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MDRX - Q1 2019 Allscripts Healthcare Solutions Inc Earnings Call

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OVERVIEW:

MDRX reported 1Q19 GAAP revenues of $432m and GAAP loss per share of $0.04. Expects 2Q19 non-GAAP revenues to be $445-455m and 2019 non-GAAP EPS to be $0.65-0.70.

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PRESENTATION

Operator

Greetings. Welcome to the Allscripts' First Quarter 2019 Earnings Call. (Operator Instructions)

Please note, this conference is being recorded. I will now turn the conference over to 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. Good afternoon, and welcome to the Allscripts First Quarter 2019 Earnings Conference Call.

Our speakers today are Paul Black, Allscripts' Chief Executive Officer; Rick Poulton, our President; and Dennis Olis, our Chief Financial Officer.

We'll be making a number of forward-looking statements during the presentation and the Q&A part of the call. These statements are based on current expectations and involve a number of risks and uncertainties that could 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 Rick Poulton.

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

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

During our last quarterly earnings call, I cataloged and detailed the moves we had made over the last several years to improve our competitive standing and position us with growth platforms for the health care provider, payer and life sciences end markets. And we have seen the strategy begin to pay off already in 2019. As a result of these moves, we reported record first quarter bookings of $286 million, reflecting a 9% increase year-over-year. And our pipeline remains strong, reflecting strength in both our provider-focused and payer and life science-focused businesses.

During the first quarter, we grew our non-GAAP earnings per share by 7% year-over-year, and non-GAAP revenue grew organically 1.3% year-over-year to $433 million.

Due to all the moving pieces of acquisitions and divestitures, it's difficult for you to see the organic result. So for full transparency, I'm going to explain it. It's calculated assuming the acquisitions of Practice Fusion and HealthGrid as well as the divestiture of OneContent, all occurred on January 1 of 2018.

So while the organic revenue growth we saw in the first quarter and also the growth implied in our second quarter guidance are certainly below the 3-year guidance we outlined in January, I want to remind everyone that there's always a lag between sales and revenue realization. And our strong sales in both Q4 and Q1 as well as our current pipeline of sales opportunities still provide us confidence in the multiyear guidance that we published earlier this year.

So now, let me highlight some specific trends and client activities during the quarter. In the hospital and health system market, we continue to see additional consolidation among providers and a preference for having 1 patient 1 record for both clinical and financial purposes.

We signed a 7-year expansion agreement with Hendrick Medical Center, a 564-bed hospital in Abilene, Texas. This was a major all-in deal with Hendrick who expanded their Sunrise platform from just inpatient clinical use to include Sunrise Financial Manager and Sunrise Ambulatory, both of which were competitive displacements. In addition, Hendrick signed up for an enterprise-wide patient engagement solution from us as well. This agreement builds on our momentum of signing all-in portfolio deals similar to the Heritage Valley Health System and Blessing Health system deals, which we signed in the fourth quarter of last year.

In our Paragon base, we are also seeing our clients going all-in as we now have Paragon Ambulatory functionality available. Ridgecrest Regional Hospital in California signed up for Paragon Ambulatory, which allows for 1 patient 1 record across their acute care setting and 5 ambulatory practices. Additionally, Waverly Health Center in Iowa signed a 5-year extension with Paragon after having decided to leave the platform and then they experienced a failed implementation by one of our competitors. We believe clients coming back to Paragon from other vendors shows the value of our investment in maintaining a competitive product for this community hospital base.

As Paul will comment further on a little later, the boomerang we experienced with Waverly is not a one-off incident, and we believe it illustrates the market realities of our strategy to invest in and deliver full functionality versus the vaporware and chatter that seem to get lots of press and permeate industry service.

Our international health system business also had a strong quarter, and we signed 3 new logos including this first Sunrise deal in the Middle East. Alfardan Group, one of the leading family-owned conglomerates in Qatar, and Chicago-based Northwestern Medicine selected Allscripts to provide Sunrise services for the launch of its new project, Alfardan Medical with Northwestern Medicine. We also won a new Sunrise deal in the U.K. for 2 hospitals which further solidifies Allscripts' presence in the important U.K. market.

