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CORPORATE PARTICIPANTS

Jenny Gelinas *Allscripts Healthcare Solutions, Inc. - VP of IR*

Leah Jones *Allscripts Healthcare Solutions, Inc. - CFO*

Richard J. Poulton *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Thomas J. Langan *Allscripts Healthcare Solutions, Inc. - President & CCO*

CONFERENCE CALL PARTICIPANTS

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

Cynthia Michelle Avella Motz *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Dolph B. Warburton *Nephron Research LLC - Research Analyst*

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

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

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

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

Stephanie July Davis *SVB Securities LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, good day, and thank you for joining us for this Allscripts Q2 2022 Earnings Conference Call. (Operator Instructions) Also, a friendly reminder, today's session is being recorded. To get us started with opening remarks and introductions, I am pleased to turn the floor over to your host, Jenny Gelinas. Go ahead, please.

Jenny Gelinas - *Allscripts Healthcare Solutions, Inc. - VP of IR*

Thank you very much. Good afternoon, and welcome to the Allscripts Second Quarter 2022 Earnings Conference Call. Our speakers today are Rick Poulton, Allscripts' Chief Executive Officer; Tom Langan, President and Chief Commercial Officer; and Leah Jones, our Chief Financial Officer.

We will 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 information regarding 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 that are available on our Investor Relations website.

And with that, I'm going to hand the call over to Rick.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Okay. Thank you, Jenny, and thanks, everybody, for joining us for our second quarter earnings call. I'd also like to formally extend a warm welcome to both Tom and Leah to their first earnings call. I've had the opportunity to work very closely with each of them for several years, and I know that they are ready to take on the expanded roles they have now with the company.

As I mentioned on the last call, our transaction with Constellation Software closed on May 2. Now while the financial transaction closed on that date, there was an incredible amount of work throughout the whole quarter to begin the process of physically separating the 2 companies. And I'd like to thank all the employees from both Allscripts and our former business, now named Altera, for their hard work and dedication that was required in the last 3 months to get that process started.

So I want to talk about 3 things today: first, our financial performance and how we are positioned; then some thoughts on capital deployment; and finally, my thoughts on what to expect for the balance of the year.

I was very, very pleased with our overall performance in the second quarter. Consistent with our expectations, we delivered strong top line year-over-year growth. This helped fuel improvements in both gross profit and adjusted EBITDA margins. We also had another quarter of strong free cash flow generation. Leah will go through more of the specifics in her comments.

Our Veradigm business is uniquely positioned in today's health care IT landscape as one of the only companies generating meaningful top line growth, 25-plus percent EBITDA margins and mid-teens free cash flow yield. We achieved these unique results because of our unique 3-sided network serving providers, health plans and alliance companies. Each of the 3 legs of this stool are codependent and mutually reinforcing, and each contributes materially to our overall performance.

Our provider network includes approximately 80,000 physicians that we serve directly with our portfolio of clinical, financial and patient engagement tools. And this extends to approximately 300,000 through multiple partnerships that extend our health plan and life sciences relationships.

Our health plan network represents a total of nearly 35 million members and will expand significantly when our recently announced relationship with the Social Security Administration goes live later this year. As Tom will highlight in more detail, we continue to expand our offerings to these clients in areas such as risk analytics and reporting, gaps in care closure and other clinical data exchanges, claim submissions and other financial data exchange.

And our life sciences network includes linkages to the largest pharmaceutical companies in the market either directly through our own data and real-world evidence studies or indirectly through partners who link our data to larger data sets and through large media agencies. Again, Tom will provide some further color on momentum around this network that we achieved during the quarter.

Collectively, I feel very good about the differentiation we have achieved with our business over the last 5 years of effort. And our execution was very good during the first half of this year. If we continue to execute with the same level of focus and intensity, I feel confident that we can maintain our competitive distinctiveness.

