

May 16, 2008

Allscripts Healthcare Solutions

overweight

(MDRX: \$12.41)

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Estimates summary

YEAR (DEC)	REVENUE (MILLIONS)	CHANGE	EPS	CHANGE	P/E
2007	\$281.9	--	\$0.46	17.6%	27.2

Fundamentals

Equity market capitalization (MM)	\$810.4
Debt/total capitalization	28%
Long-term growth rate	27%
Price/book value	2.4
52-week price range	\$8.67 - \$28.08
12-month price target	\$20

Important disclosures and certifications begin on page 7 of this report.

More positive on combination with Misys

- The recent analyst meeting at Misys headquarters in Raleigh, N.C., reaffirmed and, in fact, increased our confidence in the strategic merits of the Allscripts-Misys combination.
- There were a number of areas where the companies provided a greater level of detail that generally supported our more positive view.

Revenue synergies

The most compelling revenue opportunity relates to Allscripts gaining access to Misys's captive installed base of 110,000 physicians (equates to 18,000 practices, or an average of slightly more than six physicians per practice). Misys estimates a maximum of 20% of this installed base is using an electronic medical record, leaving 88,000 physicians as the potential untapped market. Under a range of assumptions regarding penetration rates of electronic medical records ranging from 20% to 60% over a four-year period, the license, service, and maintenance revenue opportunity is estimated at \$185 million (at 20%) to \$455 million (at 60%). By comparison, Allscripts estimates it has captured or penetrated 50% (and growing) of the GE/IDX installed base with TouchWorks over a similar time frame (i.e. four years). Interestingly, Misys Vision (aimed at large practices) has an installed base of 29,000 physicians spread across 160 clients, indicating the average practice has more than 180 physicians. This physician figure per practice is higher than our original estimate and is the best proxy/comparison as it relates to the IDX relationship. The remaining installed base is dominated by Misys Tiger (70,000-plus), which is aimed at the small and medium-sized practice, and a range of legacy products. There is reason to believe a certain level of pent-up demand exists within the Misys installed base as these clients did not have a compelling electronic medical record offering from

Misys and were looking to Misys for direction.

Both companies discussed the physician market in three phases or waves with Wave 1, the adoption of practice management, largely behind us given virtually 100% adoption rates. Misys has been focused on protecting its installed base of practice management clients and expanding its revenue cycle and billing services (Payerpath), which we discuss in more detail later. This combination removes a significant risk for Misys as the electronic medical record purchase decision is a catalyst for replacement of the practice management system. Wave 2 is the adoption of electronic medical records, and while their assertion is self serving, Misys and Allscripts believe the market is primed for adoption. Unfortunately, the organic growth rate of the two leading public companies (Allscripts and Quality Systems) serving the physician market has been declining in recent years and not entirely supportive of these claims. However, Allscripts' CEO cited 20%-plus growth within its HealthMatics business (90% of which is serving practices with fewer than 10 physicians).

In addition, Misys has seen early success with its software-as-a-service (SaaS) offering called MyWay, primarily targeted at practices with less than five physicians. Through the first nine months of fiscal 2008 (May), MyWay generated £4.7 million in orders. MyWay is being positioned as a simple (i.e. on-demand), complete (i.e. electronic medical record, practice management, and claims management via Payerpath), and affordable (i.e. \$599 per provider per month) solution. MyWay produced more than 100 customers in the first month of its launch (October 2007) and on average, more than 100 monthly client additions, virtually all of which are net new customers to Misys. MyWay has exceeded original expectations and was described as a home-run product.

Market drivers

Health Industry Insights, an IDC company, provided an overview of the U.S. healthcare IT market and, not surprisingly, reinforced comments from Allscripts and Misys regarding an increased awareness of electronic medical records. MGMA, with membership biased toward larger physician groups, reported 20% of its members were actively engaged in selection or implementation of an electronic medical record with another 30% anticipating a purchase decision within two years. Drivers for adoption include: increased demand for clinical documentation as a component of billing; pay-for-performance and other forms of financial incentives; new funding sources (e.g. state grants with New York and Massachusetts as prime examples); changes in Stark Rules; new pricing models (e.g. monthly subscription pricing); standards such as CCHIT, which act to reduce the large number of competing products, as well as provide greater confidence in purchase decisions for physicians; and new partners/models for IT such as buying through cooperatives or hosted offerings by vendors and hospitals.

