PAIRELATIONS

Moderator: Rusty Frantz
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5:00 p.m. ET

Operator: This is conference # 51021073.

Operator: Welcome to the Quality Systems, Incorporated Fiscal 2017 First Quarter Conference Call. Hosting the call today from Quality Systems NextGen are Rusty Frantz, President and Chief Executive Officer; and Jamie Arnold, Chief Financial Officer. Today's call is being recorded.

All lines have been placed on a listen-only mode and the floor will be opened for your questions following the presentation. If you would like to ask a question at that time, please press star then the number on your touchtone. If at any point your question has been answered, you may remove yourself from the queue by pressing the pound key. We ask that you please pickup your handset to allow for optimal sound quality. Lastly, if you should require operator assistance, please press star zero.

Before we start, I would like to 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 and without limitation, statements relating to anticipated industry trends, the company's plans, future performance, products, perspectives and strategies. Risks and uncertainties exist that may cause the results to differ materially from those expressed in these forward-looking statements including among others those risks set forth in the company's public filings with the US Securities and Exchange Commission, including the discussion under the heading Risk Factors in the company's most recent annual report on Form 10-K and any subsequent quarterly reports on Form 10-Q. Any forward-looking statements speak only as of today. The company expressly disclaims any intent or obligation to update these forward-looking statements.

Our remarks on today's call include both our earnings results and guidance, which will contain certain non-GAAP financial measures. For our earnings results, the GAAP financial measures most directly comparable to each non-GAAP financial measures used or discussed and a reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found within our first quarter 2017 earnings press release that was filed with the SEC and is posted to the Investors section of our website. This release also provides qualitative descriptions of how we had calculated non-GAAP financial measures contained in our guidance.

At this time, I would like to turn the call over to Rusty Frantz, President and CEO of Quality Systems Incorporate NextGen. Rusty, the floor is yours.

Rusty Frantz: Thank you, and thank you to everyone for joining us this afternoon. Today on our call, I'd like to provide you with an update on the progress of our business and some elements of our strategy. I'll then turn it over to Jamie to review the first quarter financials in more detail and discuss our outlook for the fiscal year.

When I last spoke with you all at our Investor Day in June, we discussed our multiyear three-phase strategic plan and what it will take to create NextGen 2.0. Over the course of my first year with QSI/NextGen, I focused primarily on the first phase of our strategic plan, design for success. We've made a tremendous amount of progress up to this point and we are now starting to transition into Phase 2 of our strategic plan; build for innovation.

Our focus for this next phase is to implement a strategy that allows us to capitalize on the opportunities within our large established client base. Specifically, as a complement to our aggressive investment in our flagship NextGen ambulatory software, we have begun to execute on our strategy to bring the best of NextGen ambulatory platform together with the best of our cloud-based MediTouch solution.

Specifically, we are integrating the rich functionality, enterprise capability and reliability of NextGen ambulatory's Practice Management platform with MediTouch's cloud-based, natively mobile EHR and Patient Portal. We will initially offer the enhanced solution to some of our smaller practices and then roll out more broadly over time. We firmly believe this hybrid approach will provide our established client base with the most seamless transition to the cloud and with as little disturbance as possible to their core operations and financials. Second, we are actively developing our population health offering based on our Mirth product line. Finally, we are preparing to launch a full suite of value-added services, specifically geared to enable our clients to succeed in the approaching world of MIPS and MACRA.

Turning to our progress. In the first quarter, there are numerous areas where the company made significant achievements as well as a few areas that have fallen a bit behind our expectations. First, we have completed our organizational redesign and are now starting to pivot to the next phase of business execution that I firmly believe will drive increased revenue growth, even as we have reduced operating expenses as a percentage of revenue going forward. QSI/NextGen has a long history. And while the structural changes were a bit more disruptive than we initially anticipated, I firmly believe the path for our clients and shareholders [weren't in that] disruption.

