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PRESENTATION

Operator

Greetings, and welcome to Allscripts First Quarter 2021 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Stephen Shulstein, Vice President of Investor Relations. Thank you. You may begin.

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

Thank you very much. Good afternoon, and welcome to the Allscripts First Quarter 2021 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 information regarding these risk factors that may affect our results.

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

And with that, I'm going to hand the call over to Paul Black to begin.

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

Thanks, Stephen, and thanks, everyone, for joining the call. We appreciate your interest in Allscripts. Let me begin by saying that I'm very pleased with our solid first quarter results. These results reflect the hard work and tough decisions we made last year and continue to make to position the company for long-term success.

Looking back a year ago, it's gratifying to see the dramatic transformation Allscripts has made improving our financial performance. We adjusted our priorities to help clients respond to the COVID pandemic, and we optimized our balance sheet and solutions portfolio. I'd like to once again thank our associates for their unceasing devotion to our clients and for delivering these results.

While the COVID pandemic has not ended, we are becoming more optimistic given the trend lines for decreases in COVID infections in North America, increases in the percentage of population who have been vaccinated and the efficacy of vaccines' impact on preventing COVID severe outcomes. We also believe the pandemic highlighted the significant value that help IT solutions and data bring across the continuum of care. We are proud of the actions we took and are taking to lead our clients in positioning them and us to succeed post pandemic.

When the pandemic became known to the medical community, Allscripts immediately set up a team to respond to the crisis by ensuring our solutions were updated with the necessary alerts to quickly identify risk populations. We were recognized by Reaction Data as having outperformed our competitors in the delivery of new functionality and services to support provider organizations throughout the pandemic.

Throughout the early months, we continued to assist our clients in their recovery from the crisis. During that time, many health care organizations saw a reduction in elective procedures and challenges to their financial position. Once again, Allscripts was there to help our clients recover by offering full telemedicine solutions, workforce management tools and more access to data to help them make better decisions for the business.

Now as we enter into the recovery phase of the pandemic, Allscripts is simply prepared to help consumers and our clients protect themselves and their organizations from future crises with open access to data in analytics, telemedicine and cloud-enabled services. From the beginning and throughout the pandemic, Allscripts has been a trusted partner to our clients.

Let's go to some highlights for the quarter. In the hospital business, we experienced momentum with our platform of health as we benefit from strategic R&D investments. We built a [sufficient] record across multiple care settings and revenue cycle. Our Microsoft partnership leveraged with human center design driven by our long-standing vision of Open, Connected Community of Health is resonating in the marketplace.

During Q1, we welcomed a new all-in Sunrise platform of health client, Mercy Iowa City. After a highly competitive process, Mercy selected Allscripts Sunrise platform of health operating on Microsoft Azure as a core EHR for its community hospital and clinics. Mercy was searching for an innovative partner ready for the future of health care by cloud-capable features built on Azure. Mercy Iowa City's commitment to Allscripts is an important validation of the vision and R&D investments we strategically deployed over the past few years, a single medical digital record with revenue cycle, inpatient/outpatient, delivered through the cloud and connected to the community.

The integrated EHR is a complete ecosystem that optimizes software-as-a-service model. Microsoft Azure will deliver high availability, cybersecurity, disaster recovery and business continuity features. We look forward to our long-term partnership with Mercy as we drive continuous improvement in patient and financial outcomes with them.

In another validation of our health system strategy, our long-term client, Blessing Health System, substantially expanded its Allscripts relationship with Sunrise. Blessing will be adding 2 new hospitals and 1 large multigroup specialty practice to their Sunrise platform. Included in this expansion, Allscripts will also utilize -- Blessing will also use Allscripts managed services, and they extended their agreement through 2028.

In addition, our largest client, Northwell Health, is also expanding its Sunrise platform at an additional hospital in their system, Peconic Bay Medical Center in Long Island. These new wins in Q1 have provided additional underwriting of our health system strategy and Microsoft partnership. We expect this to provide additional momentum as we compete for new business.

We have also received third-party validation for our solutions in the health systems segment. We've been recognized again by Black Book as #1 in its 2021 Community Health Systems Vendors Report for the fifth consecutive year. Black Book's comprehensive survey shows our commitment to providing smaller health care organizations with the support, cloud technology tools that they need.

In our ambulatory business, we continued with our momentum from last quarter as we were able to sign another 6 new clients in the independent ambulatory marketplace. Our second quarter pipeline remained robust and as we benefit from the investments we've made across our ambulatory

team, our ambulatory platforms, [scale and] breadth and depth of solutions, which is further supported by our #1 market share positioning. Our portfolio of offerings is highly attractive as clients look to consolidate vendors and for a complete end-to-end solution covering consumer, clinical, financial and revenue cycle outsourcing.

