

HealthData Management



\$80 Billion Question

The federal government is betting that electronic records can rein in out-of-control health expenditures. But do the numbers add up?



HIT Vendors Scramble for Positioning

The industry is changing fast and health I.T. acquisitions reflect that reality.

By Joseph Goedert

Health Data Management Magazine, 06/01/2011

The rate of health information technology acquisitions took a nosedive in recession year 2009, along with everything else. But after the market hit bottom, buying activity accelerated during the first quarter of 2010. And it hasn't stopped.

From May 2010 to April 2011, Health Data Management tracked 100 HIT acquisitions, compared with 76 during the same period in 2009-2010. And the deals have been considerably bigger. The median deal size for acquisitions-and equity investments-increased from \$9 million in calendar year 2009 to \$60 million a year later, according to Healthcare Growth Partners, an Elmhurst, Ill.-based strategic and financial advisory firm. Two vendors

were particularly acquisitive during the past year; Vocera Communications and Ingenix each made four buys (see sidebar on Ingenix, which will change its name to OptumInsight this month, on page 42).

HDM counted 15 acquisitions with reported values of \$100 million or more from May-to-April, compared with six in the previous 12 months. Industry observers say five other companies that were sold without publicly announced terms-Axolotl, Executive Health Resources, Gateway EDI, Keane and Sunquest-likely topped \$100 million.

"The deal activity for the last 12 months has been remarkable and I think the activity in the next 12 months will accelerate," says John Osberg, principal of Informed Partners LLC, a Marietta, Ga.-based consulting firm. Better connectivity between providers, and between providers and patients, means everything in today's health care environment, and the past year's acquisitions reflect that: Insurer Aetna Inc. spent \$500 million for health information exchange vendor Medicity Inc., with some estimates that the deal went for 10 to 12 times revenue for the private company in an era when two times revenue is good. Aetna CEO Mark Bertolini, in an April interview with Kaiser Health News was quoted as saying the company is becoming an I.T. operation as much as an insurance firm.

And the beat went on:

- Estimates range up to \$270 million-maybe eight to nine times revenue-as the price Ingenix Inc. paid for privately-held HIE vendor Axolotl Corp.
- Pharmacy benefit management firm Medco Health Solutions Inc. paid \$730 million for clinical trials vendor United BioSource Corp.
- Physician vendor Allscripts Corp. forked over \$1.2 billion in stock for hospital information systems vendor Eclipsys Corp.
- Hospital vendor Meditech Inc. bought LSS Data Corp., its long-term ambulatory partner, for \$13.7 million.
- Drugstore chain Walgreens Inc. paid \$409 million for dot-com survivor drugstore.com to substantially increase its online presence to consumers.
- Government contractors Harris Corp. and Smartronix Inc. entered the health connectivity wars with Harris paying \$155 million for integrator Carefx and Smartronix buying HIE firm Cogon Systems for an undisclosed price. "I would expect military contractors to jump deeper into health I.T. soon-maybe this year," Osberg predicts. "They understand secure communications and government contracting, and protecting health information is getting news every week."

Gearing up for new era

The consolidation of provider organizations is accelerating as health systems gear up for an era that will place a premium on the continuum of care and the concept of accountable care organizations. That trend was reflected in M&A activity as vendors of home health, quality reporting, compliance and data analytics applications were scooped up.

In addition, two of the bigger deals of the past year had an international flavor: After the National Health Service in England dropped its requirement that providers acquire I.T. from designated vendors, two American firms with some NHS business swooped in to try to get more. McKesson Corp. paid \$141.5 million for British firm System C Healthcare, and Computer Sciences Corp. paid about \$188 million for iSoft Corp.

What happened in the M&A arena had interesting ramifications, but what didn't happen might be equally significant: The overcrowded electronic health records market didn't consolidate.

Well over 200 EHR vendors are fighting for meaningful use business. How crowded is the field? As of mid-April, the federal government lists 393 Complete or Modular certified ambulatory EHR products, along with 182 certified inpatient Complete or Modular products.

There were several good reasons for the non-event, but consolidation's got to come soon, says Rob Tholemeier, senior research analyst at Crosstree Capital Partners, a Tampa-based corporate financial advisory firm. "There has never in the history of software been 200-plus companies selling similar functionality," he notes. "Less than a dozen-maybe a dozen at most-will survive."

Where were the EHR sales?

