

Health I.T. Vendor Buying Spikes

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By Joseph Goedert, News Editor

Mergers and acquisitions in the health care information technology industry ramped up considerably in 2008. Whether the activity will continue during a financial crisis is debatable.

Through mid-November, Health Data Management tracked 97 deals, nearly 40% more than a year earlier. And the deals of 2008 were bigger, with 11 valued at more than \$100 million compared with eight in 2007. There was a return of the billion-dollar blockbuster as equity capital firm Apax Partners of New York spent \$1.4 billion for The TriZetto Group Inc., a Newport Beach, Calif.-based payer vendor. That was the largest of at least nine health I.T. acquisitions by equity firms as the sector looked even more attractive than in 2007.

The year started with a flurry with 20 acquisitions in January and February. It even stayed busy with 22 buys in September and October as the crisis in financial markets deepened. But these late-year deals were ready to close and had financing in place.

"Some could have taken longer to close but still managed to survive," says Jason Baker, a managing director at Healthcare Growth Partners LLC, a Chicago-based strategic and financial advisory firm. For instance, London-based Misys plc had to find new sources of funding for the merger of its Misys Healthcare Systems unit with Chicago-based Allscripts LLC after its primary financier went belly-up.

By October though, the buying market dried up as credit further tightened or became non-existent, says Michael Labeledz, president and CEO of HealthPort, Alpharetta, Ga. The company in September closed its buy of rival document imaging vendor ChartOne Inc. of Burlington, Mass., but the rationale for the deal was easy to explain to financiers, Labeledz says.

In the present climate, any acquisition must have a readily apparent rationale or it won't get backing from lenders, whose credit committees have become much more risk-adverse, Labeledz notes. "If you have to spend a lot of time in the credit committee, it probably won't be approved."

That's why Labeledz expects much slower acquisition activity in the months ahead. "If banks don't trust each other, how will they trust people they're lending to?" he asks.

Private equity buy-out firms that have to borrow money aren't going to be making deals either, says Jonathan Phillips, founder and managing partner at Healthcare Growth Partners. "Those deals will become few and far between."

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Nonetheless, Phillips and Baker at Healthcare Growth Partners expect at least the same level of acquisition activity in 2009, although the deals may be smaller. "Relative to other sectors, the health mergers and acquisition market has held up very well," Baker says. "I.T. is integral to helping solve many problems."

And it could be a buyers' market for those able to make acquisitions because there are now fewer alternatives to struggling companies for raising capital, he adds. Companies that can't go public or raise capital may just decide to sell.

Christopher McCord, a principal at Healthcare Growth Partners, expects more deals in 2009 with buyers having the leverage. Consequently, the average price of acquisitions tracked by the firm this year - 2.1 times annual revenue of the company being bought - might be lower during the coming year.

John Osberg, president of Informed Partners, a Marietta, Ga.-based strategic and financial advisory firm, also doesn't see a slow down in acquisitions next year. The Obama administration, he adds, will place a much higher priority - and urgency - on health I.T. adoption. Further, he believes the liquidity crisis soon will ease. "There will be greater capital available after the start of the year," he predicts.

Hot Products

With patients increasingly responsible for a higher portion of their health care bills, vendors of revenue cycle management software were attractive acquisition targets in 2008.

And that trend will accelerate next year, Osberg says, with banks building or buying I.T. tools to help providers better manage the financial side. "Providers want to know what the expected reimbursement will be in a much more granular way than ever before."

Vendors with software that boosts cash flow, such as revenue cycle management, financial analytics and asset utilization tools, will be hot in 2008, Phillips says. "In a softening economy, this trend tends to make sense." He also believes mid-sized electronic medical records vendors will start to merge to have a chance at competing with the big boys. Baker sees software supporting insurers and life sciences also being very attractive in 2009.

Smart Buys

The most interesting buyer in 2008, Baker says, may be Eclipsys Corp., an Atlanta-based vendor serving hospitals. Eclipsys hasn't been acquisitive, but suddenly spent nearly \$100 million buying financial decision support vendor Enterprise Performance Systems Inc. and physician electronic records vendor MediNotes Corp. Time will tell, he adds, if the deals were smart.

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MedAssets Inc.'s \$381 million buy of Accuro Healthcare Solutions was a smart deal, Phillips says. " It took the two big revenue cycle management gorillas and put them together. They really have an unmatched footprint."

He also likes HealthPort's buy of ChartOne, and Philips Healthcare's pickup of the VISICU technology for remotely monitoring intensive care unit patients.

MedAssets' deal takes the smart prize for 2008, Osberg concurs. That's because the vendor also picked up equity firm Welsh, Carson, Anderson & Stowe as a partner. "They got good complementary I.T. and seemingly unlimited access to capital. That's clever."

Osberg also sees the Allscripts-Misys Healthcare Systems merger as smart, but a deal that's not yet done. Misys, he believes, wants to get out of the health I.T. business. "It's my bet that within two years Misys will divest themselves of the combined entity through an outright sale to an equity investment firm or an initial public offering of stock."

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