Healthcare Outlook: Q1 2010 Update

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Executive Summary
As we look back at Healthcare Mergers & Acquisitions (M&A) deals in recent quarters – and then forward – we are optimistic about the prospects for continued deal flow across all sectors of the vast U.S. healthcare industry.

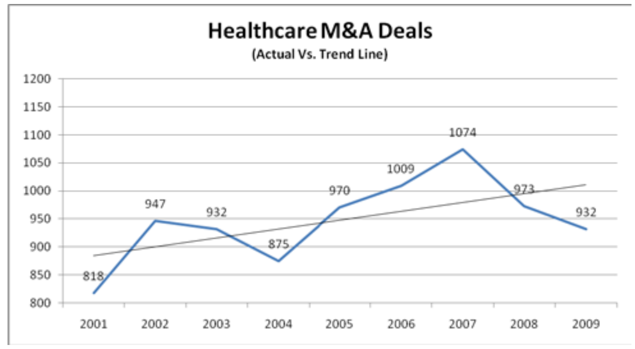
- At 932 M&A transactions, the number of healthcare deals fared better than most expected in 2009 given the overall decline in last year's M&A market.
- Technology, overall led the way, with biotechnology deals up 31% YoY and e-health showing unusual resilience with 171% uptick in dollar volume over 2008. There is a tight coupling between medical device vendor share price and the normal movements of the market. In contrast, there seems to be a lead relationship between application software vendors and the market. The stock group has already surpassed the NASDAQ.
- Hot Segments: Wellness/disease management, BioMed/DNA profiling, consumerism, surge planning/emergency preparedness, local integration/RHIO (now HIN), financial dashboards and PFP management systems, data mining and management, staff optimization tools, TeleHealth and remote monitoring, financial dashboards, performance management tools.
- Hot Services: Retail clinics and services, outsourcing and staffing services, HSA financial management, retail disease management, case management, LTAC/SNF/assisted living, ambulatory/outpatient services such as diagnostic labs, respiratory (sleep and DME), rehabilitation, hospice and home health.
- Looking Ahead: Forrester Research expects spending increases in 2010 in all segments, which will result in an overall increase in Healthcare spending of 6.6%.

We expect that 2010 will be another extremely busy year for healthcare-focused deal makers.

In the following pages, the authors will explore a holistic view of the healthcare market, its trends and areas for potential investments and M&A deal flow.

Overall Trends
Frost and Sullivan reports that the U.S. high acuity care information systems market will grow at a healthy compound annual growth rate of 12.5% through the year 2012. According to Irving Levin Associates, Inc., publisher of *The Dealmakers Forum*, there were 41 healthcare M&A deals during January of 2010. Furthermore, private equity captured 21% of the M&A dollars during final quarter of 2009. A total of 507 healthcare M&A deals were announced during the second half of 2009, a 4.5% increase over the 485 deals announced in the second half of the previous year.

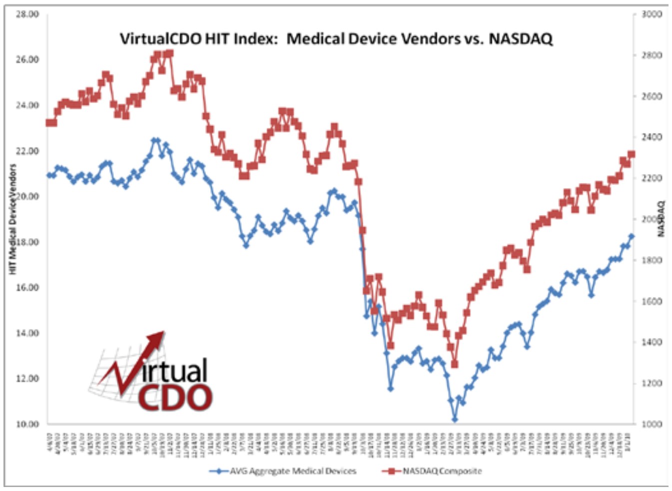
During 2009, there was been a fair amount of consolidation among biotechnology, medical devices, pharmaceutical and long-term care companies. Recent acquisition activity in the technology sectors of the healthcare industry has been funded largely from internal resources. Buyers with strong balance sheets 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.



