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# EDITED TRANSCRIPT

MDRX - Q2 2016 Allscripts Healthcare Solutions Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2016 / 8:30PM GMT

## OVERVIEW:

Co. reported 2Q16 non-GAAP revenues of \$397m, non-GAAP net income of \$27m and non-GAAP EPS of \$0.14. Expects 2016 non-GAAP revenues to be \$1.58-1.61b and non-GAAP diluted EPS to be \$0.55-0.62.



## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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**Robert Jones** *Goldman Sachs - Analyst*

**Sean Dodge** *Jefferies LLC - Analyst*

**Elizabeth Anderson** *Evercore ISI - Analyst*

**George Hill** *Deutsche Bank - Analyst*

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**Sean Wieland** *Piper Jaffray - Analyst*

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**Richard Close** *Canaccord Genuity - Analyst*

**Matt Dellelo** *Leerink Partners - Analyst*

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## PRESENTATION

### Operator

Greetings, and welcome to the Allscripts second-quarter 2016 earnings conference 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. You may begin.

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

Thanks, Adam. Good afternoon, everyone. Our speakers today are Paul Black, Allscripts Chief Executive Officer; Rick Poulton, our President; and Melinda Whittington, Allscripts 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 second-quarter details, please reference both the GAAP and non-GAAP financial statements, as well as the non-GAAP tables in our earnings release and supplemental data book that are available on the Investor Relations section of our website.

With that, I'd like to turn the call over to Rick Poulton.

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

Okay. Thanks very much, Seth. As we did last quarter, I will cover the business highlights for the second quarter; Melinda will discuss the financials; and then Paul will close with his perspective on our current position, and our focus areas as we look forward. We have a lot of good news to talk about today, so let's get to it.

Our total bookings in the quarter were \$362 million or 39% growth. This is the highest dollar bookings level ever recorded by Allscripts. These results...of course include the acquisition of Netsmart, and its booking contribution from April 19 through the end of the quarter. If you exclude Netsmart, bookings totaled \$318 million or 22% growth. This would, by itself, represent the sixth consecutive record quarter of bookings for Allscripts.

For the first half of the year, bookings were 24% as reported, and then 15% growth if you exclude the contribution from Netsmart. So all the way around, we feel very good about our bookings momentum.

The quarter was successful across the full client spectrum, including ambulatory, large health systems, community hospitals, as well as our international markets. We added significant new client relationships, including a new Sunrise client, and we had multiple Sunrise add-ons as well as other clients who doubled-down with us during the year. We also increased our international pipeline, and saw successful new go-lives abroad.

Let me begin in the large ambulatory market. Today we announced a new long-term strategic relationship with OptumCare, a unit of UnitedHealthcare. We signed a 10-year exclusive agreement to roll out our TouchWorks EHR suite, including our practice management solutions, to existing employed OptumCare physicians and those associated through OptumCare IPAs. Optum will also plan to offer this infrastructure to OptumCare's growing affiliated physician network.

Our agreement ultimately contemplates standardizing thousands of OptumCare employed and affiliated physicians on our TouchWorks platform. The agreement with Optum is the largest ambulatory agreement in Allscripts history, and a tremendous endorsement of the TouchWorks platform as the preferred choice for open, highly configurable, and scalable clinical platform in the highly complex multi-specialty group practice setting on a national scale. We are thrilled to join forces with OptumCare to meet their needs of their providers and the patients they serve for many years to come.

In addition to the OptumCare agreement, we expanded our relationship with several other existing TouchWorks clients in the quarter. Those included a new hosting agreement with Washington Regional Medical Center, a not-for-profit community-owned healthcare system in Northwest Arkansas. We also signed Central Penn Medical Group, a long-term client, for hosting and other services. And they renewed and extended their TouchWorks relationship term.

Another TouchWorks client, National Physician Services in Connecticut, expanded the number of TouchWorks physician users during the quarter and they contracted for the FollowMyHealth Achieve platform for patient engagement.

We also signed several other TouchWorks clients for our revenue cycle services offerings. So, all in all, a really good year for our TouchWorks franchise. A really good quarter, I should say, for our TouchWorks franchise.

In the small ambulatory market we also had a good quarter, notably with add-on sales of revenue cycle management services to our existing client base. While this is still a relatively small part of our overall business, bookings growth has been very good, and bookings are beginning to convert to recurring services revenue.

We anticipate continued growth in this area, driven by the increasing complexity of the reimbursement landscape, the limited provider resources in small ambulatory clients, as well as the ICD-10 transition and a strong value proposition on our part that, among other benefits, can result in improved cash flow for these clients.

We also signed several new Pro EHR clients, as several large corporations selected us for their own employee clinics. These corporations operate in the banking, insurance and consumer products industries.

And we were also leveraging our CareInMotion population health platform into the independent small ambulatory arena. We're doing this by utilizing our core interoperability and connecting module called dbMotion for the accountable care organizations in this marketplace.

Across the entire ambulatory market range, the quality of our products is getting well-deserved attention. In June, Black Book Research published its survey of the ambulatory EHR market across -- where they surveyed 18,000 physicians, nurses and other clinical users.

Allscripts took the number-one spot in nine of the 18 categories surveyed. Allscripts also finished as the number-one EHR for groups with 25 to 99 physicians, and the number-one EHR in groups with 99 or more physicians. These are important areas as we think about provider consolidation and the growth opportunities going forward.

I'd also note that Black Book is independent, and does not receive research dollars from vendors, and it also deploys one of the most statistically significant survey techniques in the industry.

So, overall, we believe this quarter's results across the ambulatory business are indicative of the enhanced momentum in our core physician business.

If I turn now to health systems, we had a strong, double-digit bookings increase in acute sales, driven by new and add-on Sunrise activity, as well as add-on managed services agreements. Within the health systems, we're thrilled to announce that Orlando Health, one of Allscripts most long-standing Sunrise clients, will implement the Sunrise platform at Health Central Hospital, a 170-bed hospital outside Orlando, serving the thriving community of West Orange County. And this is replacing a legacy vendor solution that they had in place previously.