Our RCMS business continues to gain traction as clients pivot post COVID to the recovery in their patient volumes. An example is Springfield Clinic, one of our largest revenue cycle management services relationships. Springfield Clinic has grown its footprint in Central Illinois. And as a result of Springfield Clinic's trust in our revenue cycle management services, we were awarded a large expansion of our existing partnership.

With Veradigm, our business is a key piece of our strategy to address the present and future needs of health care delivery. Our industry-leading data and analytics platform and bidirectional connectivity with providers at the point of care provides a substantial value to life science companies, payers and providers. We have made purposeful investments across Veradigm to position us for relevance across multiple addressable markets. By leveraging a vast and growing electronic health record of ambulatory footprint, along with strong provider relationships, Veradigm is helping to transform biopharma, product development and commercialization. We are extending point-of-care workflows to include clinical research. And our vision for the future is to provide research as a care option for our providers and patients.

Let me highlight a number of areas where we're seeing progress at Veradigm.

In the Veradigm payer business, we signed 2 new clients from the top 15 health plans in the first quarter. We are providing our eChart Courier clinical data exchange solution to one of these plans and our Pulse8 analytics for another plan, Medicare Advantage and ACA lines of business, which includes almost 400,000 lives.

Our Veradigm study source platform modernizes clinical research while extending our EHR systems to include research workflows, for instance, identifying eligible study patients, efficiently enrolling them in studies and utilizing the health care data to assist with the research.

Before I hand the call over to Rick, I'd like to discuss how we are leading corporate social responsibility and the impact our solutions can have on improving health outcomes. We published our first CSR report for the quarter. Here are some updates on how we are envisioning our role within the health care ecosystem.

The pandemic has brought to the forefront the inequities in our health care system. We believe health care IT and Allscripts have the power to reduce these inequities and help address social determinants of health. The more detailed information an electronic health record can provide to a clinician at the point of care, the more likely a patient will have a better and positive health outcome. More data enables the physician to provide a more precise, effective treatment plan for that patient. But to be truly effective, that data can't be limited to only previously documented care and treatment information.

This is where our data integration plays an important role. Housing status, financial situation, education level, access to nutrition, neighborhood crime rates, these are all important factors contributing to overall health. To capture community data that includes insightful information based on, say, geographical areas require strong partnerships with multiple community organizations and local health centers. They almost come together in an API-centric, open, interoperable health IT system. This has been the philosophy of Allscripts for over a decade.

We are focused on delivering solutions that help bridge these gaps we see often in health care. This includes data analytics and expert consultation that provide support for at-risk patient cohort identification, software enabling the ability to direct patients to care and service that they can afford through price transparency tools, a means of understanding out-of-pocket costs associated with routine needs such as prescriptions, taking into consideration patients' insurance coverage and out-of-pocket fees that can vary based on where it is built, and importantly, mobile patient engagement strategies that include proactive outreach to encourage telehealth visits.

Today, that helps patients understand their eligibility for vaccine distribution. We believe our vision of Open, Connected Community of Health position us to help address some of these issues, while at the same time, provide substantial value for our clients.

To summarize, I remain very optimistic about our performance in 2021 and our ability to deliver value to our shareholders, associates, our clients and to communities. Our scale, R&D investments in building integrated platform and solutions with a differentiated payer and life sciences platform and our partnership with Microsoft have positioned us to deliver relevant and long-term value-added solutions for our clients across the payer, provider and life sciences landscape. Our improved and sustainable cost structure allows us to drive more earnings, bottom line and generate meaningful amounts of free cash flow.

With that, I'll turn it over to Rick to provide more detail on our financial position. Thank you.

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

Okay. Thanks, Paul, and thanks, everybody, for joining us today. Just one more reminder, as Stephen indicated, additional financial details are available in the supplemental financial data workbook that's posted to our Investor Relations website.

So we were very pleased with our start to 2021. Overall bookings and revenue performance were in line with our plan, and our continued discipline on our cost structure created significant operating leverage, resulting in adjusted EBITDA, EPS and free cash flow all coming in above our expectations for the first quarter. This is the cleanest quarter of financial reporting that we have had in years, and I think the numbers really speak for themselves as they reflect the performance trend that we've now seen for several quarters. So my prepared comments will be shorter than usual.

So with that overview, let me highlight a few items, starting with our bookings performance. Generated \$194 million of new bookings in the quarter, which was up 6% year-over-year and 7% sequentially in what is typically a seasonally weak bookings quarter. The first quarter result was higher than what we have reported in any quarter of 2020 on a like-for-like basis. This reflects the continued modest improvement in the overall sales environment as our clients continue to recover from the pandemic and turn their focus to improving their operations and optimizing their health care IT environment.

