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EDITED TRANSCRIPT

MDRX - Q1 2018 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 GAAP revenue of \$514m, non-GAAP net income attributed to Co. of \$30m, and non-GAAP EPS attributed to Co. of \$0.16. Expects 2018 non-GAAP revenue to be \$2.15-2.25b and non-GAAP diluted EPS to be \$0.72-0.82.



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PRESENTATION

Operator

Greetings, and welcome to the Allscripts First Quarter 2018 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Dennis Olis. Please go ahead, sir.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

Thank you, Kevin. Good afternoon, everyone, and thank you for joining our call to review our first quarter 2018 results. This is Dennis Olis, the Chief Financial Officer for Allscripts. Today, joining me on the call are Paul Black, Allscripts Chief Executive Officer; and Rick Poulton, our President.

For today's call Rick will begin by summarizing our recent accomplishments and operational progress. I'll follow with a review of our financials and guidance, and then Paul will conclude with some closing remarks before we open the call for Q&A.

We'll be making a number of forward-looking comments 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. We encourage you to refer to our earnings release and SEC filings for more detailed descriptions of the risk factors that may affect our results.

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

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I'll now turn the call over to Rick Poulton.

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

Okay. Thanks, Dennis.

Good afternoon, everybody. Thanks for joining our call today. And we appreciate your time and your interest in Allscripts.

I'm going to cover two key topics today. First, I'll make some summary comments on first quarter performance and highlight some important achievements we saw in the quarter. And then, given the recent volume of activity, I'll make some comments on our recent M&A transactions.

So let's start with the quarter. Bookings had a first quarter record, and the performance was broad-based across our whole solutions set as well as each of our end markets.

On a year-over-year basis, we reported 24% growth in GAAP revenue, it's up \$514 million, 25% growth in non-GAAP revenue to \$519 million and 23% growth in non-GAAP EPS to \$0.16.

While we saw some sequential revenue declines in Q4, half of this was attributed to EIS and was expected. And most of the rest was attributed to softness and upgrade activity and other project-based services. We've seen some seasonal softness in this activity the last few years, so this, too, is not a surprise to us.

Margins held up pretty well given the expected decline in the EIS revenue, and I'll comment more about EBITDA margins in a few moments.

Overall, I'd say we were satisfied with our start to the year, and we expect to build off of this first quarter performance as we continue to progress throughout the rest of the year.

So getting a little more granular, let me quickly highlight some client activity during the quarter. In the health systems market, we had several major contract extension wins, including Ascension, the nation's largest nonprofit health system with more than 2,600 types of care in 22 states. Here, we extended our partnership for each of our clinical rev cycle and care coordination solutions.

We also extended our partnership with UPMC, which operates more than 30 hospitals and 600 doctors' offices for our care coordination and rev cycle solutions.

It's worth noting that both of these clients utilize a combination of both legacy Allscripts solutions as well as legacy EIS solutions as well.

In the independent ambulatory market, we added a new footprint with Southwest Medical Associates, who selected Allscripts to replace a competitive practice management solution.

We also deepened our relationship with Concentra, with significant add-on licenses and hosting services as they expand in the occupational health sector.

In our Payer and Life Sciences business, we experienced our largest quarter ever for pharma and CRO activity, and we see this trend continuing for the foreseeable future.

On the international front, we signed an anesthesia information management solution deal in Singapore, which is expected to be deployed across five key hospital campuses in Singapore.

Allscripts will also further expand its footprint with the Singapore Ministry of Health later in 2018 as we implement Allscripts Sunrise clinicals at the 1,400-bed Sengkang General and Community Hospital system.

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And in the post-acute market, Netsmart experienced continued strong new customer acquisitions by selling to over 100 new facilities in the quarter.

Finally, we were pleased to announce two significant innovation milestones during the quarter as well. At the HIMSS show in March, we announced Avenel, a next-generation cloud-based EHR that creates a community-wide shared patient record, uses machine learning to reduce time for clinical documentation and revolutionizes physician experience compared to traditional EHRs that exist in the market today.

It's built on Microsoft Azure. Avenel streamlines workflows and gets smarter with every use. The solution integrates clinicians' treatment patterns and provides reminders of preferences to facilitate faster documentation and decision-making.

Also in the quarter, we announced that Allscripts and Lyft, the fastest-growing ride share company in the United States, are joining forces to incorporate nonemergency transportation directly into the physicians' workflow. Leveraging Lyft's proprietary APIs and Allscripts open platform, the companies plan to integrate into Allscripts Sunrise EHR to enable clinicians to order Lyft services for patients.

Today, an estimated 3.6 million Americans have transportation issues that prevent them from getting to or from a doctor's appointment. And 25% of lower income patients have missed or rescheduled appointments due to lack of transportation.

Through this partnership, Allscripts and Lyft have the potential to reach millions of Americans to eliminate these transportation barriers and improve access to healthcare.

So pivoting now to recent M&A activity, it's been a busy last six months, so I wanted to share some current progress and our thoughts on where we stand with these transactions.

Overall, we feel very good about the investments that we have made lately and the opportunities they represent for us to create significant shareholder value. Specifically, our EIS acquisition now cements us as a large player in the inpatient clinical and rev cycle markets and provides us additional scale to leverage our overhead and lift our EBITDA margins.

