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MDRX - Q2 2019 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

Co. reported 2Q19 GAAP revenue of $445m, GAAP loss per share of $0.90 and non-GAAP EPS of $0.17. Expects 2019 non-GAAP EPS to be $0.65-0.70. Expects 4Q19 non-GAAP revenue to be $460-470m. Expects 3Q19 non-GAAP revenue to be $445-455m.

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

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PRESENTATION

Operator

Greetings, and welcome to Allscripts' Second Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I would now like to turn the conference over to your host, Stephen Shulstein. Thank you. You may begin.

Stephen M. Shulstein - *Allscripts Healthcare Solutions, Inc. - VP of IR*

Thank you very much. Good afternoon, and welcome to the Allscripts Second Quarter 2019 Earnings Conference Call. Our speakers today are Paul Black, Allscripts' Chief Executive Officer; Rick Poulton, our President; and Dennis Olis, our Chief Financial Officer.

We'll be making a number of forward-looking statements during the presentation and the Q&A part of the call. These statements are based on current expectations and involve a number of risks and uncertainties that can cause our actual results to vary materially. We undertake no obligation to revise these forward-looking statements in light of new information or future events. Please refer to our earnings release and SEC filings for more detailed descriptions of the risk factors that may affect our results.

Please also reference the GAAP and non-GAAP financial statements as well as the non-GAAP tables in our earnings release and the supplemental workbook that are both available on our Investor Relations website.

And with that, I'm going to hand the call over to Rick Poulton.

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

Okay. Thanks, Stephen. Good afternoon, everybody. Thanks for joining our call today. As always, we appreciate both your time and your interest in Allscripts.

We reported a strong second quarter, with bookings of $276 million, which was up 31% year-over-year. Our pipeline of new deals remain strong as well, and so in conjunction with our strong first half performance, we are raising our outlook for 2019 bookings by $125 million, at the midpoint of the new guidance range compared to the midpoint of the old range.

Although conversion of backlog to revenue was a little slower than we had hoped for during the quarter, we nevertheless had nice sequential revenue growth from Q1, and we expect this quarterly sequential growth to continue throughout the balance of the year. Dennis will provide more details on financial performance and our outlook later in the call.

Now let me highlight some specific trends and client activity during the quarter. In the hospital and health systems market, we had a very strong quarter from a bookings perspective as we saw strength across both the Sunrise and Paragon customer bases. Specifically, we had 2 separate Paragon accounts expand their footprint to include the integrated ambulatory module and with that decision also signed 7-year extensions. We are proud of the progress we've made with the Paragon base as nearly 20 clients have now signed on to long-term agreements since we acquired the business from McKesson in late 2017. While we've experienced some anticipated attrition in the Paragon base and clients have already made a decision before we bought the business, our investments have allowed us to retain the vast majority of plans, and we look forward to continue serving this client base.

With our Sunrise solution, we acquired 2 new -- 2 brand new clients during the quarter, both the result of winning competitive proposal processes. The first, San Gorgonio, is a California-based community hospital who is migrating to full clinicals and revenue cycle with us. And the second is an international win at St. Luke's Medical Center in the Philippines. St. Luke's is a large academic medical facility with more than 1,100 beds and is the leading most respected health care institution in the country. We are thrilled to have them as our anchor client in the Philippines, and as they join the Allscripts family, it further cements our industry leadership position in the Pacific Rim.

In addition to these new clients, we had several significant Sunrise account expansions during the quarter. MaineGeneral went all in with us to add the integrated ambulatory module as well as the entire suite of perioperative solutions and patient engagement solutions. We also had a major expansion with an academic medical center in New York to include our suite of perioperative solutions and mobility solutions.

Finally and perhaps most importantly, we made significant progress during the quarter with our largest customer. We are in advanced stages of negotiations with Northwell on both extending and expanding our relationship with them, and we expect these negotiations to conclude before the end of the year.

So now moving over the ambulatory market. We continued the momentum we saw in the first quarter with strong demand for revenue cycle management services. We added 10 new revenue cycle clients in the second quarter, and to date, Allscripts revenue cycle management services covers approximately 6,000 providers, representing over $2 billion in annual billings.

We also continue to see success selling HealthGrid to our ambulatory base of clients, and we closed 24 new HealthGrid deals during the second quarter. So looking ahead in this market, our pipeline for new revenue cycle services opportunities, HealthGrid upsells and new clinical deals all remain strong.