As Paul mentioned, we saw particular strength in our Sunrise franchise with 4 new hospitals in the quarter. And our ambulatory business continued its momentum with 6 new competitive business wins in the quarter as well. As Paul discussed around Veradigm, our business there saw some very good deal flow across its solution set, including provider, life science and payer clients. These partners continue to recognize the unique value proposition we bring with our differentiated data and analytics platform, along with the bidirectional connection to the provider and patient point of care.

Turning to our margin performance in the quarter. Consolidated non-GAAP gross margin was 43.1%, which was up 480 basis points year-over-year. This improvement reflects the dramatic turnaround in our client services organization over the past year as we rightsize the cost structure in that business to reflect the current revenue environment as well as enhance the productivity of this labor base. As a result, client services gross margin was 19.8% in the first quarter, which was up more than 1,600 basis points on a year-over-year basis.

That strong gross margin performance, along with our cost discipline around R&D and SG&A costs, resulted in a consolidated adjusted EBITDA margin of 18.3%, which was up 860 basis points on a year-over-year basis. This reflects \$31 million or 83% growth in year-over-year adjusted EBITDA compared with the first quarter of 2020.

As a result of our strong margin performance, along with the benefit from a lower share count, we reported first quarter non-GAAP diluted EPS of \$0.19 a share, which was up from \$0.02 a share that we reported in the first quarter of 2020. It is worth noting that we did not record any restructuring charges in the first quarter of 2021. And so this, along with our lower R&D capitalization rate, is improving our overall quality of earnings. And we expect this trend to continue to help drive our free cash flow conversion.

During the quarter, we generated \$56 million of cash flow from continuing operations and \$35 million of free cash flow. This is a dramatic improvement from the first quarter of 2020 and a great start toward our full year goal for 2021.

Subsequent to the end of the first quarter, we settled our income tax receivable as well as all remaining tax obligations related to the divestiture of CarePort. So to make sure everybody understands our cash position, if we pro forma these transactions back to our March 31 balance sheet, our overall cash position exceeds the principal balance on our debt obligations by approximately \$60 million.

I'll finish today by commenting on our previous guidance that we have provided. We are reaffirming the full year outlook for revenue, adjusted EBITDA and free cash flow that we provided at the end of February on our year-end earnings call. And we are doing so because trends we saw during the first quarter remained stable.

Also, given the divestiture of CarePort, I'd like to provide an update on the long-term segment margin outlook that we originally provided last year. Our long-term core clinical and financial solutions segment adjusted EBITDA margin outlook remains unchanged at a range of 18% to 20%. And our long-term data analytics and care coordination segment adjusted EBITDA margin outlook is updated to a range of 23% to 25% to reflect the divestiture of CarePort.

At the business segment level, seasonality effects and revenue mix will drive quarter-to-quarter volatility. So these targets are intended as full year goals that we will continue to drive the business towards. To illustrate this point, although the first quarter adjusted EBITDA margin in data analytics and care coordination segment was well below this targeted range, we expect to see high single-digit to low double-digit year-over-year revenue growth in this segment for the balance of the year. And this is expected to drive adjusted EBITDA margin performance near the long-term range over this same period.

So to wrap up, we're very pleased with the execution and results across all facets of the business in the first quarter. And we remain optimistic about our outlook for 2021.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Charles Rhyee with Cowen.

James Auh - *Cowen and Company, LLC, Research Division - Associate*

This is James on for Charles. Obviously, virtual care is playing a greater role in care delivery. Can you talk about what Allscripts is doing to enable virtual care?

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

Yes. We've actually been talking about this for a few quarters now. We rolled out very quickly last year telehealth capabilities to our clients. And we've gotten a pretty significant pickup on -- with our clients on that. So that's contributed nicely to our revenue but also has been a big win for our clients as they've been able to maintain their relationship with their patients. Paul went through a lot of other items that we are doing to try to assist patient -- assist our clients, I should say, during the pandemic and help them work remotely with their clients. But I think telehealth, telehealth is probably at the top of the pyramid.

James Auh - *Cowen and Company, LLC, Research Division - Associate*

And also, can you talk about your capital deployment priorities given the strong cash position following the divestitures of EPSi and CarePoint (sic) [CarePort]? Also, how much capacity is available under the current share repurchase program? And any plans for additional authorizations in the future?

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

Yes. So let me take those 2 question -- 2-part question there. Our priorities are we want to continue to make smart investments in the business. We'll do that. We've been [doing] that. We continue to maintain our R&D at a pretty high level. And we will look to continue to add to our capabilities as we need -- as we see fit.

But we also, I think, have been pretty transparent about the fact that we think our shares have been dramatically undervalued. And so we have been focused on returning cash to shareholders. We've detailed that over several quarters now. We're up to end -- or coming to an end next week of an accelerated share repurchase program that we put in place in Q4.

As we do that, we will have used up about 2/3 of the authorization that we just got last November. But we still have some remaining authorization, close to \$100 million of authorization left. And we will continue to monitor our stock price and do that and make incremental decisions from here. But our plan is to -- we're quite comfortable with no net debt. As you heard me say, we, in fact, have net cash position right now. So we have tremendous capacity to continue to return cash to shareholders.

