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MDRX.OQ - Q3 2020 Allscripts Healthcare Solutions Inc Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to Allscripts' Third Quarter 2020 Earnings Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to your 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' Third Quarter 2020 Earnings Conference Call. Our speakers today are Paul Black, Allscripts Chief Executive Officer; and Rick Poulton, our President and Chief Financial Officer.

We'll be making a number of forward-looking statements during the presentation and 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 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 Paul Black to begin.

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

Thanks, Stephen, and thanks to everyone for joining the call. We appreciate your interest in Allscripts. I'd like to begin by thanking our associates for their dedication to serving our clients who continue to be on the front lines of this pandemic. Our solutions have enabled our clients to be more effectively providing clinical patient care while also helping our clients manage through these unprecedented clinical and financial impacts to their business.

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The fundamental mission-critical nature of the EHR and the long-standing commitment to an open API architecture have never been more important. These solutions are pivotal to the delivery of care into the daily need for information about the populations our clients serve.

Our clients rely on us 24 hours a day. We're proud to support them through this global pandemic. I'll focus my comments today on the following topics.

First, a review of our recent innovations and what our clients are looking for and how Allscripts is positioned to serve them with leading-edge solutions. Second, I'll discuss the environment given the global impact of the pandemic.

Software development at Allscripts is built on the foundation of innovation. This has been demonstrated recently by the success of our patent program, where we recently issued 5 patents over the course of just 8 days. Just for context, Allscripts' patent program over the last past 7 years has had 150 patents issued, another 150 patents currently are pending. At the beginning of 2013, we had one patent.

Some examples of the recent patents include higher patient engagement and adherence to patients' goal tracking by connecting to our EHRs and various wellness applications. A precision medicine innovation enables EHRs to incorporate a patient's genetic testing result at the point of care. Such innovation enables providers to better tailor cancer treatments to an individual's genetic results. Another innovation enables us to secure data in a HIPAA-compliant manner without causing performance issues often associated with encryption.

Our innovation and agility have allowed us to rise to the challenge of COVID-19 to ensure our clients can care for their patients. An example is Alfardan Medical Group, a leading family-owned conglomerate in Qatar; and Chicago-based Northwestern Medicine have gone live with Allscripts Ambulatory Care Services for grand opening of its Burj Alfardan Medical Facility in Qatar. This is our first Sunrise client in the Middle East, a great reference site as Allscripts looks to expand our footprint around the world.

San Gorgonio Memorial Hospital in California was the first Allscripts client to go live on our Sunrise Community offering. Even with the challenges brought on by the pandemic, the implementation has been extraordinarily smooth and successful.

Sunrise as a service provides a cloud-based health record we refined to meet the needs of the community in rural hospital markets. Hosted in Microsoft Azure, it delivers a single patient record, including clinical and financial workflows for both inpatient and ambulatory settings of care. Because the EHR is hosted, we can offer improved cost of ownership and shorter implementation times compared to the implementation of traditional on-premise solutions. This is a big step forward for Allscripts and an example of the benefits from our Microsoft partnership as we look to see the significant opportunity in the U.S. community hospital market.

Moving to the client environment. My view on the current landscape involves a few key themes: total cost of ownership, physician satisfaction, innovation and connected consumers.

Regarding digital transformation. Clients are looking to create or enhance their consumer experience, creating a digital front door. This is to connect the consumer to the provider and to the consumer's own health record. Many clients were on a 3-year journey to accomplish this. In some cases, due to COVID, this was accomplished in 3 weeks, functionality that was delivered at telehealth, scheduling and self-pay. This creates a self-service environment that allows better access by our client and users to consumer. We also saw many clients accelerate deployment of applications during peak crisis. TAM Level 6 was obtained in the United Kingdom through a virtual deployment from our U.K. associates and the client. We've seen a number of revenue cycle deployments. We've seen remote upgrades performed virtually as well. We've had consolidation of platforms as clients are concerned about the total cost of ownership.