As we discussed when we announced the acquisition, we will be working on integration efforts throughout 2018. So while the business currently dilutes our enterprise EBITDA margins, we remain on schedule with our integration and cost-reduction efforts, and we continue to expect to reach a crossover point in early 2019 where the incremental business becomes accretive to pre-transaction EBITDA margins for the company.

In addition to the cost synergies, we're also beginning to see some revenue synergies from the transaction. We closed several cross-sell deals within the EIS client base during the quarter, including Auburn Community Hospital, which signed a new Care Management deal, and we had multiple sales of our industry-leading financial decision support platform, EPSi, into the EIS clients who are running the STAR patient accounting system.

Also we had activity in the other direction as Wyckoff Heights, a Sunrise client, purchased EIS's ERP system during the quarter.

This is just a small list of cross-sell opportunities, which we expected with the EIS acquisition, and we look forward to building on this early momentum in future quarters.

Second, we closed our Practice Fusion acquisition during the quarter, and integration efforts with our Payer and Life Sciences business unit are well underway.

Since closing, we launched the subscription model to our Practice Fusion clients, and we are extremely pleased with the early responses to this offering.

With our combined reach and experience, we believe that our new combined organization leaves us as the best positioned EHR company in the industry to bring value to the large Payer and Life Sciences companies end market.

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So third, in early April, Netsmart announced a definitive agreement to acquire the home care and hospice solutions of Change Healthcare. This was formally known as McKesson Home Care and McKesson Hospice. And this acquisition is expected to solidify the position of Netsmart as a leading provider of post-acute technology and services. This adds to their already established leadership position in behavioral health and human services.

During the quarter, Netsmart went live with its next-generation post-acute platform called myUnity. This is a cloud platform that serves both the entire home care continuum as well as the entire senior living continuum. Netsmart also became the first technology provider to get Meaningful Use certified for its palliative care solution.

Overall, Netsmart's performing quite well, and we are very confident that our investment there is earning a good return.

Fourth, today, we announced we are significantly enhancing our patient engagement platform with the acquisition of HealthGrid. HealthGrid is a leading mobile enterprise patient engagement solution that has helped independent providers, hospitals and health systems to dramatically improve patient interactions and satisfaction. The growing adoption of value-based care combined with the modest level of usage of patient portals across the industry has made it critical to take a new approach to patient engagement solution design. We expect to tightly integrate the HealthGrid capabilities into our FollowMyHealth platform, adding functionality that will enable providers to reach 100% of their patient populations by leveraging existing patient contact information rather than requiring patients to sign up to the portal.

Patient engagement is a top-of-mind challenge for CEOs and leaders of healthcare provider organization of all sizes. Once integrated with FollowMyHealth, we believe the platform will have the broadest reach of pre-encounter, during-encounter and post-encounter patient engagement opportunities in the entire industry.

Since most of our EHR clients use FollowMyHealth today, we see a meaningful opportunity to grow with this expanded offering.

And finally, in early April, we closed the OneContent divestiture to Hyland Software. This transaction returned \$260 million to the company and allowed us to rather seamlessly reallocate capital from what is a mature market segment to the growth opportunities that I just outlined.

So all in all, we are pleased with the moves we have made and look forward to updating you with further progress in future calls. With that, I'll now turn the call back over to Dennis to go through more financial details for the quarter.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

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

For clarity purposes, let me make a few opening remarks before diving into the results. First, my comments on the income statement will largely focus on non-GAAP metrics unless otherwise stated. Full reconciliations of GAAP and non-GAAP figures are available in the earnings release.

Second, effective January 1 of 2018, we adopted the new 606 revenue recognition standard using the modified retrospective approach. The adoption of the new standard resulted in a mid-single-digit adjustment to revenue and income and, therefore, did not materially impact our first quarter results. As such, all references to our current results are made after applying the new revenue recognition standard. Please review our 10-Q for further disclosures around the new standard.

Third, as a reminder, we closed the Practice Fusion transaction on February 15 of this year and began consolidating the results as of that date. Q1 includes a partial quarter contribution from Practice Fusion and a full quarter contribution from EIS, which closed back in October of 2017.

The divestiture of our OneContent business closed in Q2 and, therefore, our Q1 results includes the full quarter impact of this business unit.

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And finally, as previously reported, the financial results for Horizon Clinical and SERIES 2000 product lines are reported as discontinued operations in Q1 as the products' end of life occurred on March 31 of this year.

As Rick noted, we had a record Q1 bookings total of \$304 million, up from our previous Q1 booking record of \$286 million, which we achieved in 2017. As a result, our backlog now stands at a record \$4.7 billion in March. This reflects both the impact of bookings as well as renewals in the quarter that are not included in the bookings metric.

Turning to the income statement. First quarter non-GAAP revenue totaled \$519 million, an increase of \$104 million or 25% versus Q1 of 2017. Non-GAAP revenue added \$5 million in acquisition-related deferred adjustments in the first quarter of 2018.

In the first quarter of 2017, this adjustment totaled \$2 million, and therefore, the Q1 2018 GAAP revenue of \$514 million represents a 24% growth versus the first quarter of a year ago.

Netsmart's Q1 non-GAAP revenue totaled \$83 million, growing 11% year-over-year. EIS contributed non-GAAP revenue of \$91 million in the quarter. This includes the EIS portion of the acquisition-related deferred revenue adjustment of \$2 million. We believe that this revenue level represents a go-forward steady state before accounting for the OneContent divestiture.

