

There is an emerging consensus that the healthcare model in the U.S. is broken. Healthcare costs continue to outpace the rate of inflation, although since 2003 the percentage rate of increases has diminished each year. According to employers and health plans, though rates aren't rising as fast as previous years, premium increases are to be expected. This is to be expected. We are in a recession and when in recession healthcare has historically increased its portion of gross domestic product (GDP) as medical prices rise faster than other prices. This recession will be no different.

As healthcare costs spiral higher and the number of uninsured increases, public policy on healthcare is likely to change. The incoming Obama administration has already sent a strong signal that technology will have a large part to play in their solution (EMR is specifically mentioned as a priority) and the Obama administration and Congressional leadership would like to fund technology initiatives as part of a fiscal stimulus package for the states and localities in 2009. Healthcare technology will get its share since virtually all states are complaining about the burden of Medicaid patients and are asking for help. All of this bodes well for financially sound software companies in the healthcare arena and for healthcare technology M&A activity since financially challenged companies will not fare well in 2009 and many will look for an acquirer.

Recessions tend to result in lower M&A activity and most of the pundits are predicting no recovery until 2010. However, M&A in counter-cyclical industries such as healthcare tend to be stronger than other segments because healthcare technology companies in poor economic times are attractive acquisition candidates - healthcare is somewhat recession proof, people are living longer and the aging population will require significant amounts of healthcare services. Additionally, advances in medical technology and increased access to healthcare in developing countries are increasing demand. These healthcare growth factors mitigate

the global economic woes to some degree.

As we've been saying for some time the health care software niche is and will continue to consolidate and particularly as the economy sours we expect to see a higher level of M&A in this sector. There are still far too many companies in the niche and we expect a large percentage of the companies in

Technology Trends: Analyzing Global Enterprise IT Budgets 2008 reveals that the majority of enterprises globally are planning to cut back increases in IT expenditure. However, the healthcare sector is planning a significant number of increases in IT spending in 2009.

the EMR niche specifically will become casualties of the economy and also to the need for a truly transportable patient record. Not all competitors will be able to fund the development of new products.

Strategic acquirers will play an outsized role in healthcare M&A heading into 2009 and deals dependent upon large amounts of private equity debt will likely be postponed. Expect to see foreign buyers; the Misys PLC – Allscripts deal is representative. The cheap U.S. dollar has made acquisition of U.S. companies less costly for foreign buyers and very expensive for U.S. companies to buy foreign companies. Small software companies in general should be paying attention to what's going on and whether or not their company should be looking for an acquirer. Buyers of healthcare technology must be more

careful in deciding on which companies they should do business with. Do your due diligence and don't make price the most important decision point. Software is a product with high switching costs and it can be very disruptive to your business if your chosen service provider is acquired or worse, goes out of business. If you are happy with the product and services you have, do some due diligence anyway. If you find signs of a shaky situation, you might be wise to look to for a stronger technology partner.

Selected transactions from 2008.

Allscripts and Misys Healthcare to merge

Allscripts, provider of clinical software, connectivity and information solutions that physicians use to improve healthcare, is merging with Misys Healthcare LLC, a wholly owned subsidiary of Misys Plc, the global applications software and services company. The transaction would significantly enhance Allscripts' position in the overall healthcare information technology sector and create an industry leader in the growing electronic health records (EHR) and practice management (PM) markets. The combined company will have a client base of approximately 150,000 U.S. physicians and 700 hospitals and will be uniquely positioned to help physicians provide better patient care, manage their business more effectively and connect with their patients and other key healthcare stakeholders. Bringing Allscripts and Misys Healthcare together represents a compelling opportunity for stockholders of both companies to participate in a combined organization with significant potential, including a major cross-selling opportunity.

Announcement Date: March 18, 2008

Deal Value: (Misys Healthcare will be merged with a wholly-owned subsidiary of Allscripts, and Misys Plc will contribute \$330 million in cash to Allscripts, for which it will receive shares representing a 54.5% ownership position in the combined company. Allscripts will pay a special cash dividend of \$330 million. In its 2007 fiscal

year, which encompasses the period from June 1, 2006 to May 31, 2007, Misys Healthcare had revenues of £196, or approximately \$376 million, and profit before exceptional items of £20.6, or approximately \$39.5 million).

Nuance acquires Philips Speech Recognition Systems, Expands European Healthcare Business

Nuance Communications, Inc. has acquired Philips Speech Recognition Systems, a business unit of Royal Philips Electronics and leader in speech recognition solutions in the European healthcare market. With the combined resources of Nuance and PSRS, Nuance significantly enhances its ability to deliver innovative, speech-driven clinical documentation and communication solutions to healthcare organizations throughout Europe. Nuance's strong European operational performance this fiscal year provide motivation for the acquisition of PSRS. Nuance anticipates its Healthcare business will now deliver worldwide revenues in excess of \$410 million in fiscal year 2009.

Announcement Date: October 1, 2008

Deal Value: \$96.1 Million

Eclipsys acquires Enterprise Performance Systems, Inc.

Eclipsys Corporation acquired Enterprise Performance Systems, Inc., a provider of business performance-improvement solutions for healthcare providers. This acquisition strengthens Eclipsys' leadership in providing clinical, operational and financial performance-improvement solutions that help organizations manage the business of healthcare. The acquisition of EPSi reinforces Eclipsys' commitment to the financial decision support space. The addition of the EPSi product suite significantly accelerates Eclipsys' timeline for delivering a SQL-based business decision support solution.