Now a few thoughts on capital allocation. As you can see from our press release, we were very active in the second quarter repurchasing shares in the open market. Notwithstanding our superior financial results, we trade at a single-digit EBITDA multiple, one of the lowest in all of health care IT. So as long as that paradox continues, you can expect us to continue to be opportunistic around repurchases.

At the same time, the macro environment has obviously created a valuation reset and refocused the market on the reality that cash is king. So I expect that some quality assets will become available at more attractive prices, and I expect that we could be a good home for some of those assets.

Fortunately, with nearly $300 million of net cash on our balance sheet, an undrawn credit facility of $700 million and a business that is producing mid-teen free cash flow yield, it is not a case of either/or for us, and we do not have to choose between 1 of those 2 paths. Expect us to be patient, expect us to be opportunistic and expect us to deploy capital in a way that we believe is in the best long-term interest of our shareholders.

Finally, let me share some thoughts on what we expect ahead. We are maintaining our revenue guidance for the year rather than increase it, simply because we have a very tough comp in the fourth quarter. As you can see in Table 9 from the press release, our provider business line had a pretty big spike in fourth quarter of last year, reflecting a large license sale.

We knew that when we set our guidance for the year, and so the year is playing out almost exactly how we expected it. Q3 is traditionally a softer selling period, and that is generally followed by a stronger Q4. We expect the same this year. And so from an overall P&L perspective, I expect Q3 to look very similar to Q2. And then I expect a nice sequential uplift in the fourth quarter.

So to wrap up, I'm proud of our first half performance, both operationally and as well as financially. We have a solid foundation as we exit the first half and move into the second half of 2022.

So with that, let me turn the call over to Tom Langan, our new President and Chief Commercial Officer.

Thomas J. Langan - *Allscripts Healthcare Solutions, Inc. - President & CCO*

Thanks, Rick. I'm also pleased with the performance of the overall business. I'm going to focus my comments on the Veradigm business, some of our recent wins we have within the second quarter.

As Rick mentioned, our Veradigm payer business provides a comprehensive set of solutions, including data analytics and engagement solutions that meet the needs of our health plan customers. The process starts with our access to clinical and claims data that when coupled with our analytics provides the health plans the insights on what interventions to deploy.

We then leverage our proprietary and partner provider networks at the point of care to ensure gaps in care are addressed. Finally, we use our submissions platform to package the data for CMS so the health plan is paid appropriately. The Veradigm payer portfolio addresses the foundational end-to-end aspects of value-based care by enabling payers and providers the ability to deliver improved patient outcomes at a lower cost.

I'd like to highlight a few examples of some of the recent wins within the quarter. The payer business closed 2 large clinical data exchange agreements, one with Sharecare and another payer services firm that together represents more than 1 million members across health plans, ACOs and other value-based care organizations.

The data sourced through our provider networks enables our clients to improve both member engagement and the health outcomes of their patients. Veradigm payer also signed a large midwestern payer company, covering more than 600,000 members. They will utilize our risk adjustment analytics and our intervention planning capabilities to effectively engage providers to close gaps in care.

Lastly, we also executed a deal with a large midwestern third-party administrator, who will use our risk adjustment submissions platform, the Affordable Care Act and Medicare Advantage health payer client base, initially covering more than 1 million members.

Turning now to Veradigm life sciences, where we saw a year-over-year quarterly revenue growth of 26%. Our real-world evidence, data and analytics team signed several multiyear data agreements. One deal of note was a multiyear deal with a top 5 pharma company to provide data for their research and clinical development teams. This deal further demonstrates the compelling value of our data assets and the level of interest we are getting from the biopharma manufacturers. We also signed a multiyear extension with one of our large commercial aggregators, demonstrating our continued focus on partnerships.

Moving on to the provider business. I'd like to share some of our wins where executed deals grow our recurring revenue base while also expanding our provider footprint. Our revenue cycle management team closed 2 key deals within the quarter, both with orthopedic specialty practices.

