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MDRX - Q4 2015 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

MDRX reported 4Q15 total revenue growth of approx. 1% YoverY and non-GAAP net income of $26m, or $0.13 per share. Expects 2016 revenue to be $1.43-1.46b and non-GAAP EPS to be $0.55-0.62.

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PRESENTATION

Operator

Greetings, and welcome to the Allscripts fourth-quarter and full-year 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded, and is scheduled for a duration of 60 minutes. 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*

Thank you, Chris. Good afternoon, everyone. Our speakers today are Paul Black, Allscripts' Chief Executive Officer, Rick Poulton, Allscripts' President and Chief Financial Officer. Some of the statements that we will be making today may be considered forward-looking, including statements regarding future investments and our future performance. These statements involve a number of risks and uncertainties that could cause our actual results to differ materially.

These forward-looking statements reflect our opinions only as of the date of this presentation, and we undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our SEC filings for more detailed descriptions of the risk factors that may affect our results. Also, as management reviews the fourth quarter details, as well as the 2015 full-year, please reference both our non-GAAP and GAAP financial statements, as well as the non-GAAP tables in our earnings release and supplemental data book that's available on our Investor Relations website at www.Allscripts.com/investors. Now I would like to hand the call over to Paul.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thanks, Seth. We appreciate you joining the call today. Before we start, I'd like to welcome Melinda Whittington, Allscripts' incoming Chief Financial Officer. We're excited to have Melinda join us. She brings substantial big company global financial expertise at Fortune 100 companies. We appreciate you extending a warm welcome to Melinda.

I also want to acknowledge Rick for his leadership at Allscripts over the past three plus years, during which time many difficult decisions were made, and important strategy was executed. All of which has yielded the results that we will discuss today. As previously announced, Rick is now President, and he will ensure delivery of all operational priorities going forward. This was an exciting time for Allscripts. In 2015, it was a positive inflection point for the Company. We exited the year with significant momentum, and we are seeing that momentum carry into 2016.

In 2015, we delivered record bookings of $1.1 billion, a 20% increase over 2014, recurring revenue growth of 6% during the year that totaled 76% of total revenue, up from 72% in 2014. Gross margin expansion during the year, with significant growth in adjusted EBITDA and non-GAAP earnings per share, both of which came in at the high end of the guidance range we laid out at the beginning of the year.

Cash flow performance was robust. We quadrupled free cash flow year-over-year to $144 million in 2015. Most importantly, we achieved all of this, even as we continued to invest significantly in innovating the Company's solutions. I am very proud of the strong financial results we delivered for the year. The annual record bookings illustrates two facts, the stability and health of the Allscripts client base, and the momentum we are seeing with new clients selecting Allscripts.

Looking first at the new client sales, we added over 730 new client relationships globally, and we are proud that new client bookings doubled in 2015. New client additions span the continuum of care, including integrated delivery systems, hospitals, physician practices, payers, life sciences and post-acute providers. In 2015, we secured seven new Sunrise relationships globally, representing nine new facilities that will run the Sunrise clinical manager platform.

In the ambulatory market, Allscripts physician practice EHR market share grew in 2015, based on survey data of clinical sites compiled by SK&A, a leading market research firm. The results with new clients are substantial, but that's only part of the story. We can only succeed, when we ensure Allscripts existing clients are satisfied, invest more with us, and spread the news. Here the numbers tell the story. Even with the great growth in new clients, the majority of Allscripts total bookings are derived from within Allscripts' installed client base, bookings from existing clients grew in 2015.

During the year, 90% of the top 20 Sunrise clients and 80% of the top TouchWorks client accounts purchased additional solutions and services from us. This means they contracted for something new, and contributed to the booking totals for the year. This represents a broadening in the scope of solutions provided to these clients, and additional footprint we will support for them.

We are expanding client relationships, as health systems [find] new facilities, and as group practices employ more physicians and acquire local practices. This momentum continues into 2016. Earlier this week, we signed a major agreement with one of our large academic medical center clients that significantly expands and extends its Allscripts relationship, principally around its use of the Sunrise platform. Across new and existing clients, total ambulatory bookings for software and services grew approximately 30% in 2015, as clients expanded their relationships with us.

Finally, many talk about population health, but few do it. In 2015, Allscripts recorded over 21% of revenues from these solutions, making us a market leader in population health management. Allscripts comprehensive solution portfolio is positively impacting patient care and providers' bottom line.

Stepping back, we are proud of these results. They are the accumulation of focus and commitment to our clients' success. I want to express my appreciation to Allscripts associates for their dedication, and the clients who have put their trust in us for the long-term.

If you look back three years to the fourth quarter of 2012, Allscripts was in a challenging position. The management team was in flux, client confidence had eroded, and financial results were underperforming. At that time, we laid out a four point plan to get the Company back to its competitive potential.

The plan was to protect and defend the client base, transition the business model to a higher recurring revenue, invest in growth markets, and become a leaner, more efficient organization. We have taken decisive action against each of these to get us to where we are today, entering 2016 with significant momentum. Client satisfaction is increasing, and we have been recognized by multiple third-party organizations for the robustness of our solutions.

Just this week, Black Book Market Research published its annual healthcare information technology loyalty Index. This organization conducts the largest user opinion poll of its kind in healthcare IT, so it is noteworthy. But even more importantly, it takes a statistically validated approach to conducting their analyses, so results are more reliable.

We are very proud that Allscripts had the largest positive jump in customer loyalty in the last year, compared with every major vendor in the industry serving hospital clients. We were ranked number one in client satisfaction for the third year in a row, by large hospitals and academic medical centers over 250 beds. Client retention metrics across the base are stable, and retention rates have improved significantly, compared to the last several years.

Recurring revenue was 76% of total revenue, and has grown every year, and backlog is at a record level. Over the 2013 through 2015 time frame, Allscripts invested an aggregate $1.2 billion in the solution portfolio, through organic development efforts, acquisitions and strategic investments in growth market opportunities. Of this total, we invested over $500 million in acquisitions and partnerships, spanning global markets, population health, revenue cycle management and precision medicine to ensure we are positioned with a vision to transform healthcare beyond the basic requirements of electronic health records.

Finally, we made tough, but necessary decisions to become a more nimble and efficient organization. We have reduced annual SG&A spending on an adjusted non-GAAP basis by over $70 million since 2012.

