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Veradigm Inc., formerly known as Allscripts

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Kyle: Good afternoon everyone, and welcome to the JP Morgan Healthcare Conference. My name is Kyle. I'm on the Healthcare Technology and Distribution team here at JPM.
We're thrilled to have Veradigm with us today. Presenting is CEO Rick Poulton. With that I'll give him the floor. Thank you.

Rick Poulton: Good afternoon, everybody. Thanks, Kyle. We appreciate you taking a few minutes out of the rain to listen to us today.

I want to just do a quick few slides and make sure everybody knows who we are. We've been through a name change recently. We were formerly Allscripts Healthcare Solutions.

The change in names was really a capstone on a lot of corporate activity that's happened over the last couple of years. We've changed our portfolio a lot, and we've changed our focus a lot, and we've changed our financials a lot with that.

I want to make sure everybody understands who we are, and so let me start with that.

We really think of ourselves as pursuing a mission of trying to transform health insightfully. That's where our tagline is now. We're doing that through what we refer to as a three-sided network.

A strong network of healthcare providers. These would be independent physician groups. That is a foundation for a business that we've built now around both payer clients as well as biopharma and life science clients as well.

That three-sided network, payer, provider, life science, is something that we think makes a lot of sense. I'll talk a lot more about that in a little bit.

Our real differentiators, a lot of people talk about these three constituents in healthcare. Our differentiators are our scale and our connectivity to each of these three different subgroups.

To start, the foundation of our business is really built on a strong provider footprint. What we provide or what we're offering to the providers to secure that relationship is a number of clinical tools.

We have two different EHR platforms. We have a number of revenue cycle related tools, practice management system and revenue cycle billing services. Patient engagement tools that cover the spectrum of everything from portal and healthcare records, personal healthcare record through telehealth and scheduling as well. Then what we also refer to as an enterprise platform. We have big lab connectivity and we have APIs that we publish that lots of partners can plug into.

That collective pool of assets spans across all of our provider clients and gives us two really critical assets for us that we then are bringing to the parent life science markets.

Those two assets are number one, the clinical and financial data records, so long longitudinal record of data. Secondly is that access or workflow point of care ownership that we have. We basically are that last mile of connectivity to the point of care. That's a very valuable asset that we bring to these other parties, and I'll talk more about that.

The way to think about our provider base, then, is that it's really the core of a larger network of healthcare providers. We think of it or we try to illustrate it with these concentric circles. We start in the beginning with our EHR clients. Then we wrap around more provider relationships through tools such as our e-prescribing platforms.

We've purchased some proprietary data registries as well. That's given us more representation across these healthcare providers. Then finally we have a number of IT partners. Some of them you might even think of as our competitors at some level, but they've joined forces with us to help monetize their, again, data as well as their workflow assets as well.

All total, about 330,000 healthcare providers that represent over 180 million unique patients. That sets us up for really what we think of as our value creation formula.

We have this scale that comes from these provider relationships. When we wrap that with our analytics platforms, our analytics tools that we've built out over time and this connectivity that we represent, it gives us a unique ability to drive efficiencies for payer clients and life science companies who have a hard time intersecting with the point of care.

It allows us to help build awareness at the point of care, usually for the physicians, but also could be for patients as well. It absolutely enhances decision making at the point of care. We can in very real time help close gaps in care and do other things that make that point of care efficiencies.

That's the provider platform, again, the foundation of our business.

Then as we extend that into the payer markets, we really see ourselves as offering payers a couple of key solutions. The real scale that I want to point out here is that we have roughly about 100 health plan clients. And those 100 health plan clients now we're connecting, and those 100 health plan clients cover about 30 million lives across the U.S.

We're connecting them to 275,000 providers in our network today. It's not all of the provider relationships. We'll work to build that out even all the way up to our 330,000, but a good chunk of them are now connected to these health plan clients.

We're helping them cover across both MA plans, managed Medicaid plans, and ACA plans. You can see with some of the logos on the page here that we're doing business with some of the larger names, but also a bunch of small regional health plans as well.

What we're offering them is really an end to end solution suite that they can start out with any or all of these solutions that we're offering them. At the bottom is really data organization and data exchange. That's a primary opportunity that these payers have to interact with us.

Then we move up the chain to risk quality and analytics, provider engagement. Again, messaging to providers in the workflow. We call that activation. Then all the way up through submissions to help the payers get paid through these plans, particularly the MA plans.

This suite or spectrum of solutions can be used either wholly by some of our clients or partially by the clients. They can pick and choose what they want to do. Today we have very few that are using all four elements of this, and so we have a lot of white space to grow into with those client relationships that we have today.

On the life sciences side, what we're doing really again is we have data that we're getting both from our registry information as well as the clinical data that we capture from our provider clients. We're offering that as really one of the key assets that life science companies are looking for. We can do that either directly through them or through some marketplace intermediaries who will combine that with other data sets as well.

The data is one key value stream. The other key value stream is what we call digital health, and this is like media type advertising inside the workflow as well.