The first win was with Spectrum Medical, a current client who will expand their footprint with a multiyear agreement. Additionally, we executed a deal with OrthoBethesda, whose implementation of our revenue cycle management tool enables them to expand without increasing headcount.

Finally, I'd like to highlight examples of how we are winning as the provider market continues to consolidate through mergers and acquisitions. Valley Oaks Medical Group is a practice currently with 16 locations across 4 states, and they're in growth mode. They've selected our professional EHR, practice management and clearinghouse to address their requirements for both near- and future-term growth.

Southeast Medical Group, which is a private equity-backed primary care aggregator, has expanded their relationship with us in 2021 with revenue cycle management services and our FollowMyHealth patient engagement solution. This quarter, they've onboarded more practice and now representing over 110 providers with plans to grow to 200 providers by year-end.

In conclusion, I'm pleased with our second quarter performance. The markets we operate in are dynamic, growing and attractive, which is exactly where we want to be as a business. I look forward to meeting with you in September during our Investor Day.

Now I'd like to turn the call over to Leah Jones, Allscripts' Chief Financial Officer.

Leah Jones - *Allscripts Healthcare Solutions, Inc. - CFO*

Thanks, Tom. As we mentioned at the beginning of this call and included within the press release, we completed the sale of the Hospital and Large Physician Practice segment in the second quarter. This transaction had material impacts on a GAAP-based income statement for the quarter as we recorded significant transaction costs in operations and a substantial tax provision, reflecting the difference between a book and a tax basis of the assets sold. These nonrecurring items are excluded in our presentation of non-GAAP results.

In a continuing effort to provide more transparency, we have added additional metrics this quarter. We have included bookings, which are broken down between total contract value and first year contract value. These will not only give you a sense of sales volume but also a better sense of the conversion cycle to revenue.

Since the business has less reliance on long-term contracts, we think this second measure will become increasingly more important. As it'll indicate, total contract value reflects the full value of executed contracts for software, hardware, maintenance and other client services. First year contract value is a subset of total contract value, representing the anticipated revenue to be recognized in the first 12 months following contract execution.

Now turning to the numbers. We're again pleased with our financial performance in the second quarter. We saw year-over-year growth in bookings, revenue, gross profit and adjusted EBITDA as well as an overall improvement in margin consistent with our expectations.

The Veradigm business segment saw year-over-year revenue growth of 8% during the quarter. And on a consolidated basis, revenue growth was 7%. The Veradigm provider business had top line growth of 4%, in line with our expectations. This growth was fueled by adding over 500 new practices during the quarter.

In June, the U.S. Olympic and Paralympic Committee selected our practice management, patient engagement and telehealth platforms. This Veradigm platform is a critical component in the administration of care, furthering the health, safety and ultimately, the performance of U.S. Olympians and Paralympians alike.

As Tom highlighted, the Veradigm and payer life sciences business had year-over-year revenue growth of 26%. This top line growth also drove 46% improvement in non-GAAP gross profit and raised margin 800 basis points year-over-year. Veradigm non-GAAP gross margin was 53.5%, up 420 basis points year-over-year yielding solid operating leverage.

As we move down the P&L, consolidated non-GAAP expenses remained flat compared to first quarter. You will see in our results that on a GAAP basis, we incurred approximately $21 million in transaction-related and legal costs, which were excluded from non-GAAP earnings. We expect to get back to clean reporting in Q3 with only adjustments for purchase accounting amortization, stock-based compensation and normalized tax rate representing the difference between our GAAP and non-GAAP reporting.

We again generated nice operating leverage with Veradigm reporting, 13% year-over-year adjusted EBITDA growth in the quarter, resulting in adjusted EBITDA margin of 27.5%, an increase of 100 basis points year-over-year. Below the operating line, we incurred an after-tax loss of $67.3 million on the sale of our Hospital and Large Physician Practices to Constellation Software.

