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EDITED TRANSCRIPT

QSII - Quality Systems Inc Announces Agreement to Acquire HealthFusion Holdings Inc

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OVERVIEW:

Co. provided an update on the agreement to acquire HealthFusion Holdings for \$165m plus additional contingent consideration of up to \$25m.



CORPORATE PARTICIPANTS

Rusty Frantz *Quality Systems, Inc. - President and CEO*

John Stumpf *Quality Systems, Inc. - Interim CFO*

CONFERENCE CALL PARTICIPANTS

Steve Halper *FBR Capital Markets - Analyst*

Donald Hooker *KeyBanc Capital Markets - Analyst*

Michael Cherny *Evercore ISI - Analyst*

David Larsen *Leerink Partners - Analyst*

Mohan Naidu *Oppenheimer & Co. - Analyst*

Sean Wieland *Piper Jaffray & Co. - Analyst*

Sean Dodge *Jefferies LLC - Analyst*

Jeff Garrow *William Blair & Company - Analyst*

Greg Bolan *Avondale Partners - Analyst*

Jamie Stockton *Wells Fargo Securities - Analyst*

George Hill *Deutsche Bank - Analyst*

Nathan [Chonta] *Quality Network - Analyst*

Charles Rhyee *Cowen and Company - Analyst*

Nicholas Jansen *Raymond James - Analyst*

PRESENTATION

Operator

Good morning and welcome to Quality Systems, Inc.'s call regarding its agreement to acquire HealthFusion Holdings, Inc.

(Operator Instructions)

I would now like to introduce Quality Systems, Inc.'s President and Chief Executive Officer, Rusty Frantz. You may begin.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Good morning, and welcome. I remind everyone that the comments made on this call may include statements that are forward-looking within the meaning of the federal securities laws, including but not limited to those related to projected closing of date of the transaction, the outlook and anticipated financial performance of HealthFusion, the company's intended sources of funding for the acquisition, the anticipated accretive nature of the transaction to the company and the growth prospects for HealthFusion and the company. Risks and uncertainties exist that may cause results to differ materially from those set forward in these forward-looking statements.

Factors that could cause the anticipated results to differ from those prescribed in the forward-looking statements include, but are not limited to required regulatory approvals for the transaction, market and financial conditions, which may impact the financial performance of HealthFusion and general economic conditions as well as those risks set forward in the company's public filings with your US Securities and Exchange Commission, including the discussion under the headings risk factors in the company's most recent annual report on Form 10K, and any subsequent quarterly



reports on Form 10Q. The Company expressly disclaims any intent or obligation to update these forward-looking statements, except as required by law.

Thank you for joining us regarding our recently announced agreement to acquire HealthFusion, which we are very excited to discuss with all of you today. I will kick it off with some color and then John Stumpf our Interim CFO will provide insight into the financial impact of the transaction.

Let me start the call by saying welcome to both the HealthFusion team and HealthFusion clients. I'm personally excited about the future that we can chart together as we seek to continuously enhance the patient physician experience and provide solutions that drive the cost and quality of care. Following closely on the heels is our divestiture of our hospital solutions division, the acquisition of HealthFusion and their MediTouch platform is another great example of our strategy to narrow our focus on expanding client base and solution capabilities in the ambulatory market. HealthFusion brings an extremely intuitive, fully mobile, cloud-based solution that delivers a fully integrated electronic medical record, practice management, and patient engagement solutions targeted at smaller groups of physicians and other providers.

By acquiring HealthFusion, we move forward on a number of tasks. We instantly expand our footprint in the less penetrated small practice margin with a cloud solution that provides a great client experience and delivers a robustly accretive result to our shareholders. We acquire a very clean, fully mobile cloud platform that we can build upon to meet increasingly complex client needs, leveraging our significant experience in the enterprise space. We expand our addressable client base for key parts of our service portfolio, an opportunity that will be realized over time. We pivot the focus of the NG Now platform towards future population health capabilities.

As I said on last week's call, the team and I have been evaluating ways to accelerate our delivery on a cloud-based system to the smaller practice ambulatory segment, including looking across the market at other solutions. Having found HealthFusion's MediTouch platform, an EHR designed by doctors, for doctors I felt that we had a great opportunity to bring an efficient natively mobile fast solution to a market that does not have access to IT departments, or larger staff to handle key tasks. It's a market where time spent and data entry and system management translates directly to fewer patients seen, fewer patients returning, less time with family, and less money coming in. We believe being able to take and thoughtfully extend the solution by leveraging our enterprise expertise is a great opportunity into the future.