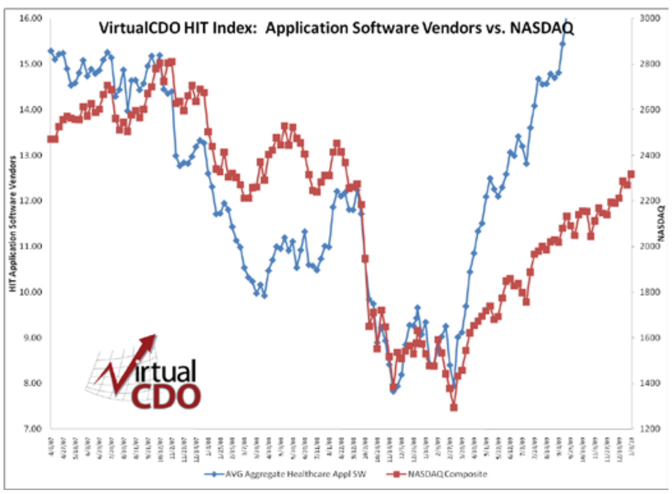
Healthcare M&A Deals				
Services Segment:	**2006**	**2007**	**2008**	**2009**
Hospitals	56	58	49	52
Long-Term Care	146	127	94	75
Home Health Care	55	49	48	42
Physician Groups	32	41	50	41
Labs, MRI, Dialysis	46	54	40	30
Managed Care	28	28	16	15
Rehabilitation	9	16	27	11
Behavioral Health Care	24	13	13	11
Other	136	110	113	78
Services Subtotal	**532**	**496**	**450**	**355**
Technology Segment:				
Medical Devices	150	193	166	175
Biotechnology	115	145	150	194
Pharmaceuticals	138	180	140	140
e-Health	74	60	67	68
Technology Subtotal	**477**	**578**	**523**	**577**
Grand Total	**1009**	**1074**	**973**	**932**

Now that some of the dust has settled in the financial sector, we believe that the number of deals will continue to rise as the healthcare industry continues to consolidate. However, barring any unexpected market hiccups, the total dollars per transaction may decline. We believe that there are too many mega Hospital Information System (HIS) players and too many niche applications, so the Healthcare Information Technology (HIT) industry is ripe for consolidation.

As shown below, the VirtualCDO HIT Index shows a clear correlation between the medical device vendors and the NASDAQ.



In contrast, the index of application software vendors highlights an early decline, prior to the recent market downturn and a leading improvement, as the overall market is rebounding.



As Google's CEO, Eric Schmidt, effectively communicated last week, "Acquisitions are back on." We agree.

Hot Segments

- Wellness/disease management
- BioMed - DNA profiling
- Consumerism
- Surge planning/emergency preparedness
- Local integration/RHIO
- PFP management systems
- Data mining and management
- Staff optimization tools
- TeleHealth and remote monitoring
- Financial dashboards
- Performance management tools

Hot Services

- Retail clinics and services
- Outsourcing and staffing services
- HSA financial management
- Retail disease management
- Case management
- LTAC/SNF/Assisted living
- Ambulatory/Outpatient services such as diagnostic labs, respiratory (sleep and DME), rehabilitation, hospice and home health

Technology Drivers

- Best of Breed *vs.* One-Size-Fits-All
- Integrated *vs.* interfaced
- Language management
- Access management
- Real-time data and decision support

Buyer Categories to Watch

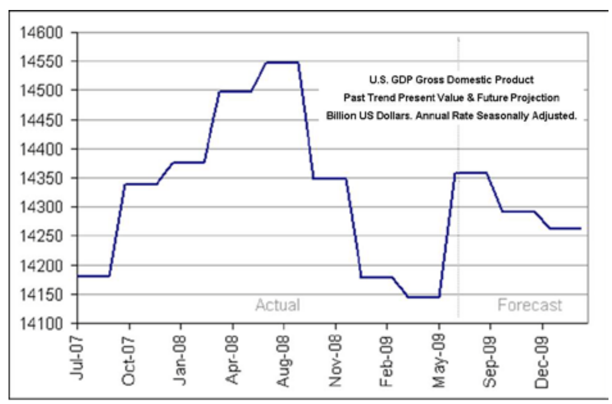
- Financial buyers – private equity groups and REITs
- Strategic buyers
- International buyers
- U.S. buyers striking overseas deals

Areas of Investment Concern

- Credit market hangover
- Post-presidential election year uncertainties and the capital gains rate impact
- U.S. dollar valuations consistency

Segment Liquidity

Software, Biotech, Medical Devices, Health and IT Services continue to top the investment lists as detailed in a recent PwC/MoneyTree survey. Most investors require a planned liquidity event before making an investment. Since many companies supporting the healthcare segment are privately held, we expect continued M&A deal flow within these segments. As a medium-term strategy, many of today's investments could liquidate in the next 8-12 quarters.