Looking at our total revenue split, total recurring revenue grew 27% and nonrecurring revenue grew 16% versus the same period a year ago. Thus, our total recurring revenue mix came in at 81%.

As discussed last quarter, as we incorporate the 606 revenue recognition changes into our 2018 reporting, there will be some volatility in this measurement throughout the year. However, we expect the trend in the high 70% to the low 80% range during 2018.

Looking at revenue results by line item. Total software revenue in Q1 increased 24% year-over-year totaling \$332 million. Recurring software revenue consisting of subscriptions, recurring transactions, support and new maintenance, increased 30% year-over-year. A large portion of this growth was driven by the consolidation of the EIS business.

As discussed on our Q4 call, our Q4 recurring software included one time revenue associated with EIS transaction that will not repeat in 2018. This accounts for the majority of the variance of Q4 '17 to Q1 of '18.

In the quarter, nonrecurring software revenue decreased 13% year-over-year. In Q1 last year, we had several large software sales that were not repeated in 2018.

Given the multiple variables in these metrics, we anticipate quarterly fluctuations in nonrecurring software and would not view the Q1 percentage as reflective of future quarters results.

Turning to client services. Consolidated non-GAAP revenue grew 27% year-over-year to \$186 million in Q1. Recurring service revenue increased 20% year-over-year driven by the addition of EIS, revenue cycle services and other multi-year service offerings. Similar offerings from Netsmart such as hosting, revenue cycle services and managed services also contributed to this increase.

Allscripts nonrecurring service revenue increased 43% year-over-year driven by the EIS acquisition.

Moving to non-GAAP gross margin. Total gross margin was down slightly 20 basis points year-over-year. We anticipate gross margins to improve throughout 2018 as we recognize the synergies from the EIS acquisition. Analyzing margin by component, software gross margin decreased by 120 basis points year-over-year. Client service margins, on the other hand, were up 18.6% -- or excuse me, were 18.6% in Q1 compared to 15.8% for the same period last year.

While gross margins on services are trending consistently in the mid-teens as anticipated, the increase also reflects the addition of EIS, which runs at a slightly higher service margin.



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Looking at operating expenses, non-GAAP SG&A totaled \$116 million, a 23% increase year-over-year. The non-GAAP SG&A figure excludes noncash transaction related and other expenses. The increase in SG&A is primarily a function of the additional acquired expenses from EIS and Practice Fusion.

Gross R&D was \$102 million, up 40% year-over-year, reflecting the additional R&D expenses attributed to the acquisitions at Netsmart and Allscripts. Our software capitalization rate was 32%, a slight increase from Q4. As stated last quarter, we anticipate a software capitalization rate in the low 30% range for 2018.

Adjusted EBITDA totaled \$96 million, a 20% year-over-year increase. This equates to a 19% adjusted EBITDA margin. Recall that our Q4 EBITDA margin of 20% included a one-time revenue and margin adjustment of \$8 million relating to the EIS business.

As Rick already noted, the EIS integration efforts will extend through 2018, and we would expect EBITDA margins to trend upward throughout the balance of the year.

Netsmart's adjusted EBITDA is trending in the mid-20% range as a percentage of Allscripts total reported EBITDA in line with our expectations and on track with the 2018 guidance range of between \$110 million and \$120 million.

Looking below the line, total cash interest increased 29% to \$20 million, which compares to \$16 million from a quarter ago -- a year ago. The largest contributor to this increase is the financing required to fund the EIS and Practice Fusion acquisitions.

Please note that GAAP results this quarter included transaction-related costs, severance fees and other cost of \$24 million primarily related to the EIS transaction.

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

As a reminder, non-GAAP EPS is calculated net of noncontrolling interest to reflect Allscripts ownership portion of the partially owned, controlled and consolidated businesses.

Non-GAAP net income attributed to Allscripts Healthcare Solutions grew approximately 29% year-over-year.

We ended the quarter with a principal balance of \$779 million in secured debt and \$345 million on convertible senior notes, \$150 million increase in long-term debt quarter-over-quarter. The increase reflects the financial required to fund the acquisition of Practice Fusion but does not include the proceeds generated from the OneContent divestiture, which closed in Q2.

Netsmart's total debt, which is nonrecourse to Allscripts but reported for consolidation purposes, totaled \$645 million, down slightly quarter-over-quarter due to required repayments.

Turning to cash. Q1 operating cash flow totaled \$58 million compared with \$76 million a year ago. Q1 free cash flow totaled \$17 million after adjusting for capital expenditures, capital software and purchase software. As we've noted in the past, cash flow will vary from quarter-to-quarter.

Turning to our outlook, we're affirming our financial guidance for the year per our outlook provided in February. To recap, our guidance remains non-GAAP revenue of between \$2.15 billion and \$2.25 billion, adjusted EBITDA to be between \$420 million and \$450 million. Excluding Netsmart, the adjusted EBITDA will be between \$310 million and \$340 million. And finally, non-GAAP earnings per share of between \$0.72 and \$0.82 per diluted share.

As stated on our Q4 call, the impact of the divestiture of OneContent business, which closed on April 2 of this year, is reflected in our full year guidance.



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Also note that the additional revenue expense details attributed to Horizon Clinical and SERIES 2000 businesses are reported as discontinued operations.

Finally, as a reminder, we have adjusted our guidance for expected effective tax rate of 27% for the full year.