As I said earlier, the acquisition of HealthFusion enables us to focus the NG Now platform toward supporting future population health capabilities. We will continue to build out a cloud-based clinical data repository that leverages our merged solutions and consumes information from both our NextGen Ambulatory and now our MediTouch solution. This platform will establish a foundation for both organic and inorganic expansion of applications and analytics critical to our clients as we move into the future with them.

As part of this change in direction with NG Now we will be performing a holistic reevaluation of our development work in the context of the new strategy. Naturally some of the prior NG Now application development work may be impacted by the acquisition, and we will quantify that as we move through the next quarter.

Today marks the official opening of our user group meeting here in Las Vegas. We are looking forward to sharing key aspects of our strategy with our clients this week. We plan to discuss many of the same topics we had discussed on these calls, manage cloud services, our focus on the ambulatory market, usability and efficiency improvements on NextGen ambulatory platform, and our very clear focus on continuously improving and enhancing our client experience. It will be a great event, my first one. And I'm looking forward to spending three or more days with thousands of our clients.

With that, I will pass it over to John to go through the financials. Take it away, John.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

As noted in our press release from last Friday relating to this acquisition, this is an all-cash transaction, expected to close sometime during our current fiscal year ended March 31, 2016, subject to customary closing conditions. This consideration for the purchase is \$165 million, additionally the deal provides for contingent consideration of up to \$25 million, payable after calendar year 2016. Payment of the full earn-out amount would be based upon the generation of at least \$43 million of HealthFusion related product revenues in calendar 2016.

In anticipation of this transaction, QSI has secured \$200 million in totally committed financing from JPMorgan and US Bank. We anticipate funding the initial purchase consideration with approximately \$115 million from this credit facility with the remainder from excess cash on hand.

With respect to the prospective earnings impact from this transaction, while we are not prepared to offer combined pro forma guidance at this time, we are prepared to share the following: HealthFusion has steadily grown its revenues at meaningful double-digit rates, and has a recent annualized revenue run rate exceeding \$30 million. Nearly all of the product revenue stream is recurring in nature arising from assessed based arrangements from a well diversified customer base. Growth margins are very much in line with an established business of this nature and anticipates generating synergies from this transaction, including revenue synergies but we are not prepared to quantify those at this time.

Last, we anticipate this acquisition being accretive to QSI's non-GAAP earnings-per-share in the first full year following the transaction, supporting a growth strategy focused on total shareholder returns. For FY17 we anticipate that this transaction will add \$0.11 to \$0.13 to our standalone non-GAAP EPS. Now I will turn it back to Rusty.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thanks John. Operator, at this time we would be happy to address questions. Please open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Your first question comes from Steve Halper from FBR.

Steve Halper - *FBR Capital Markets - Analyst*

Thanks and good morning. Could you just repeat the commentary around the NG Now strategy and what was about -- was does HealthFusion have besides an established base that you couldn't duplicate with NG Now, understanding that your traditional focus is more mid and large size physician groups?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thanks for this question, Steve. As we look at -- let me start with the backend of your question and then I'll pivot to NG Now. As we looked at the HealthFusion EMR and EPM solution many of the solutions today in the marketplace were really built to satisfy a lot of the meaningful use standards and requirements. When we looked at the HealthFusion experience, it is in a very mobile, very easy to use experience for the client basis. It's an incredibly clean user experience and that was something that we really put a lot of value in.

As far as whether we could duplicate that experience, absolutely, given time. However, where we were and the ability to bring a cloud-based solution immediately to our client basis, and then to be able to allow the NG Now team rather than simply working on a current cloud-based EMR, but instead to start to really look at how do we deliver the capabilities, analytics and applications for population health. We felt like it was going to be a real win for our customers to be able to get this step function of development on the EMR side, and yet still open up avenues for us to deliver population health capabilities.



Steve Halper - *FBR Capital Markets - Analyst*

So just as a follow-up. So you're going to be reviewing some of the NG Now development work, is that fair?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes. Absolutely. We are going to take a look at this, John. We are going to take a look at the NG Now development work and implied in our release, and I will say it again, is we are going to take a look are there any financial implications for the recurring values of those assets. That type of thing. As we look to see the how the HealthFusion product will fit onto the NG Now platform.

