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PRESENTATION

Operator

Hello and welcome to the Allscripts' Second Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Stephen Shulstein, Vice President, Investor Relations. Please go ahead, sir.

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

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

Please 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. Please also reference supplemental investor presentation and the supplemental financial workbook posted on the IR website for additional information on our margin improvement initiatives and segment reporting.

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, everyone, for joining the call.

I'd like to begin by commending our associates for their bravery and dedication to our clients who are on the front lines of this pandemic, who are 100% focused on providing the best patient care they possibly can. We are very pleased with our results for the second quarter despite the disruption to our client base in the global economy.

Our business model proved resilient as we were able to move to a virtual sales and implementation model. We generated $188 million of new bookings in the quarter, where our clients were rightly focused on managing the pandemic.

We also had a number of long-term extensions in the quarter. These extensions included Maimonides Hospital in New York through 2027, demonstrating our strength with our client base and the importance of having a solid core EHR installed. These extensions are often accompanied by purchases of additional solutions and services.

In the second quarter, we also signed 8 new client logos in the independent physician practice segment, including continued growth in revenue cycle management services.

I'd like to focus my remarks today on 3 topics. First, I'll discuss how we introduced innovative solutions to our clients to help them manage through the COVID-19 pandemic. Second, I'll talk about thoughts of the health care -- the health of our client base. And finally, I'll cover important partnership with Microsoft and how we are thinking about the evolution of our solutions.

Allscripts responded to the urgent needs of our clients by offering specific solutions to help providers fight the spread of COVID-19, including the rapid deployment of FollowMyHealth telehealth, COVID-19 specific workflows for Sunrise, capacity surveillance and regulatory reporting within our electronic health records and IT services staffing to supplement our client teams.

The core fundamental capabilities of the EHR and our commitment to an open architecture strategy have never been more important, either mission-critical systems that our clients rely on 24 hours a day. These solutions, including our EHR platforms, analytics, post-acute networks and patient engagement are what enable the necessary actions to successfully treat and contain the pandemic. In all cases, critical -- the critical component is access to data, enabling systems to deploy resources based on search predictions and patient acuity and leveraging various care settings to ensure all patients are cared for.

Community-wide data and referral networks ease patient transitions and facilitate provider resourcing, which contributes to broad unified patient care, using the clinical and financial burden in any particular system.

Here are some examples of how we helped our clients successfully manage through the clinical and financial upheaval to their operations. Using Allscripts Sunrise EHR data, Northwell was one of the first U.S. organizations to report presenting characteristics and outcomes of a large cohort of patients hospitalized with COVID-19. Knowing that a generalizable and simple survival calculator based on data from U.S. patients hospitalized with COVID-19 had not yet been introduced, Northwell has used data from Allscripts Sunrise to refine our understanding of caring for COVID-19 in America.

Northwell's COVID-19 survival calculator uses 6 factors routinely available at hospital admission to estimate the probability of survival during hospitalization, designed to complement clinical evaluation and assist in treatment decisions, it has been internally and externally validated across 13 acute care hospitals in New York City. To help improve patient access and care throughout the rest of the country, Northwell has made this calculator publicly available through the web.

In the United Kingdom, Gloucestershire Hospitals NHS Foundation Trust went live with Sunrise EHR in March. The trust added e-observation functionality, which included automatic calculation of NEWS2, the National Early Warning Score designed to pick up patients at risk of deterioration. This -- the implementation of NEWS2 is immediately helping the trust manage patients during the COVID-19 outbreak. Gloucestershire Hospitals has also introduced icons to its patient tracking board to identify patients with COVID-19 and made those results available throughout the rest of the system. We moved rapidly to new ways of fully supporting go-lives without risking the health of our staff, NHS staff or patients from traditional support and floor-walking activities.

Our CarePort platform is providing substantial value for our clients. CarePort played a big part in elevating the public conversation about COVID-19 and its impact. Early on, Washington Post published an article detailing real-time data captured by the CarePort team that will help organizations and their clinicians better understand how the virus is affecting patients.

Using CarePort, hospitals in Michigan proactively communicated COVID-19 testing status to post-acute providers, both pre and post-discharge. As a result, post-acute providers could take necessary measures to protect staff and patients and manage the use of personal protective equipment. CarePort created new capabilities to allow hospitals to identify post-acute providers accepting COVID-19 positive patients, minimizing times spent by discharge planners and case managers calling individual facilities to determine their capabilities and their capacity. This was especially critical as hospitals throughout the state reached their exceeded capacity during the COVID-19 surge.

Our telehealth offerings continue to see broad adoption amongst our client base. Close to 200 clients has selected FollowMyHealth telehealth, enabling safer care to be delivered to patients in their homes and improving communication between quarantined people and health care organizations.

FollowMyHealth, which has an EHR agnostic patient record at its core, provides vital connections to the patient's care team. This provides better outcomes for both physicians and patients in siloed solutions, providers on practice fusion platforms have also rapidly adopted telehealth.

For the second quarter, we saw 698,000 total telehealth visits from Practice Fusion, up 300% from Q1. In total, during Q2, close to 900,000 telehealth visits were experienced by our entire client base, combining both of those solutions.

Now moving on to the health of our client base and how we believe we are thinking about IT solutions going forward. While there continues to be much uncertainty around the progression of the pandemic, we believe our clients have begun recovering from the worst of the impact that we saw in April. We have seen patient volumes and elective surgeries come back strongly in June and July. In my conversations with CEOs, they have indicated that outpatient, inpatient, emergency department visits and surgeries are back at 80% to 90% of pre-COVID levels, with some variation by region.