Second, our client satisfaction scores are continuing to improve across our ambulatory base, as they have done every quarter over the last year. We have already exceeded our FY 2017 goals set when I joined and are now trying to hit our FY 2018 goal for customer satisfaction in this year. This is a result of our quality and process improvement efforts that focus on client experience as well as our aggressive investment in our flagship NextGen ambulatory software offering. In addition to our commitment to client satisfaction, we are also dedicating to ensuring our clients have a successful MACRA and MIPS transition across all of our platforms.

Third, our HealthFusion acquisition is performing in line with our expectations and continues to generate momentum expanding our higher-margin, cloud-based, subscription license client base. As noted above, we view the MediTouch platform as an integral part of our solution going forward.

Fourth, the company continues to generate substantial free cash flow, thus, improving our already strong liquidity position. As the company works to reignite our organic growth, we are also in an envious position to consider inorganic opportunities that may arise that could advance our growth and earnings power.

Finally, our focus on improving our recurring revenue has been incredibly successful. As I outlined during our June presentation, we've increased our recurring revenue percent from 57 percent in 2012 to 78 percent in 2016. We've made even more progress in the first quarter with recurring revenue representing 83 percent of total revenue.

I'd also like to update you on a couple of areas where we're seeing meaningful progress internally, primarily reinvigorating the corporate culture and transformation of our sales capabilities. From a culture standpoint, we are in the late stage of a program called 100 days of team, where we are creating teams across functions and geographies together to solve key problems collaboratively. I'm hearing from long-standing employees that they can recognize a tangible difference, as internal silos are broken down and the smaller work teams are more agile and thus, able to move projects forward and faster. More importantly, the benefits from these new levels of collaboration are being noticed by our clients. Our organization is coming together as a cohesive and aligned team and our clients are reaching out to tell us that they're feeling the change.

The sales force reorganization that we announced in April is coming along quite well, though it naturally created a bit of disruption during the quarter. Our goal is to realign and refocus the sales team to accelerate growth. Specifically, we're shifting to a solutions-based sales approach that, for the first time, focuses on the goals of the client and how our total solution, software and services, can enable our clients to succeed by allowing them to focus on effective and efficient patient care. As we roll out the messaging, tools and evolved business models to enable this transformation, we're also taking a more holistic and fact-based metric-driven approach to the overall sales process. We're strengthening our sales pipeline tracking and inspection, which will ultimately result in improved quality and higher visibility in the backlog. We've also moved our sales compensation plan towards a more incentive-based solutions selling approach. As I said, the sales transformation is moving in the right direction, but the changes we're putting in place will take a few quarters to truly gain momentum.

While we've made great strides on executing changes to our sales strategies this past quarter, the changes, which were initiated in the middle of the quarter, did disrupt sales productivity a bit more than we anticipated. And we fell a bit short of plan in terms of quarterly sales and booking results. Our lower-than-anticipated sales numbers in the quarter produced below planned software license and subscription volume as well as lighter-than-expected new RCM contracts. That's revenue cycle management.

In addition to the previously mentioned sales force disruptions, revenue was also impacted by service revenue mix, account receivable credits. Jamie will dive deeper into these items in his prepared remarks.

These factors in the first quarter caused us to take a more cautious posture on our guidance for the remainder of the year. We believe that because of the timing delay of anticipated first quarter bookings, we will be slightly lower than our previous announced revenue and EPS guidance for the fiscal year. Jamie will take you through more specifics on our numbers and guidance.

But before I turn the call over to him, I want to reiterate that we are making tremendous progress evolving this organization and putting in place the elements that are designed to increase our rate of growth in the future. We've put into place a management team that is experienced to drive and support this growth. And we're putting in place the pieces necessary to reestablish NextGen's leadership in the ambulatory market. I'm very bullish on our future, but of course, we're still early on in this process and have ways to go.

With that, I'd like to turn the call over to Jamie Arnold, Chief Financial Officer, to review our fiscal 2017 first quarter results. Jamie?

Jamie Arnold: Thank you, Rusty, and thanks to everyone for joining us to review fiscal 2017's first quarter results. As we noted last quarter, our revenue reflects the disposition of our hospital business unit prospectively from October 2015 sale date. Previously reported quarters have not been retrospectively adjusted.