So moving over now to Veradigm. Our investment in creating Veradigm has helped to position us as one of the industry leaders serving the payer and life science end markets. We're creating a transformative solution that leverage the assets and scale of core health IT platforms and point-of-care workflows. Perhaps, the best evidence of this is the deal we signed in Q1 with one of our EHR competitors, NextGen, that I've highlighted on our last earnings call. This deal expanded the reach of Veradigm well beyond Allscripts' footprint and is a testament to how much scale we created on our own with Veradigm that an organization like NextGen would choose to partner with us rather than attempt to compete on their own.

Let me share a few examples of how Veradigm is creating unique value in our -- in these end markets. We use our expansive real-world evidence combined data set of more than 150 million unique patient records to provide advanced analytic solutions and insights focused on improving care quality and patient outcomes. We are also transforming in life sciences by integrating clinical research into point-of-care workflows.

On the consumer front, our TruePriceRx price transparency solution empowers patients by providing insights into prescription saving options at the time of treatment. And our payer team is creating workflows and advanced analytics and data solutions to improve health care quality and reduce costs. Their product portfolio is anchored by 3 analytic pillars: first, being risk adjustment for government program health plans and risk-bearing provider groups; the second being quality improvement metrics; and the third being pharmacy program management.

Our strategy at Veradigm remains to continue to pursue additional opportunities to add data to our industry-leading dataset and to continue to build new workflow and analytics solutions for life science companies and risk-bearing entities. Overall, the strategic investments we made over the last few years have positioned Allscripts with a number of unique growth platforms that differentiate us from many other EHR vendor.

And finally, I'd just like to congratulate the entire Allscripts team for achieving ISO 9001 quality management system certification. ISO 9001 is an international quality management system standard that requires Allscripts to meet requirements to promote continuous improvement, quality and risk mitigation. Allscripts uses the standard to demonstrate the ability to consistently provide products and services that meet or exceed client and regulatory requirements. Now Allscripts stands apart from all of our other competitors as really the only company in our industry to have obtained ISO 9001 certification.

So with that, I want to turn the call back over to Dennis to go through more financial details for the first quarter and our outlook for the balance of 2019.

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

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

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

Second, as a reminder, we closed the Practice Fusion transaction on February 15, 2018 and began consolidating the results as of that date. Q1 of 2019 includes a full quarter contribution from Practice Fusion.

Third, the divestiture of our OneContent business closed on April 2, 2018, and therefore, our Q1 2019 financials do not include results from this business unit. In Q1 of 2018, the OneContent business contributed $17 million in revenue, $13 million in gross margin to the corporation. This creates a difficult year-over-year comparison when evaluating revenue and margin at the total Allscripts and provider segment levels. This also impacts recurring revenue when analyzing year-over-year results.

Fourth, we acquired HealthGrid in May of 2018, and therefore, our Q1 '19 results include a full quarter of results from this business unit.

Fifth, we closed on the sale of Netsmart on December 31, 2018, and as a result, our non-GAAP results and supplemental financial data now exclude the results from Netsmart in all prior quarters.

And finally, in the first quarter of 2019, we realigned our segment reporting structure to reflect the way we are running the business and to provide greater clarity into the unique growth drivers related to each segments. Our new reportable segments are Provider, Veradigm and Corporate. The new Provider segment is comprised of our core integrated clinical software applications, financial management and patient engagement solutions targeted at clients across the entire continuum of care. The new Veradigm segment is primarily focused on the payer and life sciences market. The Corporate segment includes corporate level SG&A and R&D, ancillary revenue and nonrecurring adjustments. We will provide current and historical segment level financial results in the 10-Q file tomorrow.

Now let's turn to the results for the first quarter. Bookings totaled a record $286 million in the quarter, and we're up 9% year-over-year. As Rick noted, we saw a record bookings for the first quarter. Our reported backlog now stands at $4 billion. This reflects both the impact of bookings as well as renewals in the quarter that are not included in the bookings metric.

Turning to the income statement. First quarter non-GAAP revenue totaled $433 million, within our guidance range of $430 million to $440 million. Adjusting for the acquisitions and divestitures noted in my opening remarks, organic revenue grew 1.3% versus the same period a year ago. Non-GAAP revenue reflects $1 million in acquisition-related deferred revenue adjustments in the first quarter of 2019. In the first quarter of 2018, such adjustments totaled $2 million. Q1 2019 GAAP revenue was $432 million.