We're also seeing a great interest in the cloud in our Microsoft partnership. Clients understand that this investment in innovation gets into a scalable, innovative, contemporary platform that will also, over time, reduce total cost of ownership. The innovations we are delivering here, technology innovation from on-premise to cloud, take advantage of the Azure product features for AI, cybersecurity and scale, these innovations will make the human experience for physicians easier. Charting is a great example of a dissatisfier today that will be substantially advanced by voice recognition, AI-assisted auto coding and a streamlined look and feel.

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We shared our vision of innovation with our clients at our highly successful Allscripts Client Experience, or ACE event earlier this month, bringing together thousands of the company's valued clients, strategic partners, associates and health care IT leaders. The virtual conference was the largest attendant ACE in the company's history, 11x the average number of clients who historically participate in this event. 14 countries, including the United States, Canada, United Kingdom, India, Singapore, Malaysia and Middle East and Australia participated. Clients had the opportunity to speak with and hear from an impressive collection of industry thought leaders, including the Advisory Board, the Federal Bureau of Investigation, Albert and Mary Lasker Foundation, the Association of State and Territorial Health Officers, John Hopkins Bloomberg School of Public Health, Pfizer and the United States Congress.

Allscripts' core product teams in partnership with Microsoft shared key benefits to transitioning to the cloud-hosted platforms. The product teams also provided clients with our latest road maps and development updates that will further improve clinician satisfaction with focus on human center design.

There were many benefits to moving to a virtual event platform for ACE. A significant example of this is the vast amount of data we received in real time from attendees. The platform provides tracking capabilities for metrics such as session attendance and time spent in each session. We also have the ability to boost the attendee engagement by various polling options. More sophisticated tracking enables us to compare sessions attended to current customer white space, delivering real-time sales leads.

During ACE 2020, we provided more than 97 hours of content to our clients. We founded the most highly attended sessions focused on product road maps, revenue cycle optimization, benefits to transition into cloud-hosted platforms and, of course, telehealth. Since the start of the pandemic, we've seen an increase in telehealth visits by more than 9,000%. Our clients are very eager to learn more about best practices, future enhancements and guidance on reimbursement. Allscripts products provide functionality that helps our clients respond to COVID-19, recover from losses and protect their organizations moving forward.

Through our technology, we help coordinate outpatient care across the continuum, enable COVID-19 dashboard to be shared across systems, support patient screening and assessment as well as daily results reporting and operations management. We managed COVID-19 transitions. We execute rapid telehealth implementation so providers can deliver their patients the care they need. We look forward to building upon this year's event with an even more successful ACE in 2021.

Finally, regarding the regulatory environment for us and our clients, Allscripts continues to develop resources to ensure the company is ready to comply with the ONC's final rule on interoperability and information blocking. This is a substantive regulation, but one that we have taken seriously and started preparing for even prior to the release of the rule. Because our business practices and approach to interoperability have always been about open connectivity, we suspect the rule will be less disruptive for us than it is for some of our major competitors. We also anticipate that the regulation could be another that separates us from those who comply with the rule's complexities from similar companies in the market to find it to be very difficult.

The deadline associated with the Cures regulations were adjusted by the ONC earlier today to reflect the pandemic challenges facing the health care industry, but this is a project Allscripts is preparing for from the top down, and we will be ready when they require us to be so.

With that, let me turn the call over to Rick to review our financial performance and discuss our recent EPSi and CarePort transactions.

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

Okay. Thanks, Paul, and thanks, everyone, for joining us today. I'd like to start by -- I just want to echo Paul's comments and once again thank our team members for their hard work and commitment to our clients during what has been uniquely challenging times.

I'm going to structure my comments today around 2 areas. First, a more detailed review of our third quarter financial and operating performance, along with some outlook for the fourth quarter. And second, some thoughts around capital allocation and how we are positioned for the future, following the announcement of our definitive agreement to sell CarePort and the closing of the EPSi sale.

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As Stephen indicated, additional financial details on our segments are available in the supplemental financial data workbook that's posted on our Investor Relations website. I will be referring to some of this information during my commentary.

So starting with the third quarter, we are pleased that our base of recurring revenue and disciplined focus on costs allowed us to deliver an 18% year-over-year increase in our non-GAAP earnings per share while also generating significant free cash flow.

