allow LA County to evaluate and pursue value-based revenue opportunities such as the Medicare Shared Savings Program, commercial ACOs and bundled payment models. Another exciting population health management win this quarter was with Care New England, a multi-hospital system across Rhode Island that will implement Allscripts care coordination solutions cross their system. They chose Allscripts over their incumbent EHR vendor for these critical solutions.

I'm also very pleased to announce that Advocate Healthcare, a long time Allscripts TouchWorks client and a key partner for our private cloud-based EHR services, also became a population health management client during the third quarter. Like many large health care organizations, Advocate works with multiple EHR vendors, and they will use dbMotion to power community-aware EMR leveraging our Allscripts Fusion technology. And they will create a patient-centric view and level of interoperability and clinical workflow that others in the industry simply cannot deliver today.

Similar to Advocate another long-standing TouchWorks client, Excela Health, also selected dbMotion to support their population health management objectives. Excela plans to leverage dbMotion to build a clinically-integrated network across Western Pennsylvania, allowing for the creation of a single-patient record and enhanced care team communication and productivity. The Excela agreement is an example of the network effect of the Allscripts footprint. Along with UPMC, who is the largest dbMotion client, we are working to expanding dbMotion to be the largest network in Western Pennsylvania, including Pittsburgh.

The sales momentum for dbMotion is based on the nationwide focus on interoperability as organizations seek advanced EHR-agnostic technology to exchange health data successfully and within the clinical workflow. We have a track record of the most complex medical organizations using this platform to now achieve extraordinary results. We recently announced that Baylor Scott & White Health, who purchased dbMotion in 2014 and went live in 2015, is now using the solution to streamline the exchange of EHR data between disparate EHR systems used by more than 3,800 physicians who care for over 2.7 million patients. Since they went live, dbMotion has helped Baylor network exchange more than 36 million clinical messages. Now moving to the international business, we added another new Sunrise client in the quarter, the Bahamian Ministry of Health. The

Bahamian ministry selected Sunrise for deployment across the entire island nation, with over 100 clinics as well as three public hospitals, including the main 420-bed Princess Margaret Hospital in Nassau. Sunrise will be the foundational platform as the country goes about a modernization of the Bahamian healthcare system to help achieve its goal of positioning the Bahamas as the healthiest country in the Caribbean.

Sunrise will support all public healthcare venues with a single platform and single-patient record across inpatient, ambulatory, emergency and revenue cycle venues. Our momentum outside the US is a result of the underlying strength of the Sunrise community-aware EHR, strong execution and implementation and support, as well as the strategic value of our CareInMotion solutions platform.

The market today is looking beyond simply acquiring EHR. Now the ability to deliver robust, easy-to-use EHR that can drive superior, measurable outcomes with community connectivity and integrated workflow is key to driving buying decisions.

In addition to our sales momentum, we had another successful Sunrise go-live at King's College Hospital Trust in London. King's is one of the largest and busiest teaching hospitals in the United Kingdom, with 1,600 beds and 1.1 million outpatient encounters annually. We moved from a December 2015 contract signing to a very smooth go-live in less than eight months.

Also in September, our first UK client, Liverpool Heart and Chest Hospital, joined a very exclusive group of just four acute NHS trusts to be awarded an outstanding rating by the UK's NHS watchdog, the Care Quality Commission.

And in October, our Sunrise client, Salford Royal Trust, was awarded the top prize at the high-profile 10th annual UK EHI Awards, besting every other hospital in the United Kingdom. Salford Royal, as one of the most digitally advanced trusts in the UK, has also been invited by the NHS to apply for funding to become recognized as a center of global digital excellence, driving the best use of technology in health care.

These achievements, combined with the highly successful go-live at Queen Elizabeth Hospital in Adelaide, Australia, at the end of the second quarter, are helping raise Allscripts reputation abroad. So, while it's difficult to predict the timing of what are predominantly large government procurements, our pipeline remains very strong outside the U.S., and we remain enthusiastic about the global business opportunities. And with that, now I'll hand the call over to Melinda to discuss the financials.

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

Thanks, Rick, and good afternoon, everyone. I will now go through the financial highlights of Q3 and speak to our outlook for the remainder of 2016. For reference, please consult the tables in the back of the press release and the supplemental data workbook, which is available on the investor relations section of our website.

As a reminder, we closed the Netsmart transaction on April 19, 2016 and began consolidating the results as of that date. Therefore, our third-quarter 2016 results include a full quarter of Netsmart. Consistent with last quarter, all results discussed are on a consolidated basis. But for the balance of this year we will also provide perspective on Allscripts standalone for key metrics, excluding the Netsmart transaction, in order to better compare results on an apples-to-apples basis.

Rick thoroughly reviewed third-quarter bookings. But it's also important to take a pulse on where we stand year to date. As of September 30, Allscripts consolidated bookings growth is 18% year to date. Excluding Netsmart, bookings are at 9%, a very strong performance. Total backlog is at $3.9 billion, down $54 million, a slight decrease due to timing and mix of bookings and renewals relative to revenue recognition timing. Total backlog includes $295 million from Netsmart.

Turning to the income statement, third-quarter non-GAAP revenue increased 14% to $404 million, while GAAP revenue increased 11% to $392 million. Netsmart contributed $38 million in GAAP revenue and $50 million in non-GAAP revenue for the period. As a reminder, non-GAAP revenue excludes a $12 million deferred revenue adjustment resulting from the Netsmart transaction, consistent with the accounting treatment we discussed last quarter. My comments will focus primarily on non-GAAP revenue.

