

## Electronic Health Records M&A Brief

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The computer technology industry overall has grown and changed, especially over the past decade, with the mass acceptance of the Internet, dramatically lower hardware costs, the introduction of new regulations, and an increased desire to improve productivity and reduce costs through the technology value chain. The healthcare software technology niche differs little from other market sectors in that regard, except that the healthcare industry itself is in a process of change in response to pressure from many parties (i.e., patients and the government) to improve the quality of care and bring cost increases into alignment with other sectors of the economy.

Most of the large software niches (measured in dollars spent on technology) have consolidated greatly over the last ten years or so. Today, these sectors are dominated by a few “big dogs” with smaller players circling the table. The consolidation has been easy to observe – the enterprise application niche is a great example. In 1999, a large number of companies competed in this market; today, many companies no longer exist independently. Navision, ACCPAC, BAAN, Solomon, SBT, Peachtree, and Real World are among them. What happened? They were acquired by larger, better funded and perhaps better managed technology companies that coveted their market position, client list and, last and perhaps least, their technology. It is worth pointing out that consolidation is not unique to technology businesses; it is a natural process in the business world.

Compared to many highly visible market sectors, healthcare software is just in the beginning of the consolidation process. Today, hundreds of independent vendors compete in diverse healthcare application spaces, large and small. In sub-niches like Electronic Health Records (EHR), vendors range in size and product reach, from diversified giants like Cerner and GE, which have several specialized EHR products as part of their diversified product portfolio, to sub-million-dollar revenue small businesses with a standalone EHR. Bottom line, there are too many healthcare software vendors offering hard-to-distinguish solutions. Will the landscape look the same ten years from now? We don't think so. All the niche markets in the healthcare software world will mature and consolidate, just like software markets have done in the past and will continue to do in the future. It is unknown how rapidly it will happen or which firms will still be left standing when the consolidation phase is over.

Corum Group is in the software M&A business with years of experience and expertise. Most software companies are destined to bump along as a “lifestyle” business; others will fail or be acquired. Few have the ability to go public or just happily emerge as a winner in what amounts to a winner-takes-most competition. Winners succeed by getting the most customers and keeping them long enough to make the kind of profits a software company is capable of. We don't have the space to talk about why software companies can make more money compared with other businesses, but suffice it to say that a winner-level software company can make lots of money for its investors. What we will talk about is that software companies become winners by doing a good job at what they do, often speeding their growth by acquiring customers and technologies of other software companies.

Acquisition is one of the easiest, most efficient and cost effective ways to grow, if you have the money. A well-funded buyer can acquire smaller firms with market presence, relevant and perhaps advanced technology, access to markets, specific domain expertise, and customers. Some of the most successful software companies were created by acquiring others with additional customers in their core focus, customers in a niche where they would like to be, and technologies that complement the products they sell. Good examples of growth via acquisition are Oracle and Infor Global in the enterprise market, and Fiserv in financial services.

The ongoing consolidation in healthcare delivery also drives the merging of healthcare software. As buyers of healthcare technology grow larger, they will in turn prefer to deal with larger software vendors offering more comprehensive product lines. It simplifies their life. The obvious point is that sellers have something buyers would like to have: more customers, better technology, and a defensible market position in an attractive adjacent niche. Additionally, there are two points worth considering:



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○ | Healthcare software is just in the beginning of the consolidation process.

○ | Bottom line, there are too many healthcare software vendors offering hard-to-distinguish solutions.

○ | Smaller companies were acquired by larger companies that coveted their market position, client list and, last and perhaps least, their technology.

The first companies acquired in a consolidating market can demand the highest price, particularly if the primary asset is a superior technology. Later, even superior technology cannot supplant inferior technology in wide use. Think Windows.

1. The appetite of buyers decreases as they make more acquisitions. Each acquisition offers some strategic value, more customers, etc. The small software company left standing after the first two or three are acquired by the logical buyers may not find a buyer at any price.

The conclusion is that timing is essential to the successful sale of your company. At best, a poorly timed sale will result in a disappointing price, at worst, an inability to find a buyer at any price. Unfortunately, the best timing is hard to pinpoint.

It is believed by many that the healthcare system is broken. The U.S. ranks high in cost and low in measure of its population's health. Politicians are paying attention, yet partisan politics have prevented even a serious discussion of how to solve the problem. It appears the healthcare industry is holding its breath, waiting to see how things turn out. In the meantime, healthcare software M&A is moving at a slower pace than we would expect in a niche even without these pressures.

M&A transaction volumes in the healthcare sector were fairly robust during the first half of the year, but have trailed off somewhat during the first half of the third quarter, which seems to some extent to be a common trend over the past couple of years. That said, transactions are being done in the healthcare market, and more specifically in the EHR sub-sector. One notable transaction with a healthy valuation was Allscripts acquisition of A4 Health Systems in early 2006, with an estimated revenue multiple in the 3.6x revenue range. Although this valuation metric is useful in helping to gauge the value, this was a highly strategic acquisition for Allscripts, thus justifying a higher purchase price from its perspective. The synergies included a broadening of the customer base as A4 focused on smaller, independent practices and clinics, while Allscripts focused on larger organizations. In addition, both firms' products were tightly integrated prior to the acquisition, and the combined entity provided some scale to better compete with other larger companies in the space, companies which Allscripts believes will be the eventual consolidators.