We are also very pleased to announce that Northwell Health of Great Neck, New York, who is our largest client, is adding dbMotion to integrate patient-centric community clinical data into Sunrise and TouchWorks. These are the core EHR solutions that are used throughout the Northwell system.

The ability to operate a community-aware EHR platform that connects within Northwell, as well as the surrounding community, engineered within the provider's workflow using our Fusion technology, was a key differentiator for Northwell in choosing us.

We also added the Sunrise platform at Southern California Hospital at Culver City. This is a general acute hospital located in downtown Culver City, near Los Angeles. This agreement marks an expansion for Allscripts with Prospect Medical Holdings and Alta Hospital Systems, a for-profit owner-operator of 13 hospitals in three states, and comes on the heels of several new Sunrise installs at Alta facilities throughout Southern California during 2015.

In addition, St. Joseph's Health System, an integrated health system serving Northern and Southern California as well as Texas, with 16 hospitals and affiliated outpatient facilities, will extend the use of Allscripts CareInMotion platform to include our care coordination tools and modules.

Moving to the community hospital market, we added a new Sunrise client as well as additional sales of population health management solutions. On the net new client front, Wyckoff Heights Medical Center, a 350-bed teaching hospital located on the border of Northern Brooklyn, selected the Sunrise suite including our clinicals, revenue cycle management and patient engagement platform, as well as Sunrise department level ancillaries, all to be deployed on a hosted basis.

Wyckoff Heights is aggressively moving to upgrade its EHR and related technology platforms. And they chose Allscripts over a legacy provider as it looked for a strong core EHR platform that would enable the hospital staff for the unique challenges of value-based care.

Also in the community space, St. Clair Hospital -- an independent, 300-bed acute care medical center in Southwestern Pennsylvania -- expanded with us beyond Sunrise to include components of Allscripts CareInMotion suite. This includes the dbMotion module, analytics as well as our care coordination tools. This was a great competitive win for us, as St. Clair performed extensive diligence and included looking at all of the best-of-breed vendors in the marketplace.

And finally, turning to the international business, we had a very successful quarter from an execution standpoint. Looking at the specific markets, in the South Pacific, the Queen Elizabeth Hospital in Adelaide, Australia, had a successful go-live in June. Next, we are focused on deployment at the most advanced inpatient facility ever built in Australia -- this is the new Royal Adelaide Hospital. This will be the largest hospital activated as part of the South Australia Health Project, and underscores our success and strong credentials in the Australian EHR market.

In the United Kingdom, we completed a highly successful activation at Wrightington, Wigan and Leigh, or WWL, NHS Foundation Trust in late June. The implementation covered three main sites with 800 beds and approximately 4,000 users. Importantly, the Trust was able to implement real-time admission, discharges and transfers for the first time in 15 years. This is a significant gateway to implementing physician orders and improving patient care.

And in Canada, we continue to work with clients across multiple provinces to enhance clinical workflows, leveraging our professional services organization. Some health regions have yet to implement CPOE. And we are working with them on key process indicators to enhance patient safety, improve operational efficiency and enhance care quality.

Finally, we had a successful upgrade at a major teaching hospital in Ontario that went smoothly and that became a non-event for the clinical end users. With this complete, the client is positioned to take advantage of the client collaboration and outcomes program. This is a program similar to Meaningful Use here in the US.

So, in summary, we continue to see meaningful opportunities for global growth. Specifically, our international sales pipeline is greater than it was at this time last year. And on the heels of a period of significant investment in international capabilities, we anticipate additional market share gains in these areas.

Client satisfaction is strong, and getting better, across all of our geographic regions. And we are seeing good pull through of add-on sales as a function of our excellent client satisfaction. So all-in, we had a very successful quarter on the sales front, as well as from a client delivery perspective.

And now I will hand the call over to Melinda to discuss some of the numbers.

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

Thanks, Rick, and good afternoon, everyone. I will now review our financials in detail and speak to our guidance for 2016. For reference, please consult the tables in the back of the press release and the supplemental data workbook, which is available on the Investors' section of our website.

As a reminder, we closed our Netsmart transaction on April 19 and began consolidating the results as of that date. Therefore, our second-quarter results include Netsmart for the partial quarter, from April 19 through June 30.

All results discussed will now include the consolidated companies. But as promised, we're also providing perspective on the contribution of Netsmart transaction to our consolidated results in the quarter. And we're providing perspective on Allscripts standalone results, which exclude the impact of the Netsmart transaction, for understanding on an apples-to-apples basis.

Turning to results, the second quarter was strong, including record bookings, strong margins and solid cash flow. Our Company record bookings of \$362 million included \$44 million from Netsmart. But even excluding the Netsmart transaction, we had \$318 million worth of second-quarter bookings, up 22%, as Rick said; and our highest-ever second quarter, bringing Allscripts standalone year-to-date bookings to growth of 15%.

We experienced a mix shift to software this quarter, with software delivery bookings growing 49% year-over-year. Services bookings also grew well, at 26% year-over-year. Excluding Netsmart, software bookings grew over 44%, an outstanding performance. And services bookings were down just slightly.

And remember, as talked in the past, bookings mix can be inherently lumpy, as execution of multi-year contracts varies in timing and by solution type, quarter to quarter. Total backlog is now at \$4 billion, an increase of \$443 million year-over-year. This backlog now includes \$267 million from Netsmart, and the remaining increase is the result of Allscripts significant bookings in this quarter.

Turning to the income statement, second-quarter non-GAAP revenue increased 13% to \$397 million, while GAAP revenue increased 10%. Non-GAAP revenue excludes a \$10 million deferred revenue adjustment related to the Netsmart transaction.

