

Per-Se Reaches Out for New Markets

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By Joseph Goedert, News Editor

Per-Se Technologies' proposed acquisition of most of NDCHealth Corp. will double the size of the Alpharetta, Ga.-based company and bring it into new markets. The move is not without danger, observers say. Per-Se is adding a large amount of debt and has previously had difficulty integrating acquisitions.

Per-Se is the former Medaphis Corp., which grew by acquisition but then divested units and returned to its core business lines.

The vendor offers billing and other outsourced business services, and transactions processing services, to about 15,000 hospital-based physicians. It also sells practice management software for physicians and scheduling software and transactions processing to hospitals.

Now, Per-Se will again move beyond its core and enter the hospital claims management market. Per-Se is paying \$665 million in cash and stock for Atlanta-based NDCHealth. Per-Se will borrow more than \$400 million to complete the deal.

About 1,800 hospitals are using NDCHealth's Premise claims management software. "This gives us a much larger footprint to broaden our services to hospitals," says Philip Pead, chair, president and CEO of Per-Se.

Now, he adds, the company will cross-sell its business process outsourcing services to Premise clients.

Per-Se also will enter the small independent physician practice market. More than 100,000 physicians have bought NDCHealth's Lytec and Medisoft practice management and electronic medical records software. Per-Se also will enter the retail pharmacy market with NDCHealth's pharmacy information systems.

Further, NDCHealth is one of the largest health care electronic data interchange vendors, processing claims and related transactions for hospitals, physicians and more than 50,000 pharmacies. Per-Se will split physician transactions revenue with Atlanta-based ProxyMed Inc. ProxyMed previously bought MedUnite Inc., which had acquired NDCHealth's physician clearinghouse.

Amsterdam-based publisher Wolters Kluwer will pay \$382 million to buy NDCHealth's business unit that offers pharmaceutical data analysis services to drug firms. The data comes from processed pharmacy claims and Wolters Kluwer will pay Per-Se for the data.

Per-Se's acquisition is a big risk, contends John Osberg, president of Informed Partners LLC, a Marietta, Ga.-based consulting firm.

"Per-Se has stumbled with integrating its existing technology and now they are going to integrate a whole new platform and culture," he says. "It's going to be a challenge."

But with the risk comes opportunity, Osberg notes. "They're getting some of the finest hospital systems in the country as clients to cross-sell services."

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The cross-selling soil is fertile, Pead says, because there's almost no overlap between Per-Se and NDCHealth hospital clients.

"We also like the NDCHealth physician business," he says. "We think it is very important to have access to the physician desktop."

Per-Se plans to offer e-prescribing services interfaced to an electronic medical records system and using NDCHealth's national network to pharmacies.

Outside the core

That too carries risks. Per-Se has no core competency in the small physician practice I.T. market, a market many other vendors have avoided, **Osberg** contends.

Further, he adds, the acquisition will bring a large amount of new debt to Per-Se, which struggled last year to refinance its debt load.

Per-Se doesn't immediately need competency in the small physician market because it will maintain the existing network of resellers of NDCHealth software, Pead says.

The new debt load does not significantly worry investors, Pead adds, noting that Per-Se's stock price did not significantly change after the proposed acquisition was announced. "The market is the best determination of whether they think we will be overleveraged."

For now, the deal's wisdom is tough to judge, Osberg says. "NDCHealth definitely gives Per-Se hundreds of new customers. Some parts of the deal are brilliant. It's just a risky transaction."