Looking at our total revenue split, total recurring revenue was down 1% versus the same period last year but up sequentially. Nonrecurring revenue was up 1% versus Q1 of 2018 and down $11 million sequentially. Thus, our total recurring revenue mix came in at 81%. We continue to expect recurring revenue to trend in the high 70% to the low 80% range for 2019.

Moving to non-GAAP gross margin. Allscripts' gross margin was 43.1% in the first quarter of 2019 compared with 46.4% in the first quarter of 2018. Gross margin in Q1 was impacted by the M&A activity already discussed, increased software amortization and the increase in cost to consolidate and close 2 data centers in the quarter. We expect gross margins to improve throughout the year and run at approximately 44% for the balance of the year.

Looking at operating expenses, non-GAAP SG&A totaled $84 million, approximately a $10 million decline from a year ago as we benefited from actions we took to drive synergies related to the EIS acquisition as well as the overall expense efficiencies. The non-GAAP SG&A figure excludes transaction-related and other expenses.

Non-GAAP R&D was $60 million, approximately flat year-over-year. Recall that non-GAAP R&D excludes transactions-related and other expenses. Our gross software capitalization rate was 30%, within our expectation to be in the low 30% range.

Adjusted EBITDA totaled $72 million, which equates to a 17% adjusted EBITDA margin, flat with the year ago quarter. We expect margins to improve for the balance of 2019 as we benefit from cost savings related to our data center migration, faster growth in the high-margin Veradigm business and overall leverage on SG&A and R&D expenses.

Looking below the line. Total cash interest decreased to $6 million, which compares to $8 million from a year ago. GAAP loss per share in the quarter was $0.04 and includes transaction, legal and other cost of $10 million. Our non-GAAP effective tax rate was 24% in the quarter compared with 27% from a year ago. As a result of the gain recognized in the sale of Netsmart, we have effectively utilized most of our NOLs and expect to be a net cash taxpayer in 2019.

Finally, excluding noncash adjustments and transaction-related and other expenses, non-GAAP net income attributed to Allscripts totaled $27 million, and non-GAAP EPS was $0.16 for the quarter, representing a 7% year-over-year increase. We entered the quarter with a principal balance of $465 million in secured debt and $345 million of convertible senior notes. Our leverage ratio, defined as net debt divided by a trailing 12-month EBITDA, was 2.2 at the end of the quarter. This compares with 3.4 at the end of the first quarter of 2018. The strength of our balance sheet gives us significant flexibility for additional investments in high-growth areas and the continued return of capital to shareholders.

We were aggressive with stock repurchases in the quarter. We repurchased $65 million of stock in the first quarter. We now have $148 million remaining under our existing stock repurchase authorization. We expect to be opportunistic with additional share repurchases going forward.

Turning to cash. Q1 operating cash flow totaled $6 million compared with $58 million a year ago. Our first quarter operating cash flows reflect a $30 million estimated tax payment made in the quarter related to the gain we realized from the divestiture of Netsmart. As a result, cash flow from continuing operations was $36 million in the first quarter of 29 (sic) [2019] compared with $54 million in the first quarter of 2018. Cash flow from continuing operations was impacted by higher incentive compensation made in the first quarter of 2019. Our Q1 free cash flow totaled negative $28 million after adjusting for capital expenditures, capitalized software and purchased software. Excluding the $30 million tax payment related to Netsmart, free cash flow would have been $2 million in the quarter. As we've noted in the past, cash flow will vary from quarter-to-quarter. We expect 2019 cash flow to improve from 2018 levels as onetime cash cost related to transactions will decrease throughout 2019. We do, however, expect some cash transaction-related expenses to continue in the second quarter of 2019. Absent the onetime transaction-related costs, we continue to expect a more normalized range of approximately 80% to 100% conversion from non-GAAP net income to free cash flow.

Turning to our outlook. We are reaffirming our outlook for 2019 bookings and non-GAAP earnings per share. In addition, we are providing non-GAAP revenue for the second quarter of 2019. We expect bookings in 2019 of between $900 million and $1 billion. This reflects strength in both the Provider and Veradigm businesses. We also expect non-GAAP earnings per share between $0.65 and $0.70 for 2019. This outlook reflects a non-GAAP effective tax rate of 24% for 2019. And finally, for the second quarter of 2019, we expect non-GAAP revenue of between $445 million and $455 million, which reflects a 4% sequential increase at the midpoint of our second quarter outlook.