Providers continue to benefit from government relief, including the CARES Act, which initially authorized $100 billion in funding the hospitals and other health care providers and also removed many of the policy barriers to the use of telemedicine during the crisis.

An additional $75 billion in funding became available through the Paycheck Protection Act and Health Care Enhancement Act. Specifically, the Department of Health and Human services targeted allocations to help providers in the high-impact areas. $12 billion went to 395 hospitals in those areas, $10 billion was sent to 4,000 rural health care providers and additional $19 billion was allocated to organizations like safety net hospitals, skilled nursing facilities and hospitals in small metropolitan areas.

The HEROES Act, which is under discussion as Congress negotiates the next coronavirus release package, proposes an additional $100 billion for that provider relief fund. The Senate version calls for an additional $25 billion. So whatever the number they decide on, there will be additional provider relief coming.

These supplemental programs, along with the rebound in patient volume and elective procedures, have helped to stabilize the financial situation of many providers, and we believe we are well positioned as they continue to invest in solutions that improve clinical outcomes and financial performance.

During these times, clients are looking for a supplier with scale, that offer solutions not just siloed products, which is exactly how we've been positioning our offerings to solve problems across and throughout the enterprise. Our investment in R&D, building out new platforms have proven to be durable competitive advantage for Allscripts.

Now turning to our relationship with Microsoft. We recently announced the extension of our strategic relationship with Microsoft for 5 years. The extension will further enhance Allscripts' cloud-based Sunrise electronic health record, announcing Microsoft as the cloud provider for the solution opens co-innovation opportunities to help transform health care to smarter, more scalable technology. This will accelerate the development and delivery solutions, including a cloud-based version of Sunrise.

As I meet with our client CEOs, I'm constantly asked 4 things: one, lower my total cost of ownership; two, improve my electronic medical record experience for my doctors; three, innovate, giving new cool and impactful solutions; and four, help me connect my consumers, make it easy.

Moving to the cloud will accelerate the platform to drive these 4 asks to market success. We have solutions natively written for Microsoft Azure already, such as FollowMyHealth and 2bPrecise. Through our partnership, Allscripts is positioned to leverage Microsoft's extensive platform, tools and intellectual capital of the world's best software designers and application architects to create a modern, progressive, innovative user experience for our clients and their consumers.

This strategic alignment will also create co-innovation opportunities working with Microsoft to transform health care. A cloud-based version of Sunrise will offer the benefits such as improving cybersecurity, organizational effectiveness and solution interoperability. Faster implementations and upgrades that are less intrusive for our clients, and we expect our clients to start experiencing some of these advantages by the end of 2020.

Using the cloud, we will also positively impact patients in smaller rural U.S. hospitals, extending the reach of this great platform to those who have, in the past, had to settle for subpar EMRs, broken promises and the lack of innovation. Patients in these areas will now have better access to their health records to make more informed decisions, removing perhaps the last roadblock to access and nudging them to take charge of their own health.

Finally, I'd like to highlight a significant new win for the company. Allscripts has been selected by MicroHealth to migrate the U.S. Department of State medical health units to a cloud-based solution for their electronic health records. This will be done using our TouchWorks electronic health record for our patient -- and our patient engagement solution FollowMyHealth.

Through this partnership, approximately 450 clinicians and their staff at state will gain access to a scalable EHR as it is deployed across the world at more than 200 designated health units and missions on a rolling basis through 2023. This is a significant competitive win for our ambulatory business, and we expect this to provide additional momentum as we pursue additional opportunities.

Looking ahead to the rest of 2020, we remain focused on assisting our clients during this uncertain time. Our diversified portfolio has never been more relevant, and we believe we are able to capture new opportunities and to demonstrate the value of our solutions with both new and existing clients.

With that, let me turn the call over to Rick for our financial performance.

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

Okay. Thanks, Paul. I have a lot to cover, but I'd like to start by echoing Paul's comments thanking our team members for their hard work and commitment to our clients during these difficult times. The energy and the commitment has been amazing to witness and the leaders in our organization have never been more focused than they are right now.

I'm going to structure my comments today around 3 areas. First, a brief review of our second quarter performance. Second, as promised at our last earnings call, I'll provide additional details and disclosures around our segment reporting and the implications for our portfolio. And then finally, I'll give an update on the progress we've made on our margin improvement program and our near and longer-term adjusted EBITDA margin goals under that program.

Just a reminder, what Stephen told you earlier, we have posted a supplemental presentation in addition to our usual supplemental data workbook on the Investor Relations website. These documents provide additional details on our margin improvement initiatives and segment reporting, and I'll be referring to the content in these documents during my commentary.

So starting with the quarter, given the macro environment during the quarter, we were pleased with the $188 million of bookings that we recorded. This reflected broad-based strength across the portfolio of solutions, including Sunrise expansions, and continued success with new account wins in our ambulatory solutions, as Paul went through.

Revenue for the quarter was $406 million, which was down $11 million from first quarter, primarily as a result of the COVID impact on patient volumes. Recall from our first quarter call how COVID impacts our revenue.

With regards to our recurring revenue, the areas of our business that are most directly impacted by patient volumes at our clients, are our ambulatory revenue cycle management services, our payment clearing house and some transactional service lines we have around lab connectivity, e-prescribing, preauthorizations and chart polls. Collectively, these represent approximately 10% of our recurring revenue in any given quarter.