Moving to Veradigm. Let me start by making a few comments about our announced agreement in principle with the Department of Justice related to Practice Fusion. As you know from our previous SEC filings, the DOJ began investigations into certain practices of Practice Fusion before we acquired the business early last year. These investigations had many similarities to investigations that have either been settled or remain active with many of our industry competitors.

After acquiring Practice Fusion, the DOJ investigations continued to expand and required expanding levels of resources from us to support. The main focus has been on actions that occurred prior to our ownership and, thus, we were highly motivated to reach an accord with the DOJ as soon as possible so that we can put this chapter behind us and focus our team entirely on serving our clients and realizing the significant opportunities that Veradigm has to bring value to the payer and life sciences end markets.

So while the amount we have agreed to pay of $145 million is not insignificant, it is in line with other settlements in the industry, and we are happy to have reached the agreement in principle. We will work with the DOJ to finalize the details of the settlement over the next coming months, and we expect to have recoveries from a variety of third parties that will help offset a portion of the amounts we have agreed to pay the government.

So with that, covered, let me remind you that our strategy at Veradigm remains pursuing additional opportunities to add data to our industry-leading data set and building new workloads and analytic solutions for life science companies and risk-bearing entities.

We are creating one of the industry leaders in solving key problems for payer and life science clients and our success to date positions us well to deliver on the long-term growth outlook we shared for Veradigm earlier this year.

We continue to pursue additional opportunities to make our data set even more robust. As an example of this, we recently acquired the American College of Cardiology's cardiology and diabetes registry assets. This will expand Veradigm's EHR-enabled ambulatory research network to create a large-scale chronic disease network with more than 250,000 clinicians and 150 million patients in the United States. Our robust data set, which includes the NextGen ambulatory data, allows us to provide insights and analytics to these clients and effect change at the point of care, which is really the key competitive advantage for Veradigm. The integration of NextGen data is processing according to plan, and we expect to start recognizing revenue from the partnership during the fourth quarter of 2019.

So with that, I'll now turn the call back over to Dennis to go through more financial details for the second quarter and our outlook for the balance of the year.

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

Great. Thanks, Rick. As we review this quarter's results, please reference the schedules in the earnings release as well as the supplemental data workbook available on the Allscripts Investor Relations website. For clarity purposes, 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.

Now let's turn to the results for the second quarter. Bookings were strong in the quarter, totaling $276 million, up 31% year-over-year as the momentum from the first quarter continued. Our reported backlog now stands at $3.9 billion. 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. Second quarter GAAP and non-GAAP revenue totaled $445 million, within our guidance range of $445 million to $455 million. As demonstrated with our Q3 and Q4 revenue guidance, we expect our year-over-year organic revenue growth to improve in the back half of 2019 as we benefit from the strong bookings that we've experienced in the first half of the year. While there may be slight variations in recurring revenue from quarter-to-quarter, we continue to expect recurring revenue to trend in the high 70% to low 80% range for 2019.

Moving to non-GAAP gross margin. Total Allscripts gross margin was 44.1% in the second quarter of 2019 compared with 46% in the second quarter of 2018 and up from 43% in the first quarter of 2019. The 100 basis point sequential improvement is attributed to our data center consolidation efforts and continued cost efficiency initiative. As we said last quarter, we expect gross margin to run at approximately 44% for the balance of the year.

Looking at operating expenses. Non-GAAP SG&A totaled $91 million, approximately $7 million decline from a year ago as we benefited from actions taken to drive transaction-related synergies as well as overall expense management. The non-GAAP SG&A figure excludes transaction-related and other expenses. Non-GAAP R&D was $61 million, approximately flat year-over-year. Our gross software capitalization rate was 29% in the quarter, in line with our expectation.

Adjusted EBITDA totaled $75 million, which equates to a 17% adjusted EBITDA margin, flat with a year ago quarter. We continue to expect margins to improve for the balance of 2019 as we benefit from cost savings related to our data center migration, additional service billability due to planned upgrade, faster growth in the high-margin Veradigm business and overall leverage on SG&A and R&D expenses.

Looking below the line. Total cash interest decreased to $6 million, which compares to $8 million from a year ago. GAAP loss per share in the quarter was $0.90 and includes transaction, legal and other costs of $154 million. As Rick noted, we recognized $145 million expense in transaction, legal and other costs related to the agreement in principle with the DOJ.