Healthcare and Technology Spending

According to Forrester Research, in previous years the Gross National Product (GNP) growth fell in the range of 2% to 3.5%. More recently, GNP growth is now down to 0.74%. However, Forrester expects spending increases in 2010 in all the segments, which will result in an overall increase of 6.6%. National health expenditures, as a percentage of GDP, are expected to reach 19.6% by 2016. According to HFMA's *Healthcare Finance Outlook*, the two most significant factors over the next 3 to 5 years are the increasing costs of capital and the threatened tax-exempt status of most not-for-profit U.S. hospitals.

Politics
President Obama's stimulus funds will continue to sprinkle the healthcare segment during 2010. With the Presidential elections well behind us, some of the uncertainty has lessened within the M&A community, as well as in most industry sub-segments that are heavily regulated or reliant on continued funding by HHS and/or CMS.

Workforce Optimization
Clinical workforce shortages will continue to stimulate the need for efficient processes, workforce automation and marriages with local universities to increase clinical rotations. According to the publication, *Health Affairs*, despite the current easing of the nursing shortage due to the recession, the U.S. nursing shortage is projected to grow to 260,000 registered nurses by 2025.

Although smaller than the currently expanding nursing shortage, there is also a shortage of qualified pharmacists supplying the growing demand created by the boom in retail outlets. There are currently about 1,200 in-store clinics in the United States, a number that has risen steadily since the first such clinic opened in 2000. The clinics have already served more than 3.5 million patients, according to the Convenient Care Association, an industry group. The U.S. healthcare consumer seems to favor the extended hours and no appointment necessary approach to low acuity care. Similarly, insurance companies support the use of retail clinics given the lower reimbursements, as compared to similar care provided in higher acuity settings.

According to the U.S. Bureau of Labor Statistics, the number of new jobs created in nursing totaled 703,000 during a recent ten-year period. The U.S. temporary healthcare staffing industry is projected to reach $12 billion in revenue this year. Some of the drivers are, the aging population of nursing professionals, legislation surrounding nurse staffing levels, hospitals' willingness to outsource and nursing's desire for job flexibility. During times of shortages, workforce optimization tools will become key to better utilizing the existing workforce.

DNA to the Rescue
Clinical targets have not changed significantly since 2008. Aging populations and other chronic diseases such as obesity, diabetes, COPD and others, top the lists of having the most potential impact on the health (and therefore costs) of our nation. The HIT industry must make the mental shift from reactive, symptom-based care, to predictive and genetic-based proactive care. There is a growing knowledgebase of biomarkers that influence a disease long before the need to react to an end-stage condition. Some companies are exploring DNA-driven predictive modeling for preventative care.

Stimulating Improvement
Pay For Performance (PFP) is the latest buzzword in the healthcare sector and remains hotly contested. The notion of paying bonuses to physicians for certain activities seems counter to the larger movement of Consumer-Centered Healthcare. We are big fans of PFP in most industries. One could argue that a clinician should only get paid for doing the correct procedure and that the topic of bonuses should only be triggered on exceptional clinical outcomes. The focus should be on decreasing avoidable procedures, complications, re-admissions, total ownership of patient outcomes and shifting from clinical best practices, to better or even world class practices. If a clinician provides the wrong care, then the industry should shift away from bonus reductions to penalties, full/partial license revocation and/or credentials management. Many providers are deploying scorecards that balance clinical efficiencies, outcomes, patient/family satisfaction and revenue, as a bridge from the new PFP approach from the time-tested sales compensation models of motivation.

Pay For Performance and the need for transparency seem to be coupled – and PFP programs are expected to grow. An analysis done by Premier Inc. and CMS demonstrates that using financial incentives to reward better quality of patient care avoids complications for the patients. However, PricewaterhouseCoopers (PwC) scored U.S.-based PFP programs with an "incomplete" rating. To succeed, PwC suggested that the industry must first agree on a universal set of quality measures. Without them, we will never align the priorities of all the health stakeholders.

As CMC continues to trickle out PFP incentives for small/medium-sized PCP practices to adopt EHRs, these same businesses are being sold at a feverish rate. According to a recent *HealthLeaders Fact File*, some healthcare practitioners have questioned whether bonuses and pay incentives are appropriate in medicine, where patient care and adherence to the Hippocratic Oath should trump financial concerns.