And of course, our nonrecurring revenue in any given quarter is driven by mix of in-period sales and backlog burn down. Over the longer term, stability in nonrecurring revenue is highly dependent on new sales activity. But in the near term, our substantial backlog helps cushion some of this against any in-quarter weakness in sales activity or sales mix. During the quarter, our recurring revenue remained at 82% of total revenue, consistent with where we were at the first -- in the first quarter of 2020.

We were encouraged to see patient volumes recover in June. For example, in our Payerpath ambulatory claims clearinghouse business. We saw claim volumes drop to 60% of normal volumes in April. And then they recovered back to approximately 80% of normal volume in June. And we witnessed similar trends in other patient volume-sensitive areas of our business.

We are very pleased with our margin performance in the quarter as we benefited from the margin improvement initiatives that we previewed last quarter. Consolidated non-GAAP gross margins increased 150 basis points sequentially. And our adjusted EBITDA margins increased 530 basis points sequentially as we dramatically improve the profitability of our client services organization and reduce low-value operating costs around the company. I'll share more details about our margin improvement plan and our outlook for adjusted EBITDA margins in a little bit.

As we'd previewed on our last call, we recorded a restructuring charge in the second quarter of $28 million, most of which was related to severance costs as we implemented this margin improvement plan. Looking out over the balance of the year, I would expect no more than $10 million in additional restructuring charges, and this will be split between both the third and the fourth quarter.

Overall, for the P&L, we recorded non-GAAP earnings per share of $0.18 in the quarter, which exceeded last year's second quarter non-GAAP earnings per share, even with revenue down approximately $39 million on a year-over-year basis.

The new margin efficiency is already beginning to show itself in our free cash flow performance. For the first half of 2020, if you adjust our reported operating cash flow for the impact of $73 million in payments that we made to the DOJ as well as approximately $23 million in cash restructuring charges. We generated $55 million in free cash flow, and that is more than a $90 million improvement relative to the first half of last year. So we're not done with our free cash flow improvement, but we think we're well on our way to a good start.

Now let me shift to our segment disclosures. As we had promised, we significantly enhanced our business segment disclosures this quarter to improve transparency and provide more clarity and visibility around our business units. The core clinical and financial solutions segment includes our EHR software and services for both inpatient and outpatient providers as well as our patient engagement solutions. And in totality, it comprises about 77% of our total revenue today.

Our data, analytics and care coordination segment comprises 21% of our total company revenue. And it includes our point-of-care and clinical data solutions for payer and life science customers, and it also includes provider solutions that bridge traditional acute to post-acute care and to manage the expansion of value-based care.

Finally, the unallocated segment includes our EPSi financial decision analytics platform, which is typically sold to our hospital clients. As you saw in our press release, earlier today, we finalized an agreement to sell our EPSi business unit. The purchase price of $365 million represents a multiple of approximately 7.5x trailing 12-month revenue and approximately 18.5x trailing 12-month adjusted EBITDA for this business unit. The deal is a significant win for Allscripts' clients and shareholders and tangibly demonstrates how valuable some of these business units outside our core clinical and financial solutions may be. The transaction is expected to close later this year, and the after-tax proceeds will be used to delever and further strengthen our liquidity position.

So stepping back to our 2 main business segments. Despite attrition related to decisions made a number of years ago, our core clinical and financial segment has regained some near-term momentum with major inpatient clients extending their long-term contracts and key new wins in the ambulatory business, including the state department deal that Paul mentioned earlier. Our international presence continues to expand as we view the core business outside the U.S. as a growth business, with large opportunities in the pipeline. While the timing of these deals is hard to predict, we do believe that we will win our fair share of new deals, and we are in advanced negotiations on some significant opportunities at this time.

Our data, analytics and care coordination segment contains our higher-margin and higher growth opportunity businesses with products that are sold inside and outside of the Allscripts installed EHR base. This includes Veradigm, which is focused on solving key problems for payer and life science companies using the point-of-care presence and clinical data that we have. It also includes our CarePort business, an end-to-end platform that bridges acute and post-acture EHRs and provides visibility for providers, payers and ACOs into the care that patients receive across care settings. CarePort currently manages 40% of post-acute transitions in the United States and processes more than 18 million annual referrals.

To be precise, our cloud-based precision medicine platform harmonizes genomic, clinical and lifestyle data and brings precise EHR agnostic and workflow interventions that work seamlessly with existing provider workflow, and truly facilitates decision-making at the point of care.

And finally, our Payerpath claims management solution, reduces the time, cost and clutter associated with managing health care transactions for practices of all sizes, and manages the claim reimbursement cycle, ensuring prompt and accurate payment.

What all these solutions have in common is that they provide a high recurring revenue stream with high margins on cloud-based tech stacks. Their end market customers are not limited to the Allscripts pace of EHR customers, and they all operate in large, faster-growing markets when compared to the U.S. markets for our core clinical and financial solutions.

This comment on faster-growing markets may ring a little hollow when you see that Q2 revenue was slightly down on a year-over-year basis in the segment. But this was driven by 2 temporary headwinds in the quarter, the first being the impact of lower patient volumes, and the second was a temporary setback for Veradigm in the aftermath of the DOJ settlement. But our expectations are that both of these headwinds will dissipate and will have a smaller and smaller impact as we look ahead.

New this quarter, we are showing segment profitability all the way down to the adjusted EBITDA level. We believe this makes our segment disclosures more useful and the methodology for how we did this is laid out in the supplemental information I referred to earlier. We intend to continue this presentation in future quarters.