Our non-GAAP effective tax rate was 24% in the quarter, consistent with Q1. Finally, excluding noncash adjustment in transaction-related and other expenses, non-GAAP net income attributed to Allscripts totaled $29 million and non-GAAP EPS was $0.17 for the quarter. We ended the quarter with the principal balance of $520 million in secured debt and $345 million of convertible senior notes. Our leverage ratio, defined as net debt divided by trailing 12-month EBITDA, was 2.4 at the end of the quarter, up slightly from 2.2 at the end of Q1 of '19. The strength of our balance sheet gives us significant flexibility for additional investment in high-growth areas and the continued return of capital to shareholders. We did not repurchase any shares in the quarter as a result of blackout restrictions related to material negotiations in the second quarter which resulted in agreement in principle with the DOJ. We expect to be opportunistic with additional share repurchases going forward, which is consistent with our prior practice. At the end of Q2, we had $148 million remaining under our existing stock repurchase authorization.

Turning to cash. Q2 operating cash totaled negative $8 million compared with favorable $8 million a year ago. DSO totaled 88 days in the quarter, down from 97 in the first quarter as we benefited from higher revenue and improved collection.

As we've noted in the past, cash flow will vary from quarter-to-quarter. We expect 2019 cash flow to improve in the second half of the year as the first half of the year included cash outlays for employee performance bonuses, taxes associated with the divestiture of Netsmart and severance and retention fees. We expect minimal cash transaction-related expenses in the back half of 2019.

Turning to our outlook. As a result of our strong first half bookings result and expectation for the second half of the year, we are increasing our 2019 outlooks for booking. We expect bookings in 2019 of between $1.05 billion and $1.1 billion, which is up $125 million at the midpoint from our prior outlook of between $900 million and $1 billion. This reflects strength in both our Provider and Veradigm businesses.

For the back half of the year, we expect revenue growth to accelerate as we benefit from strong bookings that we've seen so far in 2019. We expect quarterly sequential revenue growth to increase every quarter in 2019.

For the third quarter of 2019, we expect non-GAAP revenue of between $445 million and $455 million, which reflects a 2.3% year-over-year organic growth at the midpoint of the third quarter outlook.

We are also providing non-GAAP revenue guidance for the fourth quarter as we have improved visibility as a result of our bookings performance. For the fourth quarter of 2019, we expect non-GAAP revenue between $460 million and $470 million, which reflects approximately 5.5% year-over-year organic increase at the midpoint of our fourth quarter outlook.

Finally, we are reaffirming our outlook for full year non-GAAP earnings per share. We expect non-GAAP earnings per share of between $0.65 and $0.70 for 2019. This outlook reflects a non-GAAP effective tax rate of 24% for the full year 2019.

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

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

Thanks, Dennis. First, let me say that I'm pleased with our second quarter and first half financial results, particularly with the strong bookings performance. Our solutions continue to resonate with our clients and prospects. We are benefiting from strategic decisions we've made to build a robust EHR and surrounding solutions portfolio and expanding our portfolio with an industry-leading presence in the high-growth payer and life sciences market. This differentiates us from our EHR peers. We believe that we are at leading edge of the HIE industry.

We're delivering on our commitment to both clients and shareholders. On the client side, we continue to invest in our platforms. Our scale allows us to innovate, being responsive to client and regulatory needs. As Rick noted, this has resulted in the strong bookings that we have reported so far this year, with the highlights including a major all-in Sunrise expansion, Paragon extension, growth in our revenue cycle business, continued penetration with consumer platforms and robust growth in Veradigm.

We also continue to build a very competitive business internationally. Year-to-date, we've had the best first half internationally that we've had in the past 5 years. We see the strong growth in bookings driving revenue growth, acceleration in the back half of 2019, as Dennis noted.

We take our commitments to our shareholders very seriously. In the past 4 years, we have met our EPS commitment without revising our outlook midyear. We have provided the path to our 3-year revenue outlook and while we are only 2 quarters in to 2019, our strong sales and our current pipeline give us confidence in our 3-year revenue outlook that we laid out in January of 2019.

Overall, our financial position is strong and our vision and execution are delivering results. We've demonstrated we can attract new clients across our portfolio and cross-sell new capabilities to our existing clients. This did result in market share expansion. Our strong and de-risked balance sheet allows us to be disciplined with our capital deployment. We have demonstrated this successfully in the past. As an executive team, we continue to focus strategically on strategically-priced M&A to drive growth and operating synergies. We are focused on driving margin expansion and earnings growth. And given that we traded at such a discount from our peers, we will be focused on returning capital to shareholders via opportunistic share repurchases. All this will benefit our clients, our associates and our shareholders.