In summary, we executed on a plan put in place three years ago, and it's paying off. We predicted that we would experience significant operating leverage, while generating earnings, EPS and cash flow growth. 2015 is an exclamation point for this commitment. Over the last few years, we have dramatically improved the effectiveness of the Company, integrated our products and businesses together, substantially improved our quality and rankings, and created a profitable and growing business. We are poised to grow.

Before Rick discusses the fourth quarter financial results, I want to make a few points on Allscripts' strategic growth priorities for 2016. Allscripts business is enabling healthcare transformation. We have a unique opportunity to accelerate the Company's market position with the assets we have in place today. We will fund R&D investments in 2016 to drive new innovations for Allscripts clients, as we play offense in the marketplace.

We are committed to an open ecosystem, full data interoperability, and added community aware functionality to Sunrise, Pro and TouchWorks platforms. This will bring harmonized consumer data from the community into the clinical workflow, and result in actionable decision-making at the point of care, with zero clicks to impact. And we will continue to lead the industry in population health via a single platform solution that integrates connectivity, data liquefaction, cohort identification, proactive analytics, care coordination and patient engagement.

We call this platform Care in Motion. It will leverage existing point solutions in a modular integrated platform. We are first-movers in precision medicine and personalized healthcare in the IT industry. We expect to vigorously maintain this leadership position.

We see this as significant long-term opportunity, and Allscripts is well-positioned with a client roster of global medical research leaders, including the National Institutes of Health, the National Cancer Institute, Memorial Sloan-Kettering and the Roswell Park Cancer Institute. We also possess a vast network of primary care physicians who are critical to mass adoption of newfound medical insights, creating access to the citizens in rural and less populated areas of this country. We have exciting opportunities for 2016, and are focused on continuing the momentum we built in 2015. And now I'll turn the call over to Rick to take you for through fourth-quarter numbers in detail, and the financial guidance for 2016. Rick?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Okay. Thanks, Paul. Good afternoon, everybody. Thanks for joining us today. I want to start by also welcoming Melinda to the Allscripts leadership team. I will continue to work closely with her, to ensure a smooth transition of responsibilities, and also continuity of dialogue with our investors as well as the analysts.

Paul gave you a great overview of the year, both where we have been, and where we are going. So I will focus my comments on the fourth quarter results, and some guidance for 2016. So let me start with bookings.

Fourth quarter 2015 bookings were $343 million. That's a 41% increase year-over-year, and it exceeded our prior corporate record of $327 million, which dates all the way back to the fourth quarter of 2011. This was the fourth consecutive record total bookings quarter for Allscripts. And as Paul mentioned, we had the strongest international bookings quarter in four years. From a bookings mix perspective, approximately 45% was related to software delivery, and 55% was related to client services. I was very pleased that both categories though grew double-digits on a year-over-year basis, both in the fourth quarter as well as for the full year. For the quarter, software delivery bookings increased 12% compared to the fourth quarter of 2014, while services bookings grew 78% on a year-over-year basis.

So let's take a look at a few key agreements from the fourth quarter, starting with some color on our international success. In the UK, we built on previous quarter success in-country, and took another step forward by penetrating the London market. We sold the first Sunrise system to a major academic teaching center in London, and now proudly welcome King's College Hospital Foundation Trust to our Allscripts client family.

King's is one of the UK's largest teaching hospitals. Additionally, we expanded our agreement with the Ministry of Health in Israel, where they will now be using our data aggregation platform dbMotion to connect all healthcare providers across Israel. We're very excited about the collaborative potential of this agreement.

Domestically, in the in-patient market, we also have some very nice wins. In December, Tuba City Regional Healthcare Corporation selected Sunrise and our Care Director solution over competing offerings to provide an integrated clinical and revenue cycle management system across the 6,000 square mile area serving the Navajo and Hopi Native American reservations. Also, Northwell Health, which is formally known as North Shore-Long Island Jewish is expanding with us again, signing an agreement to implement Sunrise Clinical Manager platform at their Staten Island University Hospital. Finally, a West Coast Hospital who had purchased Sunrise Clinical Manager two years ago signed a long-term managed services agreement with us in the fourth quarter. That's a terrific proof point on client execution.

In the physician market, Concentra, who is a large TouchWorks client, selected us to provide hosting services. This comes on the heels of a similar fourth-quarter agreement that we had signed with Advocate Health Care. You may recall the Advocate agreement was previewed on our third-quarter earnings call. Both Advocate and Concentra also signed long-term extensions to continue the use of the TouchWorks platform during fourth quarter, and we believe those are strong endorsements of the platform, as well as client satisfaction.

More broadly, we continue to have success selling add-on services, including managed services, value-based care services, and revenue cycle management services to our physician clients. Population health remains a strong catalyst for us, as we continue to bring elements of our CareInMotion platform to the market. All told, more than 25% of bookings in the quarter came from our CareInMotion suite of solutions. In particular, consumer engagement remains a paramount theme in the market.

Catholic Health Initiatives continued to build its relationship with Allscripts by adding FollowMyHealth to their in-patient setting. This follows on the heels of CHI adopting FollowMyHealth for their ambulatory settings a year ago. Also in the post-acute market, we continue to build on an industry-leading position of 19,000 post-acute facilities that we connect, and with more than 12 million referrals on an annual basis. So after reflecting on all of this fourth-quarter sales activity, contract backlog ended the year at $3.65 billion. That's a 6% increase on a year-over-year basis.

So now let me transition to the P&L. Fourth-quarter total revenue increased approximately 1% year-over-year. And we saw the same general trend as prior quarters, where we had growing recurring revenue offset by a decline in nonrecurring revenue. Recurring revenue consisting of our subscriptions, recurring transactions, as well as support and maintenance and recurring managed services grew 5.5% year-over-year, and it constituted 77% of our total revenue. Recurring managed services revenue grew 19% fourth-quarter, largely driven by hosting outsourcing and revenue cycle management services. So again, that's a subset of the overall recurring revenue bucket.

Nonrecurring revenue declined 13%, compared to the fourth quarter of 2014. Nonrecurring revenue was impacted by lower demand for project-based client services, compared with the year ago period, and also is impacted by the seasonal impact of holidays where we've seen in the past. What that means is, our clients with the holiday schedule are not willing, or able to work as many hours, as we would have in other quarters of the year.

