

# Inside Healthcare Computing

Trends, user reviews, intelligence, and news on health care information systems



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## - In This Issue -

### Merger and Acquisition Market Still Sizzling Despite Credit Crunch, Expert Says

The current credit crunch hasn't diminished the interest in M&A activity in the HIT marketplace. In fact, interest is picking up, according to one industry source.  
Page 2

### User Preference, Security Push Some Hospitals to Windows Vista, but Others Say They'll Wait

Are hospitals jumping on Microsoft's newest operating system? It depends on which CIOs and IT staff members you ask.  
Page 3

### MEDITECH Keeps Growing in 2007, Turns 40 Next Year

Privately held MEDITECH celebrates its 40th birthday next year. Are there any mid-life crises in store for this industry pioneer?  
Page 4

### Free Site Adds Referrals, Secure Information Exchange to Physician Social Networking

A new web service takes the concept of physician social networking and adds the ability for doctors to exchange patient information and manage patient referrals. How's it working?  
Page 6

### Our Take: Standardized Order Sets Ensure Clinical Systems Success

Page 7

### People on the Move

Page 6

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Dear Subscriber,

We will no doubt have many announcements to digest after the HIMSS conference has concluded. In the meantime, life in healthcare IT goes on. Some of those HIMSS announcements will probably involve mergers and acquisitions, based on early rumors. We spoke to Jim Brennan, a healthcare IT M&A expert, about what to expect in 2008. Can acquisitions continue when credit is hard to come by?

One company that probably won't be on Jim's list any time soon is MEDITECH. The company just filed its 2007 annual report and we've got the information on sales, profits, and the very large value of Chairman Neil Pappalardo's stock. Rounding out this issue are thoughts from some hospital CIOs about Windows Vista rollouts and information about a new, free web service that can help your physicians with patient communication and referrals.

### Ten Single-Sentence Thoughts:

1. **Microsoft and Google** made nearly simultaneous announcements about personal health records recently, with Google seemingly making the smarter move by starting beta testing with Cleveland Clinic's Epic-powered patient portal.

2. **Pentaho**, the open source business intelligence platform vendor we've written about previously, continues its streak of funding.

3. The blockbuster deal kept under wraps until word recently leaked out: Wal-Mart will require its in-store clinics to use software from **eClinicalWorks**.

4. A surprising recent stock price drop: **Omniceil**, the hospital medication system vendor that turned in good numbers, has new technologies, and threatens to take business away from customers unhappy with Cardinal Health's Pyxis division.

5. A not-surprising recent stock price drop: **Allscripts**, which failed to meet Wall Street expectations and made a surprising announcement about TouchWorks implementation challenges.

6. Technology we think will be an easy and popular add-on to existing systems: **dashboard-type displays** that push information to users in quickly usable format, even if it's the same information already available.

7. Our one-word conclusion about Microsoft's repackaging of its just-acquired hospital system from Thailand into what it's calling Amalga: **puzzling**.

8. The pendulum swings back: with all those recently sold clinical systems still being installed, we expect a renewed interest in **ERP, access management, and revenue cycle** applications.

9. Jim Brennan mentions it in this issue's article, but we're curious if you're seeing it: **capital rationing** in hospitals due to ambitious construction projects with threatened funding due to credit cutbacks.

10. A "must-have" in an age of off-the-shelf enterprise applications: hospital applications that include **software development kits or exposed objects** to allow add-on development.

*This issue's recommended project:* consider a position of being **minimally compliant** with otherwise non-strategic regulatory requirements. It's easy to get wrapped up in external "requirements" that may turn out to be "recommendations" on further review. Since there's no reward for overachievement, ask the question of "how can we be minimally compliant" the next time a proposal is on the table to create a whole new department or reporting structure just to meet a new regulation.

**Tim Dotson, RPh, MBA, MEd, FHIMSS**  
Executive Editor

## Merger and Acquisition Market Still Sizzling Despite Credit Crunch, Expert Says

The current credit crunch hasn't diminished the interest in merger and acquisition activity in the healthcare information technology marketplace. In fact, interest is picking up, according to Jim Brennan, CEO of VirtualCDO of Great River, NY.

Brennan's company advises small- to medium-sized healthcare and healthcare technology companies on corporate growth, governance, and mergers and acquisitions, providing part-time assistance to companies that don't need a full-time corporate development officer.

Credit isn't all that important, he says, because potential acquirers are bringing cash to the table instead of requiring complex financing.

"Most of my clients are small and buyers don't need credit facilities of half a billion," Brennan tells *Inside Healthcare Computing*. "In fact, more and more are cash deals without required earn-outs. CFOs of the buyers are putting more effort toward transactions that don't require liabilities, credit facilities, or loans that would put them in harm's way to have to go to the capital market."

### Activity Will Continue, But With Smaller Deals

Brennan expects the drivers this year to be similar to those of 2007, but with smaller deals. "In 2007, we saw a record number of deals as I predicted, but deal volume per transaction dropped. More of the big guys have been bought and sold and the balance of available companies is smaller."