Total revenue for the quarter is $122.2 million, 83 percent of which is recurring and is flat in comparison to the first quarter of fiscal 2016. Excluding the hospital business unit for first quarter fiscal 2016, total revenue would have been $118.5 million. In the current quarter, we benefited approximately $10 million in total revenue due to the acquisition of HealthFusion in January.

Revenue from software license and hardware decreased 9 percent to $14.8 million from $16.2 million in the first quarter of 2016. This performance reflects the loss of revenue due to the disposition of the hospital division and the continuing impact of lower new solutions sales.

Software subscription revenue increased 62 percent to $19.9 million in the quarter versus $12.2 million a year ago. The year-over-year growth was driven by the acquisition of HealthFusion.

Support and maintenance revenue decreased 13 percent from $43.7 million last year to $38 million this year. The decrease in this segment can be primarily attributed to two non-operational factors; the sale of our hospital business last year and exceptionally high level of credits as we expedite issue resolution. And to a lesser extent, we had some net customer attrition.

Revenue from revenue cycle management increased 5 percent to $21.1 million, up from $20.2 million in fiscal 2016. We expect the growth in RCM business to moderate slightly in the second half of the fiscal year.

Electronic data interchange and data services revenue increased 9 percent to $22.1 million versus $20.2 million last year.

And finally, professional services revenue decreased 34 percent to $6.4 million from $9.6 million in the first quarter of 2016. The decrease in this category was due primarily to an increased mix of services that were contracted at lower rates, which will work their way through our system in the coming quarters, and work performed to assist clients with usability issues, and finally the loss of revenue due to disposition of the hospital division.

For the quarter, total bookings based on annual contract value were approximately $29 million, consistent with the year-ago quarter. On a pro forma basis, meaning inclusive of HealthFusion and excluding hospital division, bookings for Q1 of fiscal 2016 would have been approximately $33 million. The shortfall from last year's pro forma bookings was more heavily oriented to the recurring revenue streams of RCM and subscriptions, but that excludes HealthFusion, which was up from last year. We attribute this to both the timing as Q1 has historically been very choppy and the temporary disruption caused by NextGen 2.0 reorganization.

Gross profit in the first quarter of fiscal 2017 was down slightly compared to the same period last year at $65.4 million versus $66.2 million. Gross margin for the current quarter of 53.5 percent compares to 54.2 percent last year. The slight decline in gross profit and margin percentage reflects the revenue mix shift.

Turning to operating expenses. SG&A was $40.6 million in the quarter versus $39.2 million in the year-ago period. The increase relates primarily to HealthFusion acquisition-related expenses.

R&D increased $6.7 million in the quarter to $18.2 million as we redefined certain roles such as product management and related support, where we moved the costs to the cost we historically reported in G&A and now they reported in R&D in connection with the NextGen 2.0 reorganization. We capitalized software development cost of $2.9 million or 14 percent of gross R&D expenditures in the quarter, which is slightly less than $3.6 million capitalized last year.

As noted in our previous call, our non-GAAP tax rate is 30.5 percent. Finally, our GAAP EPS for the quarter is a loss of $0.01 as compared to earnings of $0.10 for the year-ago period. Non-GAAP EPS of $0.15 compares to $0.16 in the first quarter last year.

Our total liquidity has strengthened this quarter. We ended the quarter with cash and cash equivalents of $26.3 million. Our cash generated from operations was $12.9 million, up from $3.7 million in the same period a year ago. Our free cash flow this quarter was $6.5 million as we invested a total of approximately $6.4 million in CapEx and capitalized software development costs.

During the quarter, we repaid $17 million against the line of credit, leaving us with a balance of $80 million outstanding. As a side note, we have recently received approximately $20 million related to an income tax refund that will allow us to further reduce the balance outstanding this quarter. Our DSO was 61 days this year compared to 75 days a year ago.