Representative EHR transactions:

#### **Nuance acquires Commissure**

Nuance Communications, Inc., a supplier of speech and imaging solutions, has acquired Commissure Inc., a medical imaging software company that provides speech-enabled radiology workflow optimization and data analysis solutions. The transaction allows Nuance to broaden the capabilities of its Dictaphone solutions for the medical imaging industry, to extend the company's domain expertise in the radiology market and accelerate revenue growth through SaaS offerings.

Announcement Date: October 2, 2007

Deal Value: Undisclosed

#### **Health Communication Systems (HCS) Acquires mMD.net**

Health Communication Systems, LLC., a member of the Health Communications Group (HCG) of companies continued its initiative to improve global healthcare with the acquisition of mMD.net, an electronic medical record solution (EMR), from Medical Communication Systems, Inc. (MCS) in Old Bridge, NJ. The transaction is expected to meaningfully contribute both strategically and financially to HCS's future growth as a turnkey community-based EMR company.

Announcement Date: July 19, 2007

Deal Value: Undisclosed



### **QHR Technologies Acquired National Medical Computer Services**

QHR Technologies (Canada) is acquiring National Medical Software, a developer of medical software. QHR is an emerging player in western Canada in the development of Electronic Medical Records software and services. National has a substantial foothold in the Alberta EMR market, servicing approximately 500 physicians in the province. Further, National's EMR and ASP hosting experience are areas that the company would like to seamlessly integrate into its operations.

Announcement Date: July 11, 2007

Deal Value: \$0.52 Million (Stock)

### **RemedyMD, Acquired EZHealthcare**

RemedyMD, provider of predictive informatics to recognize patterns, personalize treatment and measurably improve healthcare outcomes, is acquiring EZHealthcare, Inc., a provider of automated revenue cycle management, practice management and electronic health records solutions. Customers of RemedyMD and EZHealthcare will both benefit as the companies merge to create a comprehensive and fully integrated clinical and revenue cycle solution. EZHealthcare's products will be web-enabled and utilize the RemedyMD Mosaic platform, providing the latest internet-based technology to EZHealthcare customers.

Announcement Date: July 10, 2007

Deal Value: Undisclosed

### **WiFiMed Acquired JMJ Technologies**

WiFiMed Holdings Company, Inc. is acquiring JMJ Technologies, Inc., a developer of configurable workflow management solutions. Combining JMJ Technologies' Electronic Health Record product, a multi-specialty, workflow management system, and WiFiMed's Tablet MD with its patent-pending data synchronization, forms building tools, and thick-client technology will create a unique solution for full patient access and charting capabilities in the office and in remote sites such as emergency rooms, hospitals and homes.

Announcement Date: April 16, 2007

Deal Value: Undisclosed

### **McKesson Acquired Physician Micro Systems**

Prescription drug distributor McKesson Corporation acquired Physician Micro Systems Inc., a maker of software for doctors' offices. Physician Micro Systems makes software called Practice Partner that includes an electronic health records system, a multi-clinic scheduler and a practice management system. The product is aimed at independent physicians and will become part of McKesson's existing strategy of helping hospitals coordinate patient records with medical groups.

Announcement Date: February 26, 2007

Deal Value: Undisclosed

### **Nightingale Informatix Corporation Acquired VantageMed Corporation**

Nightingale Informatix Corporation (Canada), to acquire all outstanding shares of VantageMed Corporation, a supplier of practice management software and services to more than 18,000 healthcare providers in the U.S. This is a transformational and accretive acquisition that will provide strong growth potential, nearly double Nightingale's revenue, increase its annual recurring revenue, and materially expand its customer base and U.S. market presence. VantageMed, a proven market leader with a large customer base using its billing and practice management products, provides a strategic and captive audience to cross-sell Nightingale's suite of EMR solutions.

Announcement Date: February 19, 2007

Deal Value: \$13 million

○ | The computer technology industry overall has grown and changed, with an increased desire to improve productivity and reduce costs through the technology value chain.

○ | Most of the large software niches have consolidated greatly over the last ten years.

○ | Few companies have the ability to emerge as a winner in what amounts to a winner-takes-most competition.

○ | Software companies become winners by doing a good job at what they do, often speeding their growth by acquiring customers and technologies of other software companies.

○ | As buyers of healthcare technology grow larger, they will in turn prefer to deal with larger software vendors offering more comprehensive product lines.