Putting all the pieces together, and you can see that the core clinical and financial solutions segment comprises 77% of total revenue, but 58% of our total adjusted EBITDA earnings. While our higher-margin data analytics and care coordination segment comprises 21% of total revenue, with 35% of total adjusted EBITDA across the company.

So now let me shift and update you on the status of the margin improvement plan that we discussed on our last earnings call. We've made significant progress since we hired AlixPartners in March to help us develop and execute with a primary focus on improving adjusted EBITDA margins. At the beginning of our margin improvement program, before we started on these margin initiatives, our adjusted EBITDA margins in our core clinical and financial segment were 9.9%, and they were 24.8% in our data analytics and care coordination segment. We began our work by setting appropriate goals for where we thought our performance should be.

For the core clinical and financial segment, we set that at a level of 18% to 20% adjusted EBITDA margin, and this was based on competitive benchmarking of similar-sized companies in our sector. As for the data analytics and care coordination segment, we set a best-in-class 30-plus percent adjusted EBITDA margin goal for those businesses.

Working in tandem with AlixPartners to evaluate our cost structure, business processes, customer profitability and our overall solutions portfolio, we were able to identify and implement $76 million of permanent annualized margin uplift through June. And we have a high level of confidence in an additional $25 million of annualized margin uplift over the next 18 months. And also, we have -- finally, we have identified an additional $70 million beyond that of early-stage initiatives that are likely to provide additional margin uplift in the quarters ahead.

Let me give you some examples of where we've been able to improve processes and reduce costs across our cost of sales, our R&D and our SG&A. In our cost of sales, we have now rightsized our services organization to reflect the current revenue environment as well as improve the productivity of this labor base by setting scheduling and improving our ability to flex costs up and down based on the volume of work and thus avoiding unproductive bench of resources. We've improved our hosting costs by aggressive vendor management, and we have shed some low margin revenue, including hardware and some third-party solutions.

In our R&D, we have significantly restructured our R&D organization to focus on high ROI projects and optimize the mix of onshore and offshore developers. We are laser-focused on only funding investments with a clear path to deliver value to our clients.

And finally, on the SG&A line, we've reduced layers of management and increased spans of control across the organization, which we believe will not only increase efficiency, but also make us more responsive and nimble to our client needs. Putting all this together, results in confidence that we will be able to increase margins over time even as we remain in an uncertain revenue environment.

Based on initiatives implemented to date as well as those we expect to implement over the time we -- over the remaining course of the EBITDA margin plan, in our core clinical and financial solutions segment, we expect to increase to margin -- EBITDA margin target of 15.5% to 16% by the fourth quarter of 2020 and to continue to improve from there in 2021.

In the data analytics and care coordination segment, we expect adjusted EBITDA margins to increase to 29.5% to 30% by the fourth quarter of 2020 and then to also continue to improve throughout 2021. These margin expectations assume no changes in the underlying portfolio of solutions in each of our segments, and we will have some seasonality that will drive quarter-to-quarter variability. But we're very confident in our trend line.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Charles Rhyee from Cowen and Company.

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

And maybe a question for you, Rick. Obviously, you gave some pretty positive EBITDA margin targets by year-end. Can you talk about sort of what -- sort of the changes that have already happened so far in terms of sort of taking costs out? And what needs to be done over the next couple of quarters sort of to get there? And you said that it really doesn't depend on -- it really just assumes the current portfolio stays the same. Anything else besides with EPSi going? Anything else maybe in the core business that could potentially also be looked at being sort of maybe more noncore going forward?

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

Okay. Charles, thanks for the questions. You covered a little bit of ground there. So let me try to pick them off.

I mean, so we obviously have made substantial improvement during the quarter in our EBITDA margin numbers. I just went through all those details, and you can see them in all the supplemental information in quite a bit of detail. What I -- the message that I'm trying to get you to take away is we did a lot upfront, get the proverbial low-hanging fruit. It was comprehensive across the organization. The way you should think about the buckets of margin are really in our cost of sales, our R&D costs and our SG&A costs.

And so I went through some examples of things we did in all those areas. And there's more to be done. So my optimism around continuing to see an increase to the margins is because we have done a lot of work, building a plan. And while we've executed a lot of it, there's still a high degree of confidence in some initiatives that are yet to be fully implemented. So yes, we do expect an increase as we get towards year-end on that.

The second part of your question, Charles, I think, was with respect to the portfolio. And we do have some information in the investor presentation that's posted that makes it clear what margins are with and without EPSi on a consolidated basis. But the reason we've presented this on a segment basis is this transaction around EPSi doesn't impact any of those numbers because we've had that excluded from those segments.

And your comments on, is this -- is that the only piece of the portfolio that we could sell or might sell? No, I think what the takeaway that I want everybody to have is we have a lot of good businesses, both in our core and around the core. And many of those businesses in the data analyst and care coordination segment are businesses that do more business outside the Allscripts EHR customer base than they do inside and are very capable of standing on their own. So we're not predicting or foreshadowing anything, but they certainly are possibilities going forward.

Operator

Our next question today is coming from Robert Jones from Goldman Sachs.

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

Great. I mean, I guess, Rick, just to stick on that theme. Like clearly, nice progress on the margin improvement and where you see it headed. And you highlighted the free cash flow generation. Certainly, a lot of progress there, too.

And I guess if we take a step back and we look at these 2 new segments that you guys recut, how do you kind of think about growth in each one of those buckets, if we're able to kind of look out beyond this COVID window? And I know it's a bit of a tough question, but I think you guys have done a lot of heavy lifting internally, clearly, but just trying to think about what the outlook is on the top line and returning to growth?