In late April, we announced the restructuring as we moved to a more functionally aligned organization and that resulted in a headcount reduction of approximately 150 people. The vast majority of these people that were impacted by the restructuring have now left the organization.

As Rusty mentioned, the soft Q1 revenues, combined with the carryover impact of light bookings this quarter have led us to reassess our outlook for the fiscal year. For the full fiscal year 2017, we now expect revenue to be in the range of $494 million to $510 million. This compares to our previous range of $508 million to $522 million. Non-GAAP EPS is now expected to be between $0.75 and $0.81 compared to our previous expectations of $0.78 to $0.86.

This concludes my review of the quarter's financial results. And now I'll turn the call back over to Rusty for a few closing remarks. Rusty?

Rusty Frantz: Thank you, Jamie. Before we open up the call to questions, I'd like to take this time to thank our QSI/NextGen team for all their hard work, dedication and willingness to embrace the changes we've introduced in the organization. We are very proud of our employees and team for their commitment to our NextGen clients and our health care industry. I'm incredibly pleased with the headway we've made so far; improving client satisfaction creates a landing zone for innovation; transforming our technology capabilities creates the ability to innovate; improving our solutions selling and delivery capabilities ensures that we can deliver the results that our clients need to face the changing health care environment; and now as we begin to execute on the next steps in our strategic road map, we're creating the pipeline that will leverage the great foundational work we've been executing on.

As we move through this next phase, we'll undoubtedly have a few more fits and starts, but we are relentless in our drive to make progress every day. Longer term, I'm confident that we are doing the right things to make this a stronger company for our employees, clients and investors. I look forward to continuing to update you on our progress and thank you for joining us this afternoon.

With that, we'll open the call up to questions. Operator?

Operator: Ladies and gentlemen, as a reminder, for audio question, please press star followed by one on your touchtone phone. That’s star one for your questions.

Our first question comes from David Larsen with Leerink.

David Larsen: Hi. Can you just touch on the bookings figure again, please? I think you mentioned a figure of $33 million. I'm just unclear what that exactly was.

Jamie Arnold: So the year-ago number would have been approximately $29 million, except that the year-ago number would have excluded HealthFusion. So if you add HealthFusion to that number, it becomes $33 million.

David Larsen: And bookings in the quarter were $29 million, including HealthFusion for this quarter, right?

Jamie Arnold: That's correct. I'm trying to give you apples to apples.

David Larsen: And then can you maybe just talk about the development of the Mirth platform? And any progress you've made on further expanding the population health management capabilities within Mirth? Thanks.

Rusty Frantz: I think as we look at the population health market, as I said before, we're working with a number of client development partners to really bring their data together with data from payers as well. So operational, financial, clinical and claims data together into a single data warehouse. And then on top of that, we are now starting to build the analytics that are allowing them to make risk-based decisions on how they're going to deal with that population.

David, it's still in development. This is not commercially available at this time. And so we'll continue to update the investment community as we start making progress towards feeling like we have a scalable, repeatable offering that we can bring across the client base. But we're certainly pleased with the progress to this point.

David Larsen: Great. Thanks very much.

Operator: Our next question comes from the line of Sean Wieland with Piper Jaffray.

Sean Wieland: Hi. Thank you. So can you expand a little bit more on your comment of a high level of credits as you expedite issue resolution and your net customer attrition?

Rusty Frantz: So I'll just comment real quickly, then I'll pass it over to Jamie, Sean. But one of the things that we're very focused on is making sure that we are delivering a great client experience and that we continue to retain our valuable client base. And so to that end, as we have been going through and remediating some of the challenges of the past, we have been, perhaps, a little more aggressive on credits than we expected. Jamie, anything to add to that?

Jamie Arnold: No, that's correct. And then there was one particular instance and it comes to mind. It dealt with a particular reseller, and this thing has been ongoing for quite some time. We wanted to bring it to closure and so we did, but it resulted in a higher level of credits than we have previously reserved for. To our knowledge, it was a one-time event. We stay on top of our receivables, as you could recognize from the 61 days DSO.

Sean Wieland: So that's an important distinction. How much of the credits were with resellers? And how much of them were with, call it, regular way business?