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

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

Thanks, Dennis. I'm also pleased with our first quarter financial results and the strong bookings performance.

Let me take a brief step back to give you a sense of where our industry and Allscripts have come from and the progress we've made. 20 years ago, the publication of the Institute of Medicine's report, To Err is Human, was a watershed event for health care IT. To Err is Human encouraged early adopters of electronic health records who saw great potential in technology that can reduce risk and avoid medical errors. 10 years ago in 2009, the American Recovery Act provided $30 billion of funding to finish the digitizing of the U.S. health care ecosystem. The decade that follows brought phenomenal advancement from consumer platforms to machine learning to analytics and big data to genomics and precision medicine. Key safety measures such as data transfer to the cloud for security and digital systems designed to catch human error were developed and executed. Since 1999, the industry has collectively and relentlessly focused on patient safety and quality, and Allscripts has led the charge.

Now let me outline what we've accomplished. We've had the longest tenured leadership team among the top 3 publicly-traded companies in the marketplace. This provides visibility for our clients and allows us to focus on achieving long-term strategic priorities. We now have 81% annual recurring revenues, which helps to provide visibility into our future performance and makes us less reliant on in quarter bookings. We have a full electronic health record solution as we invested substantial dollars in R&D. Through adept capital management and deployment, we have acquired extraordinarily important platforms, including consumer and patient engagement, interoperability for payer and life sciences end markets. Our investments over the past 5 years have added $300 million of annual recurring revenue at a net cost approaching 0. These transactions have also resulted in an increased scale, which drive industry relevance for Allscripts. Our balance sheet has been substantially derisked, and our financial reporting has been simplified post the sale of Netsmart. Our leverage ratio has come down materially since the end of 2018.

I'd like to share some thoughts about a report that came out today from a topical perspective. We believe the best way to share our industry rev size is by revenue, and we are -- as we are the third largest player in the industry by this metric. Size creates scale, which allows us to invest back into core EHR solutions and in high-growth platforms. We are only 1 of 3 companies who are making material investment in core acute care solutions. These investments have resulted in significant wins across our Sunrise platform including surgery, ambulatory, Sunrise Financial Manager, radiology and oncology. Our breadth of solutions has led many of our clients to expand the relationship with us and go all-in.

For our Paragon base, we told you that we anticipated some attrition when we acquired that solution. We have subsequently invested in building out a robust Paragon Ambulatory platform to address client needs, and we are seeing success in retaining clients, in gaining back clients (inaudible) going to a competitor. Waverly, as Rick mentioned, is one of these. In the past 90 days, there's no less than 5 clients returning to Paragon.

I'd like to share on unsolicited quote from one of our Paragon clients, which we believe is more reflective of our client base in May of 2019. Here's the quote, "The Paragon base should be thankful that Allscripts purchased the solution from McKesson EIS. Unlike apparent customer conclusion, a public opinion, Allscripts has, in fact, delivered and completed major work throughout the Paragon fleet in just 18 months. Any site still on version 12X or below has no appreciation of the advanced functionality that is now available for both providers and staff."

Turning to Sunrise. While we hate to lose any client and while it's very unfortunate 1 loss did represent 11 hospitals as the report reflected, we had a number of significant wins outside the United States, including major hospitals that are not counted. Allscripts' wins which occurred in inpatient hospitals and camp facility also were not counted.

With respect to government policy, we believe the focus will always be on improving patient care with the right data at the right time with actionable results, improving interoperability across health care system, improving patient access to the records and ultimately connecting patient to the genomics.

On the interoperability front, we've continued to invest in supporting innovation through the Allscripts Developer Program, our own dbMotion Solution and through initiatives like FHIR, Argonaut and care quality integration. We believe we have the industry's most comprehensive interoperability solutions and will lead any regulatory push.

Finally, as we continue to see increasing demand for our solutions as payment models continue to shift to paying for value rather than fee-for-service. We saw CMS roll out 2 new value-based payment models last week, and we expect to gain even greater focus on shifting to value-based payments in the near term. These new payment models will further encourage the adoption of our solutions.

With that, let's open the line for comments and questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is by Michael Cherny with Bank of America Merrill Lynch.