While the past few years have been boom times for many EHR vendors thanks to the federal EHR incentive program and other enticements for providers to automate, the butcher's bill is coming due for some companies, particularly in the ambulatory space, predicts consultant Osberg.

Hospitals are buying physician practices and standardizing ambulatory I.T. on the product lines of the leading 10 vendors in the market. That's freezing investments in the other 190 or so ambulatory vendors, many of whom are struggling to raise capital. "Investors aren't going to put money in a vendor that isn't riding that wave," he says.

Further, many EHR vendors are not moving as rapidly as other I.T. companies to the cloud and software-as-a-service model, and investors increasingly frown on products not SaaS-based, Osberg says. While he expects accelerated EHR consolidation during the next year, he believes much of the activity may come via attrition rather than acquisition.

And making themselves even less attractive for acquisition, EHR vendors are overvaluing themselves because of the accelerated adoption of clinical systems resulting from the EHR

incentive program. "The stimulus money is allowing management of these companies to believe their growth rate is 50 to 100 percent," says financial advisor Tholemeier.

Consequently, these companies are asking not for two times revenue to sell, but two times their self-projected growth, he adds.

But buyers don't just think about a revenue multiplier when deciding on a price. Equally if not more important is a acquisition target's earnings before interest, taxes and amortization, which shows what cash flow a buyer can expect from an acquisition.

The problem is that to meet inflated and likely unrealistic growth projections requires vendors to spend every dime they have on acquiring new contracts, and borrow on top of that. Potential buyers, as a result, aren't seeing cash flow that would translate into quick benefit for them.

The bottom line is that many EHR vendors are going to have to get a wake-up call, and soon, Tholemeier says. "We are in an EHR dot-com bubble right now."

Before the market implodes, smart EHR vendors looking to sell will stop pushing growth and focus on stabilizing finances, Tholemeier predicts. Then, "if you really want to sell your company, accept two times revenue and it will get sold." These are the lessons of Allscripts' acquisition of Eclipsys, he adds. "The price was 2.3 times projected revenue, which was pretty flat. But if your finances are in shape and you're profitable, you can get a decent multiplier."

Aetna's big move

One of the most interesting deals of the past year has to be Aetna's pick-up of Medicity, believes Jonathan Phillips, founder and managing director at Healthcare Growth Partners, which offers strategic, operational and transaction advisory services. But making the move a success will be very challenging, he adds.

Aetna is trying to create a business unit to assist integrated delivery systems as they enter into risk-based programs, such as accountable care organizations, and will offer supporting I.T. tools and health coverage, along with reinsurance to cover losses exceeding a certain level, Phillips says.

In essence, Aetna sees a bunch of mini-Kaiser Permanentes emerging, enabled by the Aetna platform, Phillips adds, an observation that an Aetna spokesperson confirms.

A major tool Aetna also offers to ACOs is the clinical analytics capabilities of its ActiveHealth Management disease, case and utilization management subsidiary, according to the spokesperson.

ActiveHealth in 2010 introduced a Web platform to offer a range of data to physicians and patients. The data, coming from claims, ActiveHealth PHRs, EHRs, and pathology and radiology systems, enables identification of gaps in care and patients appropriate for disease management programs.

Whether or not the ACO model succeeds, reimbursement will become much more outcomes-focused and providers will still need ACO types of technology, such as connectivity, decision support and analytics. But there's a lot of risk for Aetna as it seeks to become an "enabling" I.T. shop, Phillips says. Insurers buying health I.T. make providers nervous because they don't really know where their clinical data is going. "If anything, the fear may not be growing, but providers are worried," Phillips explains. Companies outside health care that have bought connectivity vendors, such as IBM-Initiate Systems in early 2010 and Harris-Carefx, are much less threatening to providers, he adds.

Aetna likely paid a premium for Medicity, but there are good business reasons for that, Osberg says. "Aetna is going to create an Ingenix equivalent." The insurer was looking for established HIE technology and a seasoned management team, not revenue.

Medicity was a strategic buy, not a value one, Osberg notes. Aetna is looking to get closer to physician and hospital desktops to provide tools such as clinical data connectivity, treatment reminders and data analytics that support better continuity of care.

Further, Aetna sees UnitedHealth Group, which owns multiple companies including Ingenix and giant insurer UnitedHealthcare, raking in I.T. profits and wants some of that pie. Consequently, the \$500 million spent on Medicity was the deal of the year-from a strategic perspective-for the vendor, but it wasn't crazy, Osberg contends. "Aetna spent more on paper than on that company."