Finally, there is a growing body of research and publications supporting the quality-based payment approach as a savvy next step for PFP. Value-driven healthcare uses standard quality measures and available transparent pricing, which provide consumers with the ability to make informed health decisions. In order to support PFP initiatives, CIOs across America are being asked to implement systems that satisfy requirements of coupling clinical outcomes to actual reimbursements. An industry survey suggests that the priorities for CIOs are now focused on reimbursement, performance metrics and security. It wasn't long ago that security was number one on the list.

Consumerism
Managed care is collapsing – even as it is driving the new consumer/patient-focused healthcare model. Hopefully, consumer-centered healthcare, via its enabler Health Savings Accounts (HSA), will eliminate the need for PFP. Coupled with cost and quality transparency, HSAs will arm the patient with the tools to make competitive decisions about their own health. HSAs should change purchase patterns from the current hospital-centered decisions to Primary Care Providers (PCPs) and to specialists in retail outlets located in malls, for routine procedures. HSAs will also drive down prices of routine procedures via comparison-shopping and the inevitable competitive pricing.

On the consumer side, one-stop-shopping is not the key as several large companies divest assets. HRA/HSA financial management services will soon be offered by most financial institutions. The HRA/HSA trend is expected to significantly alter the existing B2C market. Health Savings Accounts continue to gain momentum in the U.S. largely due to increased consumer awareness triggered by many initiatives, including Presidential support. Research suggests that well over 30 million Americans will use HSAs by 2010. According to a Harris Interactive report, well over 100 million U.S. adults already use web tools to research health information, and half of them talk to their doctor about their on-line research. Given the rules to comply with the stimulus package, this number should explode.

Transparency
Healthcare consumers, advocacy groups and politicians will continue to push for cost and quality transparency. Personal benchmarking applications will augment transparency initiatives. This data will allow consumers to price-compare and perform their own price/quality analysis, as most do with all other important decisions.

Insurance
Traditional insurance companies offering employee medical coverage will need to modify their existing product portfolios to

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include Consumer Directed Health Plans (CDHP), HSA and other High Deductible Catastrophic coverage. This move may drive traditional sources of insurance company revenue down. Over recent years, financial risk of providing care has been shifting from the government and its intermediaries to insurance companies and to physicians. Defined standards of care and automated protocol compliance will finally become policy within the payer community. Significant amounts of VC/PE money are being invested in companies that automate the reimbursement from payers via an ASP model, using Artificial Intelligence (AI) such as technology that automatically learns from each denial, updates the rules engine, and instantly provides the new rules engine to all of its subscribers.

Un-insured Lives

The Census Bureau reports that the number of Americans without health insurance increased to 46.3 million last year, up from 45.7 million a year earlier. According to the Robert Wood Johnson Foundation, 6.6 million children were covered by State Children's Health Insurance Programs (SCHIP) but nearly 9 million more children remain uninsured. Thankfully, the Senate passed a bill to reauthorize the program.

Regulatory Reform

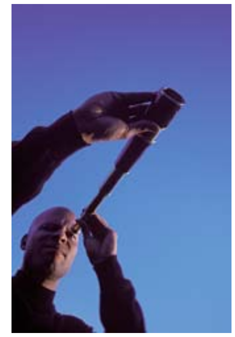
As the industry ramps up to meet new health IT regulations included in the 2009 federal stimulus package, there is still no final word on the EHR certification process. The government delivered on Dec. 30, 2009 the long-awaited definition of meaningful use of electronic health record technology, and it came wrapped in about 700 pages of proposed regulation. Although the above goals are somewhat ambiguous, they are expected to be fine-tuned by the deadline in 2011. The ARRA is expected to drastically push up the demand for EMR software. Since the cost associated with replacing an EMR system is very high, most healthcare providers will not think of replacing it for at least the next couple of years once the software is chosen. Hence, the coming year is crucial to most EMR vendors as they jostle for market share.

The exceptions clauses added to the Stark Laws, including modifications for electronic prescribing and Electronic Health Records (EHR), will stimulate additional data sharing between practice and hospital systems. Sarbanes-Oxley compliance will continue to hurt profits of publicly traded providers and increase compliance of not-for-profit (NFP) providers. U.S. hospitals already provide more than $25 billion in uncompensated care annually, and given the 45 million uninsured patients in the U.S., Federal regulation is expected to increase the growth rate of charity care.