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

Thinking about getting ahead of the resegmentation and numbers (inaudible) but think about the kind of why behind the resegmentation. It's been a fairly short period of time since you established Veradigm. You talked about the difference that this offers versus other platforms across the market. As you think about the sales cycle and think about the growth opportunities we have in terms of how to think about where Veradigm is going to be successful, how will the sales cycle evolve over time? What are you seeing now? And is there a dynamic in terms of how quickly you can convert bookings of Veradigm's revenue as different from your traditional business? Or how will it contribute to the overall P&L?

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

Thanks, Mike, for the question. Yes, seems like there was a few questions within that question.

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

Sorry about that.

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

I'm not sure if you -- no, it's okay. I mean I don't know if it's really a question on the segment reporting. I guess I'll just make a comment there. We think given it's focused on different end markets than the health care provider group, that makes sense that that's the most natural reportable split for us. And obviously, with Netsmart going away, we have a need to recalibrate segment reporting, and that's our view. And we shared our view with our auditors, and they concur with that view. So that's why we're going in that direction.

As for the balance of your question, yes. So I mean Veradigm's -- I would say in general like the sales cycle for them, it probably takes equally long to kind of start-to-finish closing a deal as it does in the provider markets. I think that shortens as we increase our footprint and our presence so I'll be interested to watch that as the year goes on here. There's a little bit of evidence that says that's shrinking a little bit because of what we've established, and there's less need to credential ourselves, if you will, as part of the sales process. But I think in general, once the sales happen, the conversion to revenue should happen a little bit quicker than it does on the provider side. So I hope -- go ahead.

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

One more quick question for Dennis. I'll keep this much quicker. It looks like the debt balance went up sequentially, did increasingly from buyback. Any way to think about new types of target leverage you're looking for now that Netsmart is off the roster?

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

Thanks, Mike. I think as you said, the debt went up primarily due to the stock buyback and some payments we would make, we had some incentive payouts for employees and the like and some operating expenses. I would expect the leverage ratio that we're comfortable with, absent any type of transaction, could be in the low 2 range. To close our Q1 at 2.2, I think that's a good place for us to be in the low 2s.

Operator

Our next question is from Jamie Stockton with Wells Fargo.

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

I guess maybe one on bookings. You saw some nice growth. With the kind of new segment structure, is there any color that you can give on how bookings segmented? Maybe you don't give total dollars, but just any sense of how much traction you've got in Veradigm versus how much of that came from the Provider business.

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

Yes. Sure, Jamie. I think we're going to stick with our policy of not really going -- disclosing that much in terms of specific numbers below the consolidated number. But -- and that probably doesn't surprise you. But directionally, yes, Veradigm had a very good first quarter. Certainly, a good part of why we set a new record in the quarter.

So it's -- I'd say the way you should think about it is their bookings are contributing at a level that's beyond their relative revenue contribution right now, and it's partly why we have some of the -- if you go back to the revenue outlook we had for 3 years that we disclosed in January why their relative contribution was so strong.

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

Okay. That's great. Maybe -- and one other one on Veradigm. You had the NextGen deal. I thought that you guys said you've got 150 million unique patient records, which I assume includes kind of the contribution from NextGen. Is there a way that we should think about, hey, we probably need to go out and knock down 1 or 2 other NextGen-like deals to have the robust kind of record set or access to patients that we want? Or do you feel like you're already there? Just anything on that front would be great.

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

So first part of your question, the answer is yes. That figure includes the collective addressable group. We're going to continue to grow it. But as you can imagine, when you're talking about 150 million, you're talking about half of the U.S. population, right? So any individual deal with any other, let's say, competitor or other source of data on the margin likely has more overlap, right? So your marginal contribution of unique records will probably start to go lower and lower as we do more deals. So I think we feel like we have a really good scale footprint already. But we -- having said that, we're in active discussions with other parties about kind of joining the consortium, if you will.

Operator

Our next question is from Robert Jones with Goldman Sachs.

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

I mean maybe just one on gross margin. Just trying to understand how to think about the margin in a post-Netsmart world. Looks like step function lower, obviously with that business transitioning out. But within the segments, looks like services, in particular, a bit lower than what we had been used to. So anything you can share on how to think about the forward? And given things like Veradigm and some of the mix shifts that are going on or hopefully going on in a forward basis, how we should think about the margin progression from here?