So looking at the consolidated results in detail, software revenue for the quarter increased 14%, totaling $262 million. The recurring portion of software revenue consisting of prescriptions, recurring transactions and support maintenance increased 15%, and nonrecurring software revenue increased 8%. Most of the growth in software delivery was attributable to the addition of Netsmart. Turning to client services, consolidated revenue grew 15% to $142 million, with recurring services up 32% year over year. Allscripts standalone delivered 15% growth in recurring services revenue year over year. Demand for recurring services, including private cloud-based hosting, outsourcing, revenue cycle management and population health services continues to be very robust.

The balance of the growth in client services was due to the incremental contribution of Netsmart. On the nonrecurring side of services, revenue declined 9%. As has been the trend, declines in nonrecurring services more than offset the addition of Netsmart. As we entered 2016, we expected a low single-digit decline in Allscripts nonrecurring revenue compared to 2015 due to changes in Allscripts business model, which require less upfront revenue services and drives lower end-user demand. However, this decline has been more pronounced than expected, as our clients awaited the release of the final CMS rules related to the Quality Payment Program and changes to stage three of the Meaningful Use program. Ultimately, we're down over $20 million for the nine-month period in Allscripts nonrecurring services revenue versus year-ago. But looking ahead, we expect pick-up for upgrade activity and other services related to MACRA. But it's too early to accurately forecast that impact.

So pulling it all together, in summary, on a consolidated basis recurring revenue grew 19% and equaled 78% of total revenue in the third quarter and year to date. This is up from 76% year to date last year. Nonrecurring services -- nonrecurring revenue in total, sorry, declined 2% and totaled 22% of total revenue. To recap for Allscripts standalone, excluding Netsmart, revenue was in line with year ago. Allscripts standalone recurring revenue grew 5%, a continued strong trend. But similar to last quarter, recurring revenue growth was offset by a decline in nonrecurring revenue growth year on year.

And now looking at gross margin, Allscripts non-GAAP gross margin increased to 47.6%, a 120-basis-point year-over-year increase and a strong result for the company. The addition of Netsmart did not materially impact gross margin percentages, as their margins are similar to Allscripts.

Software revenue margin in the quarter was 64.3%, consistent with third quarter of last year. This result is aligned with our expectations of software margins in the mid-60%s over time.

Client services margins improved to 16.8% on a non-GAAP basis, a significant improvement over a year ago and also consistent with our expected improvement trends over time.

As of the third quarter, consolidated non-GAAP gross margins are running ahead of expectations that we've set for an increase of approximately 150 basis points in 2016 compared to 2015. That said, gross margins can very quarter to quarter based on mix and other factors. And given our current level of revenue, gross margins are at the high end of our near-term expectation.

Looking at expenses, non-GAAP SG&A totaled $90 million, a 19% increase year over year. Excluding Netsmart, standalone Allscripts core SG&A is flat versus year-ago, and illustrative of strong cost control measures and sustainable efficiency gains in the business.

GAAP SG&A in the quarter included $2.2 million in fees and expenses associated with various transaction activity in the quarter.

Gross R&D investment was $68 million, up 16% over last year's third quarter, due mainly to increased innovation investment by Allscripts. Our software capitalization rate was 34%, up from 19% a year ago and up from 31% in Q2. As taught last quarter, the year-over-year increase in capitalization rates reflects a pivot to increased innovation spending, and we continue to expect to see capitalization rates in the low 30s as we go forward.

As a result, R&D expense on the income statement was $45 million, slightly lower than Q2 and down just slightly compared to year ago. Regarding interest expense, the consolidation of Netsmart added $12 million in interest expense attributable to Netsmart's debt for Q3. As discussed previously, Netsmart added $562 million of debt to our balance sheet beginning in Q2, which is nonrecourse to Allscripts but is included in our consolidated financial statement.

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And turning to profitability, adjusted EBITDA before reduction for non-controlling interest totaled $80 million, a 21% year-over-year increase and equivalent to a 20% adjusted EBITDA margin. Adjusted net EBITDA, which is net of Allscripts non-controlling interest as illustrated in table five of our earnings release, was $70 million, a 6% increase year over year and a 17% adjusted net EBITDA margin.

Non-GAAP net income, excluding non-cash items, nonrecurring expenses and net of non-controlling interest, totaled $26 million, a 6% increase year over year. Non-GAAP EPS was $0.14 for the third quarter.

Turning to cash, on a year-to-date basis operating cash flow totaled $185 million, compared to $128 million in the first nine months of 2015, a 44% improvement. The vast majority of the year-over-year improvement in operating cash flow is driven by Allscripts, with Netsmart filling in the margins. Free cash flow for the nine-month period totaled $90 million, an 11% increase versus prior-year. Looking at the remainder of 2016, we expect free cash flow at or above 2015 levels for the year.

Regarding share repurchases, Allscripts repurchased an additional 1.5 million shares in Q3 for a total of $19 million. Shares were repurchased at an average price of $12.73 per share. As of the end of September, there was $79 million remaining under our current $150 million share repurchase authorization. Allscripts fully diluted share count stands at [189 million].

And finally, to our outlook -- with one quarter remaining in the year, Allscripts is providing financial guidance for the final quarter as follows. Non-GAAP revenue between $420 million and $435 million based on sequential quarterly improvement for both standalone Allscripts and Netsmart. Adjusted net EBITDA between $70 million and $80 million, and non-GAAP earnings per share between $0.14 and $0.16 per diluted share.

So, as you can see, we're looking at solid results to finish out the year. And with that, I'll hand it over to Paul.

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

Thanks, Melinda. As you can see from the outlook we've provided for Q4, we are optimistic that we will close the year on a strong note. 2016 has been a year where we have accomplished a great deal. We plan to carry this momentum into Q4 and beyond. Looking ahead to strategic priorities, we are focused on delivering on the solution specifications detailed in the MACRA final rules issued two weeks ago. We believe this takes us another step closer toward a sustainable and permanent shift from fee-for-service to payment models that are quality- and value-based.