In our third-quarter call, we indicated that we had expected some softness, but the impact was a bit more than anticipated at that time. All-in our nonrecurring revenue totaled $79 million for the quarter, and that's just below the $80 million to $90 million quarterly range that we had forecasted. I'll comment a little more on that range, when I get to our -- some commentary on guidance in a little bit here. Longer-term, we would continue to emphasize recurring revenue in our new sales activity, and we do that in order to help provide more predictability, and buffer what modest volatility we may have in the nonrecurring buckets.

Turning to non-GAAP gross margins, we again saw improvement in gross margin, as higher-margin software combined with continued solid performance in services to drive our non-GAAP gross margins of 47.3% in the fourth quarter. Within software delivery, where we posted our highest margin ever at 65.3%, we benefited from both a favorable mix of owned software versus third-party software, as well as hardware. And we also improved our support and maintenance margins. So while mix can change quarter to quarter, we do believe that the support margins are very durable. And looking ahead, we would continue to expect that, to post better than historical average margins in this area.

Moving to operating expenses, Allscripts' fourth-quarter non-GAAP SG&A declined 6% from the year ago period. This result was consistent with our expectations for a slight decline, and we had previewed that in our third-quarter call. In the supplemental data book, we have provided a four-year look at SG&A expense that illustrates that we have taken out over $70 million of core SG&A spending. That's comparing on an apples-and-apples basis since 2012, which is ahead of the goal that we set out three years ago.

I'm pleased to also say, that for the first time in three years, we had zero nonrecurring expenses in fourth quarter, which makes our reconciliation from GAAP to non-GAAP financials much cleaner. Finally, looking at R&D, total gross R&D expenses during the quarter were $63 million. That's a 16% increase year-over-year. And of that, we capitalized $17 million to our balance sheet.

As Paul discussed, we are executing multiple programs to innovate new platforms and solutions for our clients. So as I look ahead to 2016, I would expect gross investment and net income statement impact, similar to what we experienced in the fourth quarter. Continuing down the P&L, adjusted EBITDA as illustrated in table 5 of our earnings release was $65 million. That's a 24% increase year-over-year, and represents a 19% EBITDA margin for the quarter. This is a strong performance, and it illustrates the natural leverage we have in our business, off of what is modest revenue growth.

As we discussed last quarter, accounting rules require us for GAAP purposes to apply equity accounting methods to our investment in NantHealth. This resulted in a non-cash charge of $800,000 to GAAP pretax earnings in the quarter. As we did last quarter, this amount is added back for purposes of calculating adjusted EBITDA, non-GAAP net income, as well as non-GAAP earnings per share.

Below the operating line, we recorded approximately $3.3 million of non-cash interest expense. This relates to our convertible notes, as well as amortization of some debt issuance costs. Again, as is customary, these are included in the GAAP interest expense numbers, but excluded from our non-GAAP net income and adjusted EBITDA calculations. Non-GAAP net income for the quarter totaled $26 million. That's a 51% increase year-over-year, and non-GAAP EPS came in at $0.13 for the quarter. It's also worth noting that we now have swung to GAAP profitability, both at a net income level, as well as on and earnings per share level.

Looking ahead, investors and analysts should continue to assume a non-GAAP tax rate of 35%. We do not foresee Allscripts being a cash taxpayer for the foreseeable future, and our reported GAAP tax rate will likely continue to be volatile.

So while Paul already mentioned this, it is worth mentioning again, that cash flow for the quarter was really a stand-out. We generated $63 million of free cash flow in the fourth quarter alone, and again that brought the annual total to $144 million for all of 2015. We would expect to maintain strong cash flow throughout 2016.

So let me wrap up, by discussing our annual guidance for 2016. Our initial revenue guidance for 2016 is a range of $1.43 billion to $1.46 billion, implying growth of 4% at the midpoint of that range. Underlying this revenue range is an assumption of growth in recurring revenue of 5% to 7%, and a decline in nonrecurring revenue of 2% to 4%.

So while we still expect some modest decline in nonrecurring revenue, we are now past the large double-digit declines that we had experienced throughout 2015. This combined, with continued increased to recurring revenue at a run rate similar to what we experienced throughout 2015, should allow overall enterprise revenue to finally lift off, after three years of being relatively flat. The expected modest decline in nonrecurring revenue means that for modeling purposes, you should probably expect a quarterly range of $75 million to $85 million per quarter, as we go throughout 2016. And I would expect us to be at the lower end of the range in Q1, with higher amounts in Q2 and Q3.

For 2016, we are initiating an adjusted EBITDA range of $265 million to $285 million. That implies a mid-teens growth rate at the middle of that range. And then finally, consistent with our comments at the industry conference earlier in January, we are providing a non-GAAP EPS range for 2016 of $0.55 to $0.62, which is a mid-20% earnings per share growth range at the middle of the range. So with that, I'd like to open it up for questions. And we're happy to start, operator, when you're ready?

QUESTIONS AND ANSWERS

Operator

Thank you, Rick.

(Operator Instructions)

Robert Jones, Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

Great. Thanks for the questions, Paul, Rick, and welcome, Melinda. Bookings, you have no doubt been very strong, over 20% in 2015, and yet you did come in just short of your 2015 annual guidance. And the outlook that you guys are providing today on the top line, around 3% to 5% certainly doesn't seem necessarily indicative of the type of bookings growth that you guys have experienced. So I know not a new phenomenon, but now that we have the outlook, I was wondering if maybe you could just talk a little bit about what type of level of bookings, do we really need to see here, to see revenue accelerate?

And Paul, fully appreciate that there is the mix shift going on, between software delivery and client services. But the disparity, I guess, between the really robust bookings growth and the top line seems to be a little bit further than just that mix shift so?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, I think, Bob, I mean, understand the question. I think -- what you can't lose sight of again, is what we've been going against all year, which is the decline in nonrecurring revenue. So the pace of recognition of revenue is much shorter for items that are typically in the nonrecurring buckets such as upfront license software, or such as upgrade or installation type services. Those types of activities, the duration of time between booking and revenue recognition are very short, same with hardware. And those would be the items that really drive the bulk of nonrecurring revenue.

And those items translate into revenue quite quickly, and conversely longer subscription deals, longer managed service contracts, come in ratably over time. So it does require a little patience to see the net of that come through. Because as we've seen some declines in nonrecurring revenue, that's clearly dragged down overall enterprise lift, but the bookings are very real. The backlog has grown. We are working on augmenting some of our disclosure of our backlog, to give a little more transparency on how we expect that to turn into revenue over time. And so, as we get toward filing our 10-K, we're going to look to put a little more information out there on that.