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

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

Thanks, Dennis. Over the past five years, this team has assembled a solutions portfolio through both organic invested in certain acquisitions and effectively increased solution depth and breadth that we offer on a worldwide basis. Some of this capital was invested in new platforms in anticipation of a post-stimulus market reality creating a number of relevant platforms outside of our core EMR offerings. This has contributed to 12 out of 13 consecutive quarterly bookings records.

On an annual basis, we've been able to demonstrate client retention, attraction of new clients and the cross-sell of new capabilities to our existing clients, resulting in expansion of our market share. We have clinical, financial, care coordination and analytic offerings in the acute, large physician, independent physician, post-acute and global marketplaces.

We feel this breadth and depth is unparalleled in the marketplace. This reach, combined with our scale, has driven the results over the past five years. During that time, non-GAAP revenue has grown by over \$700 million, recurring revenue has grown from 71% to 81%, non-GAAP gross margin has expanded by over 350 basis points and EPS will grow by over 250%.

As we indicated on our last quarterly call, roughly two-thirds of our revenue footprint is now represented by core clinical, financial, population health and managed services solutions to our inpatient and outpatient EHR client base here in the United States. We are focused on ease-of-use of our solutions, lowering the cost of delivery and earning a greater share of the clients' total IT spend. The other third of our revenue footprint is represented by higher growth opportunity areas, which we believe our offering are highly distinguished from that of our competitors. These include solutions for post-acute healthcare organizations, Payers, Life Science businesses and our EHR-agnostic care tools including dbMotion, EPSi, CarePort, FollowMyHealth, 2bPrecise, and as of today, HealthGrid.

These investments and the team's execution also drive industry recognition. Today, Black Book reported a survey of 490 United States corporate chain and IDN hospitals where an integrated EHR, population health, revenue cycle and interoperability solutions are all supplied by the same HCIT company. Based on aggregate client experience and customer satisfaction scores on 18 key performance indicators, Allscripts was ranked number one.

Historically, we've been a team that has made and kept commitments with our clients and our stakeholders. We have provided annual and, at times, multi-year guidance. I'm very proud of what this team has been able to accomplish.

With that summary, I'm going to hand the call over to Kevin for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Robert Jones from Goldman Sachs.



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Adam Chase Noble - *Goldman Sachs Group Inc., Research Division - Associate*

It's Adam Noble in for Bob. Congrats on a really strong software bookings this quarter. Just curious, are there any specific contracts worth calling out. And if you could parse out what contribution there was from McKesson EIS or Practice Fusion to those numbers.

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

So I'll take it in reverse order, Adam. Practice Fusion, very little. We only closed on it midway through the quarter, and most of their action had already hit it in the book early before it closed or we got a little bit late in the quarter, but not much there. EIS, as we told you last year when we brought it in, we're -- as we integrate that deeper and deeper, it's more and more difficult to break out separately, but --and we're not going to get into the practice of breaking out their bookings separately. But suffice it to say, they didn't have a lot of long-term contracts. Historically, their bookings numbers were modest compared to ours, so that's a pretty small add as well. And is there anything to call out? No. Like I said in my comments, I mean, it's pretty broad-based across, really all of our solution sets and whatnot. We got picked up a little bit off for the Lyft arrangement but -- and that was, obviously, a unique deal. But otherwise, I'd say it was pretty broad-based performance.

Adam Chase Noble - *Goldman Sachs Group Inc., Research Division - Associate*

That's helpful. Maybe to ask on the other side of the house with bookings for services. The bookings for 1Q were a little bit below where that segment had been running in the past and particularly with EIS now in-house and I think we would expect that to contribute to that segment as well. So any commentary around services bookings, what you're seeing there, trends in the marketplace.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes, we -- this is Dennis. So last year in the second half of the year, we saw a sizable increase in the upgrades as it relates to the macro and the MU3 work that had to be done within the systems. So across all of our EHRs, we saw significant upgrades across our entire client base that, again, wasn't repeated in Q1. We do have a number of go lives that will be happening in Q2 and going forward, so we would expect to see some increase in that on a sequential basis.

Operator

Our next question is coming from Anne Samuel from JPMorgan.

Anne Elizabeth Samuel - *JP Morgan Chase & Co, Research Division - Analyst*

I was hoping you could speak to where the 25% revenue growth in the quarter fell versus your internal expectations. And then, as you look out to the rest of the year, what are you seeing in the marketplace that gives you confidence in maintaining your guidance for the year?

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

Well, I mean, as I said in my comments, Anne, I mean the sequential change we saw from Q4 was largely expected, so I think it's fair to say that where we came in was pretty much around what we would have expected for the quarter. What gives us confidence in saying fourth quarter -- that we can maintain our guidance, I guess, starts with maybe what I just said. I mean, the first quarter was largely in line with what we expected, and we had a good bookings quarter that is a pretty decent indicator of what future revenue is. We have a significant backlog, as you know. So none of us -- we don't have a crystal ball, we don't pretend to be clairvoyant. But our guidance is not really that far off from the runway we started with, right? We've always had a pattern or we took a pattern of growing off our Q1 numbers. We'll get a little contribution, more contribution from Practice Fusion and a little bit of contribution from HealthGrid, that offset some of what we lost with OneContent. But in the end of the day, we still feel like the areas we've invested in create some revenue momentum for us.