With that summary, let's open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)Our first question comes from Jamie Stockton with Wells Fargo.

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

I guess maybe I'll start with Practice Fusion, although I'm sure there's not a ton you want to say about it. If I look at the number of doctors who attested with that software versus, let's say, eClinicalWorks, who also obviously have big penalty, Practice Fusion (inaudible) will weigh less, but the penalty is pretty similar. Can you just talk about kind of how you got to the number? And again, I appreciate that you guys just want to put this behind you but any color would be great.

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

Well, the only color I'd provide, Jamie, is this. So first off, as you know because you follow us close, the extent of the investigations going on by the DOJ with Practice Fusion, I think, were wider and broader than -- you used the example of eClin. So it started -- they certainly started out with a lot of similarities to, again, what I've said is those that have settled and there's many others that are actively going on, as I think you're aware as well. But those investigations widened, so the scope probably changed a little bit.

And I guess the only other thing I'd say is with the risk of being repetitive, we were anxious to put this behind us. And so we're -- we can't exactly -- we can't speak to how the government thinks about what's fair for various entities, but what I can tell you, it was a long, protracted negotiation with the government, and we got to a place that we think both parties can stomach it. So that's all I can comment.

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

Okay. No, it's great. I guess my other question, obviously, the business seems like it's growing again. You guys have a good outlook for the second half, so it seems like most things are moving in the direction that you want them to, with the exception of free cash flow. Negative last year, negative in the first couple of quarters this year. I heard Dennis' comment obviously that you're expecting to improve in the second half. Maybe you could talk about what is a reasonable level of free cash flow for you guys to produce on an annual basis kind of on a go-forward basis? Or is there a reasonable conversion rate of EBITDA, adjusted EBITDA and free cash flow that we should keep in mind? Just anything on that would be great.

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

Yes, Jamie. This as Dennis. So as we've talked about in the past, we had a couple of large events that hit us in the first quarter. I referenced a couple of them -- in the first half of the year. I referenced a few of them in my prepared remarks. A pretty significant performance payout for our employees, we had a $30 million Netsmart payout, and we've been -- we've incurred some fairly significant severance costs and transaction-related costs. Most of those transaction-related costs are behind us. We see -- expect very little of that to carry forward into the second half of the year. So again, we had some very large onetime items that hit us in the first half of the year that will not be repeated in the second half of the year.

In terms of modeling, we've given guidance before of talking about over the longer period of an 80% to 100% conversion on net income. We think that -- we're hoping that we would look to happen in the latter part of this year and going into the next year, and that will be the -- what you should use to model your free cash flow for us going forward.

Operator

Our next question comes from Michael Cherny with Bank of America.

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

Maybe if we dive into the international performance, you highlighted how you've had a strong start so far year-to-date. Can you talk maybe about some of the geographies where you've been successful? And how much is market-driven in terms of specific government-related incentives in those areas versus competitive wins where they're just looking to optimize their business?

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

Sure. This is Paul. I think we've had some pretty good results in the Asia-Pacific marketplace, as Rick talked about, and that's been a good market for us historically. We have a lot of very satisfied clients over there that are great references for us in that region between Singapore, Guam, now this one as we talked about today as well as the work that we do in Australia. So that's one area that continues to do well. The other one would be in the United Kingdom and specifically inside of the National Health Service over there. But we're also last week -- they just -- they have a new procurement process and we're one of the 8 people that were picked to be able to do business in that country. That's important based on references in the past, based on you actually have to show them the software in production in-country, which is there's a pretty high watermark for which you had to do in order to be compliant with those -- with that process.

And then the other thing that I would say about what we're doing in the United Kingdom is that the clients over there are all, and I think that's always a hard thing to say, but they're all highly referenceable, and I'm very proud of that and that change to what we've been able to accomplish in that country. So those are probably 2 of the pretty exciting opportunities that we continue to do well at.

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

Yes. Mike, I would just jump on to that. I mean, I think that's where a lot of recent action has been, and we have a pretty good footprint up in Canada as well and there's some good opportunities ahead, we think, in Canada, so that's a focal area for us. And lastly, while the country operates a homegrown EHR, we are now connecting the entire country of Israel with the dbMotion suite. So we think that's a pretty interesting model that has a lot of applicability in a lot of other European and even outside of Europe countries. So I would just add and staple those to what Paul said the historical points are.

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

Appreciate all those comments. And then just maybe, Dennis, a technical question for you relative to the Department of Justice settlement. It seems like the cash will be due in the next couple of months. Is the expectation that it will be due this year? And will it be funded through debt, or is there some other component that you intend to fund it to, obviously net of whatever recoveries that you look after?