GAAP accounting requires this reduction in future revenue for a portion of the value of Netsmart contracts billed, but not yet recognized as revenue prior to the acquisition date. This reduction, or deferred revenue haircut, corresponds to the profit component of the contracts. The required GAAP adjustment reduces a portion of the revenue over time for those contracts as they are recognized in revenue.

For the Netsmart transaction, this total adjustment was \$29 million, \$10 million of which affected this current quarter, and the balance will net against revenue spread over the next several quarters. As we have in Q2, we will continue to call this out as a non-GAAP adjustment, our only non-GAAP revenue adjustment, until it is complete.

As a reminder, Allscripts revenue guidance for 2016 is on a non-GAAP basis, meaning it excludes this purchase accounting haircut. And my comments following will also be on the non-GAAP basis, consistent with how we manage our business.

And now back to our consolidated non-GAAP revenue increase of 13% to \$397 million in the quarter. The Netsmart transaction contributed \$43 million for the partial period consolidation from April 19 to June 30. Total revenue for Allscripts standalone, excluding the contribution from the Netsmart transaction, was flat year-over-year, as stronger growth and recurring services revenue was again offset by year-on-year declines in nonrecurring revenue.

Analyzing these consolidated revenue results in more detail, software delivery revenue for the quarter increased 11%, totaling \$258 million. Within this, recurring software revenue -- consisting of subscriptions, recurring transactions and support and maintenance -- increased 10%. And nonrecurring software revenue increased 15%. The growth across software delivery was attributable to the Netsmart transaction.

Turning to client service revenue, the consolidated Company grew 16% to \$139 million, with 31% growth in recurring revenue. The growth is driven by the addition of Netsmart. For Allscripts standalone, we delivered a 13% increase on recurring services. However, this growth was fully offset by continued year-on-year declines in our nonrecurring services.

Importantly, though, our nonrecurring service revenue was flat sequentially versus Q1 of this year. As we have talked previously, we expect these levels of nonrecurring service revenue to continue in the near term, due to low end-user demand and changes to Allscripts business model, requiring less upfront services revenue. In importantly, demand for recurring services -- including hosting, outsourcing and revenue cycle management and population health services -- continues to be robust.

Pulling it all together, consolidated recurring revenue equaled 77% of total revenue in the second quarter. This is down just slightly from 78% recurring revenue last quarter, as Netsmart runs a slightly lower mix of recurring revenue. [Skipping] to gross margin, Allscripts non-GAAP gross margin increased to 48.1%, a 400 basis point year-over-year increase, and a strong result for the company. Netsmart did not materially impact gross margins, as their margins are similar to Allscripts.

A higher mix of one-time software revenue in the quarter lifted software gross margins to 66.4% this quarter, up from 62.6% in the second quarter of last year, and up sequentially from 63.2% in Q1. Margins in any quarter will fluctuate for mix; and ongoing, we do not expect to consistently see this strong of a one-time software mix. Therefore, we continue to expect software margins more in the mid-60s sustainably over time.



Client services margin was 13.9%, a significant improvement over a year ago, and consistent with our expected year-on-year improvement trends. Gross margin declined slightly versus Q1 in client services, largely due to a slight project mix shift.

Looking at expenses, non-GAAP SG&A totaled \$88 million, an 18% increase year-over-year. Consolidation of Netsmart added \$12 million in expenses. Excluding Netsmart, our core SG&A spending remains consistent with first quarter and year-ago. Note that GAAP SG&A in this quarter included \$1 million in one-time charges for fees and expenses associated with the Netsmart transaction. We expect no additional transaction expenses associated with Netsmart going forward.

Gross R&D spending was \$70 million, up from \$62 million in Q1, due to the addition of Netsmart and increased Allscripts investment in innovation, platforms and enhanced solution functionality. This investment drives a higher capitalization rate of 31% for the quarter versus historic levels in the mid-20s for standalone Allscripts.

Also, Netsmart capitalization rates are above Allscripts historic levels. As a result, R&D expense was \$48 million, only slightly higher than Q1. We expect capitalization rates to remain in the low- to mid-30s for the second half of 2016.

Regarding other expense items, we recorded a \$5 million non-cash charge to GAAP pre-tax earnings associated with Allscripts investments in several unconsolidated entities. This charge represents our share of the book losses associated with these companies. This amount is excluded for purposes of calculating non-GAAP adjusted EBITDA, net income and earnings per share.

Please also note that after the IPO of NantHealth during the quarter, Allscripts non-controlling equity stake in Nant is now classified as available-for-sale, an investment on our balance sheet, and is marked to market through other comprehensive income in equity.

Regarding interest expense, the consolidation of Netsmart added \$9 million in interest expense attributable to Netsmart debt for the period beginning April 19, so not yet a full quarter. As discussed in the past, Netsmart adds \$562 million of debt to our balance sheet. However, this debt is non-recourse to Allscripts.

Turning to profitability measures, adjusted net EBITDA, net of non-controlling interest, as illustrated in table 5 of our earnings release, was \$70 million, a 13% increase year-over-year, and an 18% adjusted net EBITDA margin. Recall, adjusted net EBITDA reflects only Allscripts 49% share of the Netsmart adjusted EBITDA, as well as the home care business we contributed to them.

Adjusted EBITDA on a 100% basis, before reduction for that non-controlling interest, totaled \$78 million, a 26% year-over-year increase, and equivalent to adjusted EBITDA margin of 20%. Non-GAAP net income -- which excludes non-cash items, nonrecurring expenses, and is net of non-controlling interest -- totaled \$27 million, an 18% increase year-over-year. Non-GAAP EPS totaled \$0.14 for the second quarter.

Turning to cash, we continue to generate strong cash flow. Free cash flow increased year-over-year to \$25 million versus \$14 million in the second quarter of 2015. On a year-to-date basis, free cash flow totaled \$78 million compared to \$58 million in the first half of 2015, a 36% improvement.