Jamie Arnold: In this case, I think, the ones that I'm highlighting here are with resellers.

Sean Wieland: And can you put a number on it?

Jamie Arnold: The number is a little more than $500,000.

Sean Wieland: And then do you have a customer attrition or churn rate?

Jamie Arnold: Our customer attrition on the maintenance side was, for the last 12 months, was slightly more than 9 percent.

Sean Wieland: And then just a bigger picture question. As you look at the remainder of the year, given your adjusted guidance, would you characterize the biggest challenge you're having, is it product related? Is it sales related? Or is it service related?

Rusty Frantz: Yes. I guess, how I'd characterize it today is that it is sales related from the standpoint of we are very focused on retaining clients, on driving a great experience for clients, which to some degree is taking the eye a little bit off of short-term revenue gains as a trade-off for it, instead making sure that as we start to deliver innovation to the marketplace that we've got a great install base to deliver that to.

And so I'd say that it's -- as well as the transformation of how we sell from selling a very product- and feature-centric message to really starting to deliver a solution message about how we're going to take our clients from where they are to where they need to be, especially as MIPS and MACRA come down the road. And so within a focus on clients set and making sure that our clients are absolutely comfortable with the decision they've made with NextGen and this transformation solution selling, I'd say the disruption has shown itself to be a little bigger than frankly we expected.

Sean Wieland: OK, thanks. One more quick one if I could. What's your assumed attrition rate for the -- given your new guidance?

Rusty Frantz: Our assumed attrition rate is basically flat to decreasing. And actually what I'd say is over the last couple of quarters, we've seen them.

Sean Wieland: OK. Thanks so much.

Rusty Frantz: Thank you.

Operator: Our next question comes from Donald Hooker with KeyBanc.

Donald Hooker: Hey, good afternoon. So maybe just with the noise, help us sort of level set with the model here. So I think in the prior quarter, I think you all provided pretty good sort of guidance around kind of single line items just to orient us. So with regards to maintenance and support fees, I think before you were saying they'd be flat to slightly down in fiscal 2017. Can you maybe sort of revise sort of that direction? Should it bounce back up or what are they going to look like for the rest of the year implied in your guidance?

Jamie Arnold: I'm trying to -- the reason I highlighted the credits because normally, you wouldn't talk about something that's between $0.5 million and $1 million, sort of calling out on the call. I highlighted in this case because I don't expect it to be a recurring item. So if I look at the $38 million or maintenance now, I would expect that number to go up. I'm not going to pinpoint it for you, but I think I've given you the data now. That recurring item will fall off. And so that would be the adjustment I would make there.

We've tried to highlight on this call that our subscription bookings were a little lighter. So I think you're going to see a change. We've adjusted that going forward in terms of arriving at our guidance as well as professional services and RCM. Obviously, the professional services was down more from the prior year than we expected. We talked about the reasons, but we do expect some portion of that shortfall to continue at least for a quarter or two while we work through the conditions that we highlighted.

Donald Hooker: OK, great. And then it looks like the EDI revenues are continuing to grow nicely, I think that seems the direction there, if that's fair to say. If you can sort of confirm that in your outlook?

Jamie Arnold: Yes. So that is correct. I think we said at our Analyst Day that we expected it to grow in high single digits. Our growth this quarter was 9 percent. And so I think that's where we expect it. We still expect it in the high single digits.

Donald Hooker: OK, that's very helpful. And then finally, just the savings that you highlighted from the restructuring, I think, in April, I guess those, when we think about margins, that probably kicks in more heavily next quarter and thereafter. Is that fair?

Jamie Arnold: You do get a little more savings in the coming quarters. I will just highlight for you that we do have built into this plan to continue to deliver, particularly on the progress that Rusty talked about. There will be some additional costs again as we move forward.

Donald Hooker: Thank you very much.

Rusty Frantz: Thank you.

Jamie Arnold: You're welcome.

Operator: Our next question comes from the line of Garen Sarafian with Citi Research.