One recent example of this last driver is Fairfield County Physician Management Corporation/Norwalk IPA, an independent practice association in southwestern Connecticut. This IPA, in conjunction with Norwalk Hospital, selected NextGen Healthcare for its electronic medical record and practice management system for its 200 members, representing more than half of the region's physicians in practices of all sizes and specialties. IDC reports the rate of interest from hospitals to subsidize electronic medical record deployments in the private offices of its attending physicians is steadily increasing. A Health Industry Insights CIO Panel in May 2008 showed one-third of respondents plan to subsidize (to some degree) with a surprisingly high rate (91%) indicating plans to host the applications themselves.

Despite the widespread optimism, electronic medical record adoption

rates remain low, with general consensus of 10% to 15% of physician practices nationwide adopting some form of electronic medical record. These percentages vary significantly based on size (i.e. adoption is inversely related to size), physician age, ownership, and specialty. Not surprisingly, the lowest adoption rates (5% to 10%) are among small practices, and 60% of annual patient encounters in the U.S. are provided in practices with three or fewer physicians.

Market size and growth

Health Industry Insights estimates U.S. healthcare provider IT spending totaled \$3.61 billion in 2007, comprised of \$1.53 billion in services, \$1.05 billion in software, and \$1.04 billion in hardware. This market is projected to grow 7.7% in 2008, 9.0% in 2009, and 9.8% in 2010 to \$4.66 billion, led by software growth ranging from 12.8% in 2008 to 15.7% in 2010. Allscripts sizes the addressable market as follows:

- Electronic medical records (license, services, and hardware) at \$5 billion, which is based on a total market of 500,000 physicians, 80% adoption, and \$12,000 of initial investment per physician. We view the last two assumptions as aggressive, but nonetheless, the market is a multi-billion opportunity.
- Practice management at \$1 billion, which is based on a healthy replacement cycle of 10% to 20%.
- Software maintenance revenue (with maintenance fees ranging from 16% to 22%) at \$1 billion.
- Transaction fees of \$1 billion to \$2 billion annually with e-prescribing and EDI notable revenue streams, as well as value-added services including disease management and clinical trials. Currently, only 5% to 6% of Allscripts software and services revenue is from EDI and 1% to 2% of software and services revenue is from e-prescribing.

E-prescribing

Transaction fees for Allscripts on the e-prescribing side range from as low as \$0.05 up to \$1 per script with an average in the \$0.25 range. Allscripts stated it is currently generating 30 million e-prescriptions on an annualized basis, representing 50% of all e-prescriptions written. To provide a perspective on the e-prescribing market, the following statistics (contained in the December 2007 inaugural National Progress Report on E-Prescribing by SureScripts) are noteworthy. SureScripts operates the Pharmacy Health Information Exchange, which facilitates the secure electronic transmission of prescription information between physicians and pharmacists.

In 2007, 35 million prescription transactions were routed electronically between physicians and pharmacists across the U.S., a nearly three-fold increase from 2006; 100 million e-prescriptions are estimated for 2008. While this growth is significant, the 35 million represents only 2% (growing to 7% of all prescriptions in 2008) of the 1.47 billion prescriptions and renewals eligible for electronic routing in 2007. Another way to view adoption is based on data from AMA, which estimates 6% of office-based physicians are e-prescribing. We view the growth in e-prescribing as a proxy or leading indicator of electronic medical record adoption, with the expectation 60% of electronic prescriptions will be via electronic medical record systems by the end of 2008, versus just 5% in 2004.

Payerpath

After learning more regarding Mysis's transaction processing business, called Payerpath, we believe we may have originally underestimated its value. Payerpath handles more than 500 million transactions annually (e.g. verifying patient eligibility, correcting inaccurate claims, managing remittance, and

generating secondary billing) making Misys the third-largest provider of electronic data interchange (EDI) services with what we believe to be the industry's highest first-pass claims resolution rate of 98%. While the vast majority (90%) of Misys's practice management clients use Payerpath, a small percentage (less than 20%) of Allscripts' practice management clients have adopted similar revenue cycle capabilities. In addition, Allscripts' EDI, coding, and rules engine capabilities are all delivered via a range of third-party providers, negatively impacting its margins. One interesting aspect of Payerpath that is important to note is these revenue cycle services are practice management system agnostic and, in fact, Misys serves more than 125 third-party applications representing 15,000 non-Misys physicians.