The decline in free cash flow from first to second quarter is due to expected seasonal factors, namely higher working capital requirements in Q2. In addition, cash flow from operations and free cash flow are reduced by \$5 million due to Netsmart transaction costs paid in the quarter.

Looking at the second half of 2016, we expect continued strengthening of free cash flow results compared to the \$144 million delivered in 2015.

With regard to share repurchase, we bought 1.2 million shares for a total of \$14.5 million in the second quarter. Shares were repurchased at an average price of \$13.20 per share. As of the end of June, there were \$98 million remaining under our current authorization.

And finally to guidance. We are reaffirming our 2016 financial guidance as announced in our first-quarter earnings release. This equates to revenue between \$1.58 billion and \$1.61 billion, or 15% year-over-year growth at the midpoint; adjusted net EBITDA between \$280 million and \$300 million, or midpoint growth of 20% year-over-year; and non-GAAP earnings per share of between \$0.55 and \$0.62 per diluted share, a 24% growth year-over-year at the midpoint of guidance.





And with that, I will hand it over to Paul.

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

Thanks, Melinda. As you've heard, we delivered another strong quarter, with bookings results that will drive growth opportunities and sustain our momentum in the market. The mix of business was healthy; the best quarter we've had since I've been here. And that's based on results even before considering the solid contribution from Netsmart.

Looking ahead, Allscripts priorities are clear and consistent with the strategy that has brought us from December of 2012 to where we are today. These strategies are, one, strengthening our core foundation; two, increasing our alignment with our clients; three, connecting the community through an open architecture; and, four, building a bridge to healthcare's future.

Starting with Allscripts core foundation, we continue our relentless focus on client execution. For example, we have achieved on-time and on-budget implementations of Sunrise and TouchWorks upgrades, both of which feature significant physician usability enhancements.

I want to share one recent unsolicited client note to me from a major academic medical center. "The recent TouchWorks upgrade of 1,500 providers was a true success. Our team was very complimentary of the talent, effort, planning and preparation from the Allscripts team. The communication was excellent, and a real partnership was evident." We will continue to build upon this same client focus to deliver solutions for certification of the quality payment program, or QPP, the program enacted by the MACRA legislation.

We understand the technical requirements center around shifting reimbursement to an alternative payment model and incentive-based payments. This is a game changer, and is absolutely top of mind for senior healthcare executives everywhere. Our solution for revenue cycle management is delivered through RCM service offerings for ambulatory physicians and for Sunrise Financial Manager. Successful implementations and scaling of this solution will be a priority.

In addition to these results, we have become a much more efficient organization, driving margin improvements. At the same time, we have focused significant R&D investments to strengthen our technology platforms.

Strengthening the core has driven an increase in recurring revenue as a percentage of total revenues. However, we are still not satisfied with current revenue growth rates.

Second, we are achieving greater alignment with our clients through more agile deployment methodologies, collaboration on innovation and aggressive investment in natural growth platforms, particularly services. You see evidence of this success over the last few years through significant growth in hosting and managed services businesses. The benefits of this are multi-fold, with more long-term strategic relationships allowing clients to focus on their core mission.

We anticipate a robust opportunity for consulting services as MACRA and QPP heats up, driven by a significant increase in quality of reporting. There will be some 300 quality measures that providers will have to report on for reimbursement under these alternative payment models.

Third, toward the goal of connecting the healthcare community, we have made substantial investments to create this strategic platform. We have multiple opportunities to help clients navigate the population health landscape, starting with upgrades of core technology. Here, we are delivering a community-aware EMR that can integrate discrete relevant data from disparate systems into Allscripts electronic health records, and bring that data as insights to the point of care through analytics and dbMotion.

Interoperability, continuous patient engagement and a general raising of the regulatory bar are clearly front-and-center to healthcare on a global basis. There is a requirement for community connectivity, to secure new care delivery and reimbursement models. The independent physician market and general practitioners in particular will require guidance with everything from workflow reengineering to quality reporting.





Finally, we have taken important steps for new opportunities for growth, bridges to the future of healthcare delivery and medicine. Precision medicine and consumer initiatives are important keystones of this work. Recent success on this front is the formation of 2bPrecise, a standalone organization inside of Allscripts focused on genomics and precision medicine. This team is building solutions that will enable physicians to use genomic information in their current workflow, simplifying and optimizing the complex process of finding, selecting, ordering and receiving genomic tests.

Today there are a host of challenges regarding genomics at the point of care, such as what tests to order, how to interpret the data clinically and then make results actionable. Allscripts role in this endeavor is to develop proprietary nomenclatures and data models to make genomic and proteomic technologies available to a much wider physician audience and consumers than they are today.

We will be discussing all of these projects next week at our annual Client Experience event in Las Vegas. We hope many of you will join us there on Tuesday, August 9, during a program we are hosting for the financial community.

And on that note, we will take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Matthew Gillmor, Robert W. Baird.

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### Matthew Gillmor - Robert W. Baird & Company, Inc. - Analyst

I wanted to ask about the Optum agreement, so congrats on the partnership. But I wanted to understand what was included from a bookings standpoint. Does your 2Q bookings just include the employed OptumCare docs, and then the affiliated docs or future acquisitions will be incremental? And also can you help us think about the size of OptumCare in terms of the employed docs and affiliated docs?

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

Yes, Matt. Yes, bookings in this quarter include some value for the contract. That is some minimum commitment value that's under the contract. But to your point, or I think where your head was going, there is clearly upside above what is minimum there. OptumCare is a huge network today of employed and affiliated physicians. They aspire to get even bigger than they are. And they certainly have the capital to execute on that plan. Ultimately we would expect several thousand physicians to move over to this platform, and that could continue to increase as time goes on.

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### Matthew Gillmor - Robert W. Baird & Company, Inc. - Analyst

Got it. That's helpful. And then maybe one on Netsmart. You disclosed the bookings from Netsmart, but can you give us a sense for what their bookings growth was on a standalone basis, just so we can get some sense for the trajectory of that business? Thanks.

