



QUALITY SYSTEMS INC: (NASDAQ: QSII)

Chairman of the Board: Jeffrey H. Margolis

President/Chief Executive Officer: Rusty Frantz

Interim Chief Financial Officer: John Stumpf

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About the Company

Irvine, Calif.-based [Quality Systems, Inc.](http://www.qsii.com) (QSI) and its subsidiary, NextGen Healthcare Information Systems, develop and provide a range of software and services for medical and dental group practices, including include practice management and electronic health record applications, patient portal, interoperability and connectivity products, and population health management and analytics offerings. Services include managed cloud services, revenue cycle management, claims clearinghouse, data interchange and value-add consulting. The Company's solution portfolio is readily integrated and collectively positioned to drive low total cost of ownership for its client partners, as well as enable the transition to value-based healthcare.

Currently, the Company serves 85,000+ providers across 4,000+ group practices. Of its client base, 6,500+ providers are utilizing the Company's revenue cycle management services. The majority of the Company's revenues are derived from mid-to-large multi-specialty physician groups. QSI's products are distinguishable in the marketplace because they bring robust medical solutions to users. QSI's products can be easily integrated, offering broader and deeper functionality with more features than current competitive products. QSI's revenue cycle management services are high-touch and have recently been rated #1 in KLAS, based upon client feedback.

Recent Developments/New Leadership

In July 2015, the Company announced the appointment of Rusty Frantz as president and chief executive officer. Frantz, who also was named a member of the Board of Directors in August 2015, brings significant healthcare technology experience to his leadership role. Most recently, Frantz spent eight years serving in varying roles with increasing responsibility at CareFusion Corp., a San Diego-based global medical technology corporation serving the healthcare industry, providing products and services that assist hospitals in improving the safety and quality of care. From 2011 until March 2015, when CareFusion was acquired by Becton, Dickinson and Company (BD), Frantz served as senior vice president and general manager, global dispensing division. During this time, he spearheaded a transformational medication management strategy across three global brands - Pyxis, Rowa and CareFusion Smartworks - which collectively comprised \$1 billion in global revenue. The acquisition of these brands was a key strategic driver in the purchase of CareFusion by BD. Prior to heading the global dispensing division, Frantz was vice president of research and development of the Pyxis business unit, where he led the process to bring the highly successful Pyxis ES medication dispensing solution to market. He also served as general manager of Pyxis Perioperative Solutions, a leader in hospital and health system supply management solutions. Earlier, Frantz held the role of chief technology officer and co-founder of OutPurchase, a provider of cloud-based procurement solutions and services. He began his career as one of the first employees at Omnicell, a leading supplier of comprehensive automation and business analytics software for patient-centric medication and supply management across the healthcare continuum.

Since Frantz' appointment, several strategic changes have been made:

- The Company announced the sale of its inpatient business, the Hospital Solutions Division of its NextGen Healthcare subsidiary to [QuadraMed Affinity Corporation](http://www.quadramed.com), part of the Harris Operating Group of Constellation Software Inc. The divestiture of its inpatient division paves the way for the Company's renewed emphasis on its core ambulatory market.
- The Company entered into an agreement to acquire [HealthFusion Holdings, Inc.](http://www.healthfusion.com), a privately held developer of web-based, cloud computing software for physicians, hospitals and medical billing services. HealthFusion's 100 percent cloud-based MediTouch® platform is currently used by over 3,000 physician practices, hospital ambulatory centers and medical billing services (totaling more than 6,000 subscribers). The transaction is subject to customary closing conditions and is expected to be completed during the Company's current fiscal year, which ends March 31, 2016.

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HealthFusion's recent annualized revenue run-rate exceeds \$30 million and more than 90% of its revenues are derived from recurring sources. Quality Systems expects this transaction to be accretive to its non-GAAP earnings in the first full year following the acquisition, adding approximately \$0.11 to \$0.13 to QSI's stand-alone non-GAAP results for the fiscal year ended March 31, 2107.

- The Company secured \$200 million in committed financing, in conjunction with the HealthFusion acquisition. In addition to this use of financial leverage, the Company recently announced the cessation of the regularly quarterly dividend (following the previously declared, scheduled payment in January 2016) as a key component of its new approach to capital management. The cessation of the dividend is integral to the Company's shift to a total shareholder return strategy.
- Appointment of Jeffrey H. Margolis, a seasoned healthcare technology veteran, to serve as independent chairman of the board, succeeding founder chairman Sheldon Razin, who was named chairman emeritus. Margolis has served as a member of the QSI board since 2014.

Growth Strategy

The Company's recent actions have set the stage for its next phase of growth and a focus on its core business, primarily addressing the needs of the ambulatory marketplace, amid today's changing value-based healthcare arena.

Currently, QSI has one of the largest installed bases within the Healthcare Information Technology (HIT) space. Its focus on expanding both its client base and solutions capabilities in the ambulatory market can be evidenced by its intent to acquire HealthFusion. HealthFusion takes the Company forward on a few fronts:

- Instantly expands its footprint in the less-penetrated small practice market with a cloud solution that provides an excellent client experience and delivers accretive results to shareholders;
- Marks the acquisition of a very clean, easy and fully mobile cloud platform that QSI can build upon to best address increasingly complex client needs, further leveraging its significant experience in the enterprise space;
- Grows its addressable client base for key areas within its service portfolio, an opportunity that will be realized over time; and,
- Shifts the focus of QSI's NGNow cloud platform toward the development of future population health capabilities. QSI continues to build out its cloud-based, clinical data repository that leverages the interoperability and connectivity advantages of its Mirth (acquired September 2013) solutions. This platform will establish a foundation for both organic and inorganic expansion of applications and analytics critical to QSI's client base in the future.

History

QSI was founded in 1974 by Razin, who had a vision to automate healthcare for dental practices. The Company later consummated a number of strategic acquisitions now comprising its core ambulatory electronic health record and practice management solutions, its revenue cycle management service offering, internal claims clearinghouse (ViaTrack) and its Mirth-branded vendor-agnostic, market-leading interoperability and analytics solutions. QSI also boasts a world-class innovation center in Bangalore, India, equipped with a state-of-the-art technology-based infrastructure. This center, which currently employs more than 400 technologists and engineers, is dedicated to software development, helping to deliver next-generation solutions by supporting product development and providing implementation expertise for various projects.

Financial Performance

For its fiscal 2016 second quarter ended September 30, 2015, the Company reported revenues \$125.4 million, up four percent when compared with \$120.5 million for the fiscal 2015 second quarter. Net income for the 2016 second quarter reached \$8.3 million, versus \$4.8 million for the comparable period last year, an increase of 75 percent. On a GAAP basis, fully diluted earnings per share was \$0.14 in the second quarter of 2016 compared with \$0.08 for the same period last year. On a non-GAAP basis, fully diluted earnings per share for the fiscal 2016 second quarter was \$0.21 versus \$0.13 reported in the fiscal 2015 second quarter. At quarter-end, the Company's liquidity position remained strong with nearly \$111 million of cash and investments.

Outlook

Looking ahead, QSI stands to significantly benefit long-term from the changing healthcare landscape. HIT adoption continues to play a key role in the new value-based healthcare models, and the Company is positioning itself to better aid its clients as they navigate their way toward the successful delivery of cost-effective quality, patient-centric care.