Consistent with the second quarter, we were able to generate $187 million of new bookings even as we remained in primarily a virtual sales environment. Our sales momentum remains strong in the independent ambulatory practice market, where we won 2 new -- excuse me, 10 new logos, and that brings us to nearly 30 for the year. We believe the breadth of our offerings in this area position us much better in the marketplace than competitors who have a narrower solution set. For example, our wins during the quarter included a value-based care deal that included dbMotion at a large multi-physician orthopedic practice.

Also, at our Veradigm unit, we saw strong results for solutions targeted at both life science companies and payers. Our data assets and point-of-care connectivity scale in the independent physician market segment provide us with a growing competitive advantage, and we see that bearing fruit with the larger contracts, including our largest life science contract to date during the quarter. This sales activity bodes well for the future revenue growth that we expect from the Veradigm business unit.

So with the buying environment similar to Q2, revenue for the quarter was also similar at $402 million. Some improvement we saw in patient volume-linked revenue was more than offset by lower revenue at EPSi as that business unit was essentially in purgatory for the quarter as it awaited government approval on the sale.

On a year-over-year basis, the decline in recurring revenue was very similar to what we saw in Q2, and it reflects the bolus of acute care client attrition that we had signaled to you at the beginning of the year. The year-over-year decline in nonrecurring revenue is largely a sign of the environment. Both the buying environment, which is overall softer but also highly skewed towards subscription rather than upfront license revenue, as well as the operating environment where in addition to the EPSi impact I just described, we also see less project-based consulting and upgrades right now.

Looking ahead to the fourth quarter, with the sale of EPSi, we faced a headwind of approximately $7 million in terms of sequential revenue performance. But nevertheless, we do expect Q4 revenue to be up modestly from Q3.

Turning to margin performance in the quarter. Our adjusted EBITDA margin improved another 110 basis points sequentially from Q2, and that brings us to a total of 640 basis point improvement since we began our margin improvement program in late March. The improvement in Q3 consolidated results was largely driven by the 100 basis point improvement in our core Clinical and Financial Solutions segment, which came in at an adjusted EBITDA margin of 15.9%.

Looking ahead, we are working to reduce the amount of R&D investment that we capitalized to our balance sheet each quarter. And in Q4, we expect our cap rate to be down approximately 600 basis points relative to what we have averaged over the last 3 quarters.

This is noteworthy as it represents another step towards resetting our costs and creating opportunities to improve gross margins going forward. What I mean by that is that, as you can see from Table 1 in our supplemental materials, the third quarter was the first quarter in years where we amortized more capitalized software to the P&L than we capitalize current spend out of the P&L during the period. This means we no longer are creating an overhang that will dilute future margins. Instead, we can expect amortization in the future to eventually decline and come in line with the amounts that are now being currently capitalized.

The reduction in cap rate that we anticipate in Q4 will create a headwind of approximately 100 basis points in adjusted EBITDA margin when we compare it to Q3. But we expect to largely offset that with continued progress on our cost reduction efforts, and we project consolidated adjusted EBITDA margins between 19.5% and 20% and adjusted EBITDA margins in our core segment between 15.5% and 16% during Q4. The above guidance on both revenue and adjusted EBITDA margins for Q4 assumes we closed the CarePort transaction at the end of December as we currently plan.

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In our GAAP operating expenses for the quarter, we recorded a restructuring charge of approximately $13 million, which primarily relates to severance costs and other expenses resulting from our margin improvement plan. This was slightly higher than we had anticipated when we spoke to you last quarter, and that was because we were able to implement some cost reductions sooner than expected. Looking ahead, I would expect to record a similar level of restructuring costs in the fourth quarter. Overall, we recorded a non-GAAP earnings per share of $0.20 per share, and that was up 18% year-over-year, even with the lower year-over-year revenue.

The margin improvement that we saw in the quarter helped drive a significant increase in operating and free cash flow. During the third quarter, we generated $53 million of operating cash flow and $27 million of free cash flow. These cash flow numbers include the headwind from both $16 million of payments that we made to the DOJ during the quarter as well as our cash restructuring charges. On a year-to-date basis, our free cash flow, excluding the payments we've made to DOJ, totaled $75 million, and that is up $110 million from the prior year period.