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

Netsmart broadly grows a little bit ahead of Allscripts historically, just by nature of the market that they are in.

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### Operator

Robert Jones, from Goldman Sachs.

**Robert Jones** - *Goldman Sachs - Analyst*

Just going back to the Optum deal, maybe if you could talk a little bit about how -- obviously a very creative financial arrangement. Just maybe how the pricing compared directionally to a more typical or traditional EHR contract might be helpful for us.

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

Bob, it's a long-term -- it's a strategic deal, so you could imagine it doesn't look like a typical agreement. It's not a typical agreement. This is a platform which we expect to, over time, translate to a significant sized relationship between the two entities. I'm not going to go into specifics of pricing; but it's an arrangement I think they feel very good about, and it is an arrangement we feel very good about as well.

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**Robert Jones** - *Goldman Sachs - Analyst*

All right, Rick. Just one clarification question on the EBITDA guidance that you gave for the year. Does that include the non-controlling interest or not? And then just trying to understand if that \$78 million or \$70 million is apples-to-apples to the guidance that you had given for the full year.

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

We've given guidance on the net of non-controlling interest number, consistent with most profitability measures, if you think about it on the GAAP basis, because we own 49% of that entity. So if you refer to the supplemental tables, it's laid out pretty well to get you between what is the \$78 million and what is the \$70 million. The \$70 million is consistent with the guidance we gave.

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**Robert Jones** - *Goldman Sachs - Analyst*

Okay, great. Thanks so much.

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**Operator**

Sean Dodge, from Jefferies.

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**Sean Dodge** - *Jefferies LLC - Analyst*

Maybe starting with the nonrecurring revenue, Melinda, you said it was down year-on-year, but it looks like the rate of decline is slowing. Can you talk a little bit about what's happening behind the scenes? What has changed this year? Why isn't nonrecurring revenue falling at the same rates it has in the past?

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

I think we've been speaking for a while that we figured that we expected nonrecurring revenue to be plateauing, and that's exactly what we're seeing. Q1 to Q2 is essentially flat. So we're still up against fairly healthy comparable periods, year-ago, but I think what we're seeing here in Q2 is more like the going rate.

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**Sean Dodge** - *Jefferies LLC - Analyst*

Okay. And then, Paul, you touched on this a bit in your prepared remarks. Maybe go into the partnership with NantHealth. To what extent are things like precision medicine and genomics coming up in your conversations with hospitals now? Are these becoming some of the foundational blocks that they are using to guide system selections? Or is it still a little early here?

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

I would say the genomic medicine is still on the forefront in early; but then on the -- especially in the larger organizations. And even in some of the smaller, standalone community opportunities, where folks are still making a fair amount of money, the people that are forward-thinking are thinking about that as part of a system selection process.

The large academic medical centers are doing it, and have actually been working with genomic sequencing for a while. Putting that in the mainstream, though, has been not -- that hasn't been broadly embraced by them. It is coming; and it is coming I think at a very accelerated rate.

Folks that are in the community are saying, we would also like to have access to data that comes out of that. And we would like to be able to get the folks that have a very rare disease or a cancer -- also have the ability to get sequenced. To the extent that this is reimbursed and will continue to get reimbursed at an accelerated rate from insurance, that will also, I think, drive a fair amount of new activity and new demand that hasn't been out there in the past.

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**Sean Dodge** - *Jefferies LLC - Analyst*

Very good. Thanks again, and congratulations on the quarter.

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**Operator**

Ross Muken, from Evercore ISI.

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**Elizabeth Anderson** - *Evercore ISI - Analyst*

This is Elizabeth Anderson in for Ross. I was just wondering if you -- I know it's early -- but if you could comment on any changes to how you're operating since the Netsmart deal closed, or any -- how that has changed in the conversations that you've been having with hospital systems. Thank you.

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

Well, let's parse your question. From an operating standpoint, one of the motivators to do the transaction was to bring what is a very highly regarded and very talented management team at Netsmart, and give them a broader set of responsibilities and try to give them into another category in the post-acute market, which was the home care space, which is the space we were already in. They are now -- that team is now directly responsible for the home care business and is busy integrating that to their other behavioral health clients and behavioral health vertical that they operate in today. That's how that's going.

From a go-to-market standpoint, there are still clients of ours that are -- clients of Allscripts EHR solutions -- that may own either home care assets or behavioral health assets. There's a good opportunity for joint cross-selling across that. Netsmart can bring us to some of their clients, and we can certainly bring them to some of ours. It's obviously early; the transaction just closed three months ago. But there's a lot of work happening on those fronts right now.

**Elizabeth Anderson** - *Evercore ISI - Analyst*

Perfect. And as a follow-up, I just wanted to know if you guys had -- in terms of your UK strategy, what you are sort of -- I know you had obviously a couple of recent implementations and wins. And so I just wanted to hear how things were going on that front.

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

In the United Kingdom, we had a very busy Q2 with regard to operations. We had six simultaneous implementations of enterprise-wide solutions. In that marketplace, not dissimilar to any other marketplace, folks are quite interested in how things are working in the country. And we've been having a lot of success there by deploying systems, both on the [paths], the patient -- or, excuse me -- the accounting systems that they have that's different than what we have in the United States, as well as the electronic patient records deployment. And we've been very successful with that, thus far, and that gives us in-country references that speak highly of the work that we're doing.

We expect by doing and laying that foundation and doing well there, that we will get additional references. We will get additional business as a result of taking care of the clients we have and by selling more to them, as well as selling new client footprints.

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**Elizabeth Anderson** - *Evercore ISI - Analyst*

Perfect. Thanks.

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**Operator**

George Hill, from Deutsche Bank.

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**George Hill** - *Deutsche Bank - Analyst*

I'll start with Paul or Rick. Could you guys talk about the competitive environment for the OptumCare deal? Should we think of this as a -- it was all comers and usual suspects, big-off process, or was there anything unique about the competitive environment?