Announcement Date: February 25, 2008

Deal Value: \$53 million (Cash)

Seller Revenue: \$10 million (2007 estimate)

Francisco Partners acquires AdvancedMD Software

Private equity group, Francisco Partners, has acquired AdvancedMD Software, Inc., provider of web-based medical practice management solutions and medical billing software. Excellent value in products and services tailored specifically to the needs of the physician revenue management market has resulted in a solid track record of growth. The combination of AdvancedMD's success and its opportunity for sustained growth in the physician practice management market were the foundations for Francisco Partners' investment.

Announcement Date: January 28, 2008

Deal Value: Undisclosed

Allscripts Healthcare Solutions acquires Extended Care Information Network, Inc.

Allscripts Healthcare Solutions acquires Extended Care Information Network, a provider of software solutions and consulting resources that improve hospital Case Management operations. Its web-based solutions include Utilization Management, Discharge Planning and Case Management systems that assist hospitals in streamlining case management work-flow, increasing productivity, improving patient throughput and reducing LOS. The acquisition combines the two industry leaders in care management and enables Allscripts to connect another key component of the healthcare delivery system – the exchange of patient information between hospital case managers, physicians outside the hospital, and the growing number of post-acute care facilities nationwide.

Announcement Date: January 3, 2008

Deal Value: \$90 million (Cash)

Apax Partners acquires TriZetto Group, Inc.

Apax Partners Worldwide, LLC, a global private equity company, has acquired the TriZetto Group, Inc., a provider of core administration software, professional services, and business process outsourcing for the healthcare industry. Apax plans

to take TriZetto private.

Announcement Date: April 11, 2008

Deal Value: \$1.4 Billion

HealthPort acquires ChartOne

Marking a significant development in its vision to be a leading provider of technology and strategic solutions for the healthcare industry, HealthPort will acquire its closest competitor, ChartOne. This acquisition combines the strengths of two industry leaders and creates the widest selection of affordable, quality health information products and services available. As the adaptation of technology continues to gain momentum in the healthcare industry, this announcement positions HealthPort to better provide a full spectrum of solutions that can improve business fundamentals and enhance patient care. With this acquisition, HealthPort has combined revenues of more than \$230 million and serves more than 8,000 healthcare facilities across the United States.

Announcement Date: September 23, 2008

Deal Value: Undisclosed

Eclipsys acquires MediNotes for \$45M

Eclipsys Corp. has acquired MediNotes, a privately-held industry leader in physician practice information solutions. MediNotes has practice management and electronic medical record (EMR) solutions in over 5,000 medical practices across the U.S. Eclipsys has traditionally focused on providing information software, clinical content and professional services for hospitals and hospital-based health systems. With a growing number of specialty and smaller physician practices, health systems have sought a cost-effective way to improve care coordination and expand relationships with loosely affiliated physicians, the company says. Web-based practice management and EMR solutions such as those by MediNotes, which are low-cost to implement and maintain, help facilitate those linkages and expanded physician adoption. Once completed, the acquisition of MediNotes will expand, but not

replace, the current Eclipsys solution portfolio.

Announcement Date: September 19, 2008

Deal Value: \$45 Million (Cash and stock)

Perot Systems acquires Tellurian Networks, Inc.

Perot Systems Corporation has acquired substantially all of the assets of Tellurian Networks, Inc., a managed services hosting provider of Electronic Medical Records (EMR) and Practice Management (PM) applications to physician groups. Tellurian serves physician practice groups with an innovative managed services hosting model that provides physicians with world-class technology, such as EMR and PM applications on a per-doctor and per-user basis. This model enables physician groups to lower and control costs while improving patient care. Perot Systems, which provides comprehensive healthcare solutions to primarily large provider-owned practices and academic medical centers, acquired Tellurian to broaden its reach into a greater component of the physician practice group market.

Announcement Date: November 14, 2008

Deal Value: Undisclosed

HealthGrades acquires WrongDiagnosis.com

Health Grades, Inc., a healthcare ratings company, acquired WrongDiagnosis.com, a highly trafficked health information and community website. According to comScore MediaMetrix's September rankings, the combined HealthGrades' sites will comprise the 9th largest ad-supported healthcare property. WrongDiagnosis.com was owned by Adviware Pty. Ltd., a privately held company based in Australia. HealthGrades acquired the WrongDiagnosis.com website, along with the company's CureResearch.com website, certain intellectual property and other domains. This acquisition will allow advertisers to target active patients specifically by condition or treatment area across a range of content, from healthcare ratings, to state-of-the-art health risk assessment tools.

Announcement Date: October 14, 2008

Deal Value: \$6.2 Million (Cash)

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## ***About the Authors***

William D. Montgomery is the Senior Vice President and Ryan Blakely is the Vice President of Research of Corum Group Ltd. The Corum Group is the global leader in merger and acquisition services, specializing in serving software and information technology companies worldwide. With 11 offices globally, Corum has completed over US \$6 billion in transactions in 15 countries in its over 20-year history, and publishes the industry's most widely distributed M&A research. Corum's principals are highly experienced former tech CEOs, who are supported by the industry's leading researchers, writers and valuers. The company has spent more than US \$20 million to build the world's largest buyer database to help ensure unparalleled success in client engagements. For additional information, visit [www.corumgroup.com](http://www.corumgroup.com).