In the first half of fiscal (May) 2008, transaction processing was the largest revenue stream for Misys at £36 million, up 8% over the same period a year ago. The Payerpath business generates consistent growth at significantly higher margins than the overall business with a pricing model that is primarily based on a fixed monthly fee (with the fees primarily paid by the provider), as well as transactions (with this portion of revenue primarily coming from the payer). The ability to further monetize the Payerpath network via analytics and reporting for benchmarking and pay-for-performance initiatives, as well as access to aggregated, consumer data (once made anonymous) is significant.

Customer response

There were two joint customers that presented. Summit Medical Group is the largest multi-specialty group in the New York and New Jersey area with 145 physicians and 1,000 employees. The other client was Saint Francis Physician Hospital Organization (PHO), which is based in Hartford, Conn., and represents the largest Catholic hospital in New England. There were many similarities among these customers, including a best-of-breed product strategy that resulted in Misys for practice management and Allscripts for the electronic medical record. Interestingly, neither client expressed any issues with respect to integration/connectivity or a strong desire for a common architecture or single integrated platform (i.e. single database) due to distinct user requirements. Summit selected Misys Vision in 2001 and is using Payerpath for claims processing. One tangible benefit for the practice has been a dramatically improved collection rate: 94%, up from 80%. The adoption of Allscripts TouchWorks followed Misys Vision and was driven by what Summit deemed to be the strongest product feature set, flexible implementation, and a leading physician market presence.

Saint Francis PHO signed a contract for Misys Vision in early 2004 and has extended Misys (and TouchWorks) via an internally hosted model to 650 independent physicians with an average group size of 2.5 physicians. The finalists for the electronic medical record decision were GE (Centricity), Misys (Vision EMR), and Allscripts. Allscripts was selected in 2005 but full implementation was delayed due to changes in the Stark Laws. With Saint Francis, the hospital absorbs the maximum (85%) of the donated costs with the remaining costs charged to physicians under a monthly subscription-based pricing model. Saint Francis PHO described a multi-year plan to convert physicians and described demand for the electronic medical record as phenomenal, with the gating factor being services (i.e. implementation and training) resources.

A new view

The merger places the new entity in a unique position to drive healthcare forward with a community-focused approach that includes: 1) the automation of

electronic medical records, 2) integration and connectivity to bridge disparate healthcare systems, and 3) performance and outcomes improvement leveraging the Payerpath network. An example of the market presence Allscripts and Misys will offer is in Misys's home state of North Carolina. There are 18,000-plus physicians, 100-plus hospitals, and 8 million residents in North Carolina, making it the 10th largest state in the U.S. Misys and Allscripts jointly serve a combined 2,500 physician practices, representing 10,000 physicians, and 12 million claims annually, representing more than \$2.4 billion of annual spend. Within North Carolina, the largest physician practice and a TouchWorks customer is Novant Health with 800 physicians, a former GE/IDX customer that has migrated to TouchWorks for practice management. Currently, Misys has 12 connected communities across America in cities such as Indianapolis, Urbana, Ill., and Joliet, Ill., enabling connectivity between hospitals and 1,500 physicians. In addition, Misys formed the Center for Community Health Leadership and provided \$10 million in funding for New Haven, Conn.; Tampa, Fla.; and a soon-to-be-identified rural hospital system.

Product roadmap

As expected, the future product roadmap cannot be discussed until the transaction has closed. Nonetheless, we believe both companies said all the right things in terms of plans to support all products, introduce new services such as Payerpath to the Allscripts base, offer upgrade opportunities, and deliver new products. At a high level, the strategic product objectives for Allscripts include a focus on:

- Clinical content (e.g. templates, note forms, and prescription data) leveraging the Allscripts relationship with Wolters Kluwert.
- Decision support, health management plans, and pre-defined order sets. A high priority for Summit Medical Group post the merger is decision support capabilities across its clinical and financial systems.
- Interoperability and connectivity, including adoption of standards and integration with personal health records and portals. As it relates to personal health records and consumer-related healthcare initiatives, Allscripts has partnered with Microsoft and Google.
- Coding and pay-for-performance with integrated charge capture and automated Physician Quality Reporting Initiative (PQRI) with partnerships such as TeamPraxis playing an important role.