On a per share basis, we reported consolidated GAAP loss of $0.54 per share. This loss was impacted by both the onetime transaction and legal costs as well as the tax provision tied to the transaction. Our non-GAAP EPS was $0.18.

Moving on to cash. We had another solid quarter of free cash flow generation as we generated $42 million of cash flow from continuing operations and $32 million of free cash flow. Consistent with our guidance and the utilization of cash, in the second quarter, we repurchased $94 million of common stock through open market repurchases, leaving us with a net cash position of $294 million.

Now turning to our outlook for 2022. Following Rick's earlier comments, we are maintaining our outlook and expect the following: Veradigm revenue to grow 6% to 7% year-over-year; Veradigm adjusted EBITDA to grow 10% to 15% year-over-year; and our consolidated free cash flow from continuing operations to be between $110 million and $120 million.

To wrap up, we are very pleased with our first half 2022 results. And we look forward to maintaining that momentum into the second half of the year.

Now I would like to open up the call for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to the line of Stephanie Davis with SVB Securities.

Stephanie July Davis - *SVB Securities LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*

Congrats on a solid quarter.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Thanks, Stephanie.

Stephanie July Davis - *SVB Securities LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*

I was hoping to talk to you a little more, Rick, about the cash on hand that you mentioned in the prepared remarks. So let's dig in one level further on that program. What's your philosophy on buy versus partner versus in debt?

And when you're looking at profiles of assets that you would be interested in and ones that you would not be interested in, is there any set of red flags you look out for like a very negative margin profile independent side? Or is that something you could turn around, you think?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. Well, Stephanie, I think second part of the question, definitely, I'll talk to you. You may have to help me with the first part a little bit. But I mean, I guess, just let me start there, where we think about how to build ourselves versus partner versus buy.

It's really just a business case analysis and combined -- it's economics combined with speed to market and, frankly, derisked for development, where things are. So said differently, if we can find a nice proven technology solution in an area we really need to augment and we think we can integrate it nicely to what we already have, we'd probably go that route and buy something rather than start over from scratch.

But we like to have -- we want to get out of the old world we were in back in the day when we had all our other assets where some people called us Frankenstein because things didn't really work together very well. And we don't want to adopt that for some -- in any way. So it's important that anything we have works well together. So that's how we think about, I think, basic feature function type of things, which I think was the first part of your question.

When we talk about potentially buying forward businesses, yes. I think the pecking order for me, Stephanie, is going to be it augments our strategic interest. So we are looking to continue to grow our differentiated story. We're looking to have a solid top line grower. We'd like to expand our growth opportunities.

So I think something that is accretive to growth, that expands the balance of our company and gets more payer life science-focused to balance out what is still a kind of a provider-centricity that we have would be top of the list strategically for me. And financially, again, I'll go back to say the devil is in the details, but I'm certainly not looking.

We've worked hard to create the story we have about top line, about strong margins, strong free cash flow. I'm not looking to wreck that by taking a flyer on something. So we're going to be smart about anything we do.

Stephanie July Davis - *SVB Securities LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*

I figured that. I felt like wallet is an interesting opportunity because a lot of these assets are very cash burning. I was unsure if you would want to go back to that, given you do have a good cash profile now.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. I mean, again, I don't want to -- I'm not going to fundamentally change our story, but a really good business that just hasn't quite gotten to scale and therefore, might be burning a little bit of cash on its own, where we could get some nice probably operating synergies right out of the box because of our scale. We could probably turn that story around pretty quick, and that might make a lot of sense for the long term.

