



NEWSFLASH

Misys Exits the Hospital Market: A Win-Win for Both Misys and QuadraMed?

Healthcare Provider IT Strategies

#HI208137

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NEWS UPDATE

This Health Industry Insights NewsFlash discusses the late-July announcement by British software giant Misys PLC that Misys Healthcare, its Raleigh, North Carolina-based healthcare IT (HIT) business unit, was effectively exiting the hospital market with the sale of its two hospital-oriented product lines, each to different buyers. The divestiture will allow Misys to concentrate its product development and marketing efforts in the ambulatory care market, where it has traditionally derived the majority of its revenue, with particular emphasis on products designed to promote the creation and operation of "virtual healthcare enterprises," such as regional health information organizations. Both sales were for cash, netting Misys a war chest of about \$415 million.

OUR VIEW

The Bottom Line

In a year that has been surprisingly free of M&A activity amongst healthcare IT vendors, the value of these deals may not set any records, but each of the transactions has the potential to materially affect the HIT market.

News reports primarily focused on the sale of Misys' Tucson, Arizona-based Diagnostic Systems Division (DSD) to Vista Equity Partners, a San Francisco-based private-equity firm, for \$381.5 million. But despite the marked difference in price between the transactions, the more interesting of the two was the sale of Misys' Computerized Patient Record (CPR) product to QuadraMed Corp. for only \$33 million. Let's examine the market implications of each transaction separately.

DSD's products included the Misys Laboratory, Commercial Laboratory, and Clinical Financial products as well as standalone systems for radiology and pharmacy departments. Misys originally



acquired these products via its purchase of Sunquest Information Systems in June 2001, for which it paid about \$375 million.

Despite the fine reputation and extensive customer base enjoyed by the Misys Laboratory product, the amount paid by Vista Partners seems surprisingly high for an aging product line serving a mature market, particularly because it was reported that DSD closed no new sales in more than a year. Why the slow sales? Two reasons: The laboratory and radiology market segments, particularly the former, are largely saturated. The overwhelming majority of current laboratory information system (LIS) and radiology information system (RIS) purchases are for the replacement of legacy applications, and most of those deals are won by the hospital's incumbent (or incoming) clinical information system/electronic medical record (CIS/EMR) vendor lab module in order to facilitate tighter integration with the rest of its CIS/EMR product suite.

CPR's origins go back more than 25 years, when the product was first introduced commercially as Ulticare by the now-defunct Healthcare Data Sciences Corp. (HDS), making it one of the earliest physician-oriented CIS/EMR products. Highly proprietary in its architecture, Ulticare never flourished, and rights to the product were acquired by Per-Se Technologies in 1996. Per-Se renamed the product Patient1 but did very little to support or upgrade it. Litigation over the ownership of Ulticare's IP, combined with lackluster sales and limited marketing efforts, led Per-Se to sell the product line to Misys in 2003. Misys rebadged the product as CPR and in 2006 upgraded it from its proprietary MUMPS roots to InterSystems' more modern Cache platform.

During roughly this same time period, QuadraMed, too, had invested in upgrading its proprietary software architecture to Cache. Despite this upgrade, QuadraMed, a traditionally solid player in the midsize hospital market, was in danger of losing market share to vendors of more clinically oriented integrated product suites as the focus of the HIT buyers in hospitals of all sizes shifted dramatically toward EMR products.

Essential Guidance

In our opinion, Vista will financially restructure its acquisition and position the DSD assets for resale in the near term, likely in pieces, and most likely to a PACS vendor or another CIS/EMR vendor whose existing laboratory or radiology product needs a significant upgrade or replacement. The appreciation of Misys' investment in the six years the company held the Sunquest asset was minimal. Substantial changes will need to occur on Vista's watch if the company is to generate the type of return its investors will demand.

In contrast, the acquisition of CPR is "just what the doctor ordered" for QuadraMed, and it was at a bargain-basement price. We believe the acquisition will likely have a very positive impact on QuadraMed with respect to sales of CPR into its existing client base and will strengthen its market position going forward. CPR's recent conversion to Cache minimizes both QuadraMed's risk and the level of investment required to integrate it into the Affinity architecture.

The acquisition of CPR is a natural fit for QuadraMed. It immediately transforms the market's perception of Affinity from a competent integrated product suite, but one lacking in clinician-oriented EMR functionality, to one that can effectively compete as a single-source supplier of a broad portfolio of clinical, administrative, and financial applications. There is now a migration path for existing Affinity clients seeking to add robust EMR functionality without incurring the expense and dislocation of converting to another platform. The incorporation of CPR into the Affinity product will position QuadraMed as a more formidable competitor, challenging MEDITECH, the traditionally dominant single-suite vendor in the midsize hospital market.

Finally, what will Misys do with its newfound war chest? In the days following the announcement of the divestiture, Misys' new CEO, Mike Lawrie, publicly discussed the company's commitment to open source technology as a key component of its future product strategy for both the healthcare and the banking divisions. Minimizing technology investment costs is vital if health information exchanges are to become a widespread reality and if EMRs are to be adopted by solo practitioners and small physician groups. Misys may just be onto something. Stay tuned; more on this will be discussed in an upcoming report.

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- *RHIO/HIE Market Players: Delivering Better Healthcare Through Connected Applications* (Health Industry Insights #HI207480, July 2007)
- *The NHIN: Act II, Scene 2 — A Harbinger of Things to Come?* (Health Industry Insights #HI207403, June 2007)
- *The Value of HIT Investment: An Econometric Perspective* (Health Industry Insights #HI206330, April 2007)

- *RHIO/HIE Market Players: Delivering a Framework for Better Healthcare* (Health Industry Insights #HI206141, March 2007)
- *Healthcare Provider IT: 2007 Spending Priorities* (Health Industry Insights #HI205327, February 2007)
- *Healthcare Provider IT: A 2006 Year-End Retrospective and Outlook for 2007* (Health Industry Insights #HI205158, January 2007)
- *The Future of Health Information Exchange in the United States* (Health Industry Insights #HI204073, October 2006)

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