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Operator

Our next question is coming from Eric Percher from Nephron Research.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

I want to come back to the revenue performance. I think you used the word satisfied. As we look at recurring, it's clearly strength. Your comment on nonrecurring and the fluctuation you expect to see, does that suggest that what you see this quarter is a little bit lighter than what you'd like to see or expect to see for the year? And what are your thoughts on the nonrecurring over the course of the year?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes. So the nonrecurring by nature is going to be lumpy, right? So it really relates to the deals that we cut during the quarter that have an upfront software element to that. So we did -- we saw some of that in previous quarters. We did not see it to that same magnitude in Q1. We think that's, again, that measurement will be volatile, and we will expect that to fluctuate from quarter-to-quarter so it's not something that we're necessarily concerned about. Our recurring revenue remains very, very strong. They change from quarter-to-quarter. As Rick noted, really related to the one-time adjustment that we had in revenue from EIS in Q4, which is about \$8 million and then the slight drop of about \$5 million. And that overall EIS revenue, net of that one-time adjustment Q4, we believe, has now settled into a steady state with that client base. We feel pretty confident that we will maintain that level roughly around that same level during the course of the year and then continue to grow that as we continue to experience some of the cross-sell opportunities that Rick mentioned earlier.

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

But Eric, I mean, you can look back over the last three years and see a very obvious pattern, right. Seasonality usually is low in Q1, and we have tended to see a pickup off of that nonrecurring revenue base as we go out throughout the year. So we're -- we don't think we're going to change that pattern this year. So but that's part of our confidence why we think that's going to lift as well.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

Right. Maybe I'm getting hung up on the word satisfied. And I assume that if you were at 13% throughout the year, you wouldn't be satisfied there, is that fair?

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

What I said was we were satisfied in the quarter, right? Quarter-to-quarter is a compilation of sales efforts, it's about P&L performance, it's about delivery to our clients and about positioning our solutions for the future. And all-in, we're satisfied with what we did in the quarter.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

Right. And let me follow on that on revenue as well. The EIS steady-state comment, I know in the past we saw that business with seasonality in the end of the year maybe it was March quarter. You're feeling is that at \$91 million this quarter, that's around the right go-forward number on a quarterly basis. How much seasonality do you expect is still going to be present in that business?



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Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

There's not a lot of seasonality in the business from quarter-to-quarter. Like I said, I think we have -- we will continue to be around the \$90 million mark for the balance of the year. That's before the divestiture of OneContent. So OneContent will be removed from EIS's numbers on a go-forward basis starting in Q2. But absent that, I would say that the rest of the business will be fairly steady state.

Operator

Our next question is coming from Michael Cherny from Bank of America Merrill Lynch.

Michael Aaron Cherny - *BofA Merrill Lynch, Research Division - Director*

I want to dive in a little bit on Avenel. I know it's been fairly recent that you launched the product, but you clearly did it in a very public setting at HIMSS. What have you been talking about to customers in terms of their reaction to the product? And I'm thinking about, going forward, with the current customer base versus new customers, how is the sales process going to evolve? And will there be a time at some point where there could be a forced migration or just an encouraged migration onto the new platform?

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

So Mike, we'll -- we have a client live on it now, and that was in part why we came out and talked about it. That said, I think it's still fair to say it's the technology layer is pretty -- is robust, and it's pretty set. I think the presentation layer will still go through some iterations, and we'll work with some of our notable clients to do that, at least we would expect to. So we're really interested in ultimately having an extremely robust solution in the market. And to do that, you have to be pretty meticulous in the way you go through it. So I think 2018 will largely still be a -- I don't know what term to use, solution development time period for it as opposed to wrapping sales cycles or anything like that. We are previewing it for certain clients so that they can think about their own strategies as when they think about multi-year approaches to technology. I'd say the feedback we've had so far has universally been extremely positive, which encourages us to keep going in a big way. How will we ultimately sell it? I think I'd say hold that thought for later quarters because that's not a big part of what we're doing right now. But in the last question, there is no intent right now at all to force a migration. We have a lot of happy clients who run our current EHR portfolio, particularly if we host the solution for them. For them, that is no different than a cloud offering, and they like what they get out of the product. And if they like it, they can certainly be happy sitting on it. We don't intend to stop in any way. But recognizing some clients. An increasing number of clients are looking for a different type of experience and a lower cost price point, that's why we're putting the energy behind it.

Michael Aaron Cherny - *BofA Merrill Lynch, Research Division - Director*

Got it. And then one completely unrelated question. On the transition for Meaningful Use to promoting interoperability in the final depth of the Meaningful Use term, when you think where Allscripts is positioned, whether it's on dbMotion or your core suite of solutions, how does this transition help you guys? And in an environment where there's not that funding dollar behind it, what is the biggest catalyst to drive your customer to adopt more of your technology in terms of your current customer base?

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

I think the mandate will help. It's not certainly as big of a mandate that existed for Meaningful 1 -- Meaningful Use 1 or 2, but it absolutely will help. That combined with the open API requirements that are out there from the Cures Act will also create, I think, continued momentum for a supplier that has an approach to be -- to having a demonstrated track record of being open. And I think the interoperability piece really has to do with the fact, have you done it at scale, have you done it with large IDNs, have you done it with hospitals to hospitals, have you done it with large multigroup, specialty practices to small independents? And do you have a track record of being able to really pull that together in an important and value-based



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way? So I think that will create some very good momentum for us. It's not something that we're baking into our -- if you will, our analysis any differently, Mike. But I do think that will be some nice wind in the sails.