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

Yes. We're still in the negotiations with the DOJ, so in terms of the timing of when payment would be due, that has not been concluded yet. So we'll talk more about that once we have a final agreement in place.

Operator

Our next question is from Robert Jones with Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

I guess maybe just to follow up on that, Dennis. The dollar amount that you highlighted, the $145 million, any sense of how much of that is actually on Allscripts versus I think you guys mentioned third party? And then, am I thinking about how that would work, though, correctly? I think the cash balance right now is slightly below that, so would it -- the timing aside, but it has to be some portion debt and cash?

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

Again, we've taken on the specifics of the timing of when those payments will be due, so I really can't address how we will fund it at that time. We've got certain a lot of availability under our current credit facility that would allow us the ability to finance that if needed. But again, we'll provide more clarity once we have final agreement with the DOJ.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

Got it. No, that's fair and that's helpful. I guess maybe taking a step back, clearly strong bookings. You guys sound really confident in accelerating the revenue growth into the back half. But if I take a step back, and you look at kind of where revenue and gross profit and EBITDA were in the quarter versus where they were a year ago this quarter, just out for Netsmart, it seems like we're kind of in the same ballpark. So what gives you guys the confidence? I mean obviously, you have visibility into the bookings; we don't. What gives you the confidence as you look forward that this could potentially be a point in time where the P&L could start to pick up from these levels?

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

I'll have 2 comments and I'll let Dennis finish off for that, Bob. So first, you'll note, right, second quarter was by far the high watermark last year as well, so you can see Q2 had -- it has some nonrecurring opportunities that came in that were part of what drove that. So it's a very, very different outlook sort of the fact that we issued -- than last year. I will chalk some of that up to lots of moving pieces with a lot of M&A activity we did over the 18-month span, and it really goes back to the McKesson deal.

And working through both some of the accounting impacts of bringing onboard some of those deals but also if you think about just the comment I made earlier -- I mean McKesson, for instance, we had a bunch of Paragon clients that we knew were dead men walking, if you will, right? They were still contributing to revenue but [were neither] going away. So we have to work through some of that, and some of that has kind of created noise around what were otherwise some movement forward with our core business.

But I think what gives us the confidence, and I'll turn it over to Dennis, is we worked through a lot of that; and then secondly, we built a nice backlog across all facets of the business, including Veradigm. We've talked to you about how the NextGen deal turns on in Q4 as well, for an example. So there's a lot of things like that, that are new opportunities that are going to show up in the numbers.

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

Yes. Just to add on to that. We did have an exceptionally strong first half of the year for bookings both in the acute space and international markets. As those projects get worked on, and we're able to recognize some of the service revenues and try to turn those systems live, we'll generate revenue from that. We also had a very strong bookings half for revenue cycle management and HealthGrid. Those businesses are being turned on as we speak. So sooner we turn those on, they generate revenue and a recurring model, so we expect that to continue to grow. And then finally, I think as Rick alluded to, we'll start to see some revenue coming from the NextGen deal in the latter part of the year.

So those items, along with a lot of our service upgrades happening in second half of the year. We talked in the first half about a lot of those projects being delayed. Well, they're coming to fruition. We've received the bookings, now just executing on the implementation of those upgrades in the second half of the year. That's what's give us confidence in the guidance that we've provided for the third and fourth quarters.

Operator

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

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

Maybe just a follow-up on Bob's question. So you talked a little bit about the second quarter revenue was a little bit less than you might have expected. Anything in terms of the timing on these implementations that have had picked up here to get to the third quarter? I understand it in terms like second quarter was a high watermark, so I assume in terms of the year-over-year growth, we'll see that sequential growth. Anything that we should we watching out for that's happening here, let's say, in the third quarter specifically in terms of implementation timelines that everything so far is on track?

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

Again, Charles, the revenue that we had in the second quarter of the year, the $445 million is within the guidance range that we provided, albeit at the low end. I think some of the things that drove it again, we had the strong bookings but just getting the onboarding of some of these HealthGrid deals that we have and some of the revenue cycle management, the onboarding was a little -- took a little longer than we had expected because of the size of the backlog. And we've built up the teams, we've moved some of those physicians to India to get some synergies from a cost-standing perspective. But we expect sales to ramp up and recognize that revenue in the second half of the year.