I'd like to take a moment to recognize and applaud our client-facing and collections teams for collaborating and taking on the challenge to get more efficiency out of our balance sheet. Their hard work helped drive some of our free cash flow performance and has us reporting our lowest days sales outstanding and our accounts receivable balances in years.

So now I want to shift gears and talk about our divestitures. As previously disclosed, the purchase price of $365 million for EPSi represented a multiple of approximately 7.5x trailing 12-month revenue and approximately 18.5x trailing 12-month adjusted EBITDA. And the purchase price of $1.35 billion for CarePort represents a multiple of greater than 13x CarePort's trailing 12-month revenue and approximately 21x CarePort's trailing 12-month adjusted EBITDA. These platforms generated above company average growth rates and margins, but it was clear to us that this was not being reflected in Allscripts' overall valuation. And as a result, we made the decision to unlock shareholder value. And we believe the multiples we received on both transactions demonstrate the tremendous value we have -- that we have created in these EHR adjacent areas.

Collectively, these 2 businesses -- these 2 business units represent less than 10% of consolidated revenue. So their individual growth rates had very little overall impact on Allscripts' historic growth, and their divestiture will not materially change our growth prospects for the future. We expect to generate approximately $1.25 billion in after-tax proceeds from the 2 transactions, which, for perspective, represents approximately $7.50 per fully diluted share and approximately 50% of our current enterprise value of Allscripts. As we indicated in the press release associated with both transaction announcements, we expect to use these proceeds to reduce debt, invest in growth for our solutions and support significant share repurchases.

With respect to debt levels, we expect to stay below 1.5 turns of leverage for the foreseeable future. This level of debt will significantly derisk and simplify our balance sheet and greatly enhance our financial flexibility going forward.

With respect to share repurchases, we expect to conduct these initially through opportunistic open market purchases, and we are continuing to evaluate potential using more structured approaches such as an ASR. In either case, we believe the current valuation of Allscripts stock makes our stock a compelling value.

And lastly, we will continue to invest in our existing core solutions and Veradigm to drive growth, returns and improve client satisfaction and retention. In our core segment, while the domestic EHR market remains more of a replacement market than a growth market, We believe our scale and our level of R&D investment gives us a significant advantage versus a number of smaller competitors in the marketplace, and it will allow us to win market share over time. We also believe the changing macro environment will continue to drive new use cases beyond EHR and will continue to allow us to grow with our still very large client base. And in addition, we remain bullish about our opportunities outside the U.S. and expect to expand internationally.

In our Data and Analytics segment, our Veradigm business remains a unique differentiator from our EHR peers as we have built the industry's largest clinical data set and analytics capabilities, which provides immense value to life science companies and payer clients.

So to wrap up, overall, we are very pleased with the progress we made this year. We've successfully helped our clients manage through a challenging time with innovative solutions and seamless remote implementations. We have demonstrated our commitment to margin expansion and free cash flow even in this challenging revenue environment. And finally, we've been able to create a significant value with our strategic divestitures

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at very high multiples. This will allow us to focus on simplifying and improving the performance of the core business, reducing leverage and returning significant cash to shareholders.

So with that, I'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

Our first question is from Michael Cherny with Bank of America.

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

Congratulations on the divestitures. As we go forward and we think about where the portfolio sits, can you just level set -- I know Paul and Rick, you gave some general thoughts. But over the next 3 years, what do you see as the best growth opportunities based on the assets that you currently have? And now that you've moved some of these other pieces out or on the way out, are there other assets based on what you have now that you think you want to bolt back on to essentially reboot what the go-to-market strategy is for Allscripts?

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

Well, Mike, I appreciate the question. I mean, look, you know the general environment we participate in. I know you cover not only us, but some of our competitors that are public companies.

The growth opportunities are not dissimilar, I think, across the board. I think what will cause differentiation in what people realize or what different competitors realize is, one, their scale; and two, their level of innovation and where they kind of see the opportunities and how quickly they strike.

From our view, the divestitures that we made and some of the assets that we continue to have in our portfolio are very tangible indicators of our being out in front of some of these opportunities and some of where the proverbial puck is going and our ability to address those. And we feel good about that, and we think that's going to fuel opportunities for us in -- and as we readily acknowledge in what is otherwise perhaps a slow market here in the U.S.