Steve Halper - *FBR Capital Markets - Analyst*

Okay. And just one quick follow-up. In the release you talk about 3,000 physician practices. What percentage of those practices are using the billing services versus the application you know for EMR or you know the traditional -- I don't want to call it traditional but the SaaS software versus the billing service?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

This is John again. About 30% - 40% using the RCM.

Steve Halper - *FBR Capital Markets - Analyst*

Great, thank you.

Operator

Our next question comes from Donald Hooker with KeyBanc.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

Hey, great, good morning, and congratulations on pursuing the deal, not yet closed but -- so my question is, can you provide a little bit maybe building off of the former question in terms of the -- do they specific price points we should think about for the EHR -- for the practice management system like a certain fee for a month that's standard for them? Or is that a way to think about it? Can you elaborate a little bit on that?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes, this is John. So the customers can purchase the totality of their products suite or they can purchase the EHR and EPM separately. And you know there is combo pricing involved, but I've seen an estimate out there that somebody published, it's around \$500 to \$600 a month if you were to buy it all in. That gets you north of \$6,000 a year roughly per subscriber.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

Okay. Got you. And then in the press release you talk about the earn-outs being linked to I think 43 million of product revenues. So when you say product revenues, is that something specific more than just revenues? Or is that -- am I reading too much?



John Stumpf - *Quality Systems, Inc. - Interim CFO*

The implication with HealthFusion product suite related revenues as opposed to QSI related products that might be sold into their client base. So, their existing products that they are bringing to the equation.

Donald Hooker - *KeyBanc Capital Markets - Analyst*

Got you. Okay. I will jump off, thank you.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Thank you.

Operator

Our next question is from Michael Cherny with Evercore ISI.

Michael Cherny - *Evercore ISI - Analyst*

Good morning guys.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Good morning.

Michael Cherny - *Evercore ISI - Analyst*

So, I just want to take note -- Rusty, this is the first time I can recall, and maybe I missed a small piece, but this is the first time the company has ever used a meaningful amount of debt related to any type of investment. Can you talk about what this means in terms of any -- you know now long-term strategic shifts related to concept of capital deployment and particularly, as you think about building out this platform and any other technology investments. How does the thinking around the dividend come into play?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Actually I tell you what I am going to pass the initial answer to John and then I will give color. Go ahead John.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

With regard to the capital, so when we took on the credit facilities we assessed our ability to fund the cash flows and that type of thing. The leverage that comes from the transaction, and the company is going to be migrating into more of a growth mode. This acquisition is one of those stepping stones.

Our divestiture of our inpatient business is another stepping stone toward being a higher growth rate ambulatory focused company. And with that comes dividend related implications. So when you look at where the credit facility was, that really puts a limit on the amount and timing of dividends. We currently plan to pay the regular \$0.175 dividend which has been declared in January 2016 but subsequently we will suspend a



dividend for the foreseeable future as we believe we can enhance shareholder value to a greater degree by reinvesting the available capital in the business.

So this really is a pivot point for the organization. We feel like we can deliver great returns by reinvesting capital in the business and we expect to do that going forward.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

It is over return strategy.

Michael Cherny - *Evercore ISI - Analyst*

Got it. That's all I have. Thanks guys.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

Our next question is from David Larsen with Leerink Partners.

David Larsen - *Leerink Partners - Analyst*

Can you talk about HealthFusion's presence in the facility space please? Thanks.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

In the facility space, can you clarify please, David?

David Larsen - *Leerink Partners - Analyst*

So, do they have any presence in hospitals like any EMR components or any rev cycle components, or do they have any top health capabilities that are tied into the acute care space that link docs to hospitals or is there no presence in the acute care space?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

There's no presence in the acute care space.

David Larsen - *Leerink Partners - Analyst*

Okay. And then can you talk about how HealthFusion will be linked in with Matrix? And then also expected integration plans with Matrix and also the core platform? Thanks.



John Stumpf - *Quality Systems, Inc. - Interim CFO*

You're speaking about Matrix, our RSPM acquisition?