That media business is quite large. Over the last decade or so, we've done about 20 billion ad impressions. We've been doing it for over a decade, and run quite a number of campaigns on behalf of our biopharma clients.

Again, this is a little snapshot of who we are and what we're doing today. When then we think about, well, where are we going from here? How do we grow going forward?

We're really a beneficiary of the large move in healthcare today towards value based care. As we continue to move down the path of value based care, that's really creating a convergence effect where there's a need to bring these different silos in healthcare together better, so providers, payers, life science companies, and frankly even the patients as well.

That macro trend benefits us well because we sit in the hub or sit in the center of all of those different parties. That's giving us an opportunity to forge a tighter and tighter relationship as they, again, need to create more efficient ways to communicate with each other.

When we think of our competitive advantages and our opportunities, why we can win with this opportunity, it really starts on the left and the right of this page.

We have some patented risk adjustment and intervention tools that we're using today. This is very important for our payer clients. We have the ability to provide bidirectional clinical and financial data exchange. Again, very important to principally our payer clients today.

On the right side of the page, for life sciences clients, we have a very scalable access and ability to create real world evidence for our clients, direct connection to the point of care, and the ability, again, to build significant awareness in the point of care as well, which really drives our digital media business, digital health business.

We do that with modern tech, secure, reliable cloud computing, and very easy to use tools for our provider clients, trying to create a very sticky relationship with them.

When we think about the markets we're participating in, our payer markets today, this graph is illustrating that today our really TAM is about a roughly $3 billion a year market, but it's growing at

20 percent annual.

As we build out our capability set and the path that we're on to build out our capability set, it's going to expose us to a much larger TAM going forward. We think we are set up well to capture a larger and larger piece of business from this market today.

On the data side, again, the push towards real world evidence. We have one of the largest deidentified EHR data sets that certainly we're aware of in the market today. It comes from both our EHR tools but also our partner tools as well. That gives us the opportunity to continue to grow with the life science companies.

If I pivot a little bit now to our financials, I want to start by just talking revenue. Our revenue growth in 2022 is accelerating from 2021. This is across the entirety of the company. The provider side of the business is growing certainly a lot slower than the payer and life science side, but you can see that that revenue growth is accelerating through the year.

We just issued guidance, I'll talk about specific numbers in a second, but we issued guidance today for 2023 that is really consistent with these growth rates as well.

On the margin side, what these graphs are illustrating is our trailing 12 month margins over the last several quarters, and you can see they're accelerating as well. We've moved gross margins up a little over 350 basis points over the last what's really about two years now. On the right side is our adjusted EBITDA margins, which are now approaching 30 percent on a trailing 12 month basis as well.

Those expanding margins have allowed us to produce much, much, much more impressive free cash flow. What we're illustrating here is a trailing 12 month cash flow conversion, free cash flow conversion off the business.Through the third quarter of 2022, we had 17 percent of our revenue dollars were converting to free cash flow.

We'll be reporting our year end numbers end of February, but those are the results to date.

This improved cash flow performance has been on top of what we've really created a very strong balance sheet foundation. On the right is our cash position as of the end of the third quarter. You can see gross cash of about $500 million. We have $200 million of face value debt, so net cash just a little under $300 million.

That cash from the balance sheet along with the free cash flow we've been generating has allowed us over the last couple of years to dramatically reduce the numbers of shares outstanding that we have. Those figures on the left of the slide, the last bar chart, is as of September 30th last year.

We had a press release earlier this week talking about some of our buyback behavior in the fourth quarter of last year where we used another 50 million, a little over $50 million of cash for share repurchases. That number has shrunk as of year end.

That brought us then to today's announcement. We provided guidance today and also announced the new share buyback program. A year ago we put in place a $250 million repurchase program. We used up almost all of that during 2022.

Our board has reauthorized the new $250 million program that just was put in place this week, so we have that fresh ammo, if you will, for this year.

We put out our revenue and EPS guidance for the year as well. We're expecting revenue range $640 to $660 million in 2023. Earnings per share 90 cents to a dollar. Obviously we haven't reported year end results yet, but midpoint of those ranges represent roughly 5ish percent on the top line and about 15 percent growth on the EPS line.

That's our guidance for the year. We hope that that's helpful in understanding who we are a little bit. I now wanted to just open it up to any questions you guys might have, if any.

Audience member: Hi. Can you provide a little more context on the breakout of your revenue and the growth drivers? How big is the provider business versus the life sciences business, and how are they growing relative to each other?

Rick: Yeah. When you break down our company revenue right now, about 80 percent of our revenue comes from our healthcare provider relationships and 20 percent comes from our payer and life science relationships. You can easily do the math on that relative to our overall revenue.

Our growth rate in 2022, when we provided guidance earlier in 2022, we told everybody to assume that our provider revenue would grow three to four percent last year in 2022, and that the payer and life science revenue would grow somewhere between 20 and 25 percent.