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

Yes. Thanks, Robert. So when we look at the gross margins in the first quarter, there were a couple of items that impacted the total results. So first of all, as I've mentioned in my comments, we consolidated a couple of our hosting data centers in the quarter, so we had some duplicative expenses, some in the fourth quarter, but more so in the first quarter. Now that we've closed 2 additional data centers in the first quarter, we would expect that margin and those additional cost to go away in the second quarter and for the balance of the year.

We've also had a significant uptick in software amortization. So as you know, over the last couple of years, we've been increasing our R&D spend and capitalizing roughly 30% of that spend. That has now come back to us in the last couple quarters as an increase to our software amortization, which flows through our gross margins. So we've seen an uptick of about 150 basis points year-over-year as it relates to the software amortization.

As I said in the remarks, we would expect margins for the balance of the year to be in the 44% range as we look at the items that were going to continue to improve margins with the data consolidation. Service margins -- service revenue continues to be challenged, which is driving the service margins. We've talked about that over the last couple of quarters. We do expect to see that improve in the second half of this year.

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

Okay. Got it. That's helpful. I guess just to stick with the profitability, Dennis. On the SG&A side, obviously really strong performance there. On the cost side, relative to expectations. Anything you can share as far as an update on synergy realization? Did you achieve synergies perhaps faster than anticipated? Or should we still be factoring in some of the synergies over the course of the year?

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

Yes. I think the bulk of the synergies that we talked about over the last 18 months or so with the McKesson acquisition have been realized, so I don't anticipate any significant synergies in the SG&A lines over the course of the next couple of quarters. We continue to manage our cost effectively, so we'll look to eliminate some corporate-type expenses as appropriate over the course of the year, but I wouldn't model in anything significant in the remaining 3 quarters.

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

Got it. But in this quarter though, Dennis, just to clarify, there still was some residual benefit from synergies? It's just going forward we shouldn't anticipate anything incremental?

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

Yes, there were some synergies that we continue to recognize but also just cost effectiveness as we manage our overall cost spend, so you should expect the latter to continue through the course of the year.

Operator

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

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

Just want to follow up, Rick. At the beginning, you talked about sort of the organic growth here and then the lag obviously from the recent sales performance and how that translates. How should we think about that and then in terms of when do you expect to see that sort of inflection in the top line growth?

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

Well, Charles, I mean it's difficult to be too precise about that, but I would say as I point out the following. As Dennis indicated in the guidance we provided for Q2, Q2 sequentially, revenue outlook, the midpoint of the range is up about 4%. You will know when you look, Q2 was, by far, the high watermark last year in terms of quarterly numbers. So there was a little bit of unusually high performance in Q2. So if we -- we would hope to maintain the momentum we bring into Q2 further in the year, and that will result in a lift in that organic growth rate. So I mean those would be a couple of points that I make to you. Yes, we would also say the sales that we put in our backlog also should start to turn to revenue in the back half of the year.

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

And I guess to follow on sort of Michael's question earlier. Is the -- can you give us some sort of the implementation times for sort of a Veradigm customer versus sort of a traditional Sunrise customer?

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

What I -- mostly -- I'll just repeat, Charles. I'm not going to talk really specifics because no 2 deals are the same, and they can take a little bit longer...

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

Or it maybe just -- is it relatively shorter? Or is it about the same? Or -- just qualitatively.

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

Yes. What I said earlier was it's a little shorter. I would say the conversion time between a sale and translation to revenue ought to be shorter in the Veradigm [activity]. Their contract length tends to be a little bit shorter as well. So for multiple reasons, you get a bigger revenue impact quicker than you do on the Provider's side.

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

And then I guess just one last follow-up would be just more -- as we think about this market, and if I remember the slide you kind of gave out -- kind of laying out different aspects of this market and the one that you're kind of going after earlier on, does this require sort of a different type of sales force than what you have currently? Can you talk about sort of the sales and marketing kind of pushing you to do to really take advantage of this?

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

And are you referring -- Charles, specifically you're referring to the Veradigm activity?

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

Yes, yes.

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

Yes, the answer is absolutely. It's a different sales team, and it's selling to very different end markets and a very different value proposition. So the sales teams are very different. The skill set is very different, and we manage the business unit as a business unit that is sort of independent of our provider organization.

Operator

Our next question is from Richard Close with Canaccord Genuity.

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

Congratulations on the bookings. I'm curious on R&D, your thoughts there in terms of how we should think about maybe the levels of spending here in 2019. I'm not sure if you want to give that, but -- and then also just thinking about where you guys are spending your money. Where's maybe the focus points of your R&D investments?