The final rules provide enhanced flexibility to physicians, more ways to participate and more choices regarding their participation schedule. CMS introduced additional Advanced Alternative Payment Models, which we view as a positive move. There were no major surprises in terms of requirements. From Allscripts perspective, we are prepared from a development standpoint to deliver upgraded solutions as clients are ready to take them. Client hesitation to upgrade until now should generate more activity. From a development perspective we are focused on accelerating the velocity and efficiency of our R&D spend. We are working to streamline deployments and provide clients the opportunity to actively participate in development activities leveraging the cloud. These initiatives have the potential to accelerate Allscripts market position over time.

This quarter's success in revenue cycle management services illustrates increasing traction in this important market. It aligns with client implementations of Sunrise Financial Manager, which are proceeding as anticipated. I remain enthusiastic about the company's position in global markets. We are working aggressively to capitalize on successful deployments, thus raising Allscripts international profile.

Looking at population health management and beyond the EHR opportunities, we continue to invest for future growth. Allscripts acquired privately held CarePort, a Boston-based company that improves post-acute outcomes, providing solutions to guide patients to high-quality post-acute providers upon discharge. For the health system, this solution will track patients' usage and results in real time across the post-acute continuum. These capabilities deepen our existing care management relationships and expand the power of the Allscripts referral network. CarePort fits well into Allscripts larger plans for expanding consumer engagement strategies. CarePort is another example of Allscripts strategic plan to offer platform technology and connectivity to every venue of care. Netsmart recently advanced its post-acute offerings with the acquisition of [HealthMatics], expanding upon its behavioral health, hospice and home care solutions with a robust cloud-based EHR and revenue cycle solution for the long-term care continuum -- skilled nursing, assisted-living and long-term care facilities. We believe these investments will accelerate the market-leading position we enjoy in the population health and care coordination markets.

I'm also pleased to announce the CDC national center for healthcare statistics selected Allscripts as part of a team to provide data technology and services to the United States National Health Care Surveys. This opportunity is part of a larger initiative to help modernize data collection technology used by the CDC. Providers, policymakers and researchers use the data from these surveys to address important topics in health care including the quality and disparities of care among populations, epidemiology of medical conditions, the fusion of technologies, effects of policies, practice guidelines -- all measuring changes in health care over time.

The Center for Health Statistics will utilize Allscripts dbMotion platform, which supports aggregation and harmonization of clinical data from diverse technologies in electronic health records, to collect data from a multitude of health care providers and facilities including physicians and hospital inpatient and outpatient departments. This is an exciting opportunity for Allscripts technology to positively impact public health community at the highest levels. The award extends our relationships with the Health and Human Services organizations. The National Institutes of Health Clinical Center is another key HSS client. These initiatives, along with the launch of 2bPrecise and its early-adopter program with the NIH, will continue to distinguish Allscripts in the coming years, allowing us to deliver on the vision of building a connected community of health.

Allscripts profile in public health initiatives and policies is rising. And with that, we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Jones, Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

I guess let me be the first to put it out there that if you guys ever want to do a facility tour of your Bahamian rollout, we'd be happy to help facilitate that.

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

Before or after the hurricane?

Robert Jones - *Goldman Sachs - Analyst*

I guess just one thing in the commentary that stands out is your two major competitors, as you are well aware, have been out talking about slowing replacement and demand environment just given less urgency around regulatory mandates. You guys are talking about record demand on the ambulatory side today. Can you maybe just help us square some of the commentary that's been out there? Maybe what do you think is truly at play in the end-markets right now?

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

Bob, I can't speak exactly to what other people are saying and what they are saying around it. But I think what you're hearing is commentary on replacement of kind of core EHR, core PM systems. Which, I think some of our competitors were way out ahead of us in predicting how robust those markets were going to be. We're not -- our comments aren't about massive turnover or replacement market. And for software it's about -- my comments, which were very robust around, for instance, some of the service opportunities like revenue cycle management services, which we're seeing tremendous growth for -- we have a massive footprint of clients in the ambulatory space. And more and more they are turning to people to take some of those requirements off their back and deliver more value. So that's where we're seeing a lot of lift in some of the service offerings, and we're seeing a lot of enthusiasm for our CareInMotion suite. And those are buying areas. So I think that's a very different commentary than commentary on replacement market for EHRs.

Robert Jones - *Goldman Sachs - Analyst*

That's fair. And I guess my follow-up, Rick, if I look at the 4Q guidance assuming Netsmart is around $50 million or so where it's been, would apply a high single-digit growth for the core Allscripts after what seems to be relatively flat core Allscripts -- legacy Allscripts growth the past two quarters. Could you maybe just talk about what drives that expected pick-up in 4Q?

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

Well, we've got a -- two things. I think Netsmart is going to continue to grow, so they are on a growth trajectory. So I think calling them flat is too conservative. But we've had a tale of two cities, Bob, and we've been, I think, pretty transparent about that. We've had nice lift in our recurring revenue, and we've seen that recurring revenue be offset last year almost dollar for dollar -- this year not dollar for dollar, but maybe more than we expected, and a decline in these nonrecurring revenues. And the biggest driver of nonrecurring revenue is really implementation services and upgrade services. And with [ME3] around the corner, we're not just seeing a lot of upgrade activity this year. And so we've had a more depressing effect, I think, from it than we had expected coming into the year. But with that said, we're not talking about a really tough comp last year. And, yes, we expect this recurring revenue trend to keep going and the kind of headwind of nonrecurring losses to subside.

