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MDRX - Q4 2019 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

Co. reported 4Q19 non-GAAP revenue of $452m, non-GAAP net income of $28m and non-GAAP diluted EPS of $0.17. Expects 2020 revenue to be $1.75-1.85b and non-GAAP EPS to be $0.70-0.75. Expects 1Q20 revenue to be $420-430m.

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PRESENTATION

Operator

Greetings, and welcome to the Allscripts Fourth Quarter and Full Year 2019 Earnings Conference Call. (Operator Instructions) Please note that this call is being recorded. I will now turn the conference over to our host, Stephen Shulstein, Vice President of Investor Relations. Thank you. You may begin.

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

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

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 these risk factors that may affect our results. Please 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 & CFO*

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

I want to begin by thanking Dennis for his more than 7 years of dedicated service to Allscripts, during which was both a transformative time for the industry as well as our company. We really appreciate his efforts and wish him well in the future.

I'm going to structure my comments today around 3 areas: first, a review of our fourth quarter performance; next, a review of the financial guidance we are issuing for 2020; and finally, conclude by discussing our thoughts on positioning ourselves for long-term success.

So let me start with our performance. For the fourth quarter, we saw continued strength in our sales efforts and delivered $312 million of bookings, which was up 6% year-over-year. This resulted in $1.11 billion of bookings for the full year, which was up 15% year-over-year and at the high end of our guidance range. The strength in bookings was broad-based and very balanced across our company. This is giving us confidence that our solutions are resonating with our clients.

In addition, we had several significant client extensions that signed during the quarter. As a reminder, extensions of existing business do not count in our reported bookings. But they do add to our backlog and, of course, are strategically important as they reflect a healthy relationship with the client. Some notable examples in our U.S.-based in-patient business include: first, our largest client, Northwell Health, extended their managed services agreement through 2026. This follows earlier extensions of their Sunrise and TouchWorks contracts. Another client, PIH Health, extended its solutions and services agreements with Allscripts until 2025 and agreed to expand Sunrise to a recent newly acquired hospital. And we were also pleased to recently announce that Memorial Sloan Kettering Cancer Center extended its Sunrise agreement through 2026.

Now turning to international markets. Our pipeline remains strong, and we were pleased to enter into the Indian market with a partnership to deliver dbMotion. India was the third new market we entered in 2019, following Qatar and the Philippines. And looking ahead, we expect our international growth to continue to outpace our domestic growth.

Moving to the ambulatory market, we had another strong sales quarter as we continue to build momentum with new clients as well as existing clients. We are benefiting from competitive dislocations in the marketplace, and our pipeline remains very strong. Our revenue cycle services business, in particular, is expecting robust demand as well as very positive industry recognition.

And finally, as Paul will highlight later in his comments, our adjacent growth businesses continue to show strength as well. These include Veradigm, our care coordination platform called CarePort; and our patient engagement platform known as FollowMyHealth. These are true competitive differentiators for Allscripts, and we will work throughout this year to continue to bring greater transparency to their performance. All in, across the company, year-end backlog stands at $4.4 billion or almost 2.5 years of revenue at our current run rates.

Now let me pivot to the P&L. As I do so please reference the schedules in the earnings release as well as the supplemental data workbook available on our Allscripts Investor Relations website. Also 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.

Fourth quarter non-GAAP revenue totaled $452 million. This is within our revised guidance range and up more than 2% on a year-over-year basis. Non-GAAP gross margins were 42.5% in the fourth quarter of 2019. That compared to 45.3% in the fourth quarter of 2018 and 43.2% in the third quarter of 2019. So gross margins were disappointing, and they suffered from continued higher-than-expected transition and cybersecurity costs in our hosting business, delays in service implementations, which drive unproductive labor costs, and the revenue mix we had in our Veradigm business during the quarter.

Looking at operating expenses. Our non-GAAP SG&A totaled $87 million, which was a $5 million decline from a year ago and our non-GAAP R&D costs were $62 million, which was down slightly on a year-over-year basis. This drove an adjusted EBITDA total of $74 million for the quarter, which equates to a 16% adjusted EBITDA margin. And finally, cash interest decreased to $7 million and this resulted in non-GAAP net income of $28 million and non-GAAP EPS of $0.17 a share for the quarter.