Hot healthcare sectors in 2008 will be those related to ambulatory and outpatient services such as diagnostic labs, respiratory, hospice, home health, and remote care, all of which Brennan predicts will see further consolidation.

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In healthcare IT, Brennan says that generic software and medical device companies look unattractive, but that's because healthcare equities analysts often lump technology in with pharma and medical device companies. Deals will happen nonetheless, he vows. "We'll see more software deals for sure. The bigger guys will continue to acquire technology for feature sets they don't have."

He predicts some activity involving companies selling systems for staff optimization, scheduling, time and attendance, and workforce management. Revenue cycle management and financial dashboard products will be attractive acquisition targets, Brennan speculates, as will outsourcing providers.

### Capital Gains Tax Uncertainty, Weak Dollar Will Spur Company Sales

Tax fears may push company owners to sell out in 2008. "Capital gains on transactions from a business sold are taxed at 15 percent, not as ordinary income at 40 percent," Brennan explains. "Companies are thinking, 'If an acquisition happens next year, will I be able to take advantage of the low capital gains rate?' It could depend on who's in office. I've heard that companies are looking to deal this year while capital gains are still low."

The weak US dollar could also make US companies attractive to foreign investors. In fact, Brennan is currently working with two overseas investors who want to buy into the US healthcare IT market. One is already involved in that market overseas, while the other is seeking a purely financial investment. However, foreign parties may have to compete with US companies, who find domestic acquisitions more attractive for the same reason.

### Microsoft, Google, athenahealth Scare Competitors, Drive Deals

The ongoing war between Microsoft and Google has spilled over into healthcare and will change the M&A climate, Brennan says. "It creates a lot of work for guys like me. The more they get in, the more consolidation that will occur. Buying Azyxxi sent shivers up the spine of vendor CEOs concerned about how a big monopoly will get interested in their space."

The business model of athenahealth will also worry competitors, Brennan believes, because quick changes to

its billing rules engine are instantly made available to all customers. "I love the model that these guys have. It's nothing unique, but they're just executing on it. CEOs want and dream about it, but athena is doing it. Now that they've got attention, they're starting to gobble things up, like clinicals. It's a great rollup strategy. The old client-server model works to some degree, but to promote anything as real-time and regulatory compliant, it has to be real-time, not tomorrow. The client has access to every piece of intelligence."

### **Companies May Cut Back, Hospitals May Not Find Cheap Bond Debt**

Brennan says the HIMSS annual conference is always a target for mergers and acquisitions, with parties trying to get their deals finished by then to make the big announcement. He has heard, however, that companies may be cutting back on marketing and possibly even rethinking the extent of their involvement with the conference starting in 2009.

Perhaps the biggest threat to vendors is the financial health of their hospital customers, which is often driven by the availability of bond-backed credit. "Bond ratings are purely based on the credit market," Brennan says. "If somebody has built a financial model for building a new tower that assumed the credit market would be stable, they're in trouble right about now." ■

### **User Preference, Security Push Some Hospitals to Windows Vista, But Others Say They'll Wait**

Are hospitals jumping on Microsoft's newest operating system, Windows Vista? It depends on which healthcare CIOs and IT staff members you ask.

Some early adopters have started deploying Vista and say it offers enough benefits to be worth a large-scale rollout. It's an inevitable change, some IT managers told us, so you might as well get on board sooner rather than later.

"In technology, you want to keep a competitive edge," says Gary Wilhelm, business and financial systems manager at Englewood Hospital and Medical Center, Englewood, NJ, which recently began a Windows Vista

deployment on a handful of PCs. "Physicians want to be able to work in an environment with the latest systems. That gives us a competitive edge."

On the flip side, some hospitals say they'll pass on Vista until Microsoft irons out some of its kinks and comes up with a better story about its benefit to healthcare organizations.

### **SharePoint, Home User Experience Favor Vista**

At Englewood, the IT department has rolled out Windows Vista on 30 computers. They will extend that deployment to more PCs later this year. Wilhelm says the hospital is making sure its single sign-on technology will work with Vista. Once that's been done, the project will move forward quickly.

Englewood participates in a Microsoft early adopter program. A big motivator for the hospital was the increased level of access to Microsoft's SharePoint Server, explains Wilhelm.

"SharePoint is robust and has given us a lot of capabilities," he says. "We wanted to make sure we were as current as possible when we put our applications in a web-based environment. If you invest in SharePoint without the proper infrastructure in place, it will be difficult to upgrade later."

Wilhelm also believes that clinicians should have the opportunity to use the same systems they use at home. Hospitals that don't install Vista may face resistance from physicians who are experienced with current technology and expect to find those same tools in the workplace, says Bill Crouse, MD, Microsoft's senior director of worldwide health.

"I certainly understand healthcare customers who want to take their time, and there are always early and late adopters," Crouse says. "Still, today's clinicians are highly mobile, they are coming in with their own devices, and they want to seamlessly connect to the network."

### **Vista's Security Benefits Save Money, CIO Says**

Steve Garske, vice president and chief information officer at Children's Hospital Los Angeles, says another

(continued on page 4)