Robert Jones - *Goldman Sachs - Analyst*

Okay. Got it. That's helpful. And I guess, Rick, just on the gross margin, really strong in the quarter, highest you've recorded in some time. Understanding that part of this was due to the drop, the mix shift again. But I'm just curious, if maybe you could talk to us about, how we should be thinking about the progress of gross margins throughout the year? And any potential pushes or pulls, that could get us even more expansion than what's baked in?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, I think based on the business that we see today, Bob, the mix was as good as it gets. I think this quarter, actually thought that third quarter, and then it even better in the fourth quarter. So I think based on the business we're executing today, an enterprise-wide margin of kind of 45% to 46% is a good modeling assumption.

But then the upside from that is -- and we've said this consistently for some time is, our services margins are still we believe below their intrinsic opportunity. And that is an opportunity to continue to improve as we go out through the year. So we would expect services margins to progress throughout the year, and then be able to bring up that enterprise total.

Robert Jones - *Goldman Sachs - Analyst*

Got it. That's helpful. Thanks.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Sure, thank you.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

Good morning, guys. Welcome Melinda, and Bob Jones I think jumped on a couple of my key questions (multiple speakers)

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Hi, George.

George Hill - *Deutsche Bank - Analyst*

Good morning, good afternoon, guys. I kind of just want to step back and ask the big picture question, piggybacking on what -- where Bob was going which is, we've seen a bunch of companies in this space, I guess, over the last couple quarters post either good bookings numbers, and softer revenue numbers kind of than expectations. And there just seems to be an elongation of that bookings to backlog to revenue that we're seeing across this space. And I guess, Paul, I would just ask -- Paul or Rick, whichever one of you guys want to jump on this, I guess, can you comment is this something that's going on -- like is it a contracting issue that's driving this? Or is it something that we're seeing in the market? I guess, I'm just trying to get a handle on which, what's driving this trend across this space?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, George, I mean, I think it's no secret, right, that I mean, what's happening is -- the progression has been clients bought software, and now they buy a much broader solution package. They also don't buy licensed software upfront as much anymore. They buy it through subscription agreements. And so, that's naturally elongating revenue recognition, I think for everybody in the industry. Certainly, that's our case as well.

I think there's an upside to that, which is that revenue gets -- is recurring, and more of it's recurring, we all have much more predictable business models. But that is a consequence is that revenue is going to, I think have a slower pace to recognition. So for us, again, I don't want to be overly repetitive, but what I said to Bob, we have seen declines. I mean, look at 2015, we watched nonrecurring revenue decline double-digits.

And that nonrecurring revenue is the stuff that always translated from sales to revenue the fastest. Okay? So that would have been again, perpetual licenses, hardware, upfront services, project-based services, and you don't have as much of that anymore. And so, the point I guess, that -- the upshot of that is I guess, the backlog aging probably has aged a bit.

But it hasn't aged radically, George. So I mean, again that's -- we're working on trying to give a little more transparency with that. But it's not like the average age of backlog has gone from one year to five years, or one year to eight years, or something like that. It's crept up a little bit, in light of all these factors, but it hasn't made a radical shift.

George Hill - *Deutsche Bank - Analyst*

Okay. And then, Rick, maybe my follow up would be to ask the question the other way then. I guess, as we look out towards the 2016 revenue guidance number what is the Company's level of visibility into that number, and what should we think about what drives the capability for the Company to over achieve that figure?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

So the revenue guidance I put out there, we have about 85% or so of that in backlog today, or at the end of the year, I should say -- not today. So that gives us a pretty good base. The balance of our assumption of guidance, has comes from sales activity during the year. But that's a pretty high rate. It's much higher than it would have been a couple years ago, if you asked the same question.

George Hill - *Deutsche Bank - Analyst*

Okay. I have more, but I'll hop back in the queue, and let more guys get on. I'll talk to you later, guys.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you.

Operator

Michael Cherny, Evercore ISI.

Michael Cherny - *Evercore ISI - Analyst*

Good afternoon, guys, and thanks for the details so far. Hey, Paul. So I want to dive in -- Rick, this is going to be your last call as the CFO, and maybe talk a little bit about the margin leverage, as you see on a go forward basis? As you think about the buckets that you've succeeded on, relative to where you want to garner leverage over last year or two years? And then, maybe on a next year basis, where do you think you're tapped out in terms of the most opportunities of leverage? And where do you think you're in a bit of the early innings, in terms of being able to right-size the business to the point that you want it to be at?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, look, so Mike, I'd say, here's my thoughts on that. We have again, not to sound repetitive, but as we've watched nonrecurring revenue go down, some of the things that have gone down for instance are hardware, okay? We don't sell anywhere near as much hardware as we once did. That was very low margin stuff, so that benefited a little bit -- that we benefited from that kind of mix shift.

And I think there's still, while I've said nonrecurring revenue is not going to decline, or we don't expect it to decline anywhere near at the rate it did in 2015, there's still a little bit of decline we're projecting in 2016, and who knows? I mean, eventually we could let that all go away, and stop selling it entirely, and that would be -- boost margins. But that's in the software space -- think of that as in the software space, that's potentially another lever if we wanted to, is to continue to stay away from very low margin stuff, if we wanted to, such as hardware.

We've done a good job already I think of improving our mix of owned software relative to third-party software. And that also over, if you look back relative to a few years ago has helped us a little bit in the software space. So we've played that out largely, but there's potentially a little more room to go. But I would say in general, the software bucket which is performing at all-time highs, and representative of some of those factors I just discussed, has probably -- largely played itself out.

The area of opportunity is services. I mean, services, while we made really good progress from where we started the year to where we ended the year, those are areas that have tremendous opportunity to continue to improve. And I think we've been fairly outspoken about, we expect to get our services margins up into the mid-teens, as we progress through 2016. And after that, I believe there's still room to go.

I mean, we're not earning anywhere near the intrinsic value of what those services provide. And you can see that, by looking at what other competitors in this space are earning around that. So that's opportunity for us.

Michael Cherny - *Evercore ISI - Analyst*

Thanks. And then just one quick one, the cash flow profile is really starting to improve. You pointed out the strong cash flow in the quarter. Any changes to capital deployment priorities? Obviously, you're still carrying a pretty sizable debt load. Is there any desire to maybe bring that down on a near-term basis, in the absence of anything else? Anything on the buyback, given that I think you guys, you expected your stock probably would be a little higher, given the news flow from JPMorgan? Or any other thoughts related to how you plan on deploying some of that cash?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, look, we're very comfortable in our debt levels, so there's no urgency whatsoever to paying that down. And we will continue to invest smartly in the business. So we'll plow back some money into the business as we see fit. But on -- we're at a free cash flow yield of almost 6% right now. So if that doesn't change, then I think it's pretty obvious, where we'll start using some of that cash.