Garen Sarafian: Good afternoon, guys. I guess first question, Rusty, on the sales force. At Investor Day, you guys discussed that you guys have an executive team that had gone through a sales force transition at other companies, and do so again in Quality Systems. So I'm wondering, when you look back at this past quarter and, of course at the Investor Day, I guess what assumption really didn't hold true that it's going to take a few more quarters for it to go back up to the productivity levels that you were previously expecting?

Rusty Frantz: Yes, as we put in our new sales process, as we came into this quarter, which is a sales process based on customer-buying milestones, and therefore more representative of the sales process that I'm used to. As we went through inspection very late in -- at the beginning of actually this quarter, Q2, we really found that a good bit of the pipeline that we had seen was actually somewhat stale, or didn't stand up to the test of the customer-buying milestones. And so that really adjusted, not our view on the progress to solutions selling, but our view on the starting point as we came into the full year. And so I think that's shown that perhaps the year's a little more back-loaded than we had originally expected, prior to implementing the process, now that we have a good understanding and it's based on client-buying milestones, I think we've got much better handle on what our opportunity is, and then also are able to drive individual client deals much more effectively.

Jamie Arnold: Just to add a little color to that is that, in my comments, I highlighted that RCM was an area where the bookings came in light against our expectations, not just against the prior year. And I say that because the opportunities that we had for bookings in the quarter remain open. They weren't lost, they were just delayed, and we're continuing to progress them nicely.

Garen Sarafian: Got it. So just before I go to the RCM question, on the sales force, so Rusty, it sounds like you just sort of mentioned it. The quality of the sales leads perhaps to the pipeline, you're now more stringent. And because of that, you get more conservative guidance. But it sounds like the sales, the plan you have for the sales force remains intact. There's been no major adjustments or shift.

Rusty Frantz: Yes, absolutely. The plan is completely intact. We have re-segmented the sales team to make sure that we are appropriately going to market in each client segment. We've implemented, as I said, an enterprise client milestone sales process. We've also adjusted our comp plan to be a quota plan, rather than a commission plan as it was in the past, which allows us to align sales activity more tightly with the budget and pay for performance. As well as, as we move into September, we will be training and rolling out One NextGen solution messaging to the sales team, which will arm them to much more effectively help our clients understand how we can migrate them through the coming challenges.

Garen Sarafian: Got it. And then on the RCM front, you mentioned satisfaction scores improving on the clinical side of the business. Could you just maybe discuss a little bit of where the scores are that you're seeing on the rev cycle side, that I think previously you had mentioned that some clients are waiting to see that turnaround before committing?

Rusty Frantz: I'd say that we are getting to the point where we feel like the client satisfaction will allow us to really start to reengage the revenue cycle growth engine for us. But it's going to take still a little bit more time, I think, with some clients. That being said, we've also -- I believe we got some opportunities to better position and better educate the client base on the value of our RCM service. And so it is both a combination of improving client sats, but also I think messaging and perhaps even business models that better align with our clients' need.

Garen Sarafian: OK. Great. Thank you.

Operator: Our next question comes from the line of Jeff Garro with William Blair & Company.

Jeff Garro: Yes. Good afternoon, guys. Thanks for taking the question. Maybe a little bit of a follow-up on the sales force and the scrubbing of the pipeline, given that you have a better understanding of the opportunity in front of you and qualified some of the opportunities a little bit more. Can you give us some sense of a bookings target for the year? Do you think year-over-year growth in bookings is achievable from here?

Rusty Frantz: We don't -- we're not going to comment on forward-looking bookings at this point in time. What I would say is as I look at the pipeline, as I said, it is becoming more robust in some of the earlier steps as we really manage the activity more effectively. And my expectation is, is that more robust pipeline should start flowing through, combined with client satisfaction and better software. And so I would expect the overall trend to be upwards, but we're not going to make -- we're not at a point where we're going to make comments on bookings numbers forward looking.