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

That's great. And then just a question on the bookings here. Obviously, strong performance here first 2 quarters now. Just thinking about -- and obviously, you raised the guidance for the back half. It sounds like here in the second quarter, a lot of it was from international. Can you give us a sense of when you're thinking about the back half, where you would expect sort of how that mix to shake out? Are you looking at mostly international plus Veradigm or more Paragon here in the U.S? Maybe a little bit of a view.

And then lastly, you talked about being able to retain the vast majority of the Paragon client base, and it's good to hear you have some expansion extensions here. At this point in terms of the customer base, is there any percentage of customer base that's left that has to make a decision that's either just chosen to stay or made decisions to leave?

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

Let's start with the first part of your question, Charles. Yes, if you think about our business in 4 broad quadrants, we have our U.S. hospital business, we have our independent ambulatory business, we have our international business, and we have our Veradigm business. What you should be taking away from today's call is we had a good quarter in all those areas in Q2. And we also feel like we have a pretty good pipeline in all those areas, so that's part of what you're hearing behind our comments. And so we'll drive the back half of the year with we think performance across the whole portfolio.

Paul focused, particularly on international because it's been an area we feel like we talked about for a long time and it's been slow coming, but the significance of having the best quarter in 5 years, I think, is good milestone, and that's why we mentioned it. But in the end, it will be a mistake to walk away thinking that international drove most of the quarter's performance. It was a pretty equal participation across all 4 of those areas, okay?

As for the second part of your question, which I think was really around the Paragon client base or maybe more broadly around our client base in general. Look, it's a competitive market out there, and I don't think anybody can take for granted their clients. We've been making effort to try to create opportunities for clients to lock up with us for a longer period of time and show them the value of making that commitment for a longer period. They can plan for their upgrade, et cetera, and we can think about a much longer-term relationship between the 2 of us. And so for those that see that value, that's what we've been doing. We've got longer and longer deals.

Not everybody sees it that way. Some sectors of the market still like to kind of go to year-to-year decisions, and that's okay. We'll continue to work with those clients. But I think if you have a long-term contract, you have less risk. If you don't, you have a little more risk on the margin. But at the end of the day, I think certainly, we feel like we need to fight every day for each of our clients.

Operator

Our next question comes from Jeff Garro with William Blair & Company.

Jeffrey Robert Garro - *William Blair & Company L.L.C., Research Division - Research Analyst*

Maybe a couple more on revenue in the quarter, more bookkeeping-type questions. First, if we can get a specific organic revenue growth number from the quarter. I know there might have still been some contributions from HealthGrid and ZappRx. And then the second one on revenue in the quarter would be the -- apologies if I missed this, the split between the Veradigm and Provider segment.

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

I'll let Dennis cover all of it, Jeff, except let me just say there's no real M&A of any significant impact year-over-year, okay? ZappRx is like next to 0 and even HealthGrid, what we picked up in Q2 of last year. We obviously had some -- we've got some nice sales activity since then, but there's a delay really in the revenue contribution for most of that. So I think you should think of it what you see is organic. So Dennis, you want to pick up the second part of this question?

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

Yes. In terms of the split between Veradigm and the Provider, that will obviously be published in the Q. We don't typically get into details here, but we've given general guidance that it's roughly a 90-10 split. I think it was probably a little richer in the Provider, non-Veradigm space in this quarter than that ratio, but it's along those lines.

Jeffrey Robert Garro - *William Blair & Company L.L.C., Research Division - Research Analyst*

Got it. And then another couple of questions on the DOJ settlement that's looming. So first, any potential terms or conditions beyond a cash payment? And second, does this potential payment impact your thoughts on share repurchases or capital allocation?

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

Look, the terms of the deal we have an agreement in principle, and yes, there's obviously parameters to it that go beyond just writing a check. But we feel -- and some of those still need to be finalized. We have conceptual agreement on what we would think to be all the material points. But we got to work through some of the specifics of getting that done before we can fully provide transparency on what that is. But I think we're -- the biggest impact will be writing a check, in our view, and then we'll have some amount of other things to comply with, but we don't see them as impediments to the business or not like they've been impediments to the business.

I think with respect to then does that cash change our share repurchase thinking? No. I mean as Dennis has said on several occasions, we have tremendous amount of capacity available to us right now, so we do not [see it impacting] that.

Operator

Our next question comes from Stephanie Demko with Citi.

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

Just given the recent interest in patient portal solutions, could you update us on the FollowMyHealth products? I'd love to hear about any demand and future functionality build-out that are in the works.