Operator

Charles Rhyee, Cowen and Company.

Charles Rhyee - *Cowen and Company - Analyst*

Thanks for taking the question, guys. So maybe, Rick, I can ask you -- obviously, when we're talking about the system sales that have been declining a lot, can you talk about what you expect maybe for that? And I apologize if I missed that earlier. When we think about 2016, are we expecting that to decline further? Because if I recall you -- maybe it was last quarter, you kind talked about we're kind of at a more stable run rate here. Should we -- how should we think about that, in respect to the 2016 guidance?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, sure, Charles. So I mean, look, system sales is just a subset of nonrecurring revenue, right? And again, system sales is largely just a fancy word for hardware sales and upfront license sales.

We've made comments already on the hardware and the upfront license. So I don't want to be repetitive, but in general, the market's not really buying a lot of upfront license anymore, right? So that's naturally going down. And as we do more remote hosting on behalf of clients, the opportunity to sell hardware naturally comes down as well. So that's what drives system sales. But again, the broader theme is around nonrecurring revenue, Charles. And as I said earlier, I think from our perspective, the good news is we have -- we're done with the large double-digit declines -- at least we expect to be done with the large double digit declines in nonrecurring revenue year-over-year. I think there's a little bit of modest decline that we're still going to face in 2016, and that was part of my breaking down the guidance.

Charles Rhyee - *Cowen and Company - Analyst*

Sure.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

But the -- where again, recurring revenue, which is becoming a bigger and bigger piece of the overall pie and has grew pretty steadily at a 5.5% to 6% clip all year long, we don't expect that to change as we look out through 2016. And so the benefit is now without the big declines in nonrecurring weighing that down, that's how -- for me, that's how you can easily understand why -- where our revenue guidance range comes from. Let's put it that way.

Charles Rhyee - *Cowen and Company - Analyst*

Sure, and I appreciate that. I guess, Mike, what I'm asking really is, how much of these solutions are still only sold on a license software basis? Or is everything that you're selling can be sold on a subscription, so in theory system sales could theoretically be zero at some point in the future? Or is there always going to be some of level license sales, because some solutions are only sold that way?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Everything we sell now today, Charles, nothing is only sold on an upfront license basis. So everything is capable of being sold on a subscription. And for new footprints, new opportunities, that's usually the method of choice for most clients. So I would say, the only thing that stops me from saying, yes, in theory it could go to zero someday, is to say that for clients who naturally grow with us -- so let's say a Sunrise client who is expanding, or a TouchWorks client who has some expansion, that tends to be yet another license sale, because that's the way they bought the first time around.

Charles Rhyee - *Cowen and Company - Analyst*

But if they were a subscription person when they expand, they'll just be added to their subscription then?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

But if they started as a subscription, then you're right. They would add as a subscription. But there's a good chunk of our installed base who didn't start that way.

Charles Rhyee - *Cowen and Company - Analyst*

Right. Okay. Thanks a lot.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

You're welcome.

Operator

Eric Percher, Barclays.

David Ho - *Barclays Capital - Analyst*

This is David Ho on for Eric this afternoon. My question is around the -- it seems like a lot of the bookings in 2015 were, came from large managed services deals. And I was wondering if, one, is that fair? And then two, do you think you need more of those managed services long-term contracts, in order to show bookings growth in 2016?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Yes, I'd say that there's a lot of if you will, mix in our bookings for the year. We had white space where we went back in, and sold into the Sunrise accounts, emergency room, Sunrise record management, ambulatory surgery, and our Sunrise financial manager. So we had a fair amount of white space sales that constituted the total overall bookings. We had hosting, outsourcing, the new business we got from either hospital expansions that we've talked about, where a large IDN was expanding their footprint, because of acquisition of other hospitals.

We had the new business of the hospitals and new business of academic medical centers, where we sold to in the United Kingdom, and a large IDN here in the US. So I wouldn't characterize it as a large managed services deals. We did a number of them, but we also had a pretty good mix across the board of what we do.

And then on the low end of the business, there's just a lot of transactions that occur here, because of the number and sheer volume of small group physician practices that are buying additional features, additional functions additional services from us. And that's a very large transaction-oriented piece of the business that adds up, when you have so many of them out there.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

David, you offered -- you asked us, if your starting premise was fair. I just want to point out, bookings activity is not just about managed services. I mean, as we said, we had in the quarter 45% of the bookings came from software-related activities, and 55% came from services. And that's not dissimilar from what you saw year long. So you have a fairly balanced sales activity going on right now between the two. And again, both of them grew at double-digit rates on a year-over-year basis.

David Ho - *Barclays Capital - Analyst*

Okay. Thanks. And I guess, my quick follow-up question is around the other client services piece. I think in 2015, we had talked about it being down, due to client fatigued from implementations back in 2013 and 2014. Is that the same assumption that we're holding, as we look towards this coming year?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, client interest in upgrades -- when you talk about other client services, their interest in upgrades varies a little bit. I think there is generally a theme, I think of regulatory fatigue that we see with our clients. But most will do upgrades once a year, possibly twice a year, not every quarter.

So in general, services volumes are down, because you don't have -- we don't have as much -- we have more and more activities being provided on a cloud-hosted basis, or on a remote-hosted basis. And the number of brand-new footprints, while we had nice success during the year, the number of footprints are just not what they were a few years ago, in terms of installs. So I think that's a trend that the whole industry is seeing.

David Ho - *Barclays Capital - Analyst*

Thanks.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you.

Operator

(Operator Instructions)

Matthew Gillmor, Robert Baird.

Matthew Gillmor - *Robert W. Baird & Co. - Analyst*

Hey, good afternoon, everyone. I wanted to ask, there's been a couple questions on revenues, and I wanted to ask more specifically about the 4Q revenues. And Rick, I think you made some comments around the holiday timing impacting some of the project-based revenues, but can you provide more details there? Just wanted to understand the dynamics around 4Q more specifically?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

So again, Matt, the fourth quarter difference relative to the full-year, right, full year has been a story of nonrecurring revenue going down. We talked about significantly. In the quarter, the fourth-quarter, there is some seasonality that you experience relative to earlier quarters in the year, just because there simply isn't -- aren't as many working days during the quarter as there are in non-holiday periods.