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

Yes. Yes, Bob. So it's in part why we've created the segments because we do see different growth drivers in these different areas of the business. The core clinical and financial solutions, which to date are highly weighted towards the United States. It's no mystery to anybody on this call that the U.S. market is a relatively mature market for those solutions. There is some level of replacement activity that's been happening, and we think will continue to happen.

We expect to be a net share shift winner. But the pace and the volume of what that could look like, I think, is difficult to predict, particularly with COVID. And what's that doing to priorities at certain places.

But the international markets remain, I think, an exciting area, and we have some very strong points of presence internationally. We have a strong resume internationally. We think we're very competitive internationally, and we would expect to see some growth off of that. That tends to be difficult to predict. It's a little bit like drilling for oil. They're big hits when they happen, but difficult to predict when they will.

So I don't -- we're not going to foreshadow a growth rate, I don't think, Bob, but I do think we're ready to -- we are competing vigorously in many markets, and we would hope to be back with some good news on that.

In the -- go ahead.

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

No. No. Sorry, go ahead.

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

Well, so then on the other segment, the data analysts and care coordination side, I mean, those are -- again, we segment those businesses because the addressable market is fundamentally different than our EHR client base. And therefore, a larger market. And there are macro forces that are driving more growth opportunities there. So with the continued growth of value-based care, the shift from Medicare to Medicare Advantage plans. Those are driving a much greater interest in managing costs from acute to post-acute environment. And we have a platform that is extremely well positioned to take advantage and capture some of that growth.

We -- Veradigm and the ability to connect payers and life science companies to the clinical point-of-care and with the clinical data, that's an exciting opportunity. And it's why we have put investment into that space to position ourselves to ride that growth. And we have an ability with our clearinghouse business to continue to grow that in terms of its market penetration as well.

So I think generally, without giving you numbers on expected growth, Bob, because they'll all be a little bit different by different market segments there. But in general, we feel that the growth opportunities are going to be a lot more significant on that data side. And that's why we're trying to create more some of the transparency that we're doing with this presentation.

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

No. That's helpful, Rick. I guess maybe just a quick follow-up, as you highlighted for the EPSi sale. Healthy multiple, looks like maybe $20 million EBITDA you're talking about rightsizing the portfolio. Are there any assets as you think about some of those buckets you just highlighted where you would look to add any kind of tuck-in or bolt-ons that might help supplement or replace the EBITDA and revenue of some of the businesses that you have shed?

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

Yes. I mean, absolutely. We're constantly thinking about and scouring the market for things that we think are good adds. You don't have to look too far backwards, Bob, to see we've deployed a fair amount of capital. I mean, even just last year, we've put out a fair amount of capital to continue to strengthen the Veradigm asset base.

But yes, we'll be opportunistic. But to be candid, given where we have seen our stock trading and how poorly we're getting valued, I think it's difficult to do a lot of capital deployment with that market situation.

So we've focused on improving the operation. We're hoping with, again, a little more transparency, the market will wake up, and we'll get a fair value on the assets we have. And I think that'll, in turn, lead us to think about how to continue to optimize. And whether that's being an acquirer of assets or a seller of assets, I think, remains to be seen.

Operator

Our next question today is coming from Sean Dodge from RBC Capital Markets.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Maybe going back to the EBITDA margin initiatives. Rick, you mentioned that the cost actions you're taking to help achieve those. Is that all you need to do to get to those targets? Or is it going to take some revenue growth as well? I guess of the longer-term targets you laid out, are those achievable on your current revenue base?

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

Yes. Well, we've calibrated the cost base, Sean, to the existing revenue environment. So from my perspective, as revenue comes back and we see growth, that will make it a lot easier, frankly, to get to those numbers. But we're not counting on it with what we are working on right now. So it's a lot of cost, but it's not 100% cost, and we had some, in my view, junky revenue, too. And we're being a little more selective in where we're going to spend our time generating revenue, too.

So that works against some of the top line growth, but we think it's the right trade to make to create a more efficient organization. So I don't -- I'm not -- maybe said it differently, if behind your question is, are you banking on a certain revenue growth to hit those targets? The answer is no.

Sean Wilfred Dodge - *RBC Capital Markets, Research Division - Analyst*

Got it. Okay. That's helpful. And then maybe on the EPSi transaction, from a strategic or a mechanical standpoint, how difficult is it going to be to disentangle that from the rest of the solutions or capabilities you're providing clients?

Is there some type of commercial agreement you'll have on the back end of this where you'll continue to sell it? Or was EPSi pretty much already operating independently from everything else?

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

We manage the company today with very much a portfolio type of approach, meaning the way the segments are outlined is very consistent with how we manage it. So those businesses are -- have an independent identity. If you get a chance to look at the investor presentation slide we posted, we talk about how we calculated profitability. And you'll see there's a lot of it is directly attributed and directly kind of lines up with these business units.

Very little of it is allocated. And that's indicative of these business units outside the core are fairly independent to the core. So unraveling it, not -- I'm not saying it's no work, but it's a pretty modest lift to unravel it. There are some of our EHR clients that do use the solution. And so there might be some contract unraveling to do there. There's a little bit of TSA-type support we have to provide. But not -- there's not a lot of hooks.

Operator

Our next question today is coming from George Hill from Deutsche Bank.