But I'll repeat what I said earlier. I mean there are new use cases in the U.S. that will continue to fuel growth. There is market share shift and market consolidation that we think inevitably happens, particularly as the regulatory requirements continue to increase and put a lot of burden on much smaller capitalized and much smaller competitors. And we -- again, we've been leaders in finding adjacencies to grow, and we think we're very well positioned with our Veradigm asset base to continue that.

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

I guess one follow-up. You've done a really nice job, especially the last couple of quarters and showing the leverage improvements on the business model and driving to those margin targets or margin expansion that you've talked about. How do you think about in a post-divestiture world, where the next leg of opportunities for incremental margin expansion above and beyond?

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

Yes. Well, I mean the reason we set up our margin goals, the way we did is I think it's important to follow at the core and follow the data analysts and care coordination segment. The core is really not impacted by any of the divestitures, and we should be able to continue the steady progress that we've made.

Where the opportunities come from? Well, with revenue growth, we'll certainly get some opportunity for operating leverage, but we're going to continue this drumbeat that we've been driving for several quarters now of turnover rocks and forcing efficiency into our organization. And as much as we made a lot of good progress, there's plenty of places that are still -- we think have intrinsic opportunity around them. So we'll keep pushing that.

I think the data analytics and care coordination segment side, I mean, clearly, we'll get a new look as CarePort exits. And as that -- as we get closer to the end -- that transaction coming to fruition and we look towards 2021, we'll certainly try to spell that out clear what your expectation should be for that segment.

To be clear, it should remain -- just let me -- last point. To be clear, it should still remain a segment that produces adjusted EBITDA Margins in excess of what the core produces.

Operator

Our next question is from Eric Percher with Nephron Research.

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

Sure. And maybe just to start, I'll extend on that last question. So above the core, does this divestiture require you to rethink the margin target that you had just put in front of us or it sounds like you're standing buyback? Is that correct?

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

The core segment, Eric, is not impacted by these divestitures.

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

I'm sorry, I meant for the non-core. You said above the core, but toward your prior target...

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

Our second segment, we're divesting a very high-margin business. I mean we've already given you details on the trailing 12 months so you can see what those businesses -- that business has an EBITDA margin in excess of what that segment produces today. So it just stands to reason that the segment margin will come down a little bit. But I guess what I'm saying to you is while the segment that itself will come down, it will still remain -- as a segment will remain a higher-margin profile than the core segment does.

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

Yes. So We're going to wait to hear your aspiration there. And then sticking with that segment, you mentioned the largest contract that you've seen to date. Can you give us some detail on what it is that is driving larger contracts? And relative to the data and analytics, what drives that?

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

Well, what what's directly attributing to the size contracts is the uniqueness of what we've accumulated. I don't know how to say it any clearer than that. We have across our multiple EHR platforms in the independent ambulatory space. We have the largest market share and initiated by ourselves. And then you combine that with the data assets we've done now with 2 competitors we've done with deals with and so we add that to the base, we have a very rich set that's unique.

And that, combined with the fact that life science companies are looking to reimagine and reengineer what it means to go through the trial process, there's a lot of friction they always experience, and this is the beginning of real-world evidence. So maybe not at the beginning, but this is a tangible example of it. So we are increasingly attractive to those clients, and I think the fact that we had our biggest contract ever is just indicative that we continue to differentiate ourselves.

Operator

Our next question is from Jeff Garro with William Blair.

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

Yes, I'll maybe probe a little bit more on the post-divestiture profile of the Data and Analytics segment. If you could maybe just give us some historical context about the revenue mix and relative growth rates for the key remaining components like Veradigm, 2bPrecise and Payerpath?

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

Jeff, I hate to be a downer on your question, but I mean we're not going to talk about growth rates at a solution level like that. You have a lot of transparency with what CarePort's contribution is. And to the extent you don't want to wait for us to give more guidance at the end of the year, I think you have a lot of data there that you can make some assumptions on. But we're not talking about individual solution sets and their growth rates.