David Larsen - *Leerink Partners - Analyst*

Yes.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Okay. Apologies David, since I'm a little newer to the game sometimes I don't know some of the legacy names. I think at this point in time we are really just evaluating. Today what we are bringing in, is we are bringing in a vibrant software capability, cloud-based SaaS capability. We're certainly going to look at opportunities across the base overtime to bring in some of our service capabilities. But as we sit here today, our primary focus is to enable the HealthFusion solution to continue to grow, and start to look at how we might extend that overtime to larger and larger clients.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Let me add to what Rusty said real quickly. Were you perhaps referring to our Mirth acquisition?

David Larsen - *Leerink Partners - Analyst*

The [NextGen] Mirth and [Pothof] all around, yes.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Yes, from a Mirth standpoint, we also see that Mirth stack as both linking to our NextGen ambulatory software platform. But also linking into the MediTouch platform. So with Mirth, we believe we can bring a lot of the capabilities of both Mirth Care and Mirth Share and the inoperability Mirth drives directly to that HealthFusion solution.

David Larsen - *Leerink Partners - Analyst*

Great. And what is HealthFusion's organic growth rate then again? Can you remind this please?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

We haven't stated too specifically. We said it was meaningful double-digit rates. But if you take for example what we have described as their recent revenue run rate which is north of 30 million and you look at for calendar 2016 the earn-out target, which we believe they can achieve, and for a growth rate there.

David Larsen - *Leerink Partners - Analyst*

Okay, great. Congratulations on what sounds like a good deal.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.



Operator

Our next question comes from Mohan Naidu with Oppenheimer.

Mohan Naidu - *Oppenheimer & Co. - Analyst*

Rusty, John, thank you for taking my question. I just want to clarify little bit on the dividend. Rusty, did I hear that right that after paying out the December dividend then it's going to be suspended?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

That is correct.

Mohan Naidu - *Oppenheimer & Co. - Analyst*

Okay. All right. Thank you. Next quick question. So if you think about the HealthFusion billing, are any of your NextGen customers using their billing at this point? Or is there any overlap between your products?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

There is not.

Mohan Naidu - *Oppenheimer & Co. - Analyst*

All right. Thank you.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

Our next question is from Sean Wieland with Piper.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Hello, thanks, good morning. So what is the migration strategy going to look like from your NextGen on Prem customers? Talk to me like I am a NextGen customer interested in maybe moving to the cloud. What are you implementing there?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

At this point, we are staying relatively silent on that with our NextGen client base, and frankly with the market as a whole, as we are just simply at the point where we have signed the transaction. We do have integration plans, and we do have a plan to start to begin to take this capability, add new capabilities to it and meet the needs of larger and larger clients. We are not really prepared to go into depth at this point.



Sean Wieland - *Piper Jaffray & Co. - Analyst*

Okay. How about your analysis of the functionality gap? NextGen certainly has all of the specialties built out and all of the capabilities. What does that compare to -- how does that compare to HealthFusion? And what kind of investment is going to be required to close that functionality gap?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

I guess from a functionality gap a couple of things. One is that we have a very robust enterprise capabilities on the NextGen ambulatory platform that meet the needs of some very significant and complex clients. As we begin to take the cloud-based solution and our enterprise solution and bring those together over time, the number one guiding principal will be maintain a simple and clean user interface and user experience as we begin to bring some of that functionality across.

We will look at which specialties we expand to based on opportunity in the market. We will look at starting to create more complex user and practice models as we move to clients of larger and larger size. However, the number one, number one guiding principle in this is make sure that the physician is incredibly efficient.

So, let's just say what I said in my opening comments that we are going to do it very thoughtfully. Thoughtfully is definitely the word here. What we do not want, is we do not want to take physician efficiency down from the great experience that HealthFusion's delivered as we begin to layer in more and more enterprise capability.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Can you tell us how many specialties HealthFusion is deployed into?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

30.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

30. Okay. And then maybe one last, if I could squeeze it in. Revenue per subscriber looks like for HealthFusion it's about \$7, the kind of gold standard in the industry looks like it is around \$15. Can you talk about how you can narrow that spread, how you can drive revenue per subscriber for your combined set of assets?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

I think as we look forward a lot of the services and capabilities that we will be able to bring to the table as well as new applications and analytics can continue to drive that number upwards and certainly also the value that an enterprise client receives is differentiated from the value that a somewhat smaller standalone client receives. So I think you'll still see some degree of spread there, simply because more complex organizations do require more complexity and capability in the solution.