Pivoting to the balance sheet and our capital structure. In the fourth quarter, we issued $218 million face value of new convertible notes that mature in 2027. These carry a cash interest rate of 0.875% and inclusive of the bond hedge that we purchased at the time of the issuance, have an effective conversion price of $17.59 per share. We issued these during the fourth quarter to be in a position to pay off the $345 million of existing convertible notes that come due this July. Because of this note offering, we were restricted from repurchasing any common shares in the fourth quarter. We currently have $102 million remaining under our existing stock repurchase authorization. And consistent with our past practice, expect to be opportunistic with additional share repurchases going forward.

Lastly, we finalized our settlement with the Department of Justice in January, and we expect to pay the $145 million settlement in installments throughout 2020. We also expect to recover approximately half of that amount from a variety of escrows and insurance policies. While we will begin the process recoveries right away, full realization will likely extend beyond 2020.

So now I want to turn to our outlook for 2020. We are initiating guidance for full year 2020 bookings, revenue and non-GAAP earnings per share. In addition, we are providing bookings and revenue guidance for the first quarter of 2020. As background context for this guidance, we expect our revenue to be negatively impacted in 2020 by approximately $50 million in year-over-year client attrition from acute care clients. I want to be crystal clear on 2 points here, though. First, these are not new client decisions. These are client decisions that were made years ago and span across both the Sunrise and Paragon client base. Second, client attrition is not a new issue. We have experienced it in the past and will undoubtedly experience client churn in the future as well, just as every competitor in the industry experience at some level of attrition. We call it out now though, only because the timing of wind downs from departing clients aligned in such a way as to create a real bolus that is unusually high and will have a significant impact on year-over-year comparisons.

So with that backdrop, for the full year, we expect bookings of between $900 million and $1 billion. We expect full year 2020 revenue to be between $1.75 billion and $1.85 billion, which represents a year-over-year growth of 1.5% at the midpoint, and it incorporates the attrition impact I just discussed. And we expect to earn non-GAAP earnings per share between $0.70 per share and $0.75 per share for 2020, which reflects an 8% increase at the midpoint from 2019.

For the first quarter of 2020, we expect bookings between $175 million and $200 million, and we expect revenue between $420 million and $430 million.

So as I mentioned at the beginning of my remarks, I want to conclude my comments by talking about the future and positioning ourselves for long-term success. We've talked a lot in recent quarters about adjacent market opportunities, and we are excited about our asset portfolio in these areas and believe that we are way out ahead of our all of our competitors in realizing these opportunities. We also see the continued evolution of the more mature EHR business here in the U.S., and we see the pace of client decisions, which are almost always public sector deals in our international markets. This necessitates a continuous realignment of our operations and management resources with the different dynamics in each of these markets.

Today, we don't think we are operating at our full potential, and that with a focused effort on efficiencies, resource alignment and streamlined decision-making, we can improve upon our performance. We have begun a comprehensive review of our operations as well as the support infrastructure around them. To assist us in this effort, we have, for several weeks now, have been interviewing top advisers in corporate transformations, and we expect to formally hire one of these firms within the next week.

The role of the adviser will be threefold. First, to bring an independent perspective to our operational review and challenge some of our historical planning assumptions. Second, to jointly develop, with our management leadership, a significant EBITDA margin improvement plan for the company. And third, to assist us in executing the margin improvement initiatives on the expected planned time line.

Working with our adviser, we expect to complete the operational review in the next 10 to 12 weeks. And as soon as it's complete, we will schedule an Investor Day to share the results of the review and the details of the margin improvement plan, with investors and analysts. The guidance that we have already shared today does not contain any assumptions about this operational review or margin improvement initiatives that will come from it. So we will update guidance as necessary at the Investor Day meeting.

And with that, let me turn it over to Paul for some of his comments.

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

Thanks, Rick. I'm pleased with our bookings results for the -- both for the fourth quarter of 2019 and the full year. Bookings are the lead indicator of our offering success in the marketplace. These results can be great confidence we have made the right long-term investments in strategic platforms to serve our clients, both in the core EHR business and our solutions beyond the EHR. Operationally, we are focused on driving more revenue conversion from our backlog by using our resources to faster support the implementation of the solutions that we have already sold.