Robert Jones - *Goldman Sachs - Analyst*

Got it. Thanks for the questions.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

Good evening, guys, and thanks for taking the question, and I'll extend a Go Cubs to you guys.

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

Thanks, George.

George Hill - *Deutsche Bank - Analyst*

I guess Rick, I'll start off with something else from the prepared commentary where you talked about a couple of deals that slipped out of the quarter. I guess my first question would be could you quantify the size of those deals, and have they signed in the quarter that we're currently in?

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

I made the comment, George, with respect to Netsmart, and I did that to help provide a little context for -- they haven't been with us that long. But if you looked at their bookings contribution in Q2 relative to the contribution of Q3, you'll see a very different picture. And I was trying to give, again, a little context for that. Netsmart is off to a good start in Q4. We expect better things and better numbers out of them in Q4. And, long-term, we remain very bullish about their opportunities.

George Hill - *Deutsche Bank - Analyst*

Okay. Then I guess both companies have done small tuck-in deals as we've started off the fourth quarter here. Will either of those deals -- either the HealthMatics deal or the CarePort deal -- have an impact on results in the fourth quarter? And I guess are they included in the guidance would kind of be my question.

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

They are very, very, very modest top line, virtually the bottom line (multiple speakers) -- and yes, it's included.

George Hill - *Deutsche Bank - Analyst*

Okay. Then just last one, I'll ask for Melinda. With regard to the backlog dip this quarter, you talked about kind of the timing of revenue recognition bookings and backlog. It's the first time in like three years that we have seen backlog go down. Should we expect to see a resumption of backlog growth in the fourth quarter?

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

I wouldn't take this as any new trend. We feel good about the backlog levels and ability to deliver on revenue, and I don't think this is an indication of any new trends, just nearly timing.

George Hill - *Deutsche Bank - Analyst*

Okay. Just bookkeeping at my end. Thanks, guys.

Operator

Charles Rhyee, Allscripts.

Charles Rhyee - *Cowen and Company - Analyst*

I guess I switched jobs. (laughter) I guess I've got to move over to Chicago now. I might have missed it earlier, but when we're looking at the bookings [management], did you guys talk about the split between maybe international versus US? Obviously you've called out some international wins. Just curious, are we starting to see more mix shift towards internationally? And is that an area that we can expect more in going forward given maybe some -- we've seen some macro split on here domestically. And then secondly around the King's College, you are live there now. Is there any go-forward path there? What is the rollout schedule there in terms of other modules we should expect at King's? Thanks.

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

On the first part, there's not been a big difference in the bookings mix with regard to domestic versus global. That's been pretty relatively consistent for a good period of time. We like the fact that we have a more robust and global pipeline that we're working each and every day. The other piece of color that I'd give on the bookings is that this Q3 was actually the highest new business quarter that we've had in the last six quarters. So when you think about mix of new versus installed on aggregate there was a six-quarter high on new business for bookings. On King's, they are a great client, and we expect them to look at and evaluate the rest of our solution portfolio as software and as some of the other clients have done over there, but there's nothing currently in the backlog and nothing currently in the pipeline for what they are doing with us, if you will, on a Phase III or IV.

Charles Rhyee - *Cowen and Company - Analyst*

I see. All right. Thanks.

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

You bet. Thanks for the question.

Operator

Eric Percher, Barclays.

Eric Percher - *Barclays Capital - Analsyt*

I might return to Rick's comment around nonrecurring and how maybe you have outpaced some of the drop that you would've expected to see over time if there wasn't a live integration going on. Can you give us some feel as to how much or what the composition looks like in this year and maybe how it's changed versus a year or two years ago? And where I'm going with this is that we start to all build our models for 2017 and think about core growth, it feels like we must reach a point where that starts to -- that decline slowed and, of course, we see the recurring revenue continue on. So can you help me set up that equation?

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

Well, yes, we may have to iterate on my response and get to really the heart of what you want. But just big picture, last year, 2015, had a recurring revenue growth each quarter of 5% to 6%. And we averaged, I think, 5.5% for the full year in that ZIP Code. But nonrecurring revenue was down about 17% on an annual basis for the year. So every loss of that chunk -- every dollar loss on nonrecurring side pretty much offset the gains on the recurring side.

When we came into this year, we predicted -- we go back to the guidance at the beginning of the year, and this is obviously all ex-Netsmart. So this is commentary on a standalone basis. We thought recurring revenue would be up in the 5%-ish range or so for the year and that those nonrecurring declines on an annual basis -- annualized basis would be down about 2% to 4% was what we called as we came into the year. So that was the expectation coming in. I'd say sitting here three quarters in the books now, the recurring assumption has been pretty much spot-on, so there's nothing missing there. And what we've experienced is a little more weakness on the nonrecurring side than we expected. And so year to date I think we're down -- I'd have to check my math -- at around 8%, if I'm not mistaken, rather than the 2% to 4% that we did. So I'll have the other guys verify the numbers on that. But that's sort of the ZIP Code of what we're talking about. And so that's what's kind of weighed down some of the revenue growth coming into the year. If you look back, you would see fourth quarter was one of the -- was a fairly soft overall comp when you look at the total revenue year to year, and the biggest reason for that is the nonrecurring revenue was quite soft in Q4 of last year. So you put all that together in a blender, our comp is easier year over year and in particular it's is easier on the nonrecurring side. So I don't expect to see the kind of decline year over year in Q4 at all. And, therefore, the recurring revenue gains ought to rise through, if you will, into our consolidated results. Looking ahead to next year -- and I know you want to build models for next year -- we haven't obviously given our guidance for next year, so I can't go too far out on this. But I would just point back to a comment Melinda made, and I'll build on it, is we really do feel, given the requirements of MU3 that as we look to next year sitting here at this moment, we think we've kind of hit bottom on the depths of how much the decline is on the services side. And we should see that kind of pick up next year as we do more and more upgrades. So we'll provide a little more color when we do our guidance call, but that's the way you should think about it right now. So let me pause there and see if the answer is what you are thinking about.