Stephanie July Davis - *SVB Securities LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*

And cost takeout. Changing gears a little bit. I know you called out the tough comp, but one of your larger public competitors has been talking about a very premium growth rate to your target for the provider space. What could get you to the high end of your current provider range? And is there any optionality as we move beyond this year and tough comps to get even above that?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. I mean, so we -- let's separate the conversation. I'm talking about this year's guidance and where we find ourselves this year, we just -- we reorganized our assets. We've got a lot of confidence in our leadership of our provider space right now. Ton of white space opportunity inside there to get greater wallet share from our existing clients and I think, to win new clients in the market.

So I'm -- I think we have blue skies ahead for our provider opportunity. That is not a next 2 quarters only story, though. That's going to play out as we look beyond the end of this calendar year.

As for the first part of the question, I don't usually like to comment a lot on competitors, but talk is cheap. And some of the talk I hear from people is almost laughable when they're talking about margins 2x where they are today. We're trying to tell people what we're going to do, and then we go do it. And that's what we're kind of in the mode of right now.

Operator

And our next question today is going to come from Cindy Motz at Goldman Sachs.

Cynthia Michelle Avella Motz - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

On the quarter, it looks very good. So just curious about that, too, because some of the other players are talking about macro factors and things weighing. You don't seem to be seeing any of that. I mean, can you just talk to that a little? I mean, are you seeing possibly from some of these other -- I guess, some of your customers maybe who might be having problems more outsourcing and more opportunities there? Any color would be helpful.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. Well, first, welcome, thank -- I know you just picked up coverage on us, Cindy. So welcome to our call.

Look, I don't want to pretend to tell you we're immune from what's going on in the outside world. We're not. However, I'd like to believe we took into account a lot of the outside world when we created the guidance that we put out for everybody this year.

We reset our guidance in conjunction with announcing our transaction. So when we announced our transaction, that was March, we probably maybe in that regard benefited from a little more passage of time on the calendar before we had to set our guidance.

But we tried to factor that in. It's why we have not put out growth rates that were unachievable in this market. So I would just say I think we had the benefit of a little more time line. We used a reality lens when we looked at what we thought we could do this year. And we're executing very well right now. So we're seeing what we thought we could do. So I mean, that's kind of how I think about it. What was the second part of your question, Cindy? I forgot.

Cynthia Michelle Avella Motz - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

No, I just was wondering if you're possibly seeing an uptick maybe in some outsourced business like maybe some of your clients like have layoffs or have some problems, maybe they would seek to use your services more, and you might even be a beneficiary of the environment.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

We definitely see opportunities to get greater wallet share from a lot of our provider clients. One area that won't be strange to hear us talk about to you is anything around rev cycle and getting paid faster for the physician clients is something that is a good opportunity. And we are seeing that as an opportunity for us to grow.

We're going to be a little selective. We like our margin profile. We're not looking to dilute it significantly by going too services-centric, but I think a high-value service like that, which can still earn attractive margins, is definitely an area we're interested in.

Cynthia Michelle Avella Motz - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. And just a follow-up. I know that you're sticking to the 6% to 7% guidance like you said because you have a tough fourth quarter comp. But would you possibly at your Investor Day look if things look like they're still chugging along possibly look at talking about next year any sort of guidance for forward longer-term guidance?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. I think we haven't written the whole storyboard for our Investor Day yet. So I don't want to make a promise I don't keep. But I could see us talking a little more there about longer-term opportunities, Cindy, rather than probably 2023-specific.

We'll probably wait till either later at the end of this year or even early next year before we put out a specific 2023 guidance plan. But I would expect to talk a little more about where we see things going.

Operator

Our next question will come from Charles Rhyee with Cowen.

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

Just 2 quick questions. The first one, now that you sold the hospital business to Constellation, clients like Northwell because I think they use FollowMyHealth, and I'm sure a number of your hospital clients use that. Can you talk about sort of what the arrangements are with those clients and then how that's going to work going forward? Were there new kind of contracts drawn up at the continued service? Or were those always kind of separate service agreements?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes, Charles, thanks for the question. Yes, there are -- there is 2 areas where we have kind of product overlap with some of the client business we just sold off. One is around FollowMyHealth, our patient engagement platform. The other not so much the hospital client base, but some of the large physician practices that we sold off use our practice management tool as well that we still operate here.