For the past few years, our strategy has been to position Allscripts to capture adjacent growth market opportunities as we transitioned from a growth EHR market to replacement market. Through both organic and inorganic investments, these additional platforms are paying off. Our 3 non-EHR platform businesses now represent approximately 20% of total company revenue. We've talked in-depth about our strategy for the Paradigm business, so let me highlight the other 2 growth platforms.

These include our patient engagement and care coordination businesses. These solutions are aligned with the faster-growing markets than the fourth clinical EHR systems have recurring revenue, high margins, our EHR agnostic and have a cloud-based tech stack. Our patient engagement business, FollowMyHealth, consists of all our patient engagement assets, including HealthGrid. We have integrated HealthGrid capabilities into the FollowMyHealth platform, which now enables provider organizations to contact 100% of their patient populations, both pre-visit, during and post-visit without requiring these consumers to sign into a portal. We see very high utilization data with this strategic platform. When clients use this platform to reach out to patients, we are averaging a 60% response rate.

The continued adoption of value-based care, combined with the historically modest levels of usage of patient portals across the health care industry, has made it critical for us to take this unique approach to consumer engagement solution design. If patients actively participate in their own health and wellness, we see better outcomes and potential for lower costs. This is obviously not only good for the patient but shows measurable returns to the provider organizations.

Our CarePort business provides care coordination software solutions to manage patient transitions across the continuum. This end-to-end continuum platform bridges acute and post-acute care, EHRs and thousands of organizations. It makes the care patients receive across all settings and all episodes visible to providers, payers and ACOs. This visibility is especially crucial to providers that are at risk. CarePort is an extraordinarily important data and resource coordinator, not only for hospitals but for everyone at risk, especially payers.

I'd like to just also discuss some innovations that we've delivered. Sunrise Community Care, our modification of Sunrise electronic health record to a fully integrated EHR-as-a-service, built specifically to meet the unique needs of community hospitals. In a Q1 2020 user survey, Black Book asked more than 700 community, rural and critical access hospitals about their EHR and cloud-based systems. Allscripts was rated highest of the EHR suppliers for community, critical access and specialty hospitals that we're evaluating or currently implementing a cloud-based EHR. We look forward to Sunrise Community Care as a solution for these unique market needs.

We've also recently released smart pump integration. This optimization of the clinical workflows has helped our clients improve clinician efficiency, achieving significant ROI and patient safety results. We've also made major strides in our human-centered approach to solution development, which builds on the success we've had employing user-centered design principles to advance our solutions. This furthers our effort to improve effectiveness and efficiency in care directly impacting clinician satisfaction.

Before I wrap up, I also wanted to comment briefly on the information blocking rule currently being finalized by health and human services. We have supported the effort to address data blocking since the 21st Century Cures law was in Congress and beginning to take shape. And Allscripts has had multiple conversations with HHS, the White House and congressional offices to reiterate our support even when we provided feedback, specifically on elements of the proposed rule that we thought needed altering. It will mean changes for our company and our clients, but we have taken the position since 2013 that every patient has the right to control where their health data goes, when it moves and who sees it. We understand the final rule from ONC may be expected next week, and we look forward to seeing what HHS releases.

Looking ahead to the rest of 2020, this management team will focus on driving incremental revenue growth organically, manage our cost structure to drive margin expansion, optimize R&D for the best returns and improved free cash flow performance. This will allow us to execute on our long-term capital deployment priorities of opportunistic buyback and/or debt reduction and/or accretive M&A. This focus will allow us to better serve our clients, benefiting associates and shareholders.

With that summary, let's open the line 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 the first one, Veradigm. Can you talk about how that went in the fourth quarter? It seems like maybe it was a decent part of the shortfalls. And I just did a quick scan of the numbers from the K and the implied profitability in Q4 was pretty low. I know that's a GAAP number, but any thoughts about what's going on there would be great.

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

Yes, thanks for the question, Jamie. I guess a couple of -- you asked of our revenue and profitability on that. So the year-over-year growth was pretty modest. That's a reflection, really, I'd say, of 2 things. One, the media buys, which drives a decent chunk of some of the revenue, particularly around the execution platform can be spotty and they vary from quarter-to-quarter. And it tends to be something you see -- you get a lot of when there seems to be excess cash around and not so much when there isn't. It was a -- there was softer buy in Q4 than we had expected. And so that's part of it. I don't see that as a long-term trend. I just see it as a reflection of what the conditions were in Q4 vis-à-vis media buying.