### Healthscreen to Acquire Medical Telecom Corporation

Healthscreen Solutions Inc. is acquiring Medical Telecom Corporation. The vertical integration of MTC will augment Healthscreen's existing suite of billing and scheduling services and its popular electronic medical records (EMR) software by providing enhanced practice management services to physicians across Ontario. The acquisition is expected to expand Healthscreen's market and may increase revenues by cross promoting the company's powerful practice management services and EMR software with CallerMD's seamless uninsured billing system to the newly merged customer list. MTC is paid approximately 15% of recovered revenues from each doctor for its service.

Announcement Date: February 2, 2007

Deal Value: \$2 million (stock plus potential earnout of up to \$2.5 million over the next two years)

### 3M to Acquire SoftMed Systems

3M is acquiring SoftMed Systems Inc., a provider of health information management software and services that improve the workflow and efficiency for healthcare organizations. SoftMed Systems enables healthcare providers to enhance their operations, shorten their revenue cycle, improve patient care and achieve an electronic health record solution. SoftMed Systems brings 3M solutions that enable hospitals to create an electronic medical record using templates, voice dictation, speech recognition, electronic signature, document scanning and interfaces to other vendor products. This acquisition expands 3M Health Information Systems' business from its core of advanced reimbursement, compliance, and quality management software tools and services.

Announcement Date: November 20 2006

Deal Value: Undisclosed

### TriZetto to Acquire Quality Care Solutions

The TriZetto Group, Inc. acquires privately held QCSI (Quality Care Solutions, Inc.), which will bring together the two leading innovators of software and information technology solutions for the healthcare payer industry. Together, the companies' combined payment technology footprint of 115 million health plan members in production will provide greater scale to accelerate and streamline the transformation of consumer retail healthcare, including real-time point-of-service transaction capabilities and personal health records. Further, the merger creates the industry's broadest array of solution choices for payers, addressing their scale, implementation speed and technology platform strategies.

Announcement Date: Sept. 13, 2006

Deal Value: \$133 Million (Cash and credit)

Seller Revenue: \$56.6 (ttm)

### Netsmart Technologies Acquires QS Technologies

Netsmart Technologies, Inc., a leading provider of enterprise-wide software for health and human services organizations, has acquired QS Technologies, Inc. QS Technologies delivers enterprise-wide public health solutions and vital records software to 70 public health agencies, including nine states. With the addition of the QS Technologies customer base, Netsmart will serve more than 110 public health organizations and 10 states with a comprehensive set of public health and vital records solutions for public health agencies of all sizes.

Announcement Date: Aug. 2, 2006

Deal Value: \$5.1 million (cash, stock and the assumption of debt, plus the potential for an additional \$1.45 million in earnout.



## Microsoft Acquires Medical Records System

Microsoft has acquired a patient information system developed by doctors at the Washington Hospital Center that the world's largest software maker plans to sell to healthcare providers worldwide. The electronic medical records system, called Azyxxi, was built on Microsoft development tools and gives doctors real-time access to patient data from existing systems, including everything from X-rays and electrocardiograms, to prescriptions, allergies and other routine clinical information. Azyxxi, rhymes with "Trixie," is being used at six other MedStar Health hospitals in Washington and Baltimore. Microsoft believes the system can help transform the nation's "stressed" healthcare industry.

Announcement Date: July 26, 2006

Deal Value: Undisclosed

## Allscripts Acquired A4 Health Systems

Allscripts, the provider of clinical software, connectivity and information solutions that physicians use to improve healthcare, acquired A4 Health Systems, a provider of practice management and electronic health record (EHR) solutions for small and mid-sized physician groups. A4 has a customer base of over 1,600 healthcare organizations nationally, and is a recognized leader in the markets it serves. The strategic acquisition of A4 will double Allscripts' clinical software revenues and the size of its sales force, while significantly expanding Allscripts' existing product portfolio and providing the company with an integrated EHR/PMS for small to mid-sized groups.

Announcement Date: Jan. 19, 2006

Deal Value: \$272 Million (Cash and Stock)

Estimated Seller Revenue: \$75 Million

## Compuware Acquires ProviderLink

Compuware Corporation has acquired privately held ProviderLink. This transaction brings Compuware/Covisint a powerful, web-enabled application that – through effective management and sharing of healthcare communications and records – reduces healthcare costs and increases quality of care. ProviderLink will represent a key feature of Covisint's healthcare strategy, eliminating redundant and hard-to-track phone, postal and telephonic business processes. This technology and the team of people who develop, market and sell it are a natural fit that will accelerate Compuware Covisint's penetration in the healthcare vertical.

Announcement Date: March 1, 2005

Deal Value: Undisclosed

Public valuations in general have held steady for the past 11 quarters with EV/S ratio in the 2.00x to 2.50x range. That said, public valuations for the third quarter (as of the time this article was published) are trending up closer to 3.00x EV/S, exhibiting a positive trend upward since the beginning of the year, even though the broad markets have been somewhat choppy since mid-July and, as mentioned before, the third quarter has been a slower one for M&A transactions. In general, these multiples are in line with those in other sectors, taking into account that specific sectors on average tend to trend both lower and higher.



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