Sean Wieland - *Piper Jaffray & Co. - Analyst*

Okay. Thank you very much.



Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

Our next question is from Sean Dodge with Jefferies.

Sean Dodge - *Jefferies LLC - Analyst*

Good morning, thanks. Maybe following up on the integration plan. Rusty, are most of the senior leaders in HealthFusion committed to staying on board at least through the earn-out?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Yes they are. One of the great things about the HealthFusion transaction is the common cultures between the two organizations. Both organizations believe that the mission that we are on to help improve healthcare is a key mission and something that we just absolutely viscerally believe in. So that cultural fit was actually one of the things called out within the transaction that made the founders and the principles of Health Fusion very comfortable with the acquisition. So my expectation is, is that certainly we are going to be working in the trenches together to really drive this healthcare industry forward into value-based reimbursement and integrate physician efficiency.

Sean Dodge - *Jefferies LLC - Analyst*

Okay. Thanks. And then do you have any statistics on what percentage of the HealthFusion base is attested for meaningfully [in stage two.]

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

I do not.

Sean Dodge - *Jefferies LLC - Analyst*

All right, thanks and congratulations.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

Our next question is from Jeff Garrow with William Blair & Company.

Jeff Garrow - *William Blair & Company - Analyst*

Good morning guys, thanks for taking the questions. I want to ask, what kind of confidence do you have in achieving that \$43 million revenue earn-out in 2016? What visibility do you have that they can bridge the gap between that \$30 million run rate and the \$43 million target?



John Stumpf - *Quality Systems, Inc. - Interim CFO*

This is John. So their recent run rate actually is north of \$30 million, right? We are being conservative in our numbers. We, through our financial diligence, went to great detail on their customers, the rate of new custom ads, customer buy-up, office growth moving from one doc to two doc practices so we really diligenced it and feel comfortable in that number.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

And I would also say that the principles of HealthFusion also feel comfortable in that number which is why they were comfortable with the deal structure we put in front of them.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

And over 90% of the revenue is recurring in nature. It makes it relatively easy to forecast.

Jeff Garrow - *William Blair & Company - Analyst*

Great. But as a follow-up, is there any number that you can give us in terms of bookings or backlog or recent physician growth numbers?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

We are not going to be sharing that at this point in time.

Jeff Garrow - *William Blair & Company - Analyst*

All right. I am -- one more if I could. Just you know maybe a few more comments trying to reconcile the speed to market justification that you gave earlier for the transaction with the idea of a very thoughtful integration and also delayed or slow development of NextGen now?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes. First of all when I say speed to market, let's also remember that we are also delivering the message to thousands of clients. In fact in a couple of hours about our NextGen managed cloud service for the NextGen ambulatory solutions platform. So we are already taking the majority of our client base or giving them the opportunity to get to the low total cost of ownership inherent in a cloud-based solution.

So when I say thoughtful, it is thoughtful simply because we aren't looking at HealthFusion as the answer for our client base. We are bringing a multi pronged strategy that both gives our clients the benefit of the cloud and the comfort of having our great enterprise capabilities hosted in a way that it takes a lot of the work off their plates, which once again allows us than to take this great HealthFusion platform and rather than trying to simply migrate it in a rush up market but simply look at how do we really build the experience for the future and how do we bring that, as I said, thoughtfully into the client base. Does that help?

Jeff Garrow - *William Blair & Company - Analyst*

Yes. That is very helpful. And maybe one more follow up. Why not double down on NextGen Now investments too?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I did not say that we were not doubling down on NextGen Now investments. From my standpoint, we're simply pivoting that program to round out our overall solution from EHR, EPM and patient engagement, and also giving us the ability to create a platform that spans all of our clients and potentially data from other EMRs through our interoperability solutions, giving that longitudinal view of the patient and building the applications and analytics that our customers are going to need, especially as we approach the tipping point, some would say in 2016 for value-based reimbursement.

Jeff Garrow - *William Blair & Company - Analyst*

Understood, that is very exciting. Thanks again for taking the questions guys.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Thank you.

Operator

Our next question comes from Greg Bolan with Avondale Partners.