And then secondly, I'd say, from an expectation standpoint, for us, the NextGen relationship that we've talked to you about in the past, we thought we would have a bigger contribution in Q4. I believe they've spoken about it on their call as well, but that's ramping up a little slower than we'd expected. So I think the opportunity is still sound. We remain very excited about it, but it didn't get quite the traction we expect in Q4, and therefore, didn't convey the growth that we expected.

On the profitability side, yes, those -- I mean there's a little bit of noise. You have GAAP numbers. The unallocated amounts that we have, have changed a little bit year-over-year. So you don't have quite apples and apples. But the biggest thing I'd say on Veradigm with profitability is we've really consciously made a decision to invest in the infrastructure, particularly to support the data and analytics side of that business. And that's an investment that we carry it all year, but you saw, I think, more pronounced even in the fourth quarter. And that's a onetime investment. We'll have a little bit of spill over into early 2020, but it positions us, we think, for scalability and growth going for the long term.

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

Okay. That's great. And maybe just one other question. You guys mentioned that you've been talking with advisers to come in and kind of review the business and look at profitability, maybe specifically. Free cash flow has been very poor. I know that you guys wanted to improve. Any thoughts on how we should think about 2020? I know you got the DOJ payments that you're going to have to make, so maybe excluding those, how should we think about 2020? And with any action to try to improve margin, it makes me wonder if that's going to translate into even more kind of cash severance cost. We just came off the heels of a period where there was a lot of cost integrating the McKesson business. Just any thoughts on that would be great.

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

Yes. So I mean I'll start by acknowledging your opening premise. The free cash flow numbers are pathetic. I mean I don't know what another word. We've had 2 years in a row now where it's been well below our expectations. There's a number of things that contributed to it. And -- but it is what it is. I think to the heart of your question, as we look ahead, we should see -- if you exclude the DOJ payments. And if you just put on the shelf for a second, any further kind of restructuring type costs that might come from this initiative I described to you, I think we'll see a meaningful improvement year-over-year. I would -- we have a target for the year. We'll probably be around 60%, 65% of conversion of non-GAAP net income to free cash flow. And sitting here today, I think that's a good goal for us, and it's a realistic goal for us. I don't -- I can't get ahead of myself on our program. But I would -- suffice it to say, if we're going to invest any money to streamline and make the company more efficient. That will be a good ROI on that. So we'll talk more about that when we get closer to the Investor Day I alluded to.

Operator

Our next question comes from Kevin Caliendo with UBS.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

So when I think about the fact that you said that the 3 -- the acute care clients that you lost, you knew that they are leaving presumably before you gave the 3-year revenue guidance last year. I'm just trying to figure out sort of what's the delta? What's changed relative to the outlook you provided last year? Is it NextGen? Is it a combination of a bunch of things? Can you just give us a little bit of visibility on that?

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

Look, I think the -- I guess, I make 2 comments. So we're -- we set out some numbers in January of 2019 with an eye towards to this is what we were aspiring to. I think sitting here today, I think multiyear guidance is a little bit challenging for us. We keep changing the corporate structure a bit, but also I think the dynamics of the market are such that it's hard to predict some of the stuff. We're finding it's hard to do multiyear. I will say this, if you pro forma for the attrition that's lining up. And attrition, you know it's going to leave, but you don't always know exactly when it's going to leave. Certainly, you don't know it by quarter because clients have a tendency to drag that out a little bit. Some actually accelerate, but more likely they drag. And so it's a little bit difficult to model that with precision when you're far out. We see pro forma, the guidance we've just given you for that $50 million, you'd note that the revenue range we're talking about is anywhere from up 1.5% to up 7-ish percent. So that's a growth rate, putting -- excluding this bolus of attrition that I described, that's quite consistent with what we predicted a year ago. So I don't know if that's the full answer to your question, but what I'm telling you today is this is our -- what we see today. This is a meaningful bolus that it's real. But at the same time, it's not decisions that were made recently. And in with the benefit of hindsight, maybe we could have done a better job predicting that a year ago.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

Okay. And just one, I guess, one quick follow-up. Is the intention for Rick to be the interim CFO while you execute a search? Or could Rick -- could you be wearing that hat for quite a bit of time now going forward and is there any decisions on that?