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

Fair enough. We'll wait and see there. I'll turn, I guess, to the core segment, and I guess it does apply broadly to the strategy we've seen at the company recently. It seems like there's an underappreciated playbook that you deployed for cloud-based EHR-agnostic businesses to deliver growth and higher margins. So with more focus now maybe on the core business, is there a similar playbook that can generate better results for that segment going forward?

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

Well, yes, I mean, look, I think we remain mystified as to why we trade at such a discount to competitive peers around the core. But that said, we clearly needed to do some work on our cost structure. That's what 2020 is all about. Those efforts will not stop at the end of 2020. We have -- we set our goal. And clearly, based on the guidance I've given today, we're not at those goals by the end of the year, so we're going to keep working. But I think we will work on the cost structure and make sure it's rightsized for the footprint we have, and then we're going to look to grow that footprint. And the way we grow it is really the themes I've already talked about, continuing to win share in the domestic market, continuing to be out front of new use cases and bring new solution sets to the client base as the macro environment changes for them and expand internationally.

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Operator

Our next question is from Donald Hooker from KeyBanc Capital Markets.

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

It seems from your comments that you have worked through some of the attrition that you had called out earlier in the year. You had some decisions a year back that I guess, unfortunately, went the way they did. As we look forward, I mean what -- can you -- are we sort of through the woods there? Or can we kind of trust that there is maybe not any other step-downs, any other kind of sizable step down in revenue from attrition?

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

Yes. I mean we're through the woods, Don, in the sense that we -- what you saw, you saw it in Q2, you saw it in Q3. And while I'm -- I've already said I expect revenue to be up sequentially in Q4. I think I also used the word modestly. So you can assume that you're going to see a similar trend in the year-over-year of Q4.

So when we get past that as we get into next year, yes, our expectations were through that pain and that we get back on the upward slope trajectory going to next year.

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

And then in terms of the free cash flow, which was obviously impressive, is there any kind of -- I don't know if you kind of gave us targets around margins. Are there any kind of metrics to kind of watch for around free cash flow? Because it looks like that's been improving. How can we think about that going forward?

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

Yes. I mean we've -- what we said in the past and what we would continue to say is that when we look at our non-GAAP net income, that we believe we ought to convert 85% to 90% of that into free cash flow going forward. And yes, we'll strive to potentially do even better than that, but that's, I think, a good goal right now. We think that's a pretty efficient conversion, and that's going to be what we're going to hold ourselves to.

Operator

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

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

All right. Maybe as we think about the fourth quarter and as we exit the year and we look at bookings sequentially, obviously down year-over-year because of COVID. Can you give us a sense for how we should be modeling or thinking about bookings performance in 4Q?

And you talked about revenues improving sequentially as we go through fourth quarter and exit. Can you kind of give us and make a little sense in the -- what's in the backlog that gives you the confidence that we'll start to see that? Is it that we're already implementation phase of a number of clients that we'll ramp up? Maybe some color around that would be helpful.

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

Yes. I mean, Charles, the answer is really probably the same answer for both your revenue and bookings question, and that is fourth quarter has always historically been seasonally the strongest quarter of the year for sales activity and also revenue performance for us.

So based on that historical pattern, our view of the pipeline right now, I mean we're almost through 1 month of the quarter, deals we've already closed our outlook for it. That collective view is what gives us the confidence to say what we said about revenue for the quarter.

And while I didn't comment on bookings, I would say similar trends apply. So we have a little bit of headwind in that EPSi is out for Q4. But notwithstanding that, we would expect to see some moderate improvement to the Q3 numbers at a bookings level as well.

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

And if I could just quickly follow up. Obviously, at the beginning of the year -- or I'm sorry, right back in March, April when COVID was really ticking off and everyone was concerned about the provider market and how they would be able to adapt, it seems that they've been able to kind of cope with things. And even as we've had more cases nationally, it -- hospitals seem to be able to -- walking through them at the same time a bit here, perhaps. Would you say that the activity and the ability for hospitals and provider groups to also focus on the strategic priorities. Has that kind of come back to sort of normal levels, would you say?