Eric Percher - *Barclays Capital - Analsyt*

No, I think that's hugely helpful. And I guess the follow-up would be how close to the bone are we on Q4? You have a weak comparison but then we go forward into next year. The assumption, it sounds like, is not that there's another 2% to 4% down. Or was that a rate that you expect to go into the future?

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

Look, again, I'm not giving 2017 guidance right now, but I think you should interpret is as we don't think -- as we look out as a general rule we think we're -- if you can call the bottom, which I think we're pretty close to it in the near term. And so look our goal -- again, big picture, our goal is to move to more and more of a recurring revenue model. Right? So we would like to move recurring, and we'd like those percentages to continue to grow -- or the percentage of recurring revenue continue to grow even past 80% of our overall revenue going towards 90%. We'd like that to happen by keeping every dollar of nonrecurring and then just growing our recurring. But we may see nonrecurring stuff continue to drift away a little bit over time. So I think that's important to keep the big perspective. But sitting here right now, and as we look out over the next couple of quarters, we would expect to see that continue to be -- we wouldn't expect to have the same headwinds that we experienced certainly this last quarter.

Eric Percher - *Barclays Capital - Analsyt*

That's very helpful. Thank you.

Operator

Jeff Garro, William Blair & Company.

Jeff Garro - *William Blair & Company - Analyst*

First, I want to ask -- it sounds like there's some overlap with other vendors on Population Health Management, Advocate being one example. So is that a trend, or is it the case where it's early days for the move to value-based reimbursement, and health systems are kind of trying out multiple vendors and then will consolidate later on?

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

I would say the strength of this platform that we've been talking about for a long time, this dbMotion solution that we have, has to do with the ability to connect, bring the data in, harmonize the data, analyze it and then transact it back into the source EMR that sent the data to begin with. And that has been a very important distinguishing feature of how we do what we do. So there's been a lot of people who have bought platforms or bought analytics capabilities or bought Care Management capabilities, which is all great. But at the end of the day all that information and data has to get transacted back down inside of a heterogeneous EMR environment. And I think a lot of the very large shops that have been struggling with this that have the heterogeneous environments are looking to something that's a little bit more transaction-oriented and capability from a workflow standpoint that makes the end-user physicians not have to go look for a lot of data. Data is presented to them. It's presented to them in a delta view, and it's presented to them in something that makes sense and is valuable to them. I think there's just an awareness here after three or four years of working with HIEs of what does and doesn't work. And that's the trend I think you'll see from us as we continue to announce large IDNs moving to this platform to really truly provide data liquidity and, importantly, information that's valuable back to the clinicians that need to use it.

Jeff Garro - *William Blair & Company - Analyst*

That makes sense. And as a follow-up, I'm curious about your expectations for macro-related pick-up in demand given that some of the requirements of the law were softened in the final rule. And then maybe you could also size the macro-related upgrade opportunity within your base.

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

We don't think macro per se is going to drive a lot of incremental software sales. I think it does create a more complicated reimbursement model or reimbursement kind of environment, particularly for our smaller clients. And that makes them even more interested in our revenue cycle management services offering. So I think the services opportunity we're seeing today and I commented on quite a bit, I think, is certainly fueled in part of what's on the horizon given MACRA. But the upgrade activity that will happen will be really driven by the MU3 requirements, which has now all been blended in to the same kind of legislation. But in the end that's going to drive up upgrades and services opportunities, so not a ton of incremental software.

Jeff Garro - *William Blair & Company - Analyst*

Got it. Thanks for taking the questions.

Operator

Greg Bolan, Avondale Partners.

Greg Bolan - *Avondale Partners - Analyst*

A, I totally agree with Bob's suggestion going down to the Caribbean. So definitely keep us in mind on that one. Then, B, kind of hate to be the troll that asks this question. But as we think about just in our conversations with some of the, I guess, mid-sized hospitals -- this really wouldn't apply to the larger ones. But there's, I guess, some concern with regards to just, if you will, neck-and-neck or somewhat close-to-call election here and what that means for a regulation that's been put in place over the years as it relates to adoption of healthcare IT applications and services. And so does it feel like there was any type of pause or freeze in activity among the small to mid-sized hospitals this quarter? And I suppose if you wanted to take that all the way up to the larger size, IDNs as well. Thanks.

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

Hi, Greg. This is Paul. I didn't sense any of that, and I was actually looking for it because of the neck-and-neck nature that you referenced and some of the policy that may or may not come out of one side of the aisle versus the other. But I have not sensed a hesitation there. I think the broader, more macro level is more of a thing of what's going to happen depending on who gets in with regard to the Affordable Care Act and the coverage of the 20 million lives that are out there. And if there's a replacement for that, what is the replacement? What does that look like, and how does that affect the health, if you will, of many of our small- and medium-sized clients? We have a very large Medicaid population. So not all clients fit that profile. But that legislation has actually been helpful for the people that have a very large Medicaid or a sub-Medicaid, if you will, population of people. So a replacement for that, if that is what is deemed to be needed, outcome is something that we will all need to watch very carefully.

Greg Bolan - *Avondale Partners - Analyst*

Okay. Thanks, guys.

Operator

Sean Dodge, Jefferies.

Sean Dodge - *Jefferies LLC - Analyst*

Rick, maybe a quick follow-on to one of your earlier comments -- when are they MU3 versions of your various software platforms scheduled to be released?

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

We have three major platforms, and they are all started the testing and certification phase. So they will be available for clients to go upgrade or start upgrades at their discretion. Kind of think about a Q2-ish of next year, probably.

