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

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

## PRESENTATION

### Operator

Greetings, and welcome to the Allscripts First Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the call over to Jenny Gelin, Vice President of Investor Relations. Thank you. You may begin.

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

Thank you very much. Good afternoon, and welcome to the Allscripts' First Quarter 2022 Earnings Conference Call. Our speakers today are Paul Black and Rick Poulton.

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 our 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 Paul Black.

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

Thanks, Jenny. Good afternoon, and thank you all for joining us today. Roughly 10 years ago, I stepped off the Board as an Independent Director to take over the role of CEO, because I believe in the company; our clients; and most importantly, our people. Over the past 10 years, we've seen unparalleled change in our industry as providers, payers and pharma adopted the technology and solutions, Allscripts Health Pioneer. This week's closing of the sale of our Hospital Large Physician Practices segment marks yet another dramatic change in our company's history and positions all of our stakeholders, employees, clients and investors for continued success.

As the company transforms and launches into its next evolution, focusing on our Veradigm business, it is a natural time for the next generation of leaders to step forward. As such, I have decided to step down as CEO effective Friday, May 6. While obviously a difficult decision, I leave knowing the company is stronger than ever and in the hands of an accomplished and proven leadership team. I'm incredibly proud to announce Rick Poulton, whom all of you know, will be assuming the CEO role effective tomorrow.

Rick has been an amazing partner to me and a stance support of our clients, employees and shareholders over the past 10 years. I will be working with Rick through the end of the second quarter to ensure a smooth transition and will remain an avid supporter of Allscripts.

So in wrapping up my last earnings call, I want to thank our investors for placing their confidence in Allscripts, thank our clients for repeatedly choosing our technology and solutions and thank our employees for their undying dedication to serving our clients and making things all possible.

Let me now turn the call over to Rick Poulton, Allscripts' President and CFO.

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

Okay. Thanks, Paul, for the very kind words. It's truly been a pleasure to partner with you through all the highs and the lows that we faced together over the last 10 years. Your leadership and confidence allowed us to accomplish a tremendous amount, particularly over the last 2 years. And I will always appreciate both your mentorship and your friendship.

I don't know if it will be a fishing pole, a golf club or an ice-cold corona that you'll have on one hand, but I know your phone will always been the other. And so I look forward to many more phone calls together, sharing thoughts on the challenges and opportunities that lie ahead. I could share many funny stories from the last 10 years, but if I keep rambling, this is going to start sounding like a eulogy. And I know neither one of us want that. So let me get back to the task at hand by just saying a big thank you.

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

Welcome.

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

Okay. So thanks to everybody in the audience for joining us today for our first quarter earnings call. We are, of course, very pleased to have successfully closed the transaction with Constellation Software. This transaction completes a multiyear journey to streamline and recapitalize the operations of the company. It leaves us as a more focused, differentiated company with significant growth opportunity, strong margins and strong cash flow, all underpinned by a very powerful balance sheet.

So while it is a little bitter sweet to say goodbye to more than 5,000 of our colleagues, we know these associates and the clients are in a good home with Harris Health, and we wish them nothing but the best for the future.

I want to start by orienting you on how we have reported our first quarter numbers. The results of the Hospital & Large Physician Practices business segment are reported in the financials as discontinued operations. And you should expect to see this again in Q2 on both the P&L and the cash flow statement for the stub period that we own the business.

For the remaining continuing operations, Veradigm is our core operating entity, representing approximately 95% of our consolidated revenue. But we continue to own a small unrelated product line that represents the remaining 5% of revenue. Additionally, we have some stranded corporate costs from the transaction that we expect to whittle down a fair bit over the next several quarters. And I also anticipate some other modest onetime costs that we will incur in the months ahead to complete the physical separation of the companies.

And so because of all that, for at least the remainder of 2022, we will report both Veradigm performance as well as full consolidated results for the company. Additionally, we have tried to streamline your view by putting all tables into the press release and scrapping the supplemental data package that we previously prepared each quarter, while at the same time, we're providing more enhanced disclosures of both revenue and gross profit of our provider versus payer and life science business lines.

Our goal is simple and streamlined transparency, and of course, welcome any feedback once you have digested this information. So with all that framing, let me get to the numbers.

We were pleased with our start to 2022. We saw strong year-over-year growth in revenue, gross profit and adjusted EBITDA as well as an overall improvement in margins, earnings per share and free cash flow. The Veradigm business segment saw a year-over-year revenue growth of 8% during the quarter, which was consistent with our expectations. The Veradigm provider platform continues its growth trajectory, adding over 500 new practices and 6,100 prescribing physicians during the quarter.