Operator

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

Michael Aaron Cherny - *BofA Securities, Research Division - Director*

Really nice job across the board on the quarter, congratulations. I wanted to dig in a little bit. It's been, I believe, and please correct me on timing, but close to a year since you first engaged with the consulting firm to start working on your operational dynamics. It's showing up very nicely in the margins. Can you just give us a sense of what comes next from here? Where you're focused on the next leg of opportunity? And how much of what we should expect on ongoing margin expansion will be further business improvement and some operational dynamics versus some of the mix components that come with the growth in particular on the data and analytics side?

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

Yes. So thanks, Mike, for the comments and the question. I guess you have a few questions within that. So yes, first off, yes, so it was about a year ago that we brought in some assistance from the outside to help us very rapidly scale our cost structure back to where it belongs. And I'm happy with the results of that. We published long-term margin targets early in that process. And we haven't forgotten about those. We haven't deviated from them other than the fact that, of course, with some of the portfolio changes, we needed to, of course, refresh the margin for that. And that's what I've done with this call.

But we're still holding close to a high standard. I think in our core clinical and financial solutions segment, we will continue to really focus on efficiency on the cost side but also look for opportunities to grow. And so we all know it's not a high-growth market, but there are pockets to grow into, and there is still a replacement market that we believe we'll be a net winner in.

So some of the examples Paul went through on the inpatient side with our Sunrise platform. And as I've said, we continue to log wins in our ambulatory side. Makes us feel good that we have the right solution, very competitive as that replacement market comes up. So it will be a focus on cost but also picking up some replacement wins as well. And then, of course, there's use cases that continue to evolve with that client base, too.

And revenue cycle services is a big area in -- particularly in the outpatient space. We see a nice lift there from our client base, and that's providing some good growth for us.

The first question today about telehealth and some of the remote patient tools that our clients are looking for gives us an opportunity to provide solutions there. So it's a combination of all of that will help the core clinical group continue its march towards its long-term goals. But as you started in your question, we've made significant improvement already. And I think we'll continue to drive a drumbeat of change, but we've made a lot of progress. And I think we're not going to see step function changes here. We're just going to see continuous improvement.

On the data analytics side, as I said, we're expecting nice growth for the back half of the year -- the last -- next 3 quarters of the year, I should say. And that's going to do a lot for margins. So that's -- we're going to be smart about our costs there, but it's an area that ultimately we'll be investing in to support growth. But we'll get some nice operating leverage off that growth.

So let me pause there, Mike. I don't know if I got all your questions or if I still left something out.

Michael Aaron Cherny - *BofA Securities, Research Division - Director*

You did, Rick. I ranted probably longer than needed. So I'll ask one more separate question that's much more quick and direct. Given where Veradigm is in its growth profile, how do you see it shaping out in the various different competitive dynamics of the market since this does seem to be an area where other companies, both traditional competitors and others, are trying to expand as well?

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

Yes. Well, look, imitation is a serious form of flattery, right? So we see that from other folks. The good news is we're not just talking about it. We have a real platform, real client relationships over multiple years and a real distribution network there. So I feel good about our competitive positioning. I also think we have a unique set of data assets that are not only assets we own, but we also have some of our competitors have asked us to help them with their assets. So it's a unique asset base that is extremely difficult, if not impossible, to replicate.

So we feel good about the position. And I think as I said, as we look out for the balance of this year, we're expecting to see the growth engine start to yield some nice results there. So things feel good on that side of the business.

Operator

Our next question comes from the line of Sean Dodge with RBC Capital Markets.

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

Rick, your comments earlier on opportunities in the replacement market. I'd imagine the pandemic probably sidelined a lot of those decision processes. Are you seeing any kind of change in activity levels there now? I guess anything, either just the fact that being kind of hopefully post-pandemic now? Or are there anything kind of regulatory or otherwise that are kind of percolating here and helping to maybe catalyze some activity?

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

Yes. Let me start, and then I'm going to ask Paul to feed on because Paul spends a lot more time in front of the clients than I do. But the -- I'd remind you that we actually had some nice wins last year on our ambulatory side. So even though with the depth of the pandemic, we did see a lot of replacement market activity on the ambulatory side last year, and we're very happy with how we fared there.

But I think on the inpatient side, it was a pretty slow year in 2020. So almost by definition, 2021 will be a better year than 2020, we think, in terms of opportunities. And I think that's especially true internationally. Those tend to be more public sector deals. And I think public sector all but shut down last year for obvious reasons. And we're starting to see some momentum creep back into those discussions.

So let me ask Paul to add to that.