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

Yes. There's been a decision. Rick will be the President and CFO starting tomorrow.

Operator

Our next question comes from Eric Percher with Nephron Research.

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

With respect to the review and planning that you're planning, how does this fundamentally differ from some of the approaches you've gone through the last couple of years? I know this has led to some segmentation and changes to the business. But what is it at this point in time that you feel you need or that you have the opportunity to do versus the last several years?

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

Eric, I guess, the best way I could describe it is I think what we've done in the last couple of years, from my perspective is, first, we had a lot of organizational integration to do, particularly with the McKesson acquisition. So we had a number of initiatives that we cataloged and we went and tick down that list to do it. And since then, I'd say we've been in kind of a reactionary mode to the market and to the conditions we were facing at a certain time. And so we've incurred -- yes, I mean it seems like a serial conversation. We've incurred a nontrivial amount of severance along the way. This is designed to be targeted at where opportunities are, and therefore, it's sustainable improvement. It's not simply about cost either. There are some, I think, revenue opportunities that were under-optimizing today as well. But it's meant to be targeted, and it's meant to be durable. And if we do our jobs right, we'll be able to give you a perspective on what the investment will be required to make that happen. And you'll have the ability to hold us accountable to that. So that's -- I think of it differently in that regard.

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

Okay. And relative to the ongoing market, when we look at the attrition that you're now experiencing a bolus of, is that attrition that -- I assume it's multiyear movement away. Is some of that started in prior years, and you're seeing the biggest piece of that business move away? Or should we assume that there are several years where this could stairstep up, plus any additional attrition?

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

Yes. I mean again, that's what I wanted to point, I want to really try to drive across. I don't want -- we're not going to sit here and try to just claim that attrition has just hit us for the first time ever right now. That's not true. That's a fact of life. And it's a fact of life, not only with us, but again, with every competitor in the industry. The bolus, again, was such that we just had an alignment of the stars, if you will, that it's a significantly larger number now as we stare at 2020 than it has ever been in the past. I don't see that as a trend toward more defections. I think, again, a lot of it on the Paragon side was embedded. A lot of it on the Sunrise side are client losses that you guys are certainly familiar with that happened some time ago. Is it likely to stairstep up from here? No, I don't believe so certainly not with anything that I see today.

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*

Want to ask about the bookings guidance for 2020. Maybe you could help walk us through some of the drivers of that expected performance first 2019. And I know in 2019, you had some really important and sizable large client wins. So if there's any way to kind of quantify how 2020 looks on a more apples-to-apples basis without some of those larger client deals that we saw in 2019 might be helpful.

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

Yes. I mean I'll just start by just maybe at the risk of overstating the obvious, I'll tell you, the guidance we put for 2020 is the same guidance we started 2019 with. So 2019 wound up being a stronger sales year than we expected. That's obviously a good thing. But to your point, that was helped by a couple of large deals. But that were on the in-patient side of our business. And those -- at least they're great when they come, but they're -- we're not predicting the same level to stand. So we're kind of rebooting to the same level of guidance as we started last year. When we provide that here, we're -- we really think it will be broad-based across our U.S. in-patient, our international, our ambulatory and our adjacent market businesses that Paul described. And so they're all going to be good contributors in our view right now. And obviously, to the extent we see trends that are -- that warrant picking that up, we'll pick it up. And hopefully, we won't have to pick it down, but that's our best plans right now.

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

Got it. That's helpful. And I'll have one more follow up on the attrition topic. Maybe you could give us what average attrition has looked like over the last 3 to 5 years? And maybe another way to look at it is, is what percentage of the current recurring revenue base has already given notice of attrition from some prior periods.

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

The dollar impact this year in 2020 is more than 2x what we would have experienced last year, so which, again, is why we pointed out for this year. I'm not sure I fully appreciate the second part of your question. I think you're asking, is there more that would be coming in the future? Is that what you're asking?

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

Right. You acknowledged that this isn't a new issue, maybe some clients that have made a decision to move to a different platform several years ago. And I'm trying to get a sense of that tail that might have already given notice, but isn't factored into 2020? Yes.