And so, you don't have as much of an opportunity to have billable time with your teams. So this year, we protected margins better than we have in the past. But we -- that's the fourth quarter additional add if you will, to just the overall story of we have experienced. And again, I think we've been fairly transparent with that. We expect it to have lower nonrecurring revenue. I mean, am I missing your question, Matt, other than that?

Operator

Matt has left the queue. And our next question comes from Greg Bolan with Avondale Partners.

Greg Bolan - *Avondale Partners - Analyst*

Hey, thanks guys for taking the question. So my primary question, Rick, and forgive me if I missed this, but so you're talking about service margin improvement. Obviously, that to us also seems like clearly, an upside opportunity for you guys, as you progress towards maybe even getting above the 45% to 46% enterprise-level margin. But how do you get there, is it a function of scale? Can you maybe walk us through maybe a few efforts that you guys maybe have in play, that will enable you to get those service margins up, please?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, I mean, so some of it is scale, for sure. So areas like hosting will benefit considerably by scale, and adding more volumes to it. Some of it is about mix. So as our revenue cycle management services grow, and we see the installation upgrades [start] services decline a little bit, that's actually a positive mix shift. So that will help as well. So those are a couple of variables, or a couple of factors.

Greg Bolan - *Avondale Partners - Analyst*

And just real quickly, just from the consolidation of facilities locations within the US, you guys are pretty much done at this point, right?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

I would never say we're done, Greg, but we -- most of the heavy-lifting around getting our overheads costs, and SG&A base right-sized are behind us.

Greg Bolan - *Avondale Partners - Analyst*

All right. Great. Thanks, guys.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you. Next question, please?

Operator

Garen Sarafian, Citi Research. Our next question comes from the line of Richard Close from Canaccord Genuity.

Richard Close - *Canaccord Genuity - Analyst*

Thanks for taking the question. Congratulations on a great year and turnaround. Paul, you emphasized momentum continuing into 2016, and I wonder if you could elaborate on that a little bit more? What gives you the confidence there? And then as a follow-up, I think it was from David's question earlier with respect to bookings, should we be expecting bookings growth in 2016 over 2015?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

I'll start with the momentum. I think that in my comments, and just in my day-to-day activities with clients, the type of questions we get today, versus what we got three years ago, the type of interactions we're having with them about strategic initiatives that we're going to be working on versus a point problem that they might have had, questions about whether or not we're going to make it through the MU2 cycle, et cetera. Those are all things that were extremely important and tactical, and we needed to make progress on that, and we did.

And that then leads us to a position today, where, as Rick referenced, there was a bit of a regulatory fatigue, with regard to upgrades. The upgrades we did during the course of the year in 2015 were extraordinarily positive. We had a lot of incredibly good feedback from our clients around usability, about reduction in the number of clicks, about optimization, about the new user interface that made the physician's day a lot easier to interact with the system. Documentation where they spend most of their time in a system, there were a bunch of cool new features that we put inside of that, to make their lives better.

And this thing we call Fusion, which brings in, not only the local information off their electronic medical record, but it gives them a view of the other community data that are out there, that are specific to the patient that have not yet been reviewed by that caregiver. All of which provides I think a fair amount of momentum to the base, to have increased confidence with us. And when people are happier, as I said earlier today, they spread the news and they buy more. And there's not an issue about them moving to some other supplier, which has manifest not only in the conversations I have with them, but in the data, as well as the numbers. And so, those are all things that I feel are -- really supply a lot to the momentum.

The only thing that I think is extraordinarily important to understand, when you think about where we've come from, is you could be a really, really solid electronic medical records supplier to the marketplace, and that's extremely important. But that won't be sufficient in order to be a long-term partner with these people. They also want to have a population health management solution from you. Increasingly, they're extremely interested in this precision medicine suite of initiatives that we have ongoing, and they all want to talk about how they're going to connect to their consumer, not just engage the patients.

All of which we have solutions for, all of which we have innovation around, and all of which are generating additional good solid strategic dialogue in the C suites of those organizations that we interact with. So when I think of momentum, I think about the base being covered, the base being happier, the base buying more. And then, us having spent our research and development dollars, and making acquisitions in certain areas that were strategic, being very well-positioned as we look at the 2016 beyond marketplace.

Richard Close - *Canaccord Genuity - Analyst*

And bookings growth in 2016?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Yes, so Richard, I expect growth in Q1. And our momentum and pipeline, Paul has talked about a few times, feels really good. We have a very -- we blew it out of the water in Q4. We had a really strong Q3. So I think it's a little difficult to predict the back half of the year right now, but we do expect the first half of the year to be positive.

Richard Close - *Canaccord Genuity - Analyst*

Thank you.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you.

Operator

Garen Sarafian, Citi Research.

Garen Sarafian - *Citigroup - Analyst*

Hi, guys. Apologies earlier. I'm not sure what happened there. But I guess, at a high level -- Paul, you started to touch on this, but could you just give us a sense of the purchasing environment among providers, as you're heading into 2016? Just to compare it against some of your peers who have also commented on it? And I guess, specifically, also post ICD-10, now with a few months under their belts, are they more or less inclined to invest in further projects on a financial side?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

I'm sorry. I didn't understand the second part of your question.

Garen Sarafian - *Citigroup - Analyst*

On the -- with the impact of ICD-10 a few months under their belts, as to how that's impacting their purchasing behavior on rev cycle, or anywhere else for that matter?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Yes. I would say that, the overall marketplace for what I see, and when I'm out there talking to the marketplace is that folks -- see, the C-suites are extraordinarily interested in total cost of ownership. They're interested in optimization efforts that we need to be working on with them, and they're interested in an innovation platform.

So when I think about those three in combination, I see them being extremely interested in figuring out ways to cut costs on our side, which allows us to have a dialogue around perhaps consolidation of platforms that they may have, that are not Allscripts, on consolidation of services, they may be doing that we could be doing a little bit more cost effectively because of our scale, and an innovation agenda that we're going to work on with them for a multitude of years.

The overall spending percent, I'm sensing and seeing that people have realized that, post MU1, MU2 and broad adoption of electronic medical records, and now moving into population health, is leading to a sustained increase in percentage of their revenues that they're spending on IT.