Ingenix Buys Target Provider Sustainability

Providers continue to face declining reimbursements and those payments increasingly will be tied to quality. At the same time they're being pressured to better coordinate treatment across the continuum of care, and if part of an accountable care organization, to assume additional financial risk.

The four health information technology acquisitions that Ingenix (which will change its name to OptumInsight this month) made over the past year are designed to help health care communities be on a path to sustainability in the changing environment, says Andrew Slavitt, CEO of the Eden Prairie, Minn.-based vendor. Success, he adds, means improving connectivity.

On the connectivity front, Ingenix acquired Axolotl Corp., an established health data exchange platform vendor, to become a major player in linking provider organizations through state or regional HIEs or accountable care organizations. It augmented a suite of coding tools by picking up A-Life Medical, which sells computer-assisted coding software. The application

uses natural language processing technology to "read" clinical documentation, decipher the meaning and context of words, identify diagnoses and procedures provided during an encounter, and recommend appropriate ICD-9 and CPT-4 codes. Slavitt forecasts a coming "revolution" among hospitals to adopt such coding systems to improve reimbursement and compliance.

The acquisition of medical necessity outsource vendor Executive Health Resources is intended to help hospitals comply with Medicare's Recovery Audit Contractor program, ACO and readmission policies, and gets Ingenix into a new market. Using a proprietary library of rules to guide decisions, the firm's 300 employed physicians perform medical necessity verification checks upon request from providers and have a near 100 percent success rate in defending the decisions, Slavitt says.

Seventy percent of hospital costs and revenues come from decisions made in high acuity units, Slavitt says. By acquiring acuity information systems vendor Picis Inc., and applying connectivity capabilities from Axolotl, Ingenix intends to provide workflow improvements in emergency, surgical, perioperative, intensive care and critical care departments. "You have to make sure the surgeon has information from the primary care physician and the PCP gets alerted when a patient is admitted to the ER," he adds. But the fact that Ingenix has entered the hospital ancillary systems market doesn't mean the company is eyeing a bigger jump into the core hospital I.T. arena, Slavitt asserts. "The intent is not to become a major hospital information systems vendor, but to better understand the workflow."

Health I.T. Acquisitions Since May 2010

Prices in cash unless otherwise noted. Terms were not publicly available for many deals involving a private buyer/seller.

Buyer	Seller	Price	Comments
MAY 2010			
Mediware Information Systems	Knowledge-Forge	N/A	Ancillary vendor gets compliance expertise
Intuit	Medfusion	\$91 million	Intuit seeks more patient connectivity
eHealth Inc.	PlanPrescriber Inc.	\$28.7 million	Online broker expands to Rx
JUNE 2010			
Health-e-Web Inc.	Electronic Translations & Transmittals	N/A	One clearinghouse buys another
Emdeon	Chapin Revenue Cycle Mgmt.	\$18.9 million cash/stock	Emdeon buys revenue outsource firm
Benefitfocus	BeliefNetworks Inc.	N/A	Benefits software firm adds analytics
HEALTHCAREfirst	Lewis Computer Services	N/A	Home health vendors combine
Halfpenny Technologies	Laboratory Mgmt. Services	N/A	Messaging vendor expands lab services
JULY 2010			
Thomas H. Lee Partners	Intermedix Corp.	N/A	Equity firm buys ER vendor
Vestar Capital Partners	Health Grades Inc.	\$294 million	Investors buy provider rating Web site
Cegedim	Pulse Systems Inc.	\$58 million	European firm buys U.S. market share
Ingenix Inc.	Picis Inc.	N/A	Ingenix targets high-acuity units
MD On-Line Inc.	Transaction Methods Inc.	N/A	Clearinghouse adds market share
Health Management Systems	Allied Management Group	\$26.2 million	Cost recovery firm boosts fraud fight
Mercer	Innovative Process Administration	N/A	Benefits firm adds self-service software
Ebix Inc.	A.D.A.M.	\$66 million	Insurance vendor buys content firm
AUGUST 2010			
TriZetto Group	Tela Sourcing	N/A	Payer vendor enhances outsourcing
Thomson Reuters	Healthcare Data Management	N/A	Thomson expands analytics
Roche	Biomagene Inc.	\$100 million	Drug maker buys pathology software
Consumer Health Technologies	MyHealthFunds Inc.	N/A	Consumer-directed vendors combine
Ingenix Inc.	Axolotl Corp	N/A	Ingenix jumps into HIE field
Medco Health Solutions	United BioSource Corp.	\$730 million	PBM targets clinical trials
Smartertronx Inc.	Cogon Systems Inc.	N/A	Gov't contractor buys HIE platform
Benefitfocus Inc.	Benefit Informatics Inc.	N/A	Benefits vendor picks up analytics tech
IBM Corp.	Datacap Inc.	N/A	Datacap sells document imaging
Orion Healthcare Ventures	Aspyra Inc.	N/A	Investment firm eyes diagnostic imaging
Press Ganey Associates	Quality Indicator Project	N/A	Maryland Hospital Association parts with project
Ingenix Inc.	Executive Health Resources	N/A	Buy targets medical necessity
SEPTEMBER 2010			
Allscripts	Eclipsys Corp.	\$1.2 billion stock	Big physician vendor enters hospital side
Conifer Health Solutions	MediHealth Outsourcing	N/A	Revenue cycle firm adds consulting
Nuance Communications	OSi Transcription	N/A	Nuance targets transcription to cross-sell
Nuance Communications	Emcompass Medical Transcription	N/A	Another transcription buy for Nuance