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

I would say that they have come back to a -- not to a pre-COVID level. They have settled at something that's a bit less than that, and that has to do with ED visits. It has to do with ambulatory visits. That has to do with televisits. That has to do with total revenues that they're bringing in the door.

So there's pieces depending upon the market, whether you're on the West Coast, whether you're in the South, whether in the East Coast or whether in the Midwest, depending upon the state, quite frankly, and how big right now the surge is becoming. That's another, if you will, headwind to use that term that makes Q4 a little bit foggier than what we would normally be able to predict.

But broadly, what the doom and gloom that accompanied the shutdown in the March, April, May time frame, those volumes have come back. Most of our clients had a very good summer from an elective procedure standpoint.

So on total, while they may have been projecting in Q2 of the calendar year, a bad full year 2020, most of them that I talk to, the large ones, are either breaking even or they're making a slight profit. The combination of the Cures Act and as well as the stimulus that they received was extraordinarily helpful, and then the ability to restart the elective procedures was extremely important to them.

Operator

Our next question is from Stephanie Davis with SVB Leerink.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

So I want to explore a bit of how intrinsically tied the Veradigm business is to your core EHR platform, just given some of the data from that business comes from your EHR assets.

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

Yes. Well, I mean you captured it right with your last piece, what you said. The data flows from EHRs and it is package and linked, and we do lots of things with the information to tease out learnings. But they do kind of stick together. That being said, We are contracting with competitors today to add their information and their workflow opportunities to the Veradigm platform. And so there is real evidence already in the marketplace that those do not have to kind of all be owned by the same people, right? So we think of it as a nice growth plan for us, but it is not inextricably linked.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

Understood. And thinking about the value ratio that you guys had (inaudible), do you see it changing because they -- a change in just the market environment around willingness to pay assets? Or have you positioned them a bit differently in order to make them more available?

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

Stephanie, you cut out a little bit, so we didn't have the greatest connection there. So I'm not sure I've got your full question there. But I know at least part at the end -- have we positioned some of these assets differently, I think, inside. So I'll try a shot at that answer, and then you tell me what I missed from your question.

But yes, we definitely are managing our different business lines and business units with a portfolio type of approach, maybe -- and certainly, as it comes to Veradigm, think of it as almost a PE firm would manage different portfolio companies, managed separately, different -- very different management teams and a different framework for how we think about investing and things like that.

But we've mostly wanted to do that -- we've done that with the other business units that we just announced divestiture of, too. And that was done to both create value by having more streamlined accountability and allow people to have different objectives across the enterprise. But it would also help us by setting up that way that helped us create the transparency that we wanted for the investor base as well.

Operator

Our next question is from George Hill with Deutsche Bank.

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

I got to say my first comment is the next time I have to sell something, I'm calling you guys. But my questions are kind of twofold, Rick and Paul. First, are there any meaningful synergies or dissynergies with selling the CarePort and EPSi business as it relates to the core EMR business?

And second of all, I understand the idea of buying back stock and paying down debt. But I guess talk to me about what you see as it relates to the growth opportunity and why not redeploy all this capital into share repurchase or returning it to shareholders because you guys haven't been able to recognize any value or get paid for the strategic M&A that you do.

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

Okay. So let's start with the first question, George, and then we may have to iterate on the second, make sure because I was following you and then I want to make sure I didn't misunderstand it.

So are there dissynergies? No. The short answer is no. Let me tell you why. Both CarePort and EPSi are EHR-agnostic solutions, And in fact, much more of their customer base and revenues came from clients who do not run Allscripts EHRs than those that did run Allscripts EHRs. And in the case of CarePort in particular, the vast majority of their revenue came from non Allscripts EHR clients. So these are businesses that learn to operate

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independent of the Allscripts EHR for a long time, and there is no meaningful dissynergy. I don't think there's any dissynergy from them going out the door.

Certainly, our Allscripts EHR clients, many of them do run these solutions. But again, there's value for the clients in this as well. In both cases, we've sold them to enterprises that are very committed to the space that they're in. And we'll continue to invest, we believe even more than we were investing in those solution stack. So clients will benefit from it as well. So that's my view on the first part of your question, George.