Additionally, in April, the U.S. Department of State selected our practice management, patient registration and scheduling platform for deployment to over 200 designated health units housed within MSCs and missions around the globe. This project will expand on the cloud-based EHR deployment that is already underway.

On the payer and life science side of Veradigm, we continue to leverage our scaled provider network effectively using our proprietary data sets, our clinical data exchange platform and point-of-care connectivity to create significant value for our payer and life science clients. During the quarter, we went live with 2 more marketplace data partnerships, allowing us to continue to expand our reach and ease of use for our customers.

Veradigm non-GAAP gross margin was 52.2%, which was up 420 basis points year-over-year, reflecting good operating leverage and good balance of improvement between our end-market revenue areas. Further down the P&L, we continue to manage our operating expenses while also investing for the future. You will see in our results that on a GAAP basis, we incurred approximately \$7 million in transaction-related and legal costs, which we have excluded from our non-GAAP earnings calculation. We will likely have a little more of this in Q2, but then I would expect to get back to clean reporting by Q3, with only adjustments for purchase accounting amortization, stock-based compensation and a normalized tax rate representing the differences between our GAAP and non-GAAP reporting.

We held the nice operating leverage with Veradigm, reporting 24% year-over-year adjusted EBITDA growth in the quarter, and this resulted in an adjusted EBITDA margin of 25.8%, an increase of 330 basis points year-over-year. On a per share basis, we reported consolidated non-GAAP EPS of \$0.13 per share, which was up 63% year-over-year, reflecting our growing earnings as well as our aggressive share repurchases over the last year. We continued this in the first quarter, repurchasing \$50 million of common stock through open market repurchases.

Now I want to turn to cash. We had an excellent quarter of free cash flow generation as we generated \$35 million of cash flow from continuing operations and \$25 million of free cash flow. I also want to point out that accounting rules governing what is classified as continuing operations versus discontinued operations creates a little bit of confusion with what our true cash position was at the end of the quarter.

As you can see at the bottom of Table 3 of the press release, there was more than \$68 million of cash sitting on the books of the discontinued operation at the end of the quarter. We received all of that cash on top of the acquisition price. So our balance sheet net debt position at the end of the quarter appears much higher than it really was.

Finally, last week, we announced that we amended our credit agreement to extend maturity of the facility for an additional 5 years as well as secured improved pricing. The amendment consists of a \$700 million senior secured revolving facility with significant flexibility to expand as necessary in support of Veradigm's growth trajectory.

So now turning to our outlook for 2022. We are maintaining our outlook and expect that Veradigm revenue to grow in a range of 6% to 7% year-over-year. Veradigm adjusted EBITDA, we expect to grow in a range of 10% to 15% year-over-year. And we expect that our consolidated free cash flow from continuing operations to be in a range of \$110 million to \$120 million.

So to wrap up, we feel 2022 got off to a strong start, and we look forward to maintaining that momentum in our new streamlined company. Now I'd like to open up the call for any questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first questions come from the line of Sean Dodge with RBC Capital Markets.

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

I'll start by saying congratulations to you Paul, for a hard plot 10 years, and congratulations to Rick, to you, as well.

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

Thanks, Sean.

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

The free cash flow guidance for Veradigm, the \$110 million to \$120 million for the year, Rick, can we think about that as being a good representation of the run rate going forward? If I'm interpreting this correct, it was \$24.5 million of free cash flow attributable to Veradigm, kind of the continuing op in the quarter. Is that -- again, is that a good kind of run rate going forward? Or is there something you'd point out there as being kind of noisy contributing?

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

Yes. Well, first off, Sean, thanks for the kind words. With respect to free cash flow, I want to just be clear, that guidance is for the consolidated entity, okay. So that actually reflects what we expect in terms of some of the costs and whatnot that I referred to at the consolidated level. And so as to, is that an unusual number? Though I think that's part of our steady state, yes, there was nothing unusual in the quarter. And we're not really counting on anything unusual for the year. So we think that's reflective of the business. And obviously, as we look to grow the business, I would hope that would continue to grow as well.

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

Okay. And then on the margins, you've said payer and life sciences, those oriented offerings are going to grow faster than the provider business. How do gross margins on each of those businesses compare? I guess what, if anything, is that revenue mix shift -- due to margins, gross margins over time?

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

Yes. Actually, we -- I know we just sent the press release out, not long before the call, so I'm sure you haven't had full time to digest. But you'll see, with some of the tables we've augmented to the press release, is the answer to a lot of that question, Sean, with respect to how it breaks down.