I'm not sensing, or the research that I'm looking at, indicates that they had a blip -- or if you will, a bubble in acquisition, and that's going to be over time, that's going to go away. I see that as a permanent change in the way that they do business. It's now completely electronic, and they have the systems. They have to have the infrastructure and the people in place, to be able to support that completely digital platform that they now all operate on.

Garen Sarafian - *Citigroup - Analyst*

Okay, that's useful. Then as a follow-up to that, on international growth, I think in the prepared comments, it was record bookings. But given the macro environment for some of the reasons you saw in two, I guess, what are your expectations for 2016 versus what they were for 2015?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

We have a much different profile going into 2016, than we did going into 2015. We have more client success. We have more new business sales. We have a very good brand recognition in multiple countries because of the delivery there. We haven't had any projects where there's been major issues, headlines, et cetera.

Of the headlines, we're getting that people are getting results, and they're getting the outcomes that we both set out to achieve when they bought from us. And so, most of the progress, and most of the news out of each of the organizations and countries we're working in have been positive, including the results that we got out of the country of Israel. So I see that momentum being carried forward into 2016, and we always expect to grow that business. We always expect the team that we have in place, that there will be productivity out of the team. That there will be additional business coming out there, that we potential we're not competing for in the 2014 and 2015 time frame.

Garen Sarafian - *Citigroup - Analyst*

Okay. Thank you very much.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thanks for the question.

Operator

David Larsen, Leerink Partners.

David Larsen - *Leerink Partners - Analyst*

Hi, can you talk about the King's College win, and also the country of Israel win? Who are you competing with, and what ultimately led them to select Allscripts? Thanks.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Yes, King's College is in London. It's a very competitive marketplace. They actually procure off a vehicle they have, that's been pre-approved. And there's certain suppliers that are on that list. The suppliers are some local folks, but it's the other folks that we compete with in the United States, the two that you hear about the most. So the folks that we competed against at that large opportunity were a very large set of the normal suspects, if you will. And that's why -- another reason why we feel very good about that win.

In Israel, it is a manifestation of multi-year work with that government, with the various hospitals that are there, with the payment mechanism that they use in that country, with the retail providers that are there, and ambulatory suppliers that provide the holistic end-to-end healthcare, from the provider side, the retail side, as well as through the payer. And so, that's a really -- if you will complex and very comprehensive solution that we're putting in place for those folks, that we're extraordinarily proud of. There are some local organizations that we competed with, that we quite frankly don't compete with outside the United States -- or excuse me, outside the country of Israel. And then there's some people that are over there, that we compete with in every marketplace that we see.

David Larsen - *Leerink Partners - Analyst*

Okay. Great. Congratulations on those wins, and thanks very much.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thanks, David.

Operator

Dave Francis, RBC Capital.

David Francis - *RBC Capital Markets - Analyst*

Good afternoon, guys. Just one quickie, bigger picture, if you look at the population health suite of solutions that you're selling, and look to be continuing to develop today, can you size the market opportunity that you see, relative to the EMR opportunity that you guys have? Like for example, take a Lakeland that you just signed on the enterprise side, would that be a 0.5 times, a 3 times? What's the revenue opportunity relative to the EHR side? Thanks.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Dave, I think it -- what happens is they tend to get to bought modularly, so you don't see it, quite the way you're asking the question yet. But we're really more and more pushing more of a platform approach to that. I think when you put the whole package together, it's probably between 0.5 and a 0.75, if you go the whole platform.

David Francis - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Sean Wieland, Piper Jaffray.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Hi, thanks. I'm just trying to piece together some of the data points that you gave us around, the nonrecurring revenue range that's going to be around $75 million to $85 million a quarter, versus the historical $80 million historical $80 million to $90 million. How much of it is simply not -- I think as you said, a number of new footprints, not what they were? Can you give us any insight, as to the reasons behind that forecast?

THOMSON REUTERS

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

So Sean, I mean, let's -- I just want to make sure (inaudible) pass each other -- $80 million to $90 million is a range we put out a couple quarters ago, to help people with modeling the rest of the year. If you say historically, nonrecurring revenue used to be considerably larger than that, right? I mean, if you go back to 2013-2014, I mean, you were averaging more of $100 million a quarter. And so, that's the trend line we've been fighting against.

I think we've talked extensively about why that's the case, why it's changing. And so, really the purpose of updating that range is really for folks, like yourself who do modeling. But the broader message is just that, again glass half-full is I don't -- from our perspective is, we're not going to see the kind of year-over-year declines we saw in 2015. And because of that, that will allow some of the real momentum on the recurring revenue side to finally show through, and bring up enterprise revenue. So we're good with that. But I'm also telling you, I think there may be a little bit of erosion still to go. And that's the reason why we -- I changed that range to $75 million to $85 million.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

I see. Okay. And then a quick one, when you sell a subscription deal, does it fall into (inaudible)

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Sean, you broke up there a little. Could you please repeat?

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Sorry, when you sell into subscription, does it fall into software delivery bookings?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

It gets decomposed, Sean. So there is typically some services elements that go with it, and those get classified in services, and conversely the software piece goes in software.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Okay. Thank you.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Sure.

Operator

Anthony Vendetti, Maxim Group.

Anthony Vendetti - *Maxim Group - Analyst*

Sure, thanks. So the UK has obviously driven some of the bookings number. And I was just wondering if we could talk a little bit about, as we move into 2016, I know you said first half should be up year-over-year, but how much of that do you anticipate, or a rough percentage should be from the UK, or new business? And how much of the bookings number should be from existing clients?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, I mean, let's be clear. The UK, it's been talked about a lot, because we've had some really good recent success, and we continue to believe it's a good market opportunity. But it's not the only international outpost for us at all. In fact, we're expecting good things in Canada this year as well. And also our other big foothold is in Australia, and the Southeast Asia regions around that.

So we expect growth in all of those areas. And then, and as a result expect our international business to continue to be a grower, and contribute to success in our overall bookings. But we haven't disclosed exactly how much comes from international, and we won't start that now. But that's -- the UK is definitely a piece of the story, and it feels pretty good.

Anthony Vendetti - *Maxim Group - Analyst*

Okay.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

I'm sorry, you had a second part of the question I forgot?