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

Sure. Well, I mean, FollowMyHealth had an explosive growth for when everybody was adopting portals for many [Phase 2] requirements. It continues to be used by virtually all of our EHR clients. The big step we took last year was we'd see clients thinking about patient engagement much broader than just the portal, and so that was really what was behind the acquisition of HealthGrid and integrating that both technically with FollowMyHealth and also in terms of the go-to-market strategy. We blended those sales teams together to do that.

So they're having a fair amount of success, bringing -- think of it as patient engagement Chapter 2 is what HealthGrid represents, and they had a lot of success bringing that to the market, as you heard some of my comments earlier.

But I think I'm not really sure what else you might have in mind. Maybe you should get to something more specific you are trying to think about. I mean FollowMyHealth continues to be a great -- we think it's the most flexible solution in the industry right now for patients to use.

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

Yes. I was just thinking about the traction you're having in FollowMyHealth and your revenue cycle [clients], like you mentioned in your prepared comments. And you're starting to see more institutions like yourself, a patient portal, partner with financial institutions or fintech players to try to build out more of a patient payment solutions versus just a data graph solution. So any thoughts on innovation there?

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

Yes. We have -- there's a payment technology already embedded in FollowMyHealth. So a patient who is a user of the portal can easily go to FollowMyHealth account and settle copays, deductibles, et cetera. So a lot of that exists with some financial partners. We add to some of that capability with HealthGrid, and we'll continue to I think what you should expect us to continue of all there. We see patient engagement and making the health care easier and more transparent for patients as a big part of one of our pillars of focus going forward, and you should expect us to continue to be active in those areas.

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

I hear that. It's a big area of demand. Now one quick follow-up just on the balance sheet is that given the size of the payment for Practice Fusion and given your cash flow trend, will you have to do anything on the debt or equity side to kind of fund it?

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

Yes, Stephanie. This is Dennis. So as I talked about previously, we're still working on the terms of the agreement and the payment structure and timing with the DOJ. But we have quite a bit of available credit available to us through our credit facility. So we're -- we'll deal with that when the time comes and we get final terms.

There's absolutely no disruption to our capital structure on this deal, right? And we have north of $0.5 billion of availability with our current credit facilities, not to mention cash on the balance sheet, not to mention free cash flow that we'll generate over the next whatever time frame you want to pick, 12 months. So there is zero implications on capital structure.

Operator

Our next question is from Donald Hooker with KeyBanc.

Donald Houghton Hooker - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Just maybe help us understand some of the sort of the seasonality in the business. The business has changed a lot, obviously, with businesses being acquired, coming in and out. And I suppose you're probably learning as well. So when I think about sort of this year, particularly Veradigm, if I had a dollar of revenue through the year, how would you sort of think about that typically being distributed between the 4 quarters?

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

They probably skew -- maybe $0.30 of that to maybe a size $0.35, but $0.30 would be Q4. But otherwise, pretty equal through the balance of the year. And that's true for most of the rest of the company as well with that. I mean, from a revenue perspective, it's closer to $0.25 each quarter. There's not a lot of seasonal impact on revenue outside of the Veradigm part.

What does have some seasonality in sales, and so and sometimes when you're not selling a subscription, when you're selling licenses, then that sales seasonality can translate to revenue seasonality with some licensed revenue recognition. But we think some of that seasonal pattern is less pronounced than it used to be in this industry, and you see that really frankly by bookings. As you know, you don't have as wide as it used to be. It used to be Q4 was by far the biggest, Q2 was second, and then Q1 and Q3 were laggards considerably. And you just don't have that level of variability the way you used to, at least we can see it.

Donald Houghton Hooker - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Super. And maybe just one follow-up for me. I guess we're also lapping, I believe, the Practice Fusion subscription price that you put into Practice Fusion last June, I believe. Would love to hear kind of an update there in terms of the stickiness of that or a year after now in terms of subscriber growth in that product area. And then the other thing sort of related to that, I'd always been optimistic that you could maybe cross-sell into there with just some other revenue cycle tools and things like that into that base. Can you maybe elaborate on those 2 things? And that's all for me.

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

Yes. So the first point, yes, we have lapped that. We told you a year ago we were very positively surprised by how good we did with the conversion. It beat our internal planning estimates. And we continue to pick up some providers after the initial introduction of it. And that's still the story. We'll have a little bit of churn. There's no EHR in the market that doesn't have some churn. But the short answer to your question is we're happy with the retention rates we've had and the new providers we continue to pick up.