On the second part, I think you were -- I thought you were going down the path and saying, why don't we preserve all the cash. But then I think at the end, you twist it to why don't we put it all towards share repurchases.

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

Just give it all back because whether it was Netsmart or EPSi or CarePort, like I agree that your stock seems to be undervalued, but you guys just can't get paid for the value you're creating.

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

Yes, yes. Well, so you noticed in my use of capital, our capital, I didn't talk about M&A, right, because I think you're right. I think for the most part, the market has not rewarded us for smart M&A transactions. And those included -- frankly, the M&A included work we did around Netsmart and it included the work we did around CarePort. I mean those were both enhanced in value tremendously by some M&A. But we haven't gotten the value so that's why we've monetized it.

And the only -- if your question is, well, why you're even bothering to pay down debt at all? Look, the short answer is, I mean we have some EBITDA earnings going out the door, so we have to recalibrate to the new pro forma EBITDA anyway. But the reason I'm taking it down a few turns is because I think it's -- I think that's a smart way to keep powder dry for the future, that we see a different situation. Asset prices not being as frothy as they are today, and we see opportunities to enhance our platform through, not blockbuster M&A, but through some targeted things that might make sense.

We should retain the flexibility to do that, and so that's our -- we'll keep some dry powder with the balance sheet. But I mean I used the word we expect to do substantial share repurchases, and I've said it now 3 times. We definitely see what our view is a mispriced stock, and we intend to give some of that cash back to shareholders.

Operator

Our next question is from Steve Halper with Cantor Fitzgerald.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

So just going back to the R&D capitalized versus expense. So basically, you're bringing the cap rate down, and more of the R&D will go onto the income statement. Is that the way we should think about it?

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

Yes, that's right, Steve. Yes, that's what creates the headwind that I referred to.

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Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Understood. So when you think about after the divestitures, of course, what do you think is sort of the target rate for total cash outlay for R&D between the capitalized part because you'll still have some capitalized part and expense on the income statement?

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

Yes. I mean, well, between what's the ratio of capitalized to noncapitalized? Is that...

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

No, no. Just aggregate cash out the door for the expense...

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

Yes, so forget about the accounting treatment of expense versus capital and just what's your R&D investment, right? That's your question?

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Yes.

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

Yes. Look, I mean I'm going to preface it by saying those ratios, you have to kind of scratch under the covers a little bit because we have built up in a bigger and bigger -- a decent chunk of our revenue is services, which, of course, doesn't require any R&D. So if you're thinking about analysis, you should be thinking about it across competitors or something like that. You should be thinking about it potentially at a gross level, but also as a percent of software-related revenue as opposed to all revenue.

Our -- on an overall basis, I would still expect to be in a similar range to where we've been in the past, which is somewhere between 15% and 20% of revenue will go into R&D.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

And then one other question going back to George's question about share repurchase. So why wouldn't you just go like forget about the size, right, of share repurchase versus acquisition? That message was clear. How fast can we expect you to go in terms of share repurchase, like when?

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

Well, our blackout window opens Tuesday. So as far as I'm concerned, I'm an opportunistic buyer as of Tuesday. And as I said in our -- my remarks, we're also studying other structures that allow more rapid deployment faster.

Steven Paul Halper - *Cantor Fitzgerald & Co., Research Division - Analyst*

Yes. And just remind me what authorization do you have right now from the Board?

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

Well, so that all goes hand-in-hand, too. Today, we -- what we -- sitting here as we speak, we have a little under $50 million left. So there's a topic we'll be discussing with our Board in a couple of weeks when we have a board meeting.

Operator

We have reached the end of our question-and-answer session. I would like to turn the conference over to Paul Black, CEO, for closing remarks.

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

Thank you, and thanks, everybody, for being on the call. During the pandemic, as a team, we've been very assertive. We've made decisions and have executed on them. It's been an all hands-on deck, full contact support where we've taken care of our clients, tirelessly executed our theme of enhancing shareholder value.

We accelerated our strategy of unlocking value with EPSi and CarePort, and we simultaneously executed on significant cost takeout measures to align our cost base with the realities of the COVID-19 impact on revenues. We expect that these initiatives to create shareholder value that you have entrusted us to deliver. Thank you.

Operator

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

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