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

George, it's Rick, and Paul can add on. I guess I would say, in no particular order, they are a big organization. And all big organizations cast pretty wide nets when they make big decisions. So they cast a pretty wide net. We worked hard. Paul and I were directly involved in this process for the better part of the last eight months. And we're thrilled at the outcome, but it was definitely a competitive process for them.

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**George Hill** - *Deutsche Bank - Analyst*

Okay. I'm sorry, Paul, do you have anything you wanted to add?

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

Why not? I would say there was a great culture mesh. They were very also interested in the architecture that we have as they went deep, as you would imagine on something like this, as they brought in their system experts and their clinical specialists.

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They were also extraordinarily impressed with the large multi-group specialty practice experience that we have, that Rick talked about earlier. And last but not least, they are huge proponents of, and have the minimum thresholds for, embracing openness and open API standards. And they credit us with being a leader in that forefront.

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**George Hill** - *Deutsche Bank - Analyst*

Okay. That's helpful. And they -- they, Optum -- not OptumCare, but Optum, capital O -- owns a lot of healthcare IT assets. Do they have an interest in further integration with the Allscripts healthcare IT assets? And conversely, do you guys have an interest any kind of integrating with some of the assets that they have?

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

I would say this, George. There's an interest on both -- but by design, both parties will refer to this as a strategic agreement. It's very early in the agreement. It's a 10-year life, and we're in week three or four of it right now, but -- whatever the weeks are -- five weeks, I guess, since the end of the quarter. It's very early, but there is definitely a desire to see what we can do together and create value together.

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**George Hill** - *Deutsche Bank - Analyst*

Okay. I appreciate the color. Thanks, guys.

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**Operator**

Eric Percher, from Barclays.

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**Eric Percher** - *Barclays Capital - Analyst*

I will continue on that front; so with Optum, as we look at the technology they have in place today at the employed and affiliated practices, I know there was a line about -- you mention now open platform and integration with technology that they have in place. Could you give us some idea of what is there? And I ask that in part to get some understanding of how quickly you may be able to get out to that base, as well as the affiliates.

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

I think it's fair to say what they have today -- they have been aggressively building up capability. And the number of directly employed or employed through IPAs or affiliate physicians -- they have been aggressively building that up, and expect to continue to build that up.

As they built it up, I think they found themselves with a real dog's breakfast of solutions. They have a hodgepodge of different competitive solutions. And this whole endeavor is an effort for them to bring more of a standard IT platform out to their operating environment.

Again, we're thrilled to be a cornerstone of that standard platform. It's not going to happen overnight, the transition. It will happen; we'll start it later this year, and it will go for multiple years. That's how everybody is thinking about it right now.

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**Eric Percher** - *Barclays Capital - Analyst*

And to turn that into a financial question, as we think about the minimum element covered in bookings today, and you think about -- I tend to think about ambulatory as conversion at a fairly quick pace. This may not follow that pace. Is that a fair assumption? And of course we see that the



guidance was not brought up for this -- or at this point. So should we be fairly conservative about it, and also maybe conservative in terms of what this is relative to total value?

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

I think you should see this for what it is today, which is a very good win for Allscripts; and become, again, a key cornerstone of a strategic platform with a client who has both the ambition and the financial wherewithal to become a bigger and bigger piece of the healthcare provider landscape. And as they grow, they are looking for a partner like us to grow with them. I think there's a lot of upside, down the road.

But, yes, I think your instincts about how quickly will we convert their docs to the platform -- it's fair to be -- we're going to be methodical and make sure we get it right, get it plugged into the rest of their standardized platform. And that they have the time to educate their providers on the benefit of the standard platform, too. Nobody is interested in jamming it down anybody's throat.

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**Eric Percher** - *Barclays Capital - Analyst*

Very good. Thank you.

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**Operator**

Greg Bolan, from Avondale Partners.

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**Greg Bolan** - *Avondale Partners - Analyst*

If I could maybe ask the last question a little bit differently. So you are maintaining guidance. But it would just seem to me with this Optum partnership that maybe the cost of ramping here and getting everything together to get in front of those providers would -- I would think, more than likely, outweigh any revenues to be recognized this year. Another way of asking, is this more of a cost-heavy type of deal, this year? And then obviously over time it becomes much more accretive, if you will?

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

I think you should -- your instinct is right. I wouldn't say the cost-heavy necessarily. But I think you should think of it is it's probably a neutral-ish impact this year for the balance of this year, with then a rising crescendo thereafter.

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**Greg Bolan** - *Avondale Partners - Analyst*

Okay, great. And can you remind me? Your largest customer is now what as a percentage of revenues? 10% to 12%?

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

No, much lower than that (multiple speakers). We have told everybody Northwell is our largest customer, but it's single-digit percent of overall enterprise revenue.

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**Greg Bolan** - *Avondale Partners - Analyst*

Single-digit. Okay, great. Thank you.

**Operator**

Jeff Garro, from William Blair and Company.

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**Jeff Garro** - *William Blair & Company - Analyst*

Maybe to step back from the Optum deal a bit, we see a great bookings result this quarter. And if we look back over the last year or more, still seeing bookings trending ahead of organic revenue growth. And it's been discussed before, but maybe an update on how we should think about the pacing of bookings converting to revenue.

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

You may recall -- and I'll let Melinda jump in, as well, in a second -- but you may recall, we tried to give a little color and transparency on that at year-end. We talked about how we expected backlog to flow into revenue and what the average age of backlog was. That's a disclosure we put out there. It's a disclosure we will undoubtedly update as we have more information to update that on, but I don't think you should expect radical shifts in that.

I think it's fair. Your observation is right, that the timeline from sale to -- as we have more services type arrangements, as we have more client commits that are tied from a functionality standpoint to certain things in our solutions -- the path to revenue recognition has probably gotten a little bit longer than it used to be. Contracts are getting longer, too, and that has an impact sometimes on revenue rec as well.