In particular, I would point you towards tables 9 and 10, where we give detail at the revenue line item and gross profit and gross margin line item. The short answer, though, to your question is you'll see, when you get a chance to digest that, that the difference in margins between the provider side and the payer life science side are not very large. They're actually pretty comparable to each other. So as revenue mix changes, I don't think we'll get -- we won't see a lot from the revenue mix. I think we'll instead see improvement come from continued operating leverage.

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**Operator**

Our next questions come from the line of Jeff Garro with Piper Sandler.

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

And I'll echo the congrats to Paul and whatever next steps are ahead and to Rick for stepping into CEO role. So wanted to ask about revenue on the payer and life science cohort. Curious what headwinds and tailwinds, that piece of the business saw in the first quarter, and what can drive an inflection up towards the 20% to 25% growth expectation for the year.

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

Yes. Thanks for the wishes, Jeff. Payer and life science area, first of all, there's definitely some seasonality. You'll see that if you look backwards, and we'll continue to experience that going forward. I would say the quarter was a little slow. We had added some new folks to our sales team effort there. And so we're looking forward to a little more momentum later in the year. But there's not really a seasonal story beyond that, Jeff. So I mean we're still confident in those numbers. I think we'll see those numbers rise in Q2, that year-over-year growth. But we're -- the real power of the growth that we had forecasted will come as we continue to build momentum through the year.

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

Great. And maybe dive a little more on the details there, now that we have more disclosure on the revenue. I'm just curious in terms of product mix for the payer and life science revenue contribution. I don't want to overlook the common technology elements and that you have a portfolio of products and I think a growing set of use cases. But are there any particular products that you'd call out as just key drivers that investors should focus on?

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

Yes. I mean, you can see that the total of it all, Jeff, is about 20% of revenue, and we expect that mix to shift. And I think you've got -- you picked that up from us by now. But the numbers are not large, and so percentages can change a lot with even singular transactions that happen. So I think we're not going to get into really product line level details, at least not yet. As we look ahead to, I think, later in the year, we're going to think about doing an Investor Day. And when we do that, we'll take a little deeper dive.

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

Great. Look forward to more to come there. One last one for me, more on the reporting side of things, a lot to digest and not surprising to -- not see a bookings number because of potential lack of comparability there. But I'm just curious what we can expect going forward there? And also on backlog, whether that will show up in the 10-Q. And what the right way might be to interpret that number if it will be in there?

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

The business changed a lot. I don't -- backlog, we'll probably not go -- get into because it's not a business that has long-term contracts the way the hospital side did. And so backlog doesn't really -- backlog changes don't -- to me, aren't as good a predictor of stable revenue ahead. But that's our current thinking of that.

Bookings, we will bring back into the fold. We have to -- it's been a busy week, and we didn't -- I didn't actually really intend to leave that out to be candid with you. So we'll work on that, and we'll get that back in here next quarter.

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**Operator**

Our next question come from the line of Stephanie Davis with SVB Securities.

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**Stephanie July Davis** - *SVB Leerink LLC, Research Division - Senior MD of Healthcare Technology and Distribution & Senior Research Analyst*  
Paul, congrats on retirement. Rick, congrats on the new title.

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

Thank you, Stephanie.

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

How should we think about the CFO role? Is that something you guys are going to actively look to fill? Or are we just declaring, Rick, the supreme leader of Allscripts?

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

We'll be making some announcements about the rest of the leadership team soon, Stephanie, and that will come out probably later today, actually.

It's in the 8-K already. So my legal counsel is telling me, it's already in the 8-K that's coming out. So we have -- we're promoting (inaudible) to fill the CFO role. And I look forward to introducing you and passing that to time. But I will be here. The goal of all of this is to have very smooth transitions. And so just as Paul will work with me over the next couple of months to make sure we try not to miss anything at the top, I will continue to help as much as necessary to keep -- make sure we have the financial reporting consistent and everybody understands what we're doing.

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

Super helpful. Looking forward to the announcement. On the strategy side, I'd be curious what you guys are interested in focusing in on for the Veradigm business now that you can hone in on entirely. Is there any efforts or any strategies you want to really target now that you have a -- has your full attention?

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

Yes. I mean I think, Stephanie, the big question, obviously, will be -- and this will be something we'll discuss with our Board as well. But it'll be -- we have a nice organic growth that we've shared our expectations with already. But the question is, should we augment that? Should we accelerate that through potentially some acquisitions? But we have a lot to do organically right now, and we have good runway. So that's the immediate focus. But as we look out ahead, we'll have to entertain that. Certainly, we have the balance sheet capacity to do whatever we want.