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

Yes. There's a -- our pipeline on the hospital side is as good as it's been for new business for the last 3 or 4 years. So there's a lot of activity interestingly, and that's because of the team we have that's been going after it, but it's also getting better at being in front of the opportunities that exist with consultants and just by, if you will, riding the payment very hard. As Rick said, we had a very good Q1, and we have other things that are teed up. They're all competitive. So sometimes, those results are more lumpy.

As Rick said, outside the United States, there are some pretty good size things that last year, there was a big diversion at the Ministry of Health level to take care of the populations much more so than it was to go replace electronic medical records. And so that did, in fact, slow down. But I wouldn't say that the U.S. slowed down, as Rick also said accurately. The new business in the ambulatory side of the marketplace was very robust last year, and we had a pretty good Q1.

The existing clients are also expanding. So there's a number of organizations that are raising their hand and asking to be acquired. And that's how we're getting some of those that we talked about today but also some of the other relationships we had last year expand into additional hospitals that they acquired and additional physician clinics that they bought. And that always bodes well for us when that happens when our clients buy more. And that's -- those are the other, if you will, highlights to that.

The thing that is different today, I talked on it a bit, is that we have a breadth and depth and a suite of offerings that allows somebody to come in and do a bit more of a one-stop shop not only on inpatient/outpatient revenue cycle but also for revenue cycle outsourcing services, for total IT outsourcing services and for some of the consulting fees that are usually reserved for perhaps an organization that may have a history and specifically only doing that.

We're seeing clients come to us for value-added services and for many of other things that they will not have historically outsourced to somebody like us, and we're seeing that as well. Some of that, I think, does come from the pandemic where those organizations actually sent those people home and like a lot of the people that were working, if you will, in the back office.

And they're noticing that, that freed up space inside the hospital. And they're actually interested in perhaps looking at somebody else to take that function over for them given that they've already, if you will, moved it out of the 4 walls of the hospital or 4 walls of the clinic. So that's another interesting dynamic, I think, that's come out of the pandemic that we will certainly try to work on aggressively with our clients.

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

Okay. That's very helpful. And then maybe on the rollout of the new Sunrise platform, how long do you expect it will take the majority of your kind of client base upgraded, transitioned over? And then the choice they have to migrate to the Microsoft hosting, can you walk through maybe how that changes the cost or economics for them? And is that a decision you expect most that migrate will make?

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

I think that as you bifurcate the market into new business versus those that are already clients of ours that are already hosted in one of our data centers versus the third option of people that are on-premise, I think the on-premise folks are going to be very interested in this, especially when they think about the things I talked about earlier around cyber, around continuous operations and around some of the capabilities that come native in the cloud, around texting and voice recognition, the ambient technologies that you read about Microsoft doing not only with their

acquisition of Nuance but even before that. The capabilities that come native inside the cloud are pretty interesting to people, especially as folks are trying to get to more of a keyboardless experience for the physicians when you think about the broader topic of physician fatigue.

So those are all things that help drive us towards that. But when we do new business, our new business is almost exclusively cloud-based. So that's number one. The people that are in -- on-prem are going to move over a period of time, I'd say the next 18 to 24 months. Some people are already moving. And then other folks that are already hosted depending upon what their contract looks like with us will host over the course of the next, I would say, 3 to 5 years.

Operator

Our next question comes from the line of Jeff Garro with Piper Sandler.

Jeffrey Robert Garro - Piper Sandler & Co., Research Division - Senior Research Analyst

Congrats on the quarter. I wanted to ask about bookings. And Sean's question was a nice segue here. I was hoping that you could comment on the mix of bookings between recurring revenue and nonrecurring in the quarter and particularly in the light of what sounded like a very good Sunrise quarter and then knowing how that product is evolving with the Microsoft relationship that you just referenced.

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

Well, let me start by -- we don't typically report, as you know, bookings on a recurring versus nonrecurring basis. We don't really categorize it that way. But I guess what I can say is this. There's nothing about the quarter that I think fundamentally changes the mix we have today. So we're 80-ish percent recurring, 20% nonrecurring.

Nonrecurring again is primarily made up of project-based services, software licenses to the extent some people still buy them on a perpetual license upfront basis as opposed to through a subscription. Sometimes we have some hardware sales. But those tend to be the things that are the nonrecurring aspects. And there's nothing about the composition of first quarter that, in my view, fundamentally changes that, okay? So that's on that part.

I think the contribution to get it all the way to the full \$194 million that we reported of bookings, yes, Sunrise had a good quarter. The new deal with Mercy was a nice deal, as was both the Blessing and the Northwell hospital extensions. But we have the other big areas of the company. So the ambulatory franchise and also Veradigm were also significant contributors to the overall bookings mix. So there was nothing unusually skewed in my view about the bookings performance for first quarter on any area of the company.

That may not answer your question, Jeff, but I just -- let's start with that backdrop and then see what else you want to ask us.