Anthony Vendetti - *Maxim Group - Analyst*

Yes, that's okay. Just the last follow-up then is on dbMotion. Just can you talk about how much dbMotion is still driving new business wins, and just in general, a little color around dbMotion?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

DbMotion is a data aggregation platform for us, and we believe, notwithstanding what lots of people claim in the industry, it still is differentiated in its capability of how it can aggregate and harmonize data. And it's a big piece of our overall Care in Motion platform.

Anthony Vendetti - *Maxim Group - Analyst*

Okay. Great. Thanks, guys.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thanks, Anthony.

Operator

Ricky Goldwasser, Morgan Stanley.

Zack Sopcak - *Morgan Stanley - Analyst*

Hey, this is Zack for Ricky. Just one quick one on the replacement opportunity, you've got a competitor who's going to be sunsetting in the near-term. Any thoughts on how that impacts the replacement opportunity in 2016, or if that's more of a longer-term opportunity?

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Yes, there's a number of providers in the marketplace who have announced, that they're getting out of the current -- they are no longer going to be providing R&D investments in, nor are they going to support MU3, both on the ambulatory side, as well as the in=patient side.

And that's not falling short on us that, that's an opportunity, where they're either going to have to move to a parallel product, or some successor product inside of that family that's owned by the supplier, or they're going to be forced to go to market because of the Board's wanting to take a peek at what else is in the marketplace, and we expect to prevail on a number of those opportunities. We know, as I think everybody does where these are, and we know by name and location and zip code where they are. So our teams are out there. Our teams are talking to them, and there's a fair amount of activity in that regard.

Zack Sopcak - *Morgan Stanley - Analyst*

Okay. Great. Thank you.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

You bet.

Operator

Steve Halper, FBR.

Steve Halper - *FBR Capital Markets - Analyst*

Hi, just a quick question on the cost side. The Company has done a great job of taking costs out of the infrastructure. And we heard the comment before that you've never done, but is 2016 the last big year when you get that bump in profitability from the cost save efforts in 2015?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, I mean, let me parse your question, Steve. I mean, will there be a residual full year benefit in 2016 from some of the efforts we had in 2015? Absolutely. So I again, if you look at full-year 2015, compared to our outlook for 2016, I would expect operating margins, as well as EBITDA margins to probably go up a couple hundred basis points.

So some of that's from continued good management, but a lot of that is just carrying, annualizing efforts that have happened. So does that mean the party's over, and there's no other way to drive out efficiencies? I don't believe that at all. I think, again, the heavy lifting on the overhead is done. If you break down costs, you have your SG&A overhead, you have your solutions investment. And then you have cost of sales, both the direct labor you have, and then a lot of third-party content providers and service providers that you have.

So we have hit the overhead hard. We've increased our investment in our solutions. We've done, I think a good job last year of getting our workforce right-sized for the level of volumes. And now, I think there's an opportunity to focus on that last bucket that I referred to, which is some of our third-party content providers and service providers.

Steve Halper - *FBR Capital Markets - Analyst*

So do you think -- so just to ask it another way, so do you think the magnitude of the margin expansion in subsequent years could be the same? Or will it simply diminish slightly from the 2016 levels?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Will it diminish from the 2016 levels, or the expansion diminish?

Steve Halper - *FBR Capital Markets - Analyst*

Will the expansion diminish? (multiple speakers) The goal is always to improve margins, but does that rate start to slow down, because of all the efforts that you've done in the past?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

I don't know. The way I look at it, Steve, is from 2013 to 2015, on our non-GAAP basis, we expanded gross margins 150 basis points, and we've gotten nice leverage down the P&L, from also taking out overhead. I think we will continue to -- I think we have another 150 basis points of margin improvement at the gross margin level.

And I think we have some other costs. We should be able to get leverage off of our SG&A, by letting top line grow, and not having SG&A grow at the same rate. And so, that will all contribute leverage to operating margin and EBITDA margin targets.

Steve Halper - *FBR Capital Markets - Analyst*

That's very helpful. Thank you.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thanks, Steve.

Operator

Nicholas Jansen, Raymond James.

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

Hey, guys. My question is on free cash flow conversion, obviously quite strong. Your EBITDA grew about $40 million year-over-year, but free cash flow grew over [$100 million]. And I want to get your sense of should we think about 2016 as a year where that growth slows more towards normalized levels? Or do we have another year, where working capital can be a good guy, and you should get [outsized] free cash flow growth? Thanks.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, I'll start by saying, I appreciate noticing the balance sheet side. We're very proud of managing the balance sheet like we did in 2015. I think again, we are predicting EBITDA growth, and we've talked in other forms about what our CapEx expectations are.

Can we get positive cash flow contribution from the balance sheet? Well, we won't stop, and we still obviously have a lot of outstanding receivables and things like that. So we won't stop trying. But I think there is certainly free cash flow growth opportunity, that will naturally come off of our earnings growth opportunity.

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

Thanks, guys.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you.

Operator

Mohan Naidu, Oppenheimer.

Mohan Naidu - *Stephens Inc. - Analyst*

Thank you very much for squeezing me in. Rick, maybe one quick question for you. Thanks for all the details so far. You talked about project-based work being weak in Q4. Can you give us a little bit more details on what specific details on what you're working on, is it project-based works that are not going to come back to you guys again? Or is this just a seasonally weak quarter for project-based work?

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Well, what we mean by project-based work is again, usually installation efforts of new footprints or upgrades for existing clients. I mean, that's generally what we are talking about, when we say project-based client services. You don't lose those efforts. It's not like we lose them to somebody else. So it's really just about the pace of activity, and how much can get done in a certain time period.

Mohan Naidu - *Stephens Inc. - Analyst*

All right. Thank you very much.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

You're welcome.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Chris, any more questions? Chris, are you there?

Operator

Yes, I'm here.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Okay. Are there any more questions, please?

Operator

There are no further questions at this time. Gene's mic was live, and he was not speaking.

Rick Poulton - *Allscripts Healthcare Solutions Inc - President & CFO*

Okay, very good. I would like to just hand the call back to Paul for concluding comments.

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you very much for being on the call this evening. For those of you who will be attending HIMMS, we look forward to welcoming you a week from Tuesday at the Allscripts seventh annual financial townhall at the Sands Expo Hall at the Venetian Palazzo in Las Vegas on Tuesday March 1, from 6:00 PM to 7:30 PM Pacific Time. Rick and I, along with other executives from some clients will be there. Melinda will be there and we look forward to seeing you. Thank you very much for your time this evening.

Operator

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

Paul Black - *Allscripts Healthcare Solutions Inc - CEO*

Thank you.