Greg Bolan - *Avondale Partners - Analyst*

Hey, thanks guys. So I apologize, got a little disrupted this morning. But if you think about -- I want to make sure I understand this. So if you think about the HealthFusion installed base across the product suite, 30% to 40% of the physicians are currently using HealthFusion RCM. Make sure that is correct. And then, number two if I kind of look at the NextGen product suite and the installed base, if I recall correctly, about 10%, maybe a little bit more of the install base is using NextGen RCM, are those -- is that a correct way to look at it?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes. I believe so, that's correct.

Greg Bolan - *Avondale Partners - Analyst*

So if you think about the -- I guess the upsale opportunity, are you going to be going after the NextGen install base with HealthFusion RCM? Or are you going to be continuing kind of bifurcating the two? Just, you after HealthFusion RCMs -- excuse me HealthFusion install base or HealthFusion RCM and then obviously if NextGen continue going after that install base with NextGen RCM?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I think, you know, focus is everything in an organization. For me, the RCM focus is on our major opportunity, which is the NextGen, the number one in class, NextGen RCM services, going after the base that has the absolute most to benefit from that in the near term, which is the enterprise base so the NextGen ambulatory solution.

From a HealthFusion standpoint, certainly we will continue -- that will grow organically natural is it always has. But from a strategic focus standpoint, it is the cross sell of our RCM services into our core NextGen ambulatory base, which is going to be the primary strategic focus for this organization, and what I think is a great opportunity for this organization.



Greg Bolan - *Avondale Partners - Analyst*

Absolutely.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

And just in the next couple of hours we are going to spend some time, myself with Monte Sandler on stage in front of 3,500 people talking about the great things that we can bring to the table with those RCM services.

Greg Bolan - *Avondale Partners - Analyst*

That's great. And then if I could just kind of take that a little bit further. So if you think about kind of some of the other players in the ambulatory RCM market, one of the larger ones, and you think about kind of their billable revenues per year, per physician around \$14,000 to \$15,000, maybe a little bit more.

Yours is maybe closer to \$10,000 if you just kind of take that 85,000 or 90,000 docs and multiply it by 10% and kind of multiply that into the RCM revenue base. And you guys obviously specialize in more of the I guess specialties if you will versus maybe one of your larger peers, which is more of the general practitioners. Is there a way to kind of boost that billable revenue per physician on your NextGen RCM base? And then just kind of lastly, is that billable revenue per physician kind of the same for the HealthFusion base?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I think that's probably a little more granularity than we are comfortable providing at this point in time.

Greg Bolan - *Avondale Partners - Analyst*

Okay.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

What I will say, is that from an RCM standpoint, is that we are continuing to add in new capabilities, for example, our credentialing service that we are now starting to push into the marketplace. So we will continue to strive to drive more value for our clients. And certainly as we drive more value we will expect to share in that value created.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

This is John. Keep in mind when you are looking at our composite revenues they are coming from a diverse set of streams including EDI, so we don't really look at our totality of our revenue as per subscriber.

Greg Bolan - *Avondale Partners - Analyst*

Okay great, congrats guys.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Thank you.

Operator

Your next question is from Jamie Stockton with Wells Fargo.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Hey, good morning, thanks for taking my questions. I guess maybe the first one, just to clarify, the 6,000 number in the press release, is that a good number that we should think about as the current physician in mid-level provider base for HealthFusion?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Okay. And then, maybe then just a few more mostly on the way that they've been going to market up to this point. Could you describe what their sales strategy has been? Do they have a direct sales force? Have they mostly been using resellers? If you could just go into some detail there that would be great.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

It's as a SaaS solution with a light footprint and a great intuitive experience. They depend primarily on inside sales. They do have some great relationships such as with the American Association of Family Practitioners, where they are the preferred solution for that very large group. So they do basically work with the various groups of physicians to create, I would say almost a preferred relationship just based on their usability. But they do not have a direct sales model. And they cannot go through really resellers as much as through kind of referrals or being the gold standard for a group.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Then maybe just one more there and this kind of ties into Greg's questions. But are they using billing services as one of the primary channels that they are getting referrals from?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I'd say they're getting -- yes, they are getting leads from these billing service as well?

Jamie Stockton - *Wells Fargo Securities - Analyst*

When you said 30% to 40% RCM concentration or penetration earlier on -- just to make sure that we are clear, are you talking about software -- billing software or you talking about providing a billing service to the 6,000 physicians or so that they've got in their client base?