So the answer -- short answer is where those contracts were separated with clients, the client -- the contracts went with the business in each direction. Where those contracts are co-mingled, meaning there's one contract that has multiple solutions, we continue to operate under that co-mingled contract and probably will until the end of term. And then at the end of the contractual term, we'll separate the products between the 2 entities.

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

So then someone like Northwell because obviously, for the legacy hospital business was the largest customer you had. What is the remaining term for FollowMyHealth? And I guess, proportionately, is that a very big piece, the patient engagement part when we look at the provider business?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

That is not a big piece of the provider business at all. I'm not going to talk about specific contract terms, Charles. As you can imagine, that wouldn't be appropriate. But we do not have anywhere near that kind of concentration that we used to have when we own the entirety.

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

Okay. That's helpful. And then I'm looking at this -- the total contract value, and I appreciate there's additional details here. So when you said the first contract year value, it's sort of how we should be thinking about the booking contribution. What about in years 2 and later, how quickly, because it seems like then we burn off the bookings within 2 years. Is that sort of the right way to think of it?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Charles, look, we've always had a disclosure in our SEC documents about how we think some things are going to turn around in the end of the year over time. Look, we started with this, which is incrementally more -- better than anything. You followed the company a long time, so you know that's better transparency than you've ever gotten in the past vis-à-vis bookings.

We can look to potentially augment that in the future if we think it makes sense. But I think just getting a sense that roughly half of it is turning around in year 1. And the balance, you can estimate the contracts tend to run anywhere from -- when it's a multiyear contract, it will run anywhere from maybe 3 to 5 years. You could sort of get a pretty decent swag on that.

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

Yes. No, I certainly appreciate all the additional details we've been getting. So I appreciate that, and congrats on the quarter.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Great. Thank you, Charles.

Operator

Coming next, we'll hear from Sean Dodge at RBC Capital.

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

Maybe coming at Charles' question in a little different way. I guess, Rick, could you give us like a quick overview of the most common revenue models across each of the provider and payer life sciences side? You mentioned the big license sale in Q4 last year, but is most of the provider revenue stream, should we think about that being kind of very consistent quarter-to-quarter kind of subscription fee like?

And then on the payer life sciences side, I guess maybe the advertising piece is more shorter duration, but is the rest of it primarily tied to just kind of more recurring data transaction volume? I guess I'm just trying to understand the proportion of recurring revenue in each of the provider in payer life sciences segments now?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Provider has a much higher recurring revenue rate than payer life science when you use the definition we've traditionally used, which is, do you have to sell it again next year is kind of the definition we've used for recurring versus nonrecurring. As you -- as we all know, right, there's no such thing as perpetual recurring revenue. Everything is subject to a contract.

But we've used that definition in the past, and I think that's what some industry competitors use as well or something similar to that. So you should think of the provider business as being close to 90% recurring revenue.

The balance is there are still clients that are buying perpetual licenses rather than subscriptions. We have a very, very, very small residual of some hardware-type sales, but that's almost gone away. But that -- those are the things that kind of makeup what's not recurring in the provider business.

The payer life science side is a little more kind of think of it as project type of work, particularly on the life science side and therefore, not as -- doesn't really meet a definition of what we call recurring. So if we apply that recurring definition, you'd be closer to probably 50-50 in that business area. So I don't know if that helps you, but those are kind of some rough metrics that would be representative of where the business is today.

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

Okay. No, that's super helpful. And then you mentioned being able to deliver EBITDA growth while also continuing to invest in the platforms. I know you mentioned the possibility of tuck-in in acquisitions before. But if we think about just internally where you're directing dollars right now, can you give us a sense of maybe where you're focused, what you're focused on, et cetera?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Well, we're still -- I mean, we're still strongly investing in our solutions. I mean, you can see from our reported results. I mean, we're still investing about $0.20 of every dollar back into our solution platform to form an R&D -- in the form of R&D. That's at the high end of the range for most health care IT companies.