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

I guess, Paul and Rick, my question on EPSi is, I guess, how did we come to the conclusion to sell that asset versus any other part of the asset? Was it more valuation driven for the demand that you saw for the asset? Or was it the kind of the output of the portfolio review? And I'll pause there for a second.

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

Yes. So George, it's more -- I would say it started with output of the portfolio review and what we felt was most strategic and less strategic. And then we compare that to what we thought about our competitive positioning and where we thought we would be long-term with that.

And then, again, ran that up against the need or the priorities for capital and liquidity and things like that. So it was kind of a triangulation of all of the above.

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

Okay. That's helpful. And maybe a quick follow-up for Paul, kind of away from the strategic review. I guess, Paul, could you just talk a little bit about the disruption of the sales process during the COVID environment? And kind of how far back do you think we are to kind of being able to sell as normal in the market versus still being at a pretty highly -- high level of disruption?

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

I think that people, George, depending upon where you are and what part of the country, a lot of clients will still see us. I've had a lot of client visits. They're still working. The CEOs are showing up. The CEOs, they're saying it's hard for them to expect their docs and nurses to show up, but they're not at work themselves. So they actually will see us.

So that actually is -- that I wouldn't say is business as usual, but it's more common to still do face-to-face meetings with many of our large organizations.

On the new business side, we're doing a lot of creative things with regard to the way that we demonstrate the product today versus what we used to, setting up websites for people to actually go in and actually experience the solutions. And in a mentored way for them to actually walk through it.

And then, specifically, everybody is doing it this way. So it's not like you're being disadvantaged or we're being disadvantaged from a different competitor because they're able to do something that we are not. So from a long-term perspective, I actually like the ability for people to look at software remotely. And for people to actually play with it themselves versus a room full of people being proctored to by one really smart doc or really smart nurse. So there's a kind of a new way of doing this, I think, is pretty important.

But broadly, it's a different way of doing business. But our people are -- in my perspective, are gravitating to it pretty nicely. A lot of people like to do this from home, and a lot of people are getting good at it.

Operator

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

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

I wanted to return to the cost reduction, but maybe a little more forward-looking. The vision of another $70 million is pretty bold. When you look at that, what of the 3 areas you've focused on do you see as representing the greatest opportunity?

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

Well, Eric, let me -- let's first qualify that, right? So I said we put in the bank already $76 million. We had $25 million of what we are calling highly confident of exercising over the next 18 months. And we've identified early stage initiatives of $70 million? Okay. So the reason I'm clarifying that is very typical in these kinds of drills that you identify something and then you put it through the kind of -- you put it through the sanity check and you have some stuff fall off.

So I don't want you to put that money in your pocket yet. I certainly haven't. So you shouldn't. But it's indicative of the -- there's a building spectrum of opportunities we've identified and some are already completed. Some are in the near, should be completed over the near-term and some are longer-term opportunities that we're working towards over the long-term as well. So I just want to make sure you don't have a misperception on what we said.

Then with that backdrop, where is the next layers of opportunity? Look, we still have areas that are underperforming. I think you see that still with the core margins. While we made significant progress in Q2, we're still below where I think for sure where we want to be, but even if you did a basic competitive benchmark, you'd see that. And it's indicative of, there's still some pockets. And one I'll pick on is our -- like our hosting costs, for where we provide hosting services to our clients are still not where they ought to be. And we have more work to do. And just that area alone has, I'm not exaggerating, I'm going to tell you 20 different initiatives that are all going to chip away at some of that work.

And longer term, the Microsoft relationship that Paul talked about, and we were very proud to cut with them is part of getting at some of the structural cost inefficiencies that we have today. So it's an area that those -- it's an example of -- so in our cost to sales, there's a couple of things that weigh us down, and it's why our gross margins are not -- we're still not where we'd like to see them wind up. But I think we worked pretty hard on the R&D side already. I don't think there'll be a lot more coming out of there, but we still have some areas that are in the R&D investment bucket when we classify R&D that are not people that write code.

So we have a lot of solution management organizations, things like that, that we have to continue to just rationalize and make sure we're set up as efficiently as we want to be. But our biggest -- my biggest focus is the corporate overhead. And so SG&A is an area that, for me, is where we'll have maybe an outsized look at how can we make that more efficiently.

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

That's helpful. I was curious to see if you'd land on Microsoft. When we think about that, do you have to get to a point where you're migrating more of what you have today, meaning later in the 5 years than earlier? Or are there opportunities early on?

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

There are definitely some opportunities early on. We've already created instances with our ambulatory. These are ambulatory technology that was built client server. But we are moving into Azure-based environments already. And we are running some clients in instances like that already. And I think as we get more and more comfortable with making those transitions and running them efficiently, we'll see more flow in that direction. But I think the inpatient side is still an opportunity that's in front of us. And that will take a little longer to make real.

Operator

The next question today is coming from Stephanie Davis from SVB.

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

So a large portion of the margin improvement this quarter came from R&D reduction, which is a pretty big departure from one of your large national peers and their view on that.

So I was hoping maybe you could give me more detail on where you found pockets of cost opportunity without sacrificing growth. And as a follow-up, how you benchmark your internal targets for R&D as a percentage of revenues going forward given the broad array of mature software companies out there?

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

Yes. Well, I'll start by saying, I can guess who you're referring to, but let's just -- I'll just talk about that.

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

Not so subtle.

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

Yes. We are -- we invest just as much, if not more, of our revenue dollar back into our solutions as anybody in the industry. So obviously, size can change what that absolute dollar amount is, but we invest every bit as much. Some of what you've seen is your observation. I mean, I'd actually encourage you to keep looking deeper because a lot -- the impact was across many different areas.