Acuity levels are also rising, as year after year, hospitals are treating sicker patients. With increased regulation on the horizon (75% rule, 72-hour rule, transparency, acuity driven patient care, nurse-to-patient staffing ratios to name a few), compliance tool companies will stimulate some M&A deal flow. New reimbursement rules will force hospitals to increase bed turnover, which will drive downstream care such as Long-Term Acute Care (LTAC), Skilled Nursing Facility (SNF), home care and others, but U.S.-based clinical shortages will limit capacity. Within the home health arena several reimbursement changes are driving growth.

Divergence away from the Hospital

Through the 90s, healthcare was supposed to converge, with managed care leading the charge. Healthcare is now more segmented than ever. As specialists flourish, private practice and other downstream clinical businesses will continue to pull revenue away from the former hospital mother ship. Doctors are no longer associated with a single healthcare facility. Some surgicenters are taking market share away from community hospitals, and this has prompted some hospitals to build/buy surgicenters of their own. Vendors' sales quotas are increasing at smaller targets such as doctor's offices and outpatient clinics. The Center for Medicaid & Medicare Services (CMS) is now funding part of the Practice Management System (PMS) proliferation via Quality Improvement Organizations (QIO).



Sub-Acute Care

Skilled Nursing Facilities (SNF) are adding facilities in many strategic markets and divesting unprofitable/non-strategic business units. Given the tighter reimbursement environments, most businesses are driving operational efficiencies. Some are considering expansion of service lines, clinical programs, and complementary offerings such as surgery, rehab and wound care. CMS projects that the U.S. homecare industry will grow to a $150 billion market segment by 2016, with a CAGR of 6.5%.

Ancillary Care

Ancillary care, such as lab dialysis, rehab, Durable Medical Equipment (DME) and diagnostic imaging, is responsible for 16% of the nation's total $11.6 trillion annual healthcare costs. Within the ancillary market segment, there exists a highly fragmented provider base, with no clear market leader – clearly a sign that it is ready for consolidation. In fact, during recent years, Levin Associates details a 69% jump in Rehabilitation M&A transactions.

Capital Improvements

HIT spending will continue to rise. Emergency Department (ED) visits will continue to rise, though ED capacity will limit growth. 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 such as Starbucks and McDonalds to improve the patient experience. Women and Children's care will continue to drive new investments in existing facilities. There are approximately 956,000 staffed beds in all the U.S. hospitals. According to *Modern Healthcare* and the AHA, that number is expected to rise, given the volume of hospital construction projects.

The For-Profit hospitals will continue to fund capital improvements via the market, while NFP hospitals will struggle to tap the debt market, given the upward trending yield curve. Continued credit market issues will force some deals to shift from debt to debt/equity mix structures.

Disease Management

The management of chronic diseases such as mental health, diabetes, obesity, COPD, asthma, allergy and CHF will continue to drive revenue from hospitals, to outpatient clinics, to doctor offices, to retail (mall-based) healthcare. These diseases account for nearly 50% of all healthcare costs in the U.S. Insurance companies and employers are expected to offer incentives for healthier lifestyles and other wellness programs. Current disease management offerings will continue to expand into retail settings.

Horizontally integrated Disease Management (DM) programs are gaining significant momentum as multiple providers, across the continuum of care, join forces to manage the patient's plan of health. A study from the RAND Corporation found consistent evidence that DM programs can improve healthcare quality, increase disease control and reduce hospital admissions for patients with CHF. Disease management is a critical component to lowering overall healthcare costs.

Wellness

The industry momentum is shifting from a health system to a wellness system. According to MetLife's Annual Employee Benefits

Trend Study, employers nationwide are starting to promote wellness and prevention programs, and some are beginning to offer health insurance credits for employees that follow wellness guidelines.

Pharmaceutical
The Leapfrog Group, the Agency for Healthcare Research and Quality (AHRQ), and others, will continue to focus on patient safety and medication administration based on reports of tens of thousands of deaths annually due to medication errors. The Pharmas will be required to manufacture pills in bar-coded or RFID-enabled unit dose medication packaging. This will ultimately force the robot companies, who currently take large pill bottles and convert them into unit-of-use packaging, to change business models.

Counterfeiting is another large pain point for the Pharmas. The use of RFID and other tracking technologies, to scan an entire pallet of pills to determine its origin, contents, destination and potential tampering, will lower theft and compliance. Consumer-directed healthcare will ultimately lower sales of expensive brand drugs and increase sales of over-the-counter or generic equivalents. As mega-patents expire or continued legal pressure forces change in drug usage, we will also see an increase in licensed technology or even full acquisitions of bio-tech companies by the larger Pharmas.