On the second part of your question, yes, we actually just last quarter began to cross-sell our practice management solution that we own. Historically, Practice Fusion did not have an owned PM system, and so they relied on third parties for that when they were selling a combined EHR-PM to the clients.

We have a PM system. We've been able to scale it down to be able to address a good chunk of the larger practices on the Practice Fusion solution. So there are still small 1 to 2 practices where our PM system is too complicated for them, and so we'll probably continue to use third-party relationships there. But we have begun some of the cross-selling into that base.

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

And then just to build on the first point, we actually have more providers on the system today than we did before we started charging a subscription fee.

Operator

Our next question is from Gene Mannheimer with Dougherty & Company.

Eugene Mark Mannheimer - *Dougherty & Company LLC, Research Division - Senior Research Analyst of Healthcare*

Congrats on the good progress. I wanted to ask again Veradigm here. What percent of your bookings growth that you're guiding to is Veradigm-related?

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

When you say bookings growth, are you talking about the increase in our outlook for the year?

Eugene Mark Mannheimer - *Dougherty & Company LLC, Research Division - Senior Research Analyst of Healthcare*

That's right.

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

Okay. Well, the increase in outlook, remember, has much to do with we had a good first half. And I would -- I think it made it easy for us just to think bigger given how good the first half was. In the first half, Veradigm had a pretty good first half, and I don't have a number for you, Gene, I'm sorry, off the top of my head, but they definitely contributed to the growth rate. But they were not -- they certainly weren't all of it, but they were contributing to it. You should -- we gave earlier this year an expectation of where growth was going to come from across the company, and you should think about relative performance of sales is in line with that type of relative contribution of growth.

Eugene Mark Mannheimer - *Dougherty & Company LLC, Research Division - Senior Research Analyst of Healthcare*

Okay. Very good. And with respect to just again drilling down on the organic growth here in the business. In the fourth quarter, you said you're expecting some NextGen revenue from that agreement. Can you quantify the amount of that and maybe for HealthGrid also, so we can whittle down sort of the organic growth piece?

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

Look, Gene, I mean, we're not -- that's a commercial contract that we're not going to give contract-level detail. But let's just say that is -- the collective impact from those 2 areas is single-digit million dollars. And so the increase that we're seeing relative to where we stand in those 2 is coming from across multiple disciplines in the company, not just those 2.

Eugene Mark Mannheimer - *Dougherty & Company LLC, Research Division - Senior Research Analyst of Healthcare*

Got you. So very small contribution then from that standpoint?

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

No. I mean, it is in the eye of the beholder, and it's the start. It's the start with respect to NextGen, and it's early with HealthGrid. So those -- both of them will become meaningful contributors over time, there's no doubt about it. But when we're talking about Q2, it's modest.

Operator

Our next question is from Mike Ott with Oppenheimer.

Michael Joseph Ott - *Oppenheimer & Co. Inc., Research Division - Associate*

It's great to hear that you're in talks with Northwell. Curious if you can say which areas you might expand with them.

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

Northwell is a very big institution, as you know, and they are thinking about doing some big things. And I would just tell you that we're joining forces with them around thinking about their ambulatory solutions. We're joining forces with them in thinking about their data and what to do with that. And with that, I'll just -- let's wait till we have more announcements to make.

Michael Joseph Ott - *Oppenheimer & Co. Inc., Research Division - Associate*

Okay. Fair enough. And you've historically been strong in the U.K., where there is recently a Prime Minister change. Has anything, to your knowledge, NHS changed or from the recent Brexit developments there?

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

No. Jeremy Hunt is still the Minister of Health, and as a matter of fact, [Forbes] just announced today that NHS gave some more monies to 20 different trusts there to go spend on digital enhancements, so I'm seeing those dollars free up a little bit. That's not clearly a meter mover, but it's certainly a good indication of where they want to put their money. The government and most of the governments that have succeeded Churchill have been big advocates and continued to spend a lot of money on the NHS. It's a national treasure for them.

So thank you very much for the call today. As you can see, we're pretty bullish about the first half that we had. The clarity that we have also received on the Department of Justice is very reaffirming from my perspective. The success that we had and specifically also with where we think we're going to end up with our friends at Northwell are all good things for the company and our shareholders. All that drives visibility to the rest of 2019, which is why we reaffirmed the guidance and raised it on the bookings side and which is why you're hearing some of the comments today. We appreciate your questions. And as Rick said earlier, we appreciate everybody's attention to this company. We take these calls and what we do very seriously, and we will continue to do everything we can to grow this business in a profitable manner. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.