So there's a little bit longer conversion. You know we've been fighting this headwind of recurring revenue has been increasing, but it's been offset by nonrecurring revenue. That hasn't completely gone away. But you have heard from earlier questions that it has seemingly plateaued a little bit. We're hopeful that that will be less and less a part of the narrative and you will start to see revenue rise through.

But, maybe Melinda, anything to add to that?

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

The only thing I'd add is of course as we consolidate Netsmart, even on an organic basis, we expect a bit of a pickup there, as we've said, from certainly a faster-growing market. And then of course with some of the deals that you've seen here, like an Optum and so forth, we're optimistic about that revenue growth over the long-term.

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**Jeff Garro** - *William Blair & Company - Analyst*

Great. Very helpful. And then as a follow-up, Rick, you mentioned the increasing amount of services deals. It seems like a real steady stream of hosting wins. I'm curious if you could just give us maybe a general ballpark of where you are at with penetration for hosting and for RCM, in both ambulatory and your inpatient basis.

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

The penetration levels are rising, but -- and the answer will vary by major solution types. By far, Sunrise has the largest penetration of hosted. And at the low end would be our Pro solutions. So it's inversely related -- inversely correlated to the size of the platform, if you will. But in all cases, there's a lot of white space still. Our Sunrise base is -- maybe around half of that is hosted by us, and lower amounts as you get down through TouchWorks and the Pro platform.



Rev cycle services, as I mentioned on my comment, is really an area we really started to focus on on the ambulatory side a year ago. We're getting really great momentum. But there's a lot of white space out there through our base today, still, today.

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**Jeff Garro** - *William Blair & Company - Analyst*

Great. Thanks for taking the questions.

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**Operator**

Zack Sopcak, from Morgan Stanley.

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**Zack Sopcak** - *Morgan Stanley - Analyst*

Congratulations, and thanks for the question. I want to ask first on the free cash flow. As you talked about in the opening comments, it was strong. And the growth is actually accelerating, even despite a little bit of a headwind from Netsmart. Can you just talk about it? Is there anything one-time in the first half of the year that's contributing to that strong growth? And as you think about the back half, anything we should be thinking about that should really change that trajectory?

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

No. You see seasonality overall. First quarter is always a very strong quarter for us because of annual maintenance billing, so we always drop-off second and third quarter. On a comparable basis you are seeing us -- you see some bumps sequentially; but year-on-year, you are seeing continued improvements. And I would expect that operationally we will continue to see those type of improvement throughout the balance of the year.

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**Zack Sopcak** - *Morgan Stanley - Analyst*

Okay. That's helpful. And then one on Netsmart. Now that you are a few months into it, what kind of response are you getting from hearing from current clients, and maybe from the competitive market space on the uniqueness of that offering?

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

The current clients seem to be pretty pleased with it. Not only the focus on the addition of having behavioral health added to the post-acute space, and having that as a broad suite of solutions that we're bringing together, and we'll put them in an environment where they can inter-op in a much more tightly integrated manner.

Our large clients -- multi-group specialty practices and/or large physician groups that our primary care, and large integrated delivery systems -- like the focus that we have on it. Many of them know about this team in the marketplace because of history, and we're getting a lot of positive feedback.

But importantly, some important meetings at -- whether it's Rick and Mike, or myself and Mike Valentine, are having with these folks that we're having some important, strategic discussion about how this is all going to work together. And bringing the behavioral health component into it has been something that's been somewhat -- I don't want to say ignored, but it's not been as much of a focus as it should probably be. And people will admit that needs to be on a going-forward basis.



There's some data that are out there that show that someone with a co-morbidity of a behavioral health condition -- they will have a 200% variance in their compliance with a clinical protocol on the physical side. So this is, and will continue to have more and more emphasis in the marketplace on a going-forward basis.

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**Zack Sopcak** - *Morgan Stanley - Analyst*

Great. Thank you so much.

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**Operator**

Sean Wieland, from Piper Jaffray.

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**Sean Wieland** - *Piper Jaffray - Analyst*

Another one on Optum, believe it or not. Can you specify, was this a license or a subscription deal? And do the terms require you to go at-risk for any aspect of the deal that would affect revenue recognition?

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

Term licenses, Sean, and -- do we go at-risk? We have committed pricing on some of our services implementation, so we would have a little skin in the game on that. But I can't think of a risk variable, really, beyond that.

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**Sean Wieland** - *Piper Jaffray - Analyst*

Okay. Does the bookings number contain the 10 years of any of the recurring revenue? Or is it just the initial term license?

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

What it contains is minimum contractual guaranteed amounts of revenue. That's been our standard definition of what goes in bookings. And we have stuck to that definition as we've looked at this contract.

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**Sean Wieland** - *Piper Jaffray - Analyst*

Thank you. Does it touch [MedExpress] at all?

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

Currently, it does not contemplate MedExpress.

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**Sean Wieland** - *Piper Jaffray - Analyst*

Okay. Thanks so much.

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**Operator**

Garen Sarafian, from Citi Research.

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**Garen Sarafian** - Citigroup - Analyst

Yet another one on Optum, following up on all these questions. From an organizational perspective, since it's a 10-year partnership, will you be carving out any portion of, let's say, sales or your implementation team to tailor to this partnership, where your SG&A costs could get elevated? Or any other -- I'm just using SG&A, but any other portion of your infrastructure that you'll be modifying to serve this client?

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

We will dedicate resources as we scale up the transition of docs onto our platform. That goes hand-in-hand with revenue. So I don't expect it to be a hit, but we will try to dedicate a services team and a team that helps them optimize utilization of the tool. And then we'll do some work with them on -- they will have the ability to monitor our product roadmap and how that's going forward, and consult with us on this.

They will obviously become a very large user of the TouchWorks system. They won't be the only user of it, so -- they are a client voice that will be blended together with other client voices. But to the core of your question, do I expect to add a lot of overhead to support this contract? My answer is no.