Jeff Garro: Understood. And then maybe a little bigger picture, you've mentioned MACRA a couple of times. I'm curious what kind of feedback you've gotten from your client base. Are they already turning to you to address these issues? Or are they kind of sitting and waiting a little bit more until these regulations are finalized and maybe staying blissfully ignorant for the time being?

Rusty Frantz: I think it's a mix. I don't have an exact percentage, but it's probably half of the client base is aware of MACRA and is starting to grapple with it. The other half may not even be really aware of it at this point in time. One of the reasons why we're bringing forward some of the value-added service as we are, is to help our clients better engage and understand the pathway in front of them.

We're bringing forward -- one of the services we're bringing is a value-based readiness survey, where we are actually coming in and, free of charge, doing an assessment of our client's readiness, especially on the dimensions of MIPS, but also looking at how we not just help our client participate on under MACRA, but perhaps all the way to getting to an alternative payment model, right? And so we're coming in, and the first piece is to really do that assessment for the client base.

And then as we identify what their pathway should be to bring additional services to the table to help them navigate the road in front of them. And we're really doing that proactively because that's the relationship we want with our clients. We don't want to be a software vendor. We want to be aspirational. We want to be the partner that helps them get to where they need to be, to be successful in this transforming world.

Jeff Garro: That make sense. Thanks for taking the question.

Rusty Frantz: Thank you.

Operator: Our next question comes from the line of Stephanie Davis with JPMorgan.

Stephanie Davis: Hey, guys. Thanks for taking the question. At your Analyst Day earlier this summer, you characterized 2017 as a transition year, with 2018 kind of marking return to growth. Given the recurring nature or your revenues and the softness in the quarter, is there any potential to see a push-out of this target?

Rusty Frantz: Well first of all, the target is aspirational. We are not -- the numbers will show up when the numbers show up. But when I look at the underlying fundamentals, which is better client sat, which is returning to innovation, when you look at some of the new strategic initiatives that we are moving forward with, my feeling is that, Number 1, better execution will continue to provide underlying tailwinds. But when you look at the strategic execution of the R&D road map and the services road map, I do think we are well positioning ourselves to return to a growth posture as we move into FY 2018.

Stephanie Davis: All right, that's good to hear. One more follow-up for me. Now you've had a little bit over a year in your role, Rusty. Can you talk about the evolution of client satisfaction and related metrics? And maybe how you expect that to evolve in the next year?

Rusty Frantz: Absolutely. I would say, I'm blessed because our team has delivered, from a somewhat low base, consistent improvements in client satisfaction to the point where as we enter this first -- as we exit this first quarter of our financial year, we've already beaten the full year goal that we established when I came in the door. And this is a meaningful increase. It's moving from in the 5s up to 7-plus. Now that being said, we are not satisfied. And so we will continue to drive forward on client satisfaction as we move through this year.

My expectation is that it will evolve because today, a lot of the client satisfaction is focused on software or revenue cycle or EDI, depending on how the client engages with us. The thing that I'm really looking forward to seeing is, as we start to maybe look a little granularly at our full solution clients where we aren't just providing them a single aspect of our solution, but we are instead really partnering with them to take a larger amount of their work off their hands and to enable them to be more effective. That's the area where I'd like to see the biggest gains in client satisfaction and an area that I will be continuing to look at as we move forward.

Stephanie Davis: All right. Look forward to seeing more of it. Thanks for taking my questions.

Rusty Frantz: Thanks, Stephanie.

Operator: Our next question comes from George Hill with Deutsche Bank.

George Hill: Good evening, guys. Thanks for taking the questions. I guess, Rusty, how should we think about the conservatism of the guidance? Is there any way to put some goalpost around what bookings performance needs to do this year to hit the guidance that you've provided now? Given that it looks like bookings were down a little over 10 percent in the quarter.

Rusty Frantz: Yes. Thanks, George. Well, a couple of the things are somewhat transitional, such as the sales force disruption and as well as we continue to make headway against clients sat and frankly start to put some of our history in our rearview mirror. We expect both the credits to start to drop as well as the service line to grow because we're not providing services simply to bring our customers back.