Sean Dodge - *Jefferies LLC - Analyst*

Okay. Thank you. Then Paul, you mentioned increasing the efficiency or the effectiveness of your R&D expense. Can you give us an example of what you are thinking here? Is it -- are you foreshadowing a change in your development strategy, or is it offshoring more work, or is it something else entirely?

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

Our clients are very interested now that they are all installed with a running version of an electronic medical record of, if you will, the next phase. They are interested in optimizing that which they have installed. They are interested in reducing the number of clicks, if you will, to get to the impact. They're interested in more clever technologies that make the physicians and the end-users happier. And so we are now -- in one phase of the development you are building applications. In the second phase of that development you are optimizing and making them better. You are using that based on algorithms to come back and based on end-user experience. And you are also basing that on what kind of calls you are getting from the support line. So the efficiencies that you get over time with an engineering organization that has code that's out and, if you will, running is one piece. The second piece is what we're doing to be able to innovate on top of that platform, which is why you saw some of the additional spend and some additional cap rates with regard to new applications that we're building. And I expect efficiencies in that as a result of, again, experience inside a large development organization that's been working on this for quite a while. And I expect better efficient usage of the resources that you have as they are more versatile with the code and the code knowledge that's out there in the marketplace.

Sean Dodge - *Jefferies LLC - Analyst*

Very good. Thanks again.

Operator

Ross Muken, Evercore ISI.

Ross Muken - *Evercore ISI - Analyst*

If you look at some of the incremental R&D spend that you put in and you look at some of the product areas where we can see some of the key announcements, and you highlighted them earlier on the call -- where do you think over the last six or 12 months -- what segments have you seen your hit-rate, win-rate versus peers probably inflect the most where you feel like you are really sort of incrementally gaining share and outgrowing the market kind of notably?

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

Our ambulatory business has had a lot of strength for several quarters now. And so our investments there, not only in technology but in some of our service offerings around that I think have fueled very positive growth environment for them.

We've invested significant amount on our Sunrise platform and made sure that it is a -- is not losing ground at all. It's a very important base to us -- the hospital client base that we have or health system client base that we have. And that's been important and we've had I think a lot of significant renewals with current clients -- extensions, expansions of their footprints with Sunrise. And then we've also had new business activities really -- on a fairly steady basis for the last probably six to seven quarters, whereas if you had gone back prior to that I don't think there were any new Sunrise footprints for probably a couple of years almost. So we have really resurrected, I think, the opportunity around that. So think about all as kind of shoring up and continuing to advance the kind of foundation, which is our EHR base. But a lot of our incremental spend and the lifts you've seen and spending have gone towards the care coordination opportunities, analytics opportunities that are at the core of what is -- we think the market is really -- it's still a growth market, which is the value-based care solutions and population health solutions. And every quarter, we're talking about our momentum in that area. We disclosed in our SEC filings, we have population health as a segment -- separate business segment. So you can see the size of the impact. And it's very -- it's non-insignificant -- it's a very big piece of the overall Allscripts. And I'm proud to say more than half of that comes from non-EHR clients. So, more of that business comes from non-EHR clients than it does from EHR clients. So those are a lot of the focus areas. More recently, we've reinvested -- we've upped our investment in areas like our EPSi solution, which is a financial decision-support platform used for strategic budgeting, modeling and decision-support. That's a platform that has had a real resurrection, if you will, of momentum in the marketplace over the last several quarters.

So we are -- we've added a lot of dollars -- if you go back to look two, three years ago -- to our solution investment. But we really feel like we're getting good payback on it.

Ross Muken - *Evercore ISI - Analyst*

Thank you, guys.

Operator

David Larsen, Leerink.

David Larsen - *Leerink Partners - Analyst*

Hi, can you talk a bit about the Netsmart bookings, Rick? And I think you mentioned that 1Q and 2Q are very different from this quarter's bookings. Can you maybe give a little more color around that? Like what types of clients has Netsmart been selling into? And can you sort of describe are you seeing the bookings on Netsmart reaccelerate so far into the fourth quarter? Any trends around that would be great. Thanks.

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

So I wanted to make sure we addressed it proactively, David, because obviously if you look at it just from an absolute dollar amount the contribution of bookings in Q3 was significantly less than it was in Q2. And some of that seasonality, they have an even more seasonal pattern. Their booking performance in Q3 just as an example was not down on a year-over-year basis. So it's not a function of something crazy happening. There's just a lot of seasonality there. But their business -- that has become I think the de facto choice in the behavioral health space, or at least we believe that they have. And so their opportunities are as strong as ever. They did have some deals slip -- they are more oriented towards upfront license model than we are at kind of the core Allscripts. And so not only do you feel the impact of deal slippage in bookings, you feel it in revenue as well. And we are pretty confident that you are going to see bigger numbers on both sides in the fourth quarter.

David Larsen - *Leerink Partners - Analyst*

Okay. And what is the cause of the seasonality? Is it simply in the summer months the behavioral health clinicians aren't buying software as exactly as they would normally?

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

Most of these guys are public health type of clients, Dave, and they run on budget cycles. And they tend to make decisions around those budget cycles. So that skews people towards Q4 and Q2 bookings more. But you can remember not that long ago that was kind of a similar pattern we used to see across the EHR space as well. That's when it was very highly linked to budgets. Now it's more the buying being around faster ROI kind of investments as opposed to regulatory-fueled buying that we saw several years ago. I think some of the seasonality has come out of the core for us. But they still experience it in a very significant way, very much the way the business was a couple of years ago.