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**Garen Sarafian** - Citigroup - Analyst

Okay. No, that's useful. And then changing gears a little bit, Rick, I think in your prepared remarks you mentioned a comment about your international pipeline being ahead of your last year's time period. Could you quantify that a little bit? I thought that that was (inaudible).

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

Look, I think you have to -- it's important to start with the context of international, while it's a focal area for us, it's still a relatively modest piece of the overall enterprise. But I do think it represents a good growth plank for us, so it's why we have invested in it over the last couple of years. As you heard from some of my other comments, with every successful go-live, we build our resume value as well. That all helps the sales efforts, and we've invested in some really good management talent.

We're expecting to deliver on the opportunity and the prospect of international becoming bigger and bigger, but I think that's as far as I'd go right now. I don't want to throw numbers around at you.

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**Garen Sarafian** - Citigroup - Analyst

Fair enough. Thank you.

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**Operator**

Richard Close, from Canaccord Genuity.

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**Richard Close** - *Canaccord Genuity - Analyst*

With respect to the bookings, I was wondering if you could just give us the breakdown between maybe new customers and expansion from existing customers. And then considering you have pulled so much out of the pipeline with this quarter's performance on bookings, how would you characterize the overall pipeline? We got some information here on international, but just the overall pipeline, how it stands.

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

I think the sales pipeline, Richard, feels very good to us. You're right; we had a really good quarter. But we would not say that we drained the swamp and that we have to start all over again. We feel really good about where that sits.

You have to forgive me, Richard. What was the first part of your question, though?

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**Richard Close** - *Canaccord Genuity - Analyst*

With respect to the bookings, obviously Optum is a component here. But if you look at the bookings in the quarter, how much was from -- or maybe percentages, if you can -- how much was from new footprints versus existing footprints?

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

Well, I'm not going to give you a number, Richard, but I would say I'd look at the Optum deal as new. Wyckoff, we would probably -- even though we did business with them, this is the first time they are touching the Sunrise platform, so we'd put that in the new bucket.

But you also heard quite a bit about expansions of some relationships. Orlando expanded with us. Alta expanded with us. And I'm just covering the inpatient side now with these comments. I guess I'd leave you with it's a healthy blend on both fronts.

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**Richard Close** - *Canaccord Genuity - Analyst*

All right. Thank you.

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**Operator**

David Larsen, Leerink.

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**Matt Dellelo** - *Leerink Partners - Analyst*

This is Matt Dellelo in for Dave. Just one quick one. What, if any, impact do you guys see MIPS and MACRA having on your book, late this year or next year?

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

There is a lot of activity with that. As you know, there is a substantial amount of government legislation that's come out to replace and to enhance how the physicians are going to be -- get paid for Medicare. We are on the regs. We are working on it to make sure that we are going to be in place and ready for the reporting requirements that come out.

There is a staggeringly large number of reporting requirements that -- from which, that we get to help our clients choose. What's important about it, too, is that these folks are going to be -- it's January 1 in production with it. And then a year later, there is going to be a lookback as to see how they and all their counterparts did from a quality reporting standpoint.

This is all going to be new for all of our clients, but it's very important in the amount of dollars that are involved are going to be quite large from the standpoint. While it's revenue or budget neutral from a total overall budget -- from a CMS perspective. There are going to be winners and losers. And we want to help our clients give the best possible quality care that they can at the lowest possible cost with the best client experience, which is three of the four cornerstones of how this new legislation is being administered. It's very complex, and we expect to be a leader in helping people navigate through this.

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**Matt Dellelo** - *Leerink Partners - Analyst*

Are you seeing purchase activity now, ahead of that? Or do you expect it happen more at the end of the year, early next year?

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

The regulations go in place January 1, so if you don't have an EMR you are kind of -- you're in the second bucket, what's going to be in the penalty box. So people who have EMRs will be -- they're going to be expecting their supplier to do that. So there will be some switching perhaps from electronic medical record supplier from A to B, if in fact the current electronic medical supplier does not have the capability or they opt out of this process. Some have, but many of those who have made that declaration have done so early. And there has been a replacement market as a result of this that's been somewhat well discussed over the course of the last 18 months.

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**Matt Dellelo** - *Leerink Partners - Analyst*

Okay, thanks.

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**Operator**

Nicholas Jansen, from Raymond James.

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

Two questions; one real quick, first on the warrants. I assume this is Optum. And then secondly, just wanted to confirm regarding the core revenue growth. I think before you added Netsmart to the equation, I think you were calling for kind of 4% to 5% organic revenue growth in 2016. And year-to-date, I think we're certainly 1% to 2% range. So just wanted to get your sense of confidence in that acceleration in the core revenue that you have embedded into the back-half-of-the-year guidance. Thank you.

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

Yes, our guidance pre-Netsmart was 3% to 5%. And as we have updated guidance for the consolidated entity, we feel comfortable with that revenue range overall.

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

And then on just the warrant question, I would assume that's Optum, but I just want to confirm that.

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

I'd say that's a good guess.

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

Okay. That's it for me.

**Operator**

Thank you.

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

Thank you. In summary, I appreciate everybody taking the time to spend with us on the call today. Many of you who have been participating in this with us over the course of the last three-plus years have seen us do a lot of work here as an executive management team to try to take care of our clients, to solidify the base, to bring confidence back into the Company and to deliver consistently on financial performance.

We're pleased -- I'm extraordinarily pleased with the announcements today. You see us playing offense on many different regards, not only on a global basis but on our organic investments, in research and development as a percentage of revenue. We're leaning in, in a big way, on the Optum piece as well as the Netsmart piece, and this is a company that wants to grow profitably. And you are seeing a team that is feeling quite good about where we are, circa 2016.

Thank you very much for your time today. And we hope to see all of you next week in Las Vegas.

**Operator**

Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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