And so I would say though that -- I think you guys have been talking to me for about a year. As soon as I felt like we needed to adjust guidance to make sure we are providing both an accurate picture of this year and also a picture that still -- that allows us to invest the way we need to, so that we turn into a grower as we move forward past this year, my feeling was that we need to continue to invest. We do see some near-term headwinds on the top line, and therefore, making sure that we weren't simply trying to make a valuation this year which would trade off the capabilities and evolution that we need to really start to grow again. We instead chose to stay on our investment path and bring the guidance down. Does that make sense?

George Hill: Yes, it does. And I guess -- let me throw kind of one more follow-up here, given how you kind discussed the attrition as well. If we think about -- if you guys were to have to take down the guidance again this year on the topline, would it be because bookings didn't convert fast enough, or churn was worse than you thought it would be?

Rusty Frantz: First of all, I don't plan to take down guidance again this year, so let's start with that. I would say that the things that keep me up at night on the top line right now are probably that churn happens faster than I think it does. But when I look at the client satisfaction numbers, and I also look at the effects of the improvement in the way we are servicing clients, I really feel like what we've put forward now takes into account the client satisfaction pieces as well as the disruption to sales. And I don't see a whole lot of other bad guys sitting out there. It's interesting. As I go around the organization and go around the client base, it's interesting to talk to the clients and hear that, in the past, we had to call four different people to get an answer, whereas all of a sudden, it's like your organization is really starting to work together. And you're making it easy for us to do business with you and easier for us to resolve issues.

Bringing those kind of things together as well as the natural tailwinds of bringing an entire solution message, which more accurately represents and reflects the challenges that our client base going forward, I see those as tailwinds. And so that's really, when a look at it, I feel very good about the guidance. I did not feel good about taking the guidance down. But as I said, as we've gotten any more granular understanding of the pipeline, with some of the client satisfaction challenges, we had to take another look at the guidance and make sure that we were accurately, incredibly reflecting what we thought we we're going to do this year, while still investing to make this turnaround incredibly successful.

George Hill: That’s great color, Rusty. Thanks a lot.

Rusty Frantz: Thanks, George.

Operator: Again, ladies and gentlemen, for audio questions, please press star followed by one on your touchtone phone.

Our next question comes from Matthew Gillmor with Robert Baird.

Matt Gillmor: Hey, thanks for taking the question. Jamie, you mentioned the part of the decline in the professional services line had been due to repricing to help some clients with usability issues. I think Rusty may have just touched on this, but can you provide some more details around that dynamic?

Rusty Frantz: Yes, absolutely. Certainly, as we looked at making sure that our clients feel like we are aligned with them in their success. We have been bringing services to some of the client base at a little bit of a lower price than we have classically. Naturally, it's on a case-by-case basis and oftentimes depends on where we see the root cause of the challenge. But those things as we -- also as we move through some of our outstanding AR, we've found some of those client issues have come all the way up to the surface.

Therefore as part of our commitment to make sure that the client base continues to be a robust and incredible asset for this Company, we've taken some short-term hits on revenue to make sure that we have the opportunities for growth that this Company absolutely should have in the future.

Jamie, do you want to add to that?

Jamie Arnold: I just wanted to say, both of these last two questions center around client satisfaction. And that's why you've talked so much about this in both the Analyst Day and today, and the fact that we are seeing improved client satisfaction. Because at the end of the day, bookings -- with the return of the bookings growth and the diminishing attrition rates are tied to client satisfaction. And that's why he we've been highly focused on it.

Matt Gillmor: Great, and maybe just one quick one. I think you've pretty much said this, but I just wanted to confirm that the bookings issue you identified in the quarter, that was specific to NextGen and that HealthFusion is still on track to achieve the targets you laid out. Is that correct?

Jamie Arnold: Yes.

Matt Gillmor: OK, thank you.

Rusty Frantz: Thank you, Matt.

Operator: Ladies and gentlemen, that does conclude the Q&A session for today's program. We thank you for joining us.

And this does conclude today's conference call. You may now disconnect your lines.

END