But without compromising what you're investing for clients, I mean, we had a huge opportunity to optimize our mix of onshore and offshore developers. I mean, those significant opportunity. And we can do that efficiently because we have a very large operation offshore that we're -- they're all our employees. It's not like we've sent it out to third parties. We can efficiently staff up in locations like that. We can efficiently recruit quality talent, and that's a big cost savings for us. So that's an opportunity where nothing got lost in terms of value to clients, but we were able to really push on optimizing that mix.

Another example is, again, inside R&D, it's not just people who write code. I mean, we had large, and I would argue, excessively large, project management offices that did a lot of work that didn't meet our standard for ROI. And so we've rightsized that a bit.

So we feel really good about the changes we're making and have -- but have done it all with the client interest at heart. And we feel like we're investing very much the appropriate amount of money in our solutions given the marketplace that we're in.

So -- but again, that's -- I'm trying to answer your R&D question. But again, we've made changes up and down all buckets of the organization.

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

Understood. Understood. And historically, when I've talked to you folks about R&D spend and why it was outsized versus other industries, there was a heightened level of regulatory compliance spend just given the health care focus. Is that taking down a bit just given where the industry is?

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

Well, no. I mean, the regulators are not sitting on their hands. There's definitely continued requirements that come our way. And it tends to go in waves a little bit, Stephanie. I mean there's -- you remember, the big waves, obviously, at Meaningful Use 1 and 2.

There's a lot of work now -- right now happening around interoperability rules. So those do come in waves. And at those times, it can separate the strong and the weak. So we may see -- continue to see some industry evolution from that. But regulatory-driven investment has not gone away.

Operator

Our next question is coming from David Windley from Jefferies.

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

I -- if I heard correctly, I think you said 200 clients on your telehealth or telemedicine solutions and some 900,000 visits in 2Q. I guess, 2 questions around that. Is that a material revenue opportunity for Allscripts -- maybe 3 questions, that, how are you pricing that? And is there an opportunity -- is there a difference in that pricing strategy kind of in the midst of COVID versus after things start to normalize?

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

We do charge for it, and we charge on a per visit basis. And we also charge dependent upon inside of our other organization, inside of Practice Fusion, we actually do it on a per provider basis.

So we do think it is a revenue opportunity, and our clients really like it. The -- that some -- in many cases, been talking to clients, they keep that around 70% of their visits on the ambulatory side went to virtual. And they're trying to figure a way, and that's up from like 15% of their visits, and they're trying to manufacture a way to make that happen and stay at that rate, at 50% is kind of the floor they're trying to hit at. This is all subscription business for us. So it's all recurring revenue. And I think that as a result of COVID, that many consumers are going to permanently demand, that this is the way that they have their interaction with their docs, especially on the primary care side. And certainly, depending upon the age of that cohort. But interestingly, there was a lot of folks that were, I'll just say they were more -- they're elder. They were also taken with this, and they enjoyed being able to see their physician online versus having to come in and sit and wait, being a little bit, if you will, nervous about the potential health and safety of being -- sitting in a waiting room.

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

Understood. So to clarify, is it either a per physician or a per visit? Or is it actually both?

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

It's a subscription.

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

It's a PM -- per provider per month kind of pricing typically, David.

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

Okay. So not a per visit, patient visit-driven revenue model? Just want to make sure I understand that correctly.

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

Right. Right. Paul, I think was referring to it. The client can bill per visit, but we charge them on a subscription basis.

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

And in your discussions on this, how important if you get into this at all, how important do your customers indicate the ongoing reimbursement regime will be to their decisions around embedding telemedicine in their practices like they are doing with your solution?

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

Look, there's no doubt that normalizing for reimbursements for the virtual visit has helped. It certainly removes the conflict of trying to force people into the office. So that has definitely helped.

But I think the answer to your question is kind of rewritten every day with the reality of the world we're in. I mean, I think we -- I think a lot of our clients would like to practice medicine the way they -- with a personal touch, but that's a problem for both them and the patient. And so seeing them on a virtual basis, is better than not seeing them at all. So I think the evolution is happening on a daily basis.

Operator

Your next question today is coming from Michael Cherny from Bank of America.

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

Just diving in again on the Microsoft side. As you think about the push going forward, is there anything that, as you go through this partnership, go through this expansion that you're seeing more for anything else that what they're doing on their health care side that they want to bring to the table? I guess, relative to the initial partnership, has the end goal changed?

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

For them? For Microsoft? No...

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

There's been tiny little pieces on the part with Microsoft over time. I'm just curious to see where we sit.

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

Yes. Microsoft has been pretty clear that they're not going to be in the application business. They're not going to be in the end user business and/or competing with us. They want to be a service to us and for people like us that do what we do.

So they've been pretty clear about that. They have a series of things that they offer around cognitive services around the way that they build their applications that make it much slicker for us and much faster for us to stand up new capabilities that we are going to take full advantage of because of the way that they do that inside of the cloud. Things like credentialing, things like AI that you can call as a service. And it's pretty -- it's very impressive, and it allow us to get to more interesting solutions much more quickly.

And then just the scale that they have is also quite impressive to us, their ability to gen up new regions and do things more quickly. And then lastly, the cyber impact, they spend billions of dollars a year on cyber. And that is a race that will continue to be run for here through eternity, and we think that's lining up with somebody like them with their capabilities and their capital spend on that every year is something that we think is incredibly important.