Jeffrey Robert Garro - Piper Sandler & Co., Research Division - Senior Research Analyst

Very helpful color. I wasn't expecting specific percentages. So maybe a little bit more commentary on what a Sunrise deal looks like today in terms of recurring versus nonrecurring and if the Microsoft relationship changes how something like a Mercy deal hit bookings and then translates to the P&L.

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

So a new logo relationship, Mercy, is typically structured as either a 7- to 10-year deal. Most of the structure of the deal, everything is bundled in a kind of a single subscription price. So that is largely -- there's a little bit of initial implementation services. So there was some nonrecurring revenue that goes with it. But it's -- they're largely -- they actually probably look a lot like what our long-term average is now of 80-20 when you break it all

down. So nothing unusual about that deal and nothing that really changes what we look like today because of that deal. They -- it's structured all as recurring revenue once you get past the initial implementation fees.

The deals where it's an additional hospital with a client that's already in place, that could be different based on how our relationship is with clients. So some clients are long-term clients who started on perpetual licenses. And when they need a few more licenses for a new facility, that tends to be the same -- they follow the same structure of the deal that they already have. Others started as a subscription model, and they'll just look to add on top of that subscription. So it tends to follow what the client was like, Jeff. And so nothing -- beyond that generalization, it's hard to say, and it's very client-specific what the structure of the deal would look like.

Jeffrey Robert Garro - Piper Sandler & Co., Research Division - Senior Research Analyst

Got it. Very helpful. One last one for me. I wanted to ask about the ambulatory market and the comment around consolidating vendors. Just curious what types of organizations are pursuing consolidation of vendors now and how your portfolio that segments for different parts of the market might help you address those consolidation efforts.

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

I think some of the consolidation that I was referring to are things that we brought to them. And specifically, during the pandemic, they we're seeing that their clinic visits are going down. They were seeing -- and perhaps they were unable to see patients a full year ago. They actually had some financial pressures. And so they were talking to us about some of their woes. We talk to them about the number of different relationships that they had. They might be more cost effective, and it turned out to be more cost-effective to put more of those relationships into [long-term supplier] bucket if you will, and that was us.

So as we have a broad breadth and depth of offerings, we would look at their accounts payable and work with them to try to figure out if we could consolidate many more pieces of business that we didn't currently have, a larger, if you will, percent of their spend coming to us versus, in some cases, 20 or 30 other players. And that was a way for them to become more efficient and achieve their goal, which is overall reduce their IT spend a bit, and that benefited us because that percent that they continue to spend actually increased our share.

Operator

Our next question comes from the line of Eric Percher with Nephron Research.

Eric R. Percher - Nephron Research LLC - Research Analyst

And Rick, appreciate what you termed a clean quarter. Two quick clarifying questions and then one for Paul. On the clarifications, so cap software at \$18.1 million, is that about rightsized relative to percent of revenue or absolute level? And then I want to make sure I understood the debt comment, which I think was that there's \$60 million of net cash without stating what the cash or debt level was. So I just wanted to clarify those 2.

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

Yes. Thanks, Eric. Yes. So on the second question, yes, I mean that was the -- in an effort to make sure everybody understood the cash position, I'm -- it's a net of \$60 million if you pro forma the tax settlement that we did in early April and then you just compare that. As you know, the convertible bonds that we have outstanding don't show up on the balance sheet at face value. They accrete upward over time.

So we've cut through all that noise for just anybody who is a little less familiar with it. I want to make sure everybody understood if you just compare net cash to face value of the bonds, we're in a net \$60 million cash position. Makes sense?

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

Yes. And cap software?

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

Okay. So you were a little hard to hear. So I'm not -- let me just make sure I understand what your question was. So \$18.1 million was the amount of spend this quarter that we capitalized, right? So we expect the gross of \$67 million, right? And I'm not -- that's where I think I lost you a little bit on the -- on what your question was. But as a -- so you may have to repeat it. But the capitalization rate...

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

Yes, that's where I was going.

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

Okay. So the cap rate, I've been talking about that for a few quarters. We've been trying to drive the capitalization rate down and not continue to just build up costs on the balance sheet. So for 3 quarters now, we've been amortizing more to income than we've been capitalizing. So I feel good that the quality of the earnings continues to get better, and that should -- that trend should continue.

The rate, we were at 30% in Q3, dropped to 23% in Q4, went to 27% this quarter. That's -- around the edges, you're going to see a little bit of movement on the percent just because of the accounting rules intersecting with what our gross spend is during the quarter. So you'll get a little bit of bubbling there. But I definitely expect that number to sit in the 20s and not go back up to where we had gotten to, which was almost like the mid-30s.