We haven't obviously reported the end results yet, but through the third quarter we were reaffirming that guidance through the year.

[silence]

Audience member: Thanks for the presentation. I guess, how do you think about the cash balance overall? It's obviously a very good position to be in and maybe there's opportunities that you're looking at, but just any kind of thoughts you have around the cash balance and things you might be pursuing?

Rick: Yeah, well, let's start by saying the obvious. We feel very fortunate to be in the position we're in, given the macro environment that's going on right now. Cash, of course, is king, so it's nice to be sitting on what we're sitting on.

You can see by our behavior what I've shared so far, I think it's fair to say we've been aggressive about share repurchases over the last two to three years. We're set up to continue that aggressiveness if we want to with the new authorization that we have.

We're interested in growing the business and we're interested in continuing to see opportunities. If there are opportunities to add to our portfolio with things that make sense, we'll entertain it.

Right now, we feel really good about coming back from where we were. If you looked at this company four years ago, we had probably three turns of debt on the company, maybe even a little over three turns of debt on it. We weren't growing the top line, and margins weren't expanding, and we weren't generating any free cash flow.

Where we are today with the free cash flow generation, the margin expansion, and what is a very powerful balance sheet from my perspective, it's nice to have a lot of choices.

We're going to protect that. We're not going to let that go too quickly, so don't look for us to do any kind of blockbuster transaction. But, we'll look for some bolt on opportunities, particularly if the market is presenting some better pricing than we've seen in the past.

Audience member: Just a follow up question. Thank you for the presentation.

With the amount of cash you have, how do you prioritize just your thinking process between stock repurchase versus investing organically in the company versus M&A? You mentioned M&A in your last statement.

Rick: Yeah, well, inside our results, inside our guidance is all of our R&D spending today. We invest a lot in our solutions today. We're investing about 20 cents of every revenue dollar into our solutions today.

That level of R&D investment is pretty high. It would be as high as you'd see amongst any of our traditional competitors, so we feel good about that level of investment today. We'll continue to tweak it as we see fit.That's already kind of captured in the free cash flow that's coming out of the business already.

After that, you know, we have all the traditional opportunities. We can look to acquire assets. We can look to return cash to shareholders. We can look to pay down debt. You can see our debt is pretty low right now. The debt we have is sub one percent coupon on it. Frankly we're making an arbitrage on that right now by investing that cash.

We're in no rush to get rid of that. It really comes down to if we see some good opportunities to add to our portfolio, we'll consider them, and we have done some small things. That's partly why we've been aggressive about shrinking the capital base and returning cash to shareholders.

Anything? Anybody else with some questions?

Audience member: Thanks. I'll leave the finance stuff to those folks.

Could you expand a little bit on the real time or real world data flows from the patients into the electronic health records from external parties? Are you talking from the practitioners or are you looking at wearables and these other sorts of things to provide a more total picture of whole person care?

Rich: Yeah. Thanks for that question. Actually you just reminded me, I was remiss, I didn't introduce my two colleagues up here.

To my immediate left, Leah Jones is our Chief Financial Officer. Next to Leah is Tom Langan, our President and Chief Commercial Officer. Tom, why don't you share your thoughts on that?

Tom Langan: I just want to make sure. Can you reiterate the question? Where the data flow is coming from and what are the different sources of the data flows from a...?

Audience member: Yeah, obviously you have data flow coming from practitioners and facilities. I'm talking more about real world data flow from the patient itself into their electronic health record.

Tom: Right. Most of the data that we're actually aggregating into our data warehouse is coming directly from the provider, not directly from the patient. We do have some unique patient assets in our Follow My Health asset, which is our personal health record.

We're not monetizing that data, even though we have some rights to that data. Most of the data is actually coming straight from the provider, based on the data rights that we have and the consents.

Audience member: Are you looking at expanding to incorporate real world data from the patient?

Tom: We are. We're actively looking at other ways to incorporate that data from the patient and other sources of that data.

Audience member: Perfect. Thanks.

Rick: Don't be shy. Anybody else?

Well, we've had a busy week of announcements. That actually reminds me of the question earlier about cash. We announced an investment we made earlier this week in a company called Holmusk. We put some money to work there because of a commercial relationship we had.

That's an effort to build out, to your question, our data sets and data opportunities. They're specifically cultivating data around behavioral health and mental illness. We think that could be a great augmentation, as we think out longer term about appending that to the clinical data we're capturing today in the EHR.

As you know, most of that's in unstructured notes and things like that.

We're investing for the future in investments like that as well. We think we have a long road to go down this path, both with biopharma as well as payers. It's a unique story, we think, relative to old traditional EHR companies. We're glad to be capitalizing on it, and I think our results speak for themselves.

For any of you who are not very familiar with us, I encourage you to look a little closer. Don't be shy. We're happy to answer any and all questions. OK?

Any last? No other last questions? If I don't see any last questions, I guess we'll wrap it up.

Thanks for joining us today. We appreciate it, and hope to talk to you soon.