COMPANY DESCRIPTION

Allscripts Healthcare Solutions, headquartered in Chicago, is a leading provider of information and transaction technology and services to physicians and other ambulatory healthcare providers.

Institutional sales: (800) 866-3272

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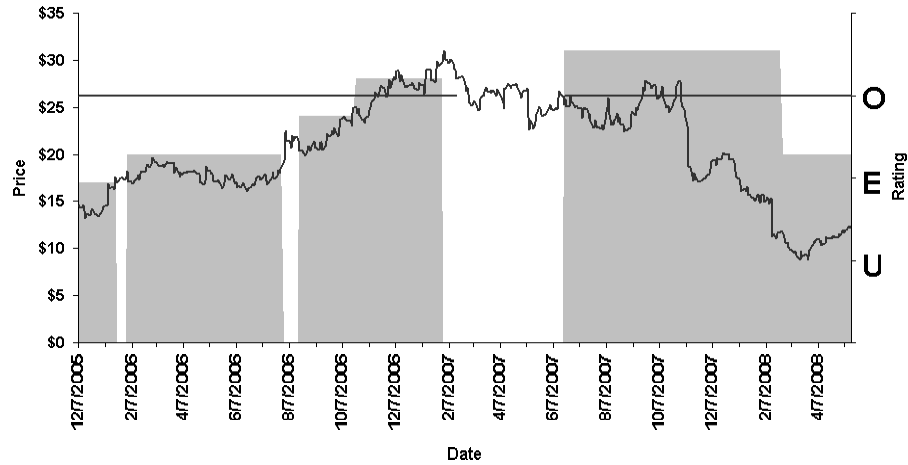
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IMPORTANT DISCLOSURES AND CERTIFICATIONS

PRICE, RATING, AND TARGET PRICE HISTORY*

Date	Close	Target	Rating
12/7/2005	\$14.51	\$17	O
1/20/2006	\$17.00		O
2/1/2006	\$18.17	\$20	O
7/31/2006	\$19.06		O
8/18/2006	\$20.32	\$24	O
10/23/2006	\$24.97	\$28	O
1/30/2007	\$29.75		O
2/16/2007	\$28.06		
6/19/2007	\$26.13	\$31	O
2/25/2008	\$11.83	\$20	O

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*Left axis is stock price (gray area indicates 12-month price target); right axis is rating (line indicates rating level). When no rating is indicated in the chart or table, then the stock was unrated at that time. Likewise, when no 12-month price target is indicated in the chart or table, then there was no 12-month price target at that time. First Analysis Securities Corp. does not provide 12-month price targets for stocks rated equal-weight or underweight. It usually provides 12-month price targets for stocks rated overweight. The data in this chart are current as of the last trading date prior to the date of this report.

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I, Frank Sparacino, attest the views expressed in this document accurately reflect my personal views about the subject securities and issuers. I further attest no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me herein.

VALUATIONS / RISKS

Allscripts Healthcare Solutions: Our 12-month price target is based on a four-year DCF model with the following key assumptions: a discount rate of 15%, a terminal value EBITDA multiple of 10, long-term operating margins of 25% in 2011, and total revenue growth on average of 17%. A number of risks and uncertainties may impede share price appreciation relative to our 12-month price target. These risks and uncertainties include, but are not limited to, federal government involvement in the development of healthcare information technology hindering prospective client purchasing decisions, intensified competition among healthcare information technology companies, physician practice adoption of EMRs and other information technology at a pace slower than expected, difficulty in the integration of acquired businesses, and continued difficulties in deploying the company's latest release, version 11.

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Overweight (O): Purchase shares to establish an overweighted position: Stock price expected to perform better than the S&P 500 over the next 12 months.

Equal-weight (E): Hold shares to maintain an equal-weighted position: Stock price expected to perform in line with the S&P 500 over the next 12 months.

Underweight (U): Sell shares to establish an underweighted position: Stock price expected to perform worse than the S&P 500 over the next 12 months.

*Stock target prices may at times be inconsistent with these definitions due to short-term stock price volatility that may not reflect large-holder/buyer valuations of the security.

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