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

Okay. That's where I was going on room for improvement. And then, Paul, on the topic of Microsoft, it feels like they are everywhere of late. And I think beyond Nuance and [acts of this] last week, seeing alignments with health systems and even biopharma manufacturers. When you see that expansion, does it appear to you like to us that they're expanding faster or broader than maybe was expected a year or 2 ago? And do you think there are opportunities that extend beyond some of the core that we've talked about? And as we think about Veradigm, are there opportunities that you get excited about relative to the moves that they seem to be making?

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

The appearance and the reality of what's going on with Microsoft in my opinion are that they are absolutely getting into health care in a very big way. They will continue to be an enterprise software player. They'll continue to have, if you will, an operating system that resides inside of their cloud. I think it's an interesting distinction between them and perhaps some of the other people that are out there in the marketplace.

Specifically, when you go to the cloud, you're going to also pick up all the work that they have, the operating systems they have had over time, but also layer in capabilities that people are going to be extraordinarily interested at, go to the cloud, things around AI, things around voice, things around ambient, things around the cyber obviously comes with that. Those things are pretty interesting to people because of the rate at which you can put them into production.

So that is a big piece, Eric, as to why I think we're going to get a lot of traction as a result of that. And Microsoft, as many other people have historically noted, health care is a very large marketplace. Some of the things that they're doing in this marketplace, my expectation is that they'll also leverage into some of the other industries that they serve and some of the other very large organizations they work with around the globe.

They are targeting a lot of large health care enterprises. And they're targeting a lot of large, if you will, Ministries of Health in different countries around the world. And this -- it's not short on them, the ability not only to have an Azure relationship with those organizations but also then to drive additional applications and capabilities into those organizations in a rapid manner.

So my alignment -- or our alignment with them, we think, is very strategic. They have been incredibly great to work with. The engineers, they are supplying us, and if you will, the intellectual capital of those people of how we can get to where we need to get to in an accelerated point in time is helpful. And then also just working with and going hand-in-hand with Microsoft as we are calling on some of these large institutions, they are all interested in listening to what a joint relationship might look like as they think about additional capabilities that sit either on top of or in place of existing historic, if you will, electronic health-only opportunities.

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

I'm sorry, I didn't really get to the final, Eric, on your -- on Veradigm. We've had a lot of discussions with them around -- with Microsoft around that as well. They are very interested in the closed-loop nature that we offer of what we can do with pharma and payers, and they tend to be interested in that set of capabilities that we have. They also see it as unique in the payer relationships. We have the pharma relationships, and we have provider relationships. Not everybody else has all 3 of the those.

Operator

Our next question comes from the line of Stephanie Davis with SVB Leerink.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

I echo my congrats. It sounds like you have been very busy this quarter.

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

Thanks, Stephanie.

Stephanie July Davis - *SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution*

I'd love to hear more about your longer-term Veradigm strategy around the pharma digital ad spend wallet. Do you see any pockets of opportunity that leverage your Veradigm life sciences relationships with your clinician facing real estate in your core EHR? Or is that something that you're only using for in the Practice Fusion side of the business?

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

So as you know, Steph, that's how Practice Fusion started, right, was doing a lot of ads, pharma-like ads and went through a learning curve on what was okay to do and kind of helpful as clinical decision support and what was not okay to do in terms of things that might be viewed as fostering more prescription activity, right? So they've kind of learned that lesson along the way.

So I think we're really good at that. We [did that]. Because of the pure cloud nature of Practice Fusion, it's much easier to deliver those opportunities to a wide client base than it is with some of the client server technology of some of our other EHR platforms. But the longer-term answer to your question is absolutely. I mean that's what -- there's opportunities. That was a big part of the acquisition case when we bought Practice Fusion, is we knew that they were doing some things that we felt we had a larger base to leverage that across, and we will continue to pursue that.

Stephanie July Davis - SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution

Are there any opportunities in some of the adjacencies around the EHR such as the patient portal or maybe even having some sort of embedded telemedicine solution with an ad component there? Consumer and clinician facing.

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

Yes. Let me say it this way. I'd say it as an ad, maybe it's a little too narrow. Are there opportunities to create new revenue streams off of the people -- the users of our personal health records? And are there opportunities to bring information to providers and reduce some of the friction that they have with interacting with the payers? The answer is absolutely. I mean that's really what Veradigm is doing for a living. And they spin up new product streams and new solution streams every quarter.

So it's a place where we innovate on new solutions. There are -- there's a pretty good web of rule books. You've got to weave your way through when we do that. So we intersect the commercial opportunities with a pretty strong view from our -- and review from our compliance group to make sure we're staying within the rules. But yes, the opportunity is very real.

Stephanie July Davis - SVB Leerink LLC, Research Division - MD of Healthcare Technology and Distribution

And then just one quick one for me. Microsoft has been known to sometimes do one-way exclusivity on these partnerships. Is there anything like that into the deal or fully clean?

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

No. Very clean.

Operator

Our next question comes from the line of Donald Hooker with KeyBanc Capital Markets.