Operator

Our next question is coming from Jamie Stockton from Wells Fargo.

James John Stockton - Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst

I guess, maybe the first one on EIS and trying to drive the cost synergies there. Can you give us an update on the timing of when you think the overhead allocation that I assume is currently in place for McKesson would really pay? I think maybe historically, you guys had said sometime in Q2, late Q2. Is that still kind of the timing you're thinking about?

Dennis M. Olis - Allscripts Healthcare Solutions, Inc. - CFO

Yes, Jamie. What we talked about there was a technical services agreement that we had entered into McKesson. It was primarily around some of the IT-related cost, that's the biggest element of that. We had talked about getting off that by the end of the first half. I think we're at a point now where, for the most part, we're off it early. So that's gone exceptionally well, so we're pleased with that. And for the most part, like I said, TSA has wound down at the end of April. There's still a lot of work to do with the rest of the synergies that we talked about. So there's still a lot of heavy lifting that will happen between now and the end of the year. We're on track to meet the synergy plans that we laid out to you when we completed that acquisition in October, and we're pleased with the progress we're making towards that end.

James John Stockton - Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst

Okay, that's great. And then maybe just one more on the Netsmart investment. I think that when you hit the 2-year anniversary for that, your restrictions on what you can do with that investment really went away. I guess, maybe is that correct? And what is really the benefit at this point kind of given where the stock is and where it seems like investors are valuing it? What's the benefit to not spending that off?

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

So let's start with the first part of your question, Jamie. Yes, after two years -- let me say it differently, for two years, we had a complete standstill. After two years, some liquidity begin to kind of become available for both of the primary partners in the joint venture. So there's more degrees of freedom to think about stuff now than there were last time we were on the phone together. Your question is -- the last part of your question is -- rest assured it's a question we're spending a lot of time talking about with ourselves right now. It's not lost on you, you know we've been through quite a roller coaster the last six months in the stock price position, right. Last Fall, we were in the \$12, \$12.50 range. We spent a lot -- most of the early part of this year in the mid-teens. And now, we find ourselves today below 12. That was a rapid change. I think when the stock's higher, we have more confidence that the market is starting to appreciate the value, intrinsic value of that investment. Where the market sits today, it's impossible to feel that way. So we are talking about it.

Operator

Our next question is coming from Richard Close from Canaccord Genuity.



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

First, Paul and Rick and Dennis, congratulations on where the company is five years in here. My first question is really your competitors' comments over the last couple of weeks have seem to be more cautious on the market. It doesn't sound like you guys have the same tone here today. And is it as simple as you were in these other adjacent markets? You talked about Payer, Life Sciences and some of the other markets that give you a little bit more confidence.

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

Yes. I mean, Richard, I think you should hear two things from us today. I mean, we are, absolutely want people to better understand some of the adjacencies we have, the adjacencies of Payer and Life Sciences, the adjacencies of the post-acute space, to name a few. We created a -- we think, a very exciting new adjacency today around patient engagement. These are opportunities that we think are very real. And obviously, the opportunity with EIS is really more about getting cost scale. So those are real opportunities to grow the bottom line, and we're as enthused about them today as we were the day we made the investments and all of them. That said, yes, I mean, the U.S. market is -- we wouldn't -- we're not trying to sound "Polly Anna"-ish about it. The U.S. market is a tougher market right now, and everything is clearly ROI-based. And the client base, generally speaking, is suffering a fair amount of financial strain right now. And on the one hand, technology usually helps create efficiencies, so we think fundamentals remain good, but you got to cut through a lot of noise at clients to get things done so.

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

And so my follow-up question would be on quarterly guidance. Would you guys ever revisit providing a quarterly guide? And really the reason being I ask this is you're putting up some -- I'd say good numbers, but if you slightly miss a stretched consensus estimates, you don't ever seem to get the credit for your improved results here. So would you ever revisit quarterly guidance?

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

Thank you for spelling out our pain. Look, nothing's off the table, Richard. I think we'll consider anything. I don't think we're going to be fast to jump to that. But I'd say given what the market is saying to us right now, nothing's off the table.

Operator

Our next question is coming from Ricky Goldwasser from Morgan Stanley.

Mark Lewis Rosenblum - *Morgan Stanley, Research Division - Research Associate*

This is Mark Rosenblum on for Ricky. I just had a question on the moving pieces of growth in the quarter. So breaking out EIS was really helpful. Could you clarify, on the ASC 606, am I reading it right that it was a mid-single-digit percentage impact? Or just...

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

No, no. That's not our intention.

Mark Lewis Rosenblum - *Morgan Stanley, Research Division - Research Associate*

And on the guidance, you add an acquisition and left guidance unchanged. Is that a conservative guide, or should we think about it as potentially including the impact of other unannounced acquisitions?

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

I would say it this way, we had a divestiture as well. Sorry to cut you off Dennis, but don't forget we had a divestiture as well.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

Yes, I was going to talk about that. And the divestiture, we had built in some assumptions around when that divestiture would occur. It actually happened a little sooner than we had thought, so when you net that divestiture with the Practice Fusion acquisition and the HealthGrid acquisition, it all basically nets to -- comes back to our guidance.

Operator

Our next question is coming from Ross Muken from Evercore ISI.