But we are doing that because we see opportunities to improve in all 3 of the business segment areas or business units, areas. So we distribute that R&D investment across all of them. And we'll continue to do that.

I don't expect that ratio to go up in the near term, but I don't expect it to change down a lot in the near term really because I think it's an area we continue to build our competitive distinction. So that's the biggest piece, but we're trying to balance that with a strong bottom line performance and a strong free cash flow yield as well.

Operator

Our next question today will come from the line of Michael Cherny at Bank of America.

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

Maybe, Rick, to think a little bit more about the positioning for the business going forward. When you think about especially the payer and life sciences side, these are businesses that in markets at least that have a number of ancillary services, competitive services that are being pushed into that world.

As you think going forward, especially now as you've cleaved off the hospital business about what is the best go-to-market strategy, what is the best push that the Veradigm brand is making, where are you really resting your laurels on? What is going to differentiate you as you continue to penetrate that faster-growing area of your end market?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Well, Mike, it's a great question. But I mean, I really want to reemphasize what I said in my comments. This is -- we really think of this as a 3-legged stool that is mutually reinforcing. The -- obviously, the larger growth opportunities are probably in the payer life science end markets.

But our relevancy and our scale there has been largely a function of the scale we have in the provider market, both through our direct relationships and our partner relationships. That collective scale, that scale of data, that scale of touch at the last kind of mild connectivity or that point-of-care connectivity is what is valuable to these other end markets. And so they are very self-reinforcing.

So a strong provider network leads us to these other end market opportunities, but we're going to continue to invest in those other end market opportunities to, again, continue to develop our distinctiveness and our competitive advantage. So expect us to put capital in both -- in all 3 areas and expect us to really continue to emphasize all 3, not just one of them.

Operator

George Hill at Deutsche Bank.

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

Yes. Rick, those of us that pay kind of close attention to the CRO space see, I guess, what we would call a little bit of lumpiness of demand developing after the last couple of years. I'd be interested to hear if you guys feel like you're seeing anything similar as it relates to that life sciences end market? And maybe can you compare and contrast what's going on in the payer space versus the life sciences space, if you're seeing any meaningful divergence in demand or divergence in how those conversations are going?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

George, thanks for the call. I don't know, Tom, why don't you start on those questions?

Thomas J. Langan - *Allscripts Healthcare Solutions, Inc. - President & CCO*

George, we're not seeing a significant diversion or change between the life sciences and payer space. We collaborate with many players on the life sciences side, including the CROs. But we're not seeing any significant slowdown or changes in both the life science and the payer space.

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

Okay. That's helpful. And I guess kind of ask one more macro question about kind of the impact of wage inflation and labor and if you guys are seeing any challenges as it relates to retention or recruitment or if we should -- if we feel comfortable with kind of costs looking out beyond 12 or 18 months?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Yes. Well, I don't -- I wish I wasn't having to deal with those issues, George, but we are. We feel it. Labor is still our single largest input cost to the business. So even though we have dramatically shrunk our labor costs, it's still, again, our largest input cost.

So we have not seen a painful level of attrition. We've seen some. We're not immune from it. Certainly some regrettable but not at an untenable level, in my view. So we are -- we have really pushed for a couple of years now, George, the idea of pay for performance and rewards for performance.

We've concocted several different schemes at the company that are very, very aligned with sharing the rewards from the company. So in our run rate and in our guidance, we have those programs in place as we achieve the financial improvements that we're seeing.

We're setting aside a nontrivial amount for our team at all levels of the company. And we think that's the only sustainable formula ultimately. So we're trying to stay true to it. But we have -- it's something we have to keep watching.

