

Inside Healthcare Computing

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



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M&A Outlook for 2010

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The prospect for continued mergers and acquisitions in the HIT industry looks rosy, according to a recent report.

However, it is likely that while the number of deals will rise as the industry continues to consolidate, the total dollars per transaction will decline, the report's authors contend.

"There were a lot of big deals that happened in health IT in the past few years," says the report's coauthor, James Brennan, FACHE, founder and head coach of The VirtualCDO, based in Great Neck, NY. "The question is how many more big deals are out there left to do? If the number of smaller deals remains constant or rises, but the number of bigger deals falls, the math suggests that the dollar amount overall will decline."

Brennan coauthored the report, *Healthcare Outlook: Q1 2010 Update* with DeSilva + Phillips partner Kenneth Collins.

Brennan and Collins point out that despite a shaky economy in 2009, a total of 507 healthcare M&A deals were announced during the second half of the year, a 4.5 percent increase over the 485 deals announced in the second half of 2008.

"Buyers with strong balance sheets are viewing the recent economic instability as a buying opportunity of the century. Smaller sellers, with potentially weaker balance sheets and less cash on hand to weather the storm, are looking for options, including in most cases, a liquidity event in the form of a sale of their business," the authors point out.

If you're a CIO, a corporate development officer, or an investor struggling to make sense of a rapidly changing HIT landscape, Brennan and Collins highlight several areas and trends to watch:

Workforce optimization. Staffing shortages among both nurses and qualified pharmacists will increase the need for efficient processes and workforce automation. During times of shortages, workforce optimization tools will become key to using the existing workforce more efficiently.

Stimulating improvement. Brennan and Collins cite a growing body of research and publications supporting quality-based payment as the next step for Pay for Performance models. CIOs are being asked to

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implement systems that satisfy requirements of coupling clinical outcomes to actual reimbursements and are now focused on reimbursement, performance metrics and security, where previously security was their number one priority.

Regulatory reform. Even as the industry ramps up to meet new health IT regulations included in ARRA, it is still waiting for the final word on Meaningful Use. Brennan and Collins expect ARRA to dramatically increase the demand for EMR software and note that 2010 will be a critical year for EMR vendors as they jostle for market share.

However Brennan notes that one of ARRA's ripple effects has been to undermine hospitals' negotiating positions when it comes to purchasing software. "Some of the large vendors are taking the position that they're not going to negotiate on price, because they don't have to. If a hospital wants to be in a position to meet Meaningful Use and the only way they can do it is by purchasing a particular vendor's system, it undercuts the hospital's ability to negotiate. On one hand, ARRA has helped the systems vendors, which is fine, but on the other hand, I'm not completely convinced the hospitals win," he says.

Capital improvements. The authors expect that hospitals will continue to invest in facilities improvements, new buildings, mini-clinics, ED overhauls, and appearance projects, such as new lobbies and third party brand installations that improve the patient experience. Continued credit market issues, however, will force some deals to shift from debt to debt/equity mix structures.

Data. As national databases and benchmarking companies proliferate, Brennan and Collins expect that data companies will continue to acquire smaller data providers, data acquisition firms and data analytics companies.

Distant care. Larger traditional device companies will continue to develop and acquire advances in technology, and some smaller companies that make home monitoring devices will continue to stimulate market activity. Continued investment in PACS and the next wave of remote diagnostics and telemedicine venues will allow foreigners to access US care and increase revenues.

Technical direction. Messaging, mobile information and instant access to data will continue to drive R&D, IT investments and M&A deal flow, according to the authors. Interoperability will continue to spark deal flow as some players struggle to keep up with evolving standards. Brennan and Collins expect that PHRs and Smart Card usage will continue to make strides.

Disparity in the HIS community. The authors point out that vendors are investing heavily in CPOE and eMAR offerings which will continue to create deal flow with smaller companies that have nailed the workflow and process automation sequence.

Brennan continues to favor the VistA system created by the Veterans Administration as a viable alternative to vendors' high-priced proprietary systems. "Why are hospital boards authorizing tens of millions of dollars for a system when a hospital can download VistA for \$50? Obviously, you're not done once you do that, since you'll have to spend a few million on customization and other services, but in the long run, it seems like a much cheaper and more cost effective way to go," he says.

When it comes to what to look for in health information technology companies, Brennan keeps it simple. “Like most investment guys, I pay attention to companies that are interesting to potential buyers,” he says. For Brennan, that means companies that have contracted recurring revenue, larger system clients, and longer term contracts. “In general, anything that drives up the value of a company drives up its attractiveness,” he adds.

While he declined to share a complete list of companies to watch, Brennan does plan on keeping an eye on two in particular. “athenahealth and eClinicalWorks are two companies that you hear a lot about and are definitely worth watching.”

The full report can be found at <http://virtualcdo.com/articles.html> ■