Ross Jordan Muken - *Evercore ISI, Research Division - Senior MD, Head of Healthcare Services and Technology & Fundamental Research Analyst*

On the hospital side, how are you guys thinking about some of the mergers that have happened in terms of the large private institutions and what that sort of attrition looks like? And then secondarily, is that a pick up from the past? Is it an opportunity? Just how are you putting that sort of what seems like a slight change on the activity level to us in kind of context of the business?

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

Well, it depends which ones you're talking about, but some of them are opportunities for us because we have solutions almost in all of them, whether that's on EHR or say population health or some other outside-the-core EHR solution. And typically, they will want to roll those solutions out to the rest of their constituents. In some cases, we're the core EHR, and that provides us additional opportunity to be the de facto standard inside those organizations. And then with the dbMotion play, that has also been part of our strategy to say to anybody that as you are integrating multiple different platforms, which is always the result of one of these acquisitions, that's a good platform to have in order to harmonize your data to connect your physicians, get the analytics in place properly and to perform closed-loop clinical alerts back down to multiple different source EMRs.

Ross Jordan Muken - *Evercore ISI, Research Division - Senior MD, Head of Healthcare Services and Technology & Fundamental Research Analyst*

That's helpful, Paul. And Rick, Dennis, maybe just -- I know, we just had a little bit of a conversation on quarterly guidance, and we're not there yet, but I'm looking at the consensus. Off of the current number, it looks like it's up -- I don't know \$525 million-or-so sequentially based on what you just printed. I mean, could you just help us think through now with the earlier divestiture and maybe healthcare coming on later because it wasn't clear to me if that's closed yet. Just how to think a little bit about sort of the cadence and how we sort of see that sequential progression a bit?

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

Yes, so first of all, HealthGrid has not closed yet. That still has to go through HSR for approval. But as we look going forward, as Rick alluded to in his prepared remarks, there is some seasonality that happens throughout the course of the year, so if you look at the historical trends typically, you will see a little bit of a growth after Q1 in the subsequent quarters. We believe that we will see that. We've got a number of go-lives that will be happening in early Q2 that will help push the revenue up. As I said before, we do believe that the EIS business is going to bottom out the attrition there. But we do have a lot of cross-sell opportunities. Rick mentioned a few of them in his prepared remarks about the cross-sell opportunities that we closed in Q1. Those will convert into revenue in subsequent quarters. We're confident about that. Our RCMS business continues to be well received in the marketplace and that continues to grow from a booking standpoint and a go-live standpoint. So there's a number of factors -- and



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Practice Fusion is one of the other items that we talked about as that flips to a subscription model at the end of Q2 and we'll get the benefit of that in the second half of the year. So there are a number of things within our core business as well as some international opportunities that we think will help show that revenue growth throughout the course of the year.

Operator

Our next question is coming from David Larsen from Leerink.

David M. Larsen - *Leerink Partners LLC, Research Division - MD, Healthcare Information Technology and Distribution*

Can you talk a bit about the Practice Fusion deal? And maybe the traction you're gaining in the Life Sciences and Payer areas. Like what sort of products are you selling into that segment of the market? What's the value you're adding there? And then what is the response then?

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

So collectively, Dave, when we target the Payer and Life Sciences markets, we have -- the way to think about it is we have a couple of core value propositions. For Payers, it's really about connecting them to the point of care in more of a real-time basis. So that can be anything from eligibility requirements on medical procedures, eligibility on pharma, it could be gaps-in-care type of messaging, it could be something as simple as chart audits, things like that. But connecting them to the point of care is a much more efficient way for them to do business than some of the manual processes they have today. And we create value there. In the case of the pharma CROs, et cetera, it's usually about using our continuum of clinical data and to help them with their either pre-trial work or even post-approval kind of trial work that they have to do. We also have to have the ability to help them recruit patients on a more efficient basis than many times they can today for trials. So I mean those are kind of at the core of what's behind the value proposition. Bringing Practice Fusion into the fold, they've been building value streams for a long time in the space. We've been doing that separately ourselves. We think the combination of the two creates a scale that can achieve even more value between the two businesses and more innovation around new specific product lines leveraging those basic value propositions that I've just described.

David M. Larsen - *Leerink Partners LLC, Research Division - MD, Healthcare Information Technology and Distribution*

Great. That's very helpful. And then as you convert to a subscription model, how has the response been from the base?

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

What I said in my script, David, so far, it's been above expectations, so we're very pleased with it. It's still early stages, so we have more of the base to hear from, but our early returns feel pretty good.

Operator

Our next question is coming from George Hill from RBC.

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

I guess, first kind of a bookkeeping one. Was the Singapore procurement recognized in the quarter and did that have a meaningful contribution to bookings?



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

So George, we just want to make sure we're clear about -- when you say, described it as the Singapore procurement, I want to make sure we hadn't misled you in any way. So there was a lot of market chatter about a countrywide Singapore procurement which never wound up happening, right. They never -- they decided to use a split vendor solution.

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

Right. Basically like a -- kind of like a renewal process?

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

Yes, largely, it was a renewal. There was a little bit of white space that I think they awarded to a competitor. But there was -- it's a big process and, in the end, I would say it was much to do about very little. But we have a large footprint there, and we are continuing to expand with that client, and we feel very good about our relationship there. And some of the comments I made were with regard to them -- to continue to expand some of our solutions there.