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

I just want to make sure -- a lot of questions have been asked here, of course. But just for my clarification here, so I understand. So you guys obviously -- or when I think about the progress you've made with operating margins or EBITDA margins in the core clinical and financial solutions segment, I mean, you -- just to be clear, you are at the top of your long-term range there from what I understand from your comments. This was a seasonally weak quarter, and it sounds like things might be a little bit better next quarter. Is there a reason why margins might recede from here?

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

Well, I think -- let's make sure we don't mix and match some of the comments, Don. The seasonal weakness is -- was a comment I made with what is typically the bookings activity in the first quarter. It is -- it just tends to be a softer quarter. We were -- and that's why we were very happy with

where we came out for the quarter. Not only did we have a good sequential lift in bookings. It was the highest we've seen throughout all of last year. So that was more a commentary on the selling environment is improving a little bit.

I think as you talk about EBITDA margins -- and I purposely made it clear that we'll see quarter-to-quarter volatility. That is a big function of revenue mix during a quarter. And revenue mix was favorable in Q1, and we had a good boost in our EBITDA margins. We also had a nice flat curve to some of our SG&A in that the segment. I'm going to have to see a little bit of a lift there over the next couple of quarters.

So I think -- I mean your observation is right. The quarter was a great quarter. It was at the high end of the range. I think -- I don't think we're going to see that for each of the next 3 quarters in this segment. And so we'll see a little bit of a tail off here probably in that segment while the other segment grows. And so all my comments around segment margins were meant to just be clear that these are annual goals and we will see some quarter-to-quarter volatility.

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

Okay. And maybe one -- maybe a mundane question here. You have the 2 segments and you have an unallocated segment, I guess, which my understanding was the EPSi, which is now gone. I guess is there some sort of runoff here? Is there sort of this is going to be -- how do we sort of work that into our models? Is that not...

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

Yes. It was a little -- it was a little more than EPSi, Don. What you see this quarter is not going to vary much. What -- the reason we need it is we have some transfer pricing we do between the 2 segments. And obviously, we have to eliminate that revenue when we do consolidation. We also have a couple of what I call public company costs that we don't allocate out to the business segments and keep the -- so there's a little bit of pool of company costs, and then there's just the necessary elimination that has to happen for intercompany revenue. So what you see in Q1 is a pretty steady level, I think. You could use that in any model that you want to do.

Operator

Our next question comes from the line of George Hill with Deutsche Bank.

Unidentified Analyst

It's [Maxi] on for George. So you talked about the significant improvement in cost structure and service segment this quarter. Going forward, to achieve the long-term margin goal, do you need to get more aggressive on the cost containment side? Or is it mostly going to be driven by revenue expansion?

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

Well, we've kind of covered a lot of that question in the last few questions. I think as just the previous question noted, we're -- this quarter's segment margin for our core clinical is at -- was best it's ever been. It's at the high end of the guidance range we said. But I'm tempering that by saying the goals are annual goals, and I think we're going to see some quarter-to-quarter volatility.

But largely, as we talked about earlier, this is one of, I think, continued cost focus, no step function changes, but cost focus, along with some modest replacement market wins as well as some new pockets of demand opportunity. That's what's going to drive the core clinical and financial solutions on their continued journey upwards. The data analytics business, we're going to see a lot more of top line lift, which will really be the catalyst for its margins to improve.

Unidentified Analyst

Great. And maybe a quick one. We've seen improvement in client attrition last quarter. Could you provide some color on the client attrition in the core business in Q1 and the churn trends you expect to see for the rest of the year?

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

Everything about our assumptions and beliefs around attrition are reflected in the guidance we've given. And we pointed out client attrition last year because we had a particular bolus that we knew was going to hit us, and we knew that -- we shared that upfront so that everybody can understand some of the year-over-year comparisons. If we ever got to a point where we had such a bolus again, we'll provide the same guidance, but that's not -- that was not what we needed to do for 2021. And again, our outlooks both reflect everything that we see happening on that front.

Operator

This concludes our Q&A. I'd like to hand it back to Mr. Black for closing remarks.

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

Thanks, everybody, for spending time with us today. 2020 was a big year for us where we did a lot of resets as we talked about at the JPMorgan conference. And we've reset our cost structure, reset a bunch of different things inside the company, our portfolio as well as we got a lot of focus on unlocking some value of some assets in the company.

So I think about where we are today, throughout the first quarter, we are showing a lot of resiliency with regard to not only people that work here but also our clients, having now experienced some 14 months of a pandemic. And there's a lot of clients who have been on the front end of that -- of this that we respect everything that they've done.

We also see -- or starting to see a return to normalcy with regard to patient volumes and with regard to the United States, the revenues that our clients are seeing and expecting as a result of their day-to-day operations, which gives us the confidence to reaffirm the guidance that we gave you today.

We appreciate your time and your interest in Allscripts. Thank you very much.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.

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