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

Great. And then just one quick technical question, Rick, I'm sorry, I missed -- if I missed this. You noted your view of where the stock sits. Obviously, you've been historically active on the buyback side. How do you think about that on an intermediate basis?

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

Yes. I mean, it's attractive, Mike, for sure. I think we have been active. I would expect to be active again. But we're -- with the the first the onslaught of COVID and potential implications and unknowns around liquidity. We thought it was smart to be husband our cash and just be prudent during that. I think we're feeling better about that. But I think we're also feeling like it's a good time to take down our leverage a little bit. But we'll continue, as we generate cash in the business, et cetera, you should expect us to continue to be an opportunistic buyer if the stock is undervalued.

Operator

Your next question is coming from Matthew Gillmor from Baird.

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

I just had a quick clarification. With the EPSi proceeds, will there be any tax leakage with that? Or do you have some ability to shield any gain?

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

We have some tax attributes left, Matt. So we won't have a full incremental effect, but we will pay some taxes. Yes.

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

Okay. Is there an easy way for us to just think about what the net proceeds are? Or is that sort of TBD at this point?

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

It's still TBD, but I mean, you should assume some deal costs, and then you should assume some taxes and -- why don't we sketch out some numbers and then we'll have -- I'll have Stephen post them or something like that rather than just do something off the top of my head here.

Operator

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

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

Congratulations on the expense controls there. Just with the new buckets here, divisions. Appreciate the revenue on the last 12 months. Are you going to be reporting those divisions, the actual numbers on a quarterly basis going forward, like in the 10-Qs and Ks and whatnot, so we can sort of track that going forward? That would be my first question.

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

Yes. Sorry to interrupt you, Richard. But the answer is yes, when you see our Q filed, you'll see some of this same information.

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

Okay. And then will we be seeing sort of like a quarterly look back in terms of the historical numbers?

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

Yes. Rick, it's the -- we have it posted on in the supplemental workbook going back to 2018, and we have quarterly for 2019 and the first 2 quarters of 2020.

So you can see the segment breakdown all the way down to adjusted EBITDA.

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

Okay. Excellent. And then just, Rick, just a clarification on the data analytics side. You had mentioned the revenue decline there. You said Payerpath, I understand that, but I didn't quite get what the Veradigm was. What caused that?

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

Yes. It's a fair question, Richard. What I was saying is I think the settlement we reached, which we -- you're certainly familiar with that and talked about that. And we didn't have all the same disclosure clarity that we have today. But I think for the last couple of quarters, there's been an observation that the growth in the Veradigm area was not -- was kind of stunted a little bit. And what I'm saying to you is we did have, I'd say, a little bit of a pause that happened with the DOJ announcement, and we -- I think a lot of the business partners of Veradigm wanted to understand that and get comfortable with it.

And the good news is we've worked through all that and feeling much better about the look ahead. But I mean, we had a couple of quarters of pretty stagnant growth coming out of them because of that.

Operator

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

Raymond Xu - *Morgan Stanley, Research Division - Research Associate*

This is actually Raymond on for Ricky. I wanted to start by asking about strategic areas and adjacencies that you can see as potential fits. And a lot of our conversations, we hear about the consumer and at home care being very interesting areas. What are your thoughts on those as potentially being fit for your business.

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

Well, Raymond, I mean -- so we've made some significant investments in positioning ourselves for adjacencies for several years now. I think an area that is close to what one of the things you just gave an example of is in patient engagement. I mean, we think all of our health system clients from the large all the way down to the small, are very interested in patient engagement solutions of all levels that kind of get them tighter connected with patients on a pre-visit and post-visit basis.

And so our health grid platform is a really good tool for that. And we would expect to see some growth coming out of that in the quarters ahead. But a lot of the issue -- a lot of the businesses that we've just described in the data analytics and care coordination segment are really all about pursuing some adjacencies beyond just the core clinical EHR and financial solutions market. So things around bringing personalized medicine and genetic testing into the clinical workflow, that's what 2bPrecise is all about. Transitioning from acute to post acute care, that's what CarePort is all about. And Veradigm is all about bringing the clinical, again, point-of-care as well as clinical data that we've collected for decades now to those entities and help them reduce some of their friction costs that they have with trying to interact with the point of care.

So these are all, in our view, adjacencies that we've positioned ourselves into with both organic and inorganic investments.

Operator

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

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

Very good. Thank you, everybody, for staying on the line with us today and for listening to the Allscripts conference call.

I'm impressed with 3 different things. In spite of the pandemic that's going on around the world, we had a very strong performance from the sales organization from our global people, from the client relationships that we have, from the new business that we have as well as the recent Department of State win. I'm also pleased with the strengthening we have in the building of an enduring company with respect to a lot of the hard work that's going on with the AlixPartners initiative, which brought a lot of focus, a lot of clarity, and we've also taken substantial actions already to make sure that we have the right size of company and the right margin profile as we look forward that will strengthen us for the long pull, and I'm very proud of what we've been able to accomplish in a very short period of time.

And then from a development standpoint, from a solution standpoint, that's also extraordinarily important to us as a software company, obviously. And our work with Microsoft and what we're doing and our plans there will help us to be much more agile on a going-forward basis. And have, importantly, great new solutions that are going to be, we think, very well received by the marketplace as we're already in those markets, and we know what they want, and we know what their specific asks are with regard to total cost of ownership and the ability for them to connect more efficiently through a cloud-based solution.

So with that, we thank you for your time and your interest in Allscripts. And we'll talk to you soon. Appreciate it.

Operator

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