David Larsen - *Leerink Partners - Analyst*

Okay. Great. And then Paul, I think you mentioned that this was the best quarter in six quarters for new software bookings. What really drove that? Was it strength on the hospital side like Sunrise deals or was it across all business segments?

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

It's across the board. You saw us announce a lot of dbMotion deals. The Sunrise business was strong, as Rick has already alluded to. And just the ambulatory with the new business offerings that we've created in that regard around the revenue cycle component there. So it's really across the board. We didn't have as strong of an outside-the-U.S. quarter in aggregate as what we perhaps have had in the past. But as I said earlier, the mix has not really vacillated that much, but we have high expectations on Q4.

David Larsen - *Leerink Partners - Analyst*

Okay. And then I think you mentioned in the press report that software bookings were up 25% year over year. Is that correct? That looks pretty good to me. How does that compare to trend, I guess?

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

Yes, software bookings are up 24% and year to date up 15%, so I think we've seen pretty nice strong growth there. The quarter is strong but overall year is strong as well.

David Larsen - *Leerink Partners - Analyst*

Okay. Thanks very much.

Operator

(Operator Instructions) Jamie Stockton, Wells Fargo.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

I guess maybe just on revenue cycle because it sounds like it's an area of strength within ambulatory for you guys, obviously. Could you give us a feel for why you feel like the inflection is really happening in that business? I heard Rick's comment that it seemed like maybe you were starting to get a lot more traction on the TouchWorks base. Is it that you specifically are doing really well with kind of old GE practice management clients incrementally that maybe you are displacing? Or is it a matter of, hey, we just needed to get a revenue cycle platform out there and let it get some decent experience and now it's taking off? If you could you just give us a little bit more color, that would be great.

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

I think, Jamie, it takes on two flavors. One is just clients who are running our PM system already are just looking to outsource some of the services component -- outsource the labor around collecting revenue cycle. And so on a model you've seen applied by certain other competitors where it's a percentage collection model that is wrapped around the technology they already have from us, you have this bigger incremental opportunity. So in some cases there's a technology change-out. In some cases there's not. Some of it is just we have a large ambulatory base, many of whom are looking to outsource non-core services across many different facets of their business. And this is an area where our offering is of interest to them. And again in some cases we have found new clients who are on legacy technology that they don't feel is the right platform for them for the future. And so they're open to a nice bundled offering that has technology on the services offering with them.

Jamie Stockton - *Wells Fargo Securities, LLC - Analyst*

Okay. Thanks.

Operator

Sean Wieland, Piper Jaffray.

Sean Wieland - *Piper Jaffray - Analyst*

Jamie stole my question, but let me just try to dig into revenue cycle a little bit more. So if I think about that you sell software and you sell services for revenue cycle and you sell to the inpatient market and you sell to the outpatient market -- so think about four quadrants there. Can you just kind of tell us where you are seeing the strength and maybe some penetration rates across those various areas so we can understand where those boxes of opportunities are?

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

Listen, if I take your quadrant approach, Sean, think of it as -- in the quadrant software, we've had PM systems out there for an awfully long time in our ambulatory base, many of which have tight integration to the EHRs that we also provided. And if you go -- let's just wind the clock back two years ago, we did none of the services offerings around that. So we just were a technology seller. There's an opportunity in that base to get significant services add-on to the technology footprint in the ambulatory side.

On the inpatient side, we have not had historically a highly-integrated PM system. And so that's something that we're rolling out with Sunrise right now, and it's something that almost all of our recent Sunrise wins -- that's part of the value proposition there is the integrated patient accounting system. And so that's a technology footprint you should think of that's expanding as we expand our Sunrise base with some of these new wins.

We have not delved into the box-in of services in the inpatient market, and, frankly, we're not in a rush to do that. So to the extent we need -- for competitive reasons or otherwise we need to offer that, we'd probably partner with some of the larger firms that are in that actual services side on the inpatient. But on the ambulatory side, we can be quite effective and that's a good business area for us.

Sean Wieland - *Piper Jaffray - Analyst*

And just penetration rates?

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

Well, you've seen market share data on our ambulatory footprint. So we have -- you know what it is on the technology side there. I'd say it's a pretty small set on the inpatient technology side. It's small, so that's an opportunity there. The services is something we've just been really merchandising over the last year or so. So while we've had really good momentum, Sean, I think you can think of it as less than 20% of the base has been penetrated there.

Operator

Garen Sarafian, Citi Research.

Garen Sarafian - *Citigroup - Analyst*

So -- keep it quick here. Any update on the Optum announcement from last quarter? So maybe if you can -- if there's anything you could share on what the impact was on the quarter. And also with a few more months working together if you can offer anything more on when you think the deal will get to its real run rate in bringing in new sales.

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

Thrilled with the relationship, off to a good start. We're -- impact in the quarter is small -- very, very small. As I said last quarter when we announced the deal, this was going to be something that would be ramping up slowly, not just over quarters but actually over the first several years. So we'll be systematically starting to convert some of their physicians over to our platform over several years. We started operationalizing it, so it's not -- the contract has started to come to life. But financial impact is very modest at this time.

Garen Sarafian - *Citigroup - Analyst*

Great. Thanks.

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

Or very minimal, I would say, at this time. But it's a relationship we look forward to expanding.

Operator

Nicholas Jansen, Raymond James.

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

I will be quick. Just in terms of organic revenue growth, I think you gave that metric. But I was wondering if you would give on EBITDA as well. And the reason I ask is you've done a great job over the last three years of expanding margins, even with some of the top-line pressures in the business.

And it feels like we might have gotten to the point where now you need revenue growth to deliver margin permit. So I just wanted to get your thoughts on that. Thanks.