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

Thanks, Richard. Let me start, and then I think Dennis will follow on with a couple of other comments. I would say first of all, in terms of absolute dollars spent, we had quite a technology debt that we kind of felt like we inherited when we picked up the McKesson business, the EIS business.

Part of that was because there was -- they were in the middle of some activity related to bringing in the ambulatory functionality, things like that sort of platform.

So there was a bolus of spend that happened over that first 12 months of acquisition that we think will taper off a little bit. And to be clear, we're continuing to invest in and support the platform fully, but it's just that bolus will go away. So there's a little bit of driven mostly by that. I think there's a little bit of a reduction in absolute spending that you should expect.

Where's the focus? We're -- I'll give you very generic. It's across the board. We still invest heavily in provider-based assets. We think that's a differentiator for continuing to win market share as the market continues to sort of self-out. And yet, we're also investing in the platforms that support the Veradigm business. So we've shifted a little bit of money, but there is still a very strong spend in both camps.

Operator

Our next question is from Eric Percher with Nephron Research.

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

Paul, you walked through 20 years of regulatory movement, but we stop short of what's currently occurring. And I thought the ONC has been active, and of course the Cures Act is still in the comment period. But I'd welcome any thoughts on how that could be meaningful for you and what you think the next step looks like, what it needs to look like.

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

Thanks, Eric. Yes, we've been very active in the comment period on the new rules that are coming out. We are very supportive of what came out in the 21st Century Cures Act. There's a fair number of API regulatory work around that, which we have been encouraging and applauding for a long time given the fact we've been quite open with our APIs since the 2007 time frame. There's also a fair amount of work in 21st Century Cures Act around patient access to record. And I think that, that will clearly make it through all the future gates here. And so there's the whole consenting piece around the patient's medical record and the ability for them to get access to it. It's also something that we've been working on, and we've had that approach since 2013.

Specifically, the patient has access through our portal to their record, and the patient can grant rights for other people to look at it and see it. That regulatory environment, we think, is very solid. There are some things in there around data blocking that were good on the definition of what is not data blocking, which we also have been encouraging because those are pretty broad brush in the past. There's still some things around some interpretation of other rules that have been using other industry, as we've commented on, on why we think that might be a little bit pervasive. That might be a little bit much.

But as with anything, the current regulatory environment has been very collegial and has been very open to input from people who have been doing this for a long time. They are also very open to input about how this would create additional stress for a physician and user. Some of the regulatory work that's come out in the past 5 years has been somewhat onerous, and you heard the comments around physician burnout and burden and fatigue, et cetera. So there's been a lot of focus on the work you have, of listening to these new regulations, will be difficult to put in place. And more importantly, these regulations will actually cause more work that's nonclinical, and they have been extraordinarily attentive to our feedback on that.

So all in, there's some issues or there are some things that we commented on that we're expecting and hoping we'll get through a bunch of, if you will, EMR industry support, get backing for that, and we have a pretty good attention from the folks that are there.

The value-based care bundle payments components that are coming up in the CMS, that boat or train left the station 10 years ago, in my opinion, when we first started doing pay-for-performance, and there had just been incrementalism around that. And that will continue to be the case. That is not something that I see CMS retreating from nor do I think they should because there's no question that health care needs to be value-based and paid for in that regard.

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

So to marry that to your comment around there's essentially 3 entities investing at scale today, you've been very realistic about the replacement market. But are there elements of this that help to shake the tree of it and lead to more migration toward those that are investing?

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

I think it does. I think as we've highlighted in the past around the strategy is that if you look at the marketplace today, there's really 9 or 10 people that are left that have scale, a scale from a standpoint of just a pure demographic with regard to how much market share you have and then at scale with regards to how much revenues that these organizations actually have each and every year, a percentage of which, of course, is deployed against an R&D budget that has to accompany these requirements and innovation platform, a move to a more contemporary architecture in some cases, a bunch of innovation that has to occur to distinguish one from the other as well as there's a global component to this when you think about what you're trying to do in the states as well as being relevant outside the United States with a similar but country-by-country different set of requirements for how to be compliant with that specific government organization. So when we talk about scale, scale transfers into size, which transfers into ability to be able to afford to stay current and be able to afford to spend a substantial amount of money on all the above.