Health I.T. Acquisitions Since May 2010

Prices in cash unless otherwise noted. Terms were not publicly available for many deals involving a private buyer/seller.

Buyer	Seller	Price	Comments
JANUARY 2011			
NTT Data Corp.	Keane Inc.	N/A	Keane's health unit serves acute and long-term care
Remedy Health Media	Intelecare	N/A	Intelecare sells a medication adherence system
Inventiv Health	clinical trial unit of Ingenix	N/A	Ingenix refocuses life sciences
Intermec Technologies	Vocollect Inc.	\$190 million	Supply chain firm adds voice systems
Vocera Communications	Wallace Wireless	N/A	Four buys in four months for Vocera
Philips Healthcare	medSage Technologies	N/A	Philips targets home health
Norwest Equity Partners	Surgical Information Systems	N/A	Investment firms swap SIs
mindSHIFT Technologies	Alpheon Corp.	N/A	I.T. services firm enters health market
RadNet Inc.	Imaging on Call	\$8 million	Imaging chain adds teleradiology
Aetna Inc.	Medicity Inc.	\$500 million	Insurer makes big play in HIE
FEBRUARY 2011			
Harris Corp.	Carefx Corp.	\$155 million	Contractor pays big for integrator
WellDoc Inc.	Oncology Care Home Health	N/A	Disease mgmt. firm adds consulting
SCIOinspire Corp.	National Audit	N/A	Analytics firm gets claims audit expertise
Xerox Corp.	WaterWare Internet Services	N/A	Xerox increases its health presence
McKesson Corp.	System C Healthcare	\$141.5 million	McKesson targets British market
The TriZetto Group	Gateway EDI	N/A	Payer firm buys clearinghouse
Meditech Inc.	LSS Data Systems	\$13.7 million	Meditech buys ambulatory partner
IOD Incorporated	Automated Document Solutions	N/A	ROI vendor adds document imaging
MARCH 2011			
Automatic Data Processing	AdvancedMD Software	N/A	ADP jumps into health I.T.
The TriZetto Group	Tele Sourcing Inc.	N/A	Payer vendor buys outsourcer
USA Mobility Inc.	Amcom Software Inc.	\$163.3 million	Messaging vendors combine
Walgreens	drugstore.com	\$409 million	Drug chain boosts online capability
ACS/Xerox	CredenceHealth Inc.	N/A	Consultancy adds quality reporting
Mediware Information Systems	CareCentric Inc.	N/A	Mediware increases home health holdings
APRIL 2011			
CareFusion	Vestara	\$17 million	Buyer targets pharma waste mgmt.
Computer Sciences Corp.	iSoft	\$188 million	CSC expands global footprint
GE Healthcare	SWIFT app of Steady State Imaging	N/A	GE buys MRI tech
IOD Incorporated	Medical Executive Coding & Auditing	N/A	ROI vendor gets coding expertise
MRO Corp.	Keystone Management Solutions	N/A	Release of information firms combine
Awarepoint Corp.	Patient Care Technology System	N/A	RFID tracking vendors combine
Wolters Kluwer Health	Lexi-Comp Inc.	N/A	Drug content firm targets hospitals
Verisk Analytics Inc.	Bloodhound Technologies	\$82 million	Risk vendor adds fraud detection
Toshiba Medical Systems	Vital Images	\$273 million	Toshiba augments diagnostic imaging