So maybe that's a long-winded way of saying, I don't expect to see a seismic shift in our performance because of the topic of wage inflation. But it's something we're watching, and it's definitely something we are reacting to. But we've been pretty proactive about it, I don't mind saying, for the last couple of years.

Operator

Our next question today is going to come from Jeff Garro at Piper Sandler.

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

I want to ask one around profitability. I wonder if there are any drivers you'd call out of the strong gross margin performance for the payer and life science subsegments in the quarter beyond scale? And then if we should expect similarly strong incremental gross margins for that part of the business going forward?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Nothing unusual. So let me start with that. Nothing unusual that topped it. Scale is contributing to our margin uplift. I'd note to you that our provider gross margins are pretty much in line with our payer life science gross margins.

So it's not as if only one part of the company is driving our gross margin story. We are getting some scale, and that's why we signaled in our guidance back, even back as far as March that we expected gross margins and EBITDA margins to increase this year as we got our top line growth. That's still our outlook.

In terms of projecting where they could go, I think that was the last part of your question, I'd be a little careful about extrapolating too, too much. But we think we're going to have a strong fourth quarter again. And if it plays out as we expect, our EBITDA margins and gross margins, I think, for the year, certainly, our EBITDA margins will be up from what we saw in the first half.

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

Got it. That's helpful. And then maybe I ask one about the guidance and visibility into the uptick, the inflection up in Q4 in both revenue and profits. I think Stephanie already asked about the provider side, but maybe ask on the payer and life science and maybe more specifically on the kind of media part of the life science thing, how visibility is tracking there?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

It's early August. It's still a little early to have full transparency on the media for Q4, but what we see today is in line with what we expect.

Operator

(Operator Instructions) We'll hear next from the line of Eric Percher at Nephron Research.

Dolph B. Warburton - *Nephron Research LLC - Research Analyst*

This is Dolph on for Eric. I just want to go back to the first question about M&A. You mentioned the low multiples that you're seeing in the market. But are you getting any indication that the sellers are accepting or coming to grips with kind of the reset valuation that we see in the market today?

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Well, let's start by -- I want to clarify what I said. What I said was we are a very low multiple, and I said valuations are resetting. Now the valuations are resetting from what were astronomical levels by -- certainly from my point of view.

So I'm not -- I'm still not suggesting they're cheap, but they are moving in that direction. That mostly -- all that commentary is largely around what we see with our public company peer set and some small but mostly anecdotal stories from the private company world.

I can't -- I wouldn't be in a position to opine on whether private equity firms or other private company owners are actually selling at cheap prices or not. I'm sure we all hear certain stories, but I don't know that we can generalize that. So my comments are really about some of the reset we've seen in the public markets. And again, I was also juxtaposing our own position versus others in HCIT.

Dolph B. Warburton - *Nephron Research LLC - Research Analyst*

Okay. Understood. And then if I could just follow up on the post divestiture opportunity that you guys might have with other EMR vendors for data partnerships. Are you seeing that you have become a...

(technical difficulty)

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Sorry, you cut out right where you're about to finish the sentence. Did we lose you?

Operator

And this is the operator. I believe we may have lost connection. I do not see his line in the conference anymore. If you'd like, we can prompt again or we can wait another moment. Certainly up to you.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Anybody else in queue, operator? Or is that it?

Operator

Not at this time. He was our last today.

Richard J. Poulton - *Allscripts Healthcare Solutions, Inc. - CEO & Director*

Okay. Okay. Well, we can pick up with him separately. We don't need to have everybody wait for that. So that's it. Then let me just, again, thank everybody for joining us today. We appreciate you following us. I appreciate your interest in us, and we appreciate the good questions today. And I look forward to talking to you soon. Bye-bye.

Operator

Ladies and gentlemen, this does conclude today's teleconference, and we thank you all for your participation. You may now disconnect your lines, and we hope that you enjoy the rest of your day.