Last point I would make on that is there's a little thing called cybersecurity that you also have to spend a lot of money on to stay current. And so you add all that up, it just makes it harder the smaller you are. And the scale, I think, really just kind of bear a lot of weight as we look at what the next 4 and 5 years are going to look like.

Operator

Our next question is from Stephanie Demko from Citi.

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

So now that you have fleshed out your dataset for paradigm with the NextGen deal, how do you think about your portfolio of assets that utilize this data? Is there an opportunity or are there areas of opportunity to find new assets that layer on top of the dataset?

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

Well, Stephanie, I think the opportunity is -- look, the way you should think about it is, right, we have a significant footprint in the last mile of care, right, to the point of care. That generates a lot of the data that we're talking about. And now we are building an alliance or a consortium, whatever word you want to use, with some other players to add to that set. And so we generate data out of that. We also have that point of care -- we're sync there, so we can bring workflow solutions and things like that to the point of care. That's the big aspect that we're] doing.

With respect to the data itself, bringing value to the data, bringing intelligence to the data, the higher up the food chain you go with analytics tools and analytics solutions will create a bigger opportunity. And so yes, we are and will continue to add sophistication as we move up the value stream there.

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

Okay. And then a little bit more on the data [conservation] strategy. Just given it's a bit of a different competitive landscape, could you walk us through that, kind of how you're going head-to-head to some of these new peers?

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

Well, again, I mean what we've described to you is what -- how we bring value to our customers, customers being life science companies and/or payers. Payers -- so with respect to clinical data, it's all about how to improve care and how to more efficiently bring clinical trials to the real world. And so those are the opportunities to do that. I think I'm not sure exactly what you're referring to when you talk about others in the industry, but there's almost nobody else that we can think of that has scale, access back to the point of care, clinical care. And so we think that's unique, and we expect to continue to build that out.

So as time goes on, we'll talk to you more about ways we're finding to create value. But I think what we've described here already is the real world evidence that this collection of big data that we have can bring to life science companies and the ability for them to more efficiently conduct trials is where the real value is to the life science companies.

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

Okay. That's fair. There's other competitors in payer and life sciences that [deafen] out the dataset, so appreciate that color.

Operator

(Operator Instructions) Okay. Our next question is from Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Just one question on the guidance. Given that you guided for second quarter revenue to be up quarter-to-quarter and you talked about improvement and momentum throughout the year, should we model a quarterly step-up in revenue each quarter from 2Q to 4Q? Is that the right way to think about it? And same on the -- same question just on the operating income side.

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

Yes. Ricky, we haven't provided any annual revenue guidance. We changed the model where we're giving guidance 1 quarter out. So you see that there is a step function -- step-up from Q1 to Q2 driven by a number of different items as we continue to go live with some consumer-type products and our RCMS model return more clients live on that, we're seeing growth in those businesses. We're also seeing growth in the media spend, which is somewhat cyclical, and Q1 is typically a down quarter for them. But we -- at this point, we're not going to provide any guidance beyond the guidance that we provided, which is for revenue just for Q2.

Operator

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

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

Just had one as well on the -- hoping to get an update on the Sunrise Financial Manager product. From the most recent press releases, it seems like there's been good uptake with that on new deals. So just can you remind us where the penetration is and then how that product is performing?

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

Thanks for the question. The new deals that we've been talking about, especially the all-in deals, all include Sunrise Financial Manager on the -- when we talk about Blessing and a couple of the other ones. So that uptake has been very good. The turn on, sort of activations for that has also gone pretty well. We have made a lot of progress with that solution over the course of the last 3 or 4, years both domestically as well as outside the United States with the work that we do on the patient administration systems, both in the Pacific Rim area as well as in -- on the United Kingdom.

So all in all, we're pleased with where we are with that. And from a Sunrise standpoint, SFM is a big player for a lot of reasons why people are staying with us and going and signing multiyear new agreements with us.

[Just end the] call, wrap up. We believe Allscripts has the best vision and has made the right investment combined with the right strategy to prosper and grow long term. We have a robust and award-winning solution set for clients across Provider landscape as well as for our Payer and Life Sciences companies. Our balance sheet is strong, allowing for investment in new growth areas as well as returning capital to shareholders via share repurchases.

In conclusion, I want to thank our associates for their passionate focus on client success, our clients for their loyalty and our shareholders for your confidence. Thank you.

Operator

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