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

Yes. So if you think about people we know about today that are going to attrit at least based on the notice they've given you. And it is worth saying, it is worth pointing out, there are -- we have had more than a few instances where a client thought they were going to leave and then at the last minute, decided that they really -- the grass was not greener on the other side, and they came back. So that's also why it makes it a little difficult to talk about it too far out. But I would say, of other clients who have indicated their intent to leave, and the impact would be felt beyond 2020, that's probably about another $30 million to $40 million or so. But that bleeds out over several years beyond 2020. That's not a 1-year hit.

Operator

(Operator Instructions) Our next question comes from George Hill with Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

I guess, Rick and Paul, my first question would be around the cost savings program. Are there any parameters that are already kind of set up around the program or any goalposts? I'm wondering like if you guys are open to radical transformation ideas, if that's what the consultants come back with, whether it's kind of breaking up the company or whatever they think could be the right answer to kind of drive growth in your trends for shareholders.

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

Yes. I mean George, we're -- we're way beyond private office here. We're open to any great -- good ideas. I would say, the scope of what we're looking to do, though, is right now is with this team is to get really focused on improving financial performance and free cash flow generation. That's going be intent. I think strategic decisions that could go beyond that, we're less likely to look to them for that kind of guidance, but we're very open to ideas, and we will share all significant ideas we get with our Board to make sure that they have the opportunity to deliver any of those ideas as well.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

Okay. And then maybe a quick follow-up would be is, post the DOJ settlement as it relates to Practice Fusion, a lot of the news that came out about that had to do with kind of the marketing of opioid products. And are you guys worried about having any downstream opioid liability risk that might be separate from the DOJ settlement?

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

Yes. Look, we know that got a lot of headlines, George. I mean we're more than a month beyond announcing that final terms of the settlement. There's been 0 follow-on to it, which is what we thought would happen. The settlement with the DOJ was comprehensive. It included a lot of different issues, only a little bit of which was around the opioid topic. But look, we can't -- we're not perfectly clairvoyant on the future, we don't know. But I guess, so far, so good.

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

And I'd add, George, from a client perspective, we did not get a lot of feedback from U.S.-based clients nor our international clients on that specific topic. Not to say it was isolated, but just -- there was surprisingly a few questions about it, number one. And then I would say also number two, I was -- I think our ability here to go now and play offense with it will help us a lot with regard to the settlement and what we're going to go do to protect our shareholders to get some of that back through the appropriate mechanisms that exist because of the way that we had backdrops and insurance policy set up for unlikely events like this.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

Okay. And then I guess, maybe just a quick follow-up, if I can, as it relates to the expense component. I assume that then a lot of the legal expenses related to this topic of the margins will wind down?

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

Will -- I'm sorry, you were a little -- cut out a little -- will wind down, is that what you said?

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

Yes. Like, I know that the DOJ settlement were just like from a cost perspective, like a lot of legal costs should now be behind us, right?

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

Yes. Yes. I mean we -- the run rate of that should go down materially. Yes.

Operator

Our next question comes from Matthew Gillmor with Robert W. Baird.

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

I wanted to come back to the revenue performance. I appreciate the comments you made on Veradigm. In the past calls, you'd also talked about some delays with ramping some HealthGrid and RCM services deals that were coming online. I was hoping you can update us on those contracts? And are you still expecting that to ramp over the next couple of quarters?

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

Yes, Matt. I mean that's definitely -- those are both contributors to, again, I described it earlier, at the beginning, if you pro forma for the attrition that we've called out, our revenue guidance range is 1.5% to a little over 7%. That's largely being driven by not just the 2 things you talked about, but they are certainly meaningful contributors to it.

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

All right. And then could you spend a second just talking about the capacity for buybacks? I know you were -- it sounds like you were kind of blocked out for the first part of the year. You're levered, I think, under 3x now. I know a lot of the free cash flow will be eaten up by the DOJ settlement, but just give us some sense for the appetite and the capacity you have to buy back stock if you wanted to.

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

Yes. I mean we're about 2.7 under our coverage ratios right now. So we have a full turn that we could theoretically apply. You'd run through the authorization long before you got that. So we'd have to go back and increase our authorization first with our Board. But I think suffice it to say, Matt, we can certainly be as ambitious as we've been -- were last year without any issues regarding debt covenants.