John Stumpf - *Quality Systems, Inc. - Interim CFO*

I'm sorry. Can you clarify the question for me one more time?

Jamie Stockton - *Wells Fargo Securities - Analyst*

So are you -- does HealthFusion actually have people who are doing the back office billing work for 30% or 40% of those providers?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

They are not providing the service. They are providing the software. And then the services themselves are outsourced to some of the providers that provide that service to their client base.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Okay.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Does that help?

Jamie Stockton - *Wells Fargo Securities - Analyst*

Yes, no that's great. Thank you very much.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

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

George Hill - *Deutsche Bank - Analyst*

Hey, good morning guys. I guess, can you talk about two things? Number one who was HealthFusion taking share from in the EMR market? And then, Rusty, I guess I would just ask, did you guys pursue them and find them in the process or were they wanting an M&A process that you guys participated in?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Let me start with the second one first. We became aware of the process a little ways into my tenure and I looked at what they brought to the table and found it very intriguing.

And I'm sorry, George, I apologize. It's early. What was the first part of your question?



John Stumpf - *Quality Systems, Inc. - Interim CFO*

(Multiple speakers) Taking share.

George Hill - *Deutsche Bank - Analyst*

Yes.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

From who were they taking share? They are both taking a lot of Greenfield and then as well they're taking share from some of the smaller legacy players, some of the smaller client server players. They also are taking share from a couple of other cloud-based solutions that are in the marketplace as well.

George Hill - *Deutsche Bank - Analyst*

Okay and maybe if I can still get a quick third follow-up. When you are talking about the patient engagement functionality that's in the product, I guess, can you talk about what is specifically in there? What specifically is the patient engagement functionality that is included in the product?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I would way the patient engagement functionality in a lot of ways mirrors what we have in our patient portal. So it is things like the ability to set appointments, the ability to get reminders. But they also have built some of the underpinnings of some stronger patient engagement capabilities.

They do have the ability to bring back for example to the physician a view of how those patients are actually navigating through the application, what capabilities they are using. We plan to extend that patient engagement functionality over time.

George Hill - *Deutsche Bank - Analyst*

Okay. Thank you.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you George.

Operator

Your next question comes from Garin Sarafian at Citi.

Unidentified Participant - *Analyst*

Hey, this is Alan in for Garin. Just a quick one. Can you guys provide a geographic breakdown of HealthFusion's footprint and how that compares to your own?



Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Yes, they are in all 50 states. I mean, it is a dispersed geographic footprint. So in a lot of ways it mirrors and complements ours.

Unidentified Participant - *Analyst*

Got it, thank you.

Operator

(Operator Instructions)

Our next question is from Nathan [Chonta] with Quality Network.

Unidentified Participant - *Analyst*

Hello everybody. So the question is, you had mentioned that HealthFusion involved 30 verticals, so as they plan to get into smaller verticals, smaller niches down the road and -- or is that a no priority for NextGen?

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

I don't think we are really prepared to comment on future -- forward-looking strategy. We are still in the process of actually closing the deal. Certainly, as we move towards the next earnings call, we will lay out a little more of the strategy as we get to that point in time.

Unidentified Participant - *Analyst*

Right. And then looking at resellers because I believe HealthFusion has a lot of resellers. Is that going to be a high priority or is the objective going to be to maybe move direct to sales to our customers?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

I think it's -- first of all, they have a robust lead generation channel through some of the service providers that provide services to their clients. I think we will continue to work with those channels. Certainly that is an effective way to attack the market that they've been currently focused on, and we see no reason to change that strategy. And also, we see as we begin to add capabilities the ability to move it up market, but that will happen over time.

Nathan [Chonta] - *Quality Network - Analyst*

Okay, thank you.

Operator

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



Charles Rhyee - Cowen and Company - Analyst

Thanks for having me. The question on the dividend here. So obviously we are going to suspend the dividend here, but that has been in place for as far as I can remember. Seeing (inaudible) what was the decision-making that you were able to persuade the board here that say hey this is -- we need to be doing more with this cash here and then secondly what kind of thoughts have you -- should we think about the use of that cash instead of going to dividend -- should we think that our R&D spend going up or should we think about M&A being as more of the use? Thanks.