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

Yes, certainly as we look forward we do expect strong performance across the entire P&L from both businesses. But we haven't been giving details below the revenue in bookings line of breaking out those two pieces. If you want to get some directional perspective, you can take a look at Netsmart is its own segment on a GAAP basis, to give you a better perspective that way. Kind of give you a directional idea.

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

I think to add to what Melinda said, you can get a feel for gross margins still look good when you look at them year over year. That kind of improvement does trickle down to the EBITDA line -- drives EBITDA. So on a standalone basis, our EBITDA performance continues to creep up on a margin basis. But I think your final comment or final observation is right: to get significant growth in EBITDA is going to have to come from revenue growth. But I will go back to comments we talked about later. The recurring revenue growth is there. That's not -- we're not waiting for it. It is just we need to kind of get past some of the declines we've seen on nonrecurring side, and we remain optimistic that you are going to see that recurring revenue growth come forward. So I think we're setting up for EBITDA growth both at the core of the Company as well as through the Netsmart contribution.

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

Thank you.

Operator

Richard Close, Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

A two-part question -- one, with respect to the fourth quarter, do you think we'll be able to see flat or any bookings growth in the fourth quarter? And then the second part would be, Paul, you are out there talking to hospital administrators all the time. Have there been any changes, I guess, as 2016 has progressed in terms of what their major priorities are or there, I guess, actions in terms of trying to achieve those priorities?

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

I'll take the bookings question. As you know, we don't guide specifically on a bookings number. But we do expect -- similar to revenue, we do expect a strong Q4 in bookings, and we expect that to look strong sequentially for both Allscripts and for Netsmart in total and individually.

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

On the priority piece, the guys that I talk to think it depends on what market you are in -- what part of the country, what part of the world. But I'll just take a couple. On the IDN side, they are looking at total cost of ownership. They are looking at how do we continue to innovate on top of this platform that's now completely digital. And how do we optimize the solutions that are out there. Optimize not only from a physician perspective but optimize the number of solutions they have for multiple different players. So there are some nice opportunities in some of the places that I aim to have a conversation about all those activities.

In the ambulatory footprint, they are very interested in understanding how they are going to participate in this MACRA, how they are going to participate in any line item that can move outside of the four walls to somebody else. And that's where we're having the discussions around private cloud. We are having discussions around, in some cases, revenue cycle, and that's where we're having some of the discussions around total IT outsourcing in some cases. So those are interesting. And then the small physician practices, they are interested in how they can affiliate with other organizations without having to get bought, how they can be part of and become central to a clinically-integrated network. And because of that installed base we have and the other relationships we have, we are trying to create, if you will, pockets of connectivity for these folks that they can plug in and become part of a CIN and go at risk and participate more aggressively in the economic wherewithal in that marketplace.

Richard Close - *Canaccord Genuity - Analyst*

Thank you.

Operator

Stephanie Davis, JPMorgan.

Stephanie Davis - *JPMorgan - Analyst*

Hi, guys. Thanks for taking my questions -- fly the W.

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

Thank you.

Stephanie Davis - *JPMorgan - Analyst*

A very exciting week. Could you tell us more about the competitive landscape for your Population Health solution? Given that we've seen a bifurcation in demand between what you and your peers are seeing, is it because you are mostly going head to head with other large EHR providers? Are you seeing more niche solution providers in the final stages of the RFP process?

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

I think it has to do with the fact that we've been turning these systems on and we're having success. And so the reference ability of these solutions in a marketplace that is -- whether it's version three or version two, if you will, is important. The capabilities that we've invested in to bring to them the Allscripts referral network is also important to them. The capabilities that we're bringing around the analytics and what we can do with machine learning is also important. And so on the large organizations it has a lot to do with meeting them where they are and try to figure out what pieces they've been working on that perhaps have not been successful with whoever they've been doing it with, and having a more coordinated end-to-end approach to how they are going about taking the data that they have and making it actionable.

Stephanie Davis - *JPMorgan - Analyst*

All right. Thank you.

THOMSON REUTERS

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

And Stephanie, I would add to that there's no question every large EHR vendor is -- out of necessity almost is trying to come to market with something that they are calling population health tools. And you have a lot of nontraditional EHR vendors as well. So there is clearly noise in the market. And for providers separating the noise and PowerPoint graphs from what's reality and what's real functionality can be a challenge. But we're continuing to fight through that and we're very happy with our results because of that.

Stephanie Davis - *JPMorgan - Analyst*

I hear that. Lots of complexity in the market right now. And one quick follow-up -- forgive me if this has been asked already on Netsmart. Did you even break down the bookings and backlog contribution between software and client services?

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

For Netsmart specifically, no.

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

But I'll just point out the very modest bookings contribution right in the quarter. So it's not going to move the dial on any of the other numbers.

Stephanie Davis - *JPMorgan - Analyst*

All right. Thank you much.

Operator

Mike Ott, Oppenheimer.

Mike Ott - *Oppenheimer & Co. - Analyst*

I was just wondering if you had any impact from the depreciation of the British pound in the quarter or clients impacted more broadly by Brexit.

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

I'll speak to the math. There's not a material impact relative to our overall results.

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

And the clients over there don't really want to talk about Brexit. They are pretty quick to point out that the NHS is alive and well. There's a lot of citizens over there that need better access to health care. And they feel that having an electronic digitized platform is the way to go in order to create the efficiencies they need in order to get more service and more access to care for that population. So I'm not seeing it at the governmental level, a slowdown or anything that's caused as a result of Brexit.

Mike Ott - *Oppenheimer & Co. - Analyst*

Great. Thanks.

Operator

Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the call back to management for closing remarks.

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

This is Paul Black. I want to thank everybody for spending the time with us today, and have a good evening. Take care. Thanks.

Operator

This concludes today's conference. Thank you for your participation. You may disconnect your lines at this time.