Operator

Our next question comes from David Windley with Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

Wondered if you could quantify the impact or the headwind to EBITDA from the attrition, the $50 million of attrition that you've called out?

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

Yes. I mean it's going to be roughly -- it's a mix of software-related and service-related revenues. So I'd say it's kind of composite margin is the right way to think about the value of the revenue we're losing. Obviously, we're going to offset that with revenue growth. So I don't -- I think you should just think about if -- by itself, it's not going to change the margin profile of the company.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. Okay. Separately, I think there was some comment in the prepared remarks about implementation delays or might have been one of the answers to a question, but implementation delays impacting revenue in the fourth quarter, is that then flowing into 2020? Just want to understand if there's a positive impact there.

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

Yes. David, I had made that comments around the gross margin performance. And I was rattling off a few things that contributed to our gross margins were down. When service projects get delayed, you wind up with unproductive labor. And so that kind of hurt your -- you have the cost about the revenue. We should get a lot of that back in 2020. Most of the client base, the EHR client base, for the most part, all need to upgrade this year because of regulatory reasons. So we should get that back. But I would also say that's reflected in our revenue guidance.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. And then last question, on Veradigm, you mentioned in regard to the NextGen relationship, slower ramp there. Is that a data receipt from them? Is it an infrastructure connectivity with your clients. I'm wondering what the stage or the point at which that delay is happening in the ramping of that business.

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

Yes, it's predominantly just the interfaces between us and them and...

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

okay. So it's not so much -- I guess, what I'm wondering is, is your critical mass of data significant enough to be gaining sales traction in that business? Or do you need to still aggregate more data, more deals like the NextGen deal in order for that to be material enough to catch your attention?

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

We don't think so. We think, again, their data set, combined with our data set in terms of primary care represents half the U.S. population in terms of just coverage. It's big. We don't think we need more. We just need to have -- be able to aggregate the information, link it with other relevant data such as claims and things like that. And then we need to package that and sales activity. So our sales -- there's kind of 2 things that have happened. One is the interface between us and them. And then secondly, our sales team needs to continue to close business.

Operator

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

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

Let's see, 2 things. Regarding the -- just back to the attrition topic, if these are -- the bulk of this are maintenance contracts, say, that former clients and hospitals had contractually committed to for a defined period of time even after they made the decision to leave, after which, they wind down. Wouldn't you have more predictability into when that revenue is going to go away. It seems to be sort of blindsided you a little bit. And then my follow-up to that is, is it reasonable to say that the entirety or overwhelming majority of your growth is now coming from the non-EHR segments that you characterized before.

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

Yes. Gene, I don't think the premise is quite right at all. It's not just software maintenance that's flowing from these old clients. I mean a lot of this is various forms of managed services hosting. In some cases, we had outsourcing relationships, too. And that's why I made the comment earlier, I mean I -- the composite revenue pool is kind of the same type of blend you see across the company today. It's not simply software maintenance. As to the comment on we seem blindsided. I'm not trying to suggest that. I think we probably could have done a better job projecting and maybe more importantly, communicating. But what's happened has happened, and I'm just sitting here telling you today that the number is higher than the past. I said, as I shared earlier, more than double. I think that now qualifies as a fairly significant amount. It will impact comparisons. And I just want to make everybody understand what's happening there. So it's -- in the end, it's not a science to know exactly when this stuff's going to happen because clients may think they're doing something and then it turns out that they need 6 months, 9 months or even more than that longer to actually run off the system. So it's not as perfectly predictable as you might think.

Operator

Ladies and gentlemen, there are no further questions at this time. I'll turn it back to CEO, Paul Black, for closing remarks.

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

Thank you very much. We're glad that 2019 is now behind us. We had a lot of moving parts going on. And in 2020, we'll get a lot of clarity, not only with the existing clients, but also with the new prospective ones that we're working on. The growth businesses are positioned to grow very nicely this year, and we expect to get some very nice return of the investment we're going to make by bringing in an independent third-party review of everything that we talked about today.

Thank you very much for your time and your interest in Allscripts. Have a good day.

Operator

Thank you. This concludes today's conference. All parties may disconnect. Have a great evening.