I think in terms of specific strategy, Stephanie, I'd kind of -- I'd probably defer a little bit. The same answer I gave Jeff earlier is we're going to look to do an Investor Day later in the year. And when we do that, I think we'll get into a little more depth of how we're making money today and where we expect to take that going forward.

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

All right. Sounds like a plan. Looking forward to it. And congrats again all around.

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**Operator**

Our next questions come from the line of George Hill with Deutsche Bank.

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**Unidentified Analyst**

This is [Pragya] on behalf of George Hill. So my question is, are you seeing the slowdown in fundraising in the early-stage biotech markets, have any impact on demand at Veradigm? Or are you seeing any changes in demand from CROs you partner with?

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

Could I ask you to repeat the first part of the question? You cut out a little bit. You reduced funding, and I lost you after that.

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**Unidentified Analyst**

Yes. I'm saying, are you seeing any slowdown -- sorry, are you seeing the slowdown in the early-stage biotech market have any impact on the demand at Veradigm? Or are you seeing any change in demand from CROs you're partnering with?

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

We are not seeing any real impact from early-stage biotech companies and any funding issues they have there. That's not really ever been our target audience. We definitely work with more mature, much larger pharma companies. And as for CROs, they also tend to be quite large as well. So there's -- these are not companies dependent on new infusions of capital.

Have we seen a slowdown? No, no. I mean I think the market continues to operate where we expected to. And I think, to me, again, the best evidence of that is in the results we had for the quarter.

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**Unidentified Analyst**

Okay. And another one for me. Now that you've shed most of your enterprise EMR assets, does this change the willingness of other EMR vendors to partner with you, so data to be used within the Life Science space?

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

Yes. I think that's a fair question, and we'll see what the answer to that becomes. I mean we have partnerships today with some that are -- might be viewed as competitive in some aspects of our business. I would point out to you that I think health care is full of competition, if you will, if that's a word. There's a lot of folks that are on one -- some aspects of their business compete and other aspects of their business, they partner. And so I don't think that's an unusual dynamic. And so far, our partnership agreements, I think, are quite successful. And my hope is that we will continue to expand those.

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**Operator**

Our next questions come from the line of Michael Cherny with Bank of America.

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**Allen Charles Lutz** - *BofA Securities, Research Division - Associate*

This is Allen Lutz in for Mike. I want to talk about the Veradigm Touchpoint Media business or the -- I guess, the advertising hub for you guys. I'm not sure how big it is, but can you talk about the uptake with big pharma? And then how fast can it grow? And is this business material to your top line at the moment?

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

Well, the answer to all of them, I guess, are yes. You see a lot of that media type business or at least, I think, that's what you're referring to, in reflecting the seasonality. So that tends to happen -- tends to be a bolus in later in the year. Our outlook right now is that we'll have another strong year there, but we do business with very large pharma companies. And so the dollars, they can be significant.

You can -- again, I guess, significance is always -- beauty is in the eye of the beholder. And again, I'll start by saying or remind you that 80% of our revenue today is coming from health care providers, the balance coming from payer and life science companies. But we do expect the payer and life sciences segment of our business to grow faster, and that growth is certainly -- a part of that growth is coming off of that media platform. Absolutely.

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**Allen Charles Lutz** - *BofA Securities, Research Division - Associate*

And then, Rick, you mentioned a comment on the net debt that I missed. What's the right net debt number that we should think about?

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

If you look at the balance sheet, I would just -- I think the right way to look at it is add another \$68 million of cash effectively to what's on the balance sheet listed as cash, and then you can do the math off of that. It gets you to a net debt of around \$230 million.

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**Operator**

There are no further questions at this time. I would now like to turn the call back over to Paul Black for any closing comments.

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

Thanks, everybody, for your time today. It's been great to be at the helm of this great company. It's even greater to see the leadership step up and the ability to have a no-brain choice, if you will, a no-brainer choice for the successors to run this company. And I'm thrilled to work with everybody on this call for the last past 10 years. You felt to encourage us. You felt to ask tough questions. And importantly, as we've always tried to do, we try to reward your trust and confidence in us with performance. And certainly, over the last 24 months, your forbearance and your patients with us has paid off. So we're also quite proud of that.

So thank you very much. Thank you for the nice comments, and I will bid you all a final adieu. Goodbye.

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**Operator**

This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time, enjoy the rest of your day.

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