John Stumpf - Quality Systems, Inc. - Interim CFO

Great. So we brought to the table as a management team to the board, we brought to the table what we thought was a great way to boost share price, and return better value to the shareholders. It's a pretty simple story. You know, as we look at -- if you just simply look at the EPS accretion just for FY17, I think it is a great story for the stockholder.

So from that standpoint, certainly it is a long held practice at this company. As we see, healthcare is transforming quickly. And those who hold onto the way they used to do things, are probably the ones who are going to find themselves holding on a little too long. So I think it is a great pivot forward to the future for this company.

How to look at it? I would say looking at in the latter way that you described as continuing to accumulate dry powder to be able to do some interesting things above and beyond what we are doing organically is the right way to look at it.

Charles Rhyee - Cowen and Company - Analyst

Okay. Thanks. And if I could just add one follow on. In terms of your enterprise clients I think just you made mention, you know, you're going to be discussing sort of your hosting capabilities for clients. When you think about delivering enterprise sort of cloud-based solution, what would be the biggest challenge from what you are getting today in HealthFusion versus what you need to be able to deliver for the enterprise? Thanks.

John Stumpf - Quality Systems, Inc. - Interim CFO

I think it is actually a challenge that are felt across a lot of the enterprise clients. Which is, how can we work with our clients not just to enable the processes that they have today, but to grow the solution into the care processes and the business processes that can be consistently used across an entire organization. I think one of the challenges that we've seen across the industry, across the vendor community is that as we continue to add more and more and more capabilities and features to the platform, they become somewhat unwieldy. So that is a challenge that we will be working through in partnership with our clients, which is number one to deliver a great, clean, and powerful enterprise user experience, and at the same time to help our clients migrate their business processes to something that is more standard and efficient.

Charles Rhyee - Cowen and Company - Analyst

Okay. Thank you.

Operator

Our next question comes from Nicholas Jansen with Raymond James.

Nicholas Jansen - Raymond James - Analyst

Hey guys, congrats on the deal. I apologize if this has been answered. It's been a busy morning. But if you think about NextGen Now and the investments that you are planning to make there.

Is there an overall dollar figure that we should be thinking about either being redeployed into this acquisition and in terms of integration? Or how do we think about those investments? Do they go way, do they stay, reallocated? Any color there would be helpful as we think about triuing up our models. Thank you.

John Stumpf - *Quality Systems, Inc. - Interim CFO*

Yes, I would say what we are looking at is we are looking at reallocating organic capital in maybe a slightly different way than we have in the past. You know some of it to continue to move the NG Now platform forward into population health. And then some of it to continue to expand the HealthFusion capabilities up market over time. But I would not say that there is a material overall difference, as much as there is just a change perhaps in how we allocate to the various buckets.

Nicholas Jansen - *Raymond James - Analyst*

Okay, so none of the accretion is tied to perhaps slightly lower R&D spin on the total consolidated entity. It is more about the synergies identified from the transaction?

John Stumpf - *Quality Systems, Inc. - Interim CFO*

This is John. Yes, largely the numbers that we are siting and releasing on today's call from -- are the standalone results of Ivory, and we've not added to that. We want to be conservative. Haven't added potential synergies in nor have we added possible incremental investment we would have to make to scale that to our midsize enterprise sized clients. So look at it as stand-alone.

So, hey guys, I am -- I have to go and spend about 90 minutes talking to about 3,500 people in just a little bit. So I'm going to start to close it down there.

I really appreciate all the calls and the interest today, we are very excited about this transaction, and what it means for the company. And not just the transaction, but this new path that we are moving down, where we plan to continue to be aggressively moving towards value-based reimbursement, and population health. While at the same time our focus on our core ambulatory clients allows us to both retain and expand our ambulatory base.

So we are excited about the future, we are certainly excited to continue to -- as we move through subsequent quarters give you a greater view towards how this is going, and what we see next. With that I will close it down and get ready to go give a big speech. So thank you everybody, appreciate the time.

Rusty Frantz - *Quality Systems, Inc. - President and CEO*

Thank you.

Operator

This does conclude today's call. All lines may disconnect at this time. Thank you.



NOVEMBER 02, 2015 / 1:00PM, QSII - Quality Systems Inc Announces Agreement to Acquire HealthFusion Holdings Inc

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