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

Okay, that's a good clarification then. And I guess, my follow up would be for Paul and for Rick. As you guys think about acquisitions like HealthGrid, and you look at what I would call more generalist technology vendors like the Apple experiment and Facebook trying to get into the space, also kind of enabling patient connectivity. I guess, how do you think about how the two sets of technology play together and what remain to be attractive white space for you guys and what are the attractive opportunities to work with other technology players?

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

Well, I think that there's no question that there's going to be a prevalence of Facebook, Apple, AWS in this marketplace and for us to work with them through our open APIs and work with them in a collaborative way through the HIPAA standards and through all of the privacy and security laws that are an extraordinarily important step that we go through that requires a fair amount of legal work, George, but there's no question that we want to participate in that and work with them. The HealthGrid solution is actually pretty specific to healthcare and have a lot to do with meeting the patient where they are, and that's on their smartphone and texting them based on relationships that pre-exist, the pre-existing appointment about the fact you have appointment tomorrow, here's the address, here's where it's going to be, here's the time you check in, here's how you do a mobile check in once you get there, here's what your care team looks like, here's what -- what your discharge summaries look like, here's what -- do you need to have a recurring appointment set up? So it's a pretty comprehensive suite of solutions that's actually in there versus just a text-based connection to a Facebook account, not to minimize that. But there's a lot of clinical content in there, and that combined with the clinical content that is in aggregated is inside of a FollowMyHealth portal will, we think, create a substantial amount of value to folks in what we're seeing early and one of the things we bought into was the usage of this technology in combination with a portal. So standalone texting is much more highly used and therefore, that's a big piece of the patient engagement strategy that all of the CEOs that we talked to want to deploy. I want to reach out, I want to get people, I want to get them connected to my brand and I want repeated dialogue with them on something that's simple for them to use.

Operator

Our next question is coming from Matthew Gillmor from Robert W. Baird.



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

I had a couple of quick follow ups. So on HealthGrid, you talked about the opportunity to enhance the FollowMyHealth platform. I was curious if that represented a cross-sell opportunity into FollowMyHealth that will generate additional revenues? Or is it more about creating additional differentiation for FollowMyHealth that will support more growth in the future?

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

So it'll do both, Matt. So I think it'll help us bring the whole platform to a client set that we don't have today. There's many, many, many clients who wound up in the race to Meaningful Use 2, wound up with a mixed bag of portals in their environment. Most of them will probably like to consolidate down into one. And with having now an offering that's much broader than just a portal, I think we are in a great position to -- we hope, carve off a little bit of replacement market. But the business case we built for the deal and what we're going to focus on right out of the box is mostly about bringing this larger offering to our current FollowMyHealth base. And so there's a -- we think a great opportunity to bring that to those clients.

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

Got it. That's helpful. And then one on bookings. You mentioned there was a record on the quarter and that certainly stands out relative to some of the peers. I was curious if the ransomware issue had any impact on bookings for the quarter and if maybe that pushed out some bookings that you'll be able to pick up later in the year.

Dennis M. Olis - *Allscripts Healthcare Solutions, Inc. - CFO*

It's hard to measure that with any precision, Matt, but I mean, our intuition, is yes it did. I mean there were a number of our smaller ambulatory clients who were impacted and inconvenienced -- inconvenienced is too light of a word. They were, frankly, but they were inconvenienced in a major way. And we had to work first on bringing them back live, which fortunately, we did. But we also had to work on repairing their trust in us as well. So that's -- I think we're feeling better about it today than we were two months ago, but there's still work to be done there. So I think your hypothesis is probably right.

Operator

Our final question today is coming from Stephanie Demko from Citi.

Stephanie July Davis - *Citigroup Inc, Research Division - VP & Senior Analyst*

I'll just keep it straightforward to keep the last one brief. Could you just walk us through the puts and takes that are needed to accelerate your top line? Is it acceleration of Life Sciences, the Netsmart? Is there outyear synergy potential for some of your recent deals?

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

So can you clarify, when you say accelerate, accelerate relative to what? I mean we had 24% year-over-year growth, I assume you know where that's coming from.

Stephanie July Davis - *Citigroup Inc, Research Division - VP & Senior Analyst*

I hear that. On an organic basis, something in the organic top line.



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

So again, we have a very large backlog. Backlog is, again, a leading indicator of future revenue. So I think between what we have in backlog today and continued sales efforts like we experienced in Q1 is going to be what drives organic growth. And those sales efforts, again, in Q1 just to recap were very broad-based. So we saw it across all of our markets and virtually all of our solution sets.

Stephanie July Davis - *Citigroup Inc, Research Division - VP & Senior Analyst*

All right, understood. So just more of the same?

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

Yes, I mean -- there's new markets we described on the phone that we're getting it to Payer and Life Sciences in a bigger way. So do I expect more there? Yes. Do I expect us to be talking about contributions from patient engagement platform in the future? Absolutely. Do I expect to see more yield out of Netsmart going forward? Absolutely. So I think when you say more of the same, I'd say more of the same, yes, across everything we've talked to you about today.

Operator

We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Paul for any further closing comments.

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

Thanks, Kevin, And thanks, everybody, for being on the call today. We're off to a solid start in 2018 and look forward to a strong year as we continue to execute. We appreciate your interest in Allscripts and look forward to keeping you apprised of our progress during the course of the year. Thank you very much, and good evening.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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