Clinical Trials
The clinical trials services market is another area of growth. Frost and Sullivan and others highlight that we should expect nearly $24 billion in U.S. pharmaceutical R&D expenditures, and another $1.3 billion in Canada.

Retail Care
The local drug store of yesteryear will continue to feel competitive pressure as the large chains continue to improve locations, numbers of stores and service levels. The proliferation of retail-level mini-clinics will continue the erosion of local market share.

Overall script writing volume is expected to increase, but margins are expected to decline with automation, Internet sales and mail order competition. Compliance systems that ensure the accuracy of each retail completed order will create some M&A deal flow. Like other clinicians, retail pharmacists may be held accountable for patient outcomes and not simply putting pills in a bottle, a task that several companies have proven robots are quite efficient at completing.

Ironically, several of the Pharmacy Benefit Manager (PBM) companies that administer the delivery of drugs via retail pharmacies also own mail-order houses. Since most chronic disease management cases require long-term drug usage, most of the retail business shifts to the lower-cost mail-order companies that deliver >90 day supplies. At the retail health layer of elective procedures, key drivers include Healthcare Savings Accounts (HSA), flex spending and consumer financing options.

Data
One could argue that whoever owns the data wins! As national databases and benchmarking companies proliferate, data companies will continue to acquire smaller data providers, data acquisition firms and data analytics companies.

Hospice Care
According to CMS, the number of hospital-based hospice units continues to grow year after year. More significant, however, the number of freestanding hospice facilities continues to grow at double-digit rates.

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 into the Picture Archiving Communication Systems (PACS) space – and the next wave of remote diagnostics/telemedicine venues – will allow foreigners to access U.S. care and increase revenues to once-distant businesses.

Broadband/fiber to homes and rural areas will increase access to expert care. Advancements in remote control will increase the use of robot care as recently highlighted on several mainstream TV programs. Tele-health and remote monitoring is expected to significantly reduce the cost of home/rural care for chronic illnesses/disease management. The Advanced Medical Technology Association reports that hospital admissions have been reduced by 50% for severe respiratory patients and by 60% for CHF patients when monitored remotely.

Provider Consolidation
NFP hospitals will rely increasingly on philanthropy from local investors and community-based donations, as well as on government, commercial and private research grants. Given the above-mentioned divergence, Hospital M&A is expected to continue in the community markets, as CMS reimbursements shift away from traditional facilities to LTACs, SNFs, etc… Buy-versus-build decisions are being made daily in the assisted living market as baby boomers continue to retire. Consistent with the Levin Associates data, the Center for Studying Health System Change reports that the percentage of solo MD practices has dropped from 41% in the mid-1990s, to 32% just 10 years later.

Healthcare Communities
The number of healthcare community/social networking tools is expected to increase as baby-boomers increase market liquidity and HSAs cross into mainstream consumerism.

Emergency Management
On October 30, 2005, well over 1 million patients lost their paper-based medical records forever. The Katrina effect will continue to stimulate market activity as emergency preparedness and surge planning continue to secure mindshare of Hospital CEOs and community leaders. Furthermore, the economic impact of a potential pandemic will drive the increased need for new services, drugs and technology. According to data from the American Hospital Association's annual survey, the average number of ED visits is flattening as the total number of EDs is increasing.

Technical Direction
Messaging, mobile information and instant access to data will continue to drive R&D, IT investments and M&A deal flow. Adoption of integrated real-time, evidence-based, clinical decision-making is finally surpassing the initial market penetration phase. Large medical device companies will continue buying Hospital Information System/Clinical Information System (HIS/CIS) firms to balance their medical offerings. Within the HIS community, as well, consolidation is expected to continue.

Interoperability (linking hospital, outpatient clinics, ambulatory, device and MD offices nationally) will continue to spark deal flow as some players struggle to keep up with evolving standards. Staff, resource and patient scheduling systems will continue to stimulate deals. As detailed in a report from the RAND Corporation, the widespread adoption and proper implementation of HIT could result in annual savings of more than $77 billion. We suspect that the Obama administration agrees.

Given this technology platform, the addition of world-class evidence-based disease protocols will greatly improve patient outcomes. Improved outcomes are slightly lagged by decreased Length Of Stay (LOS) within the in-patient community and immediately trailed by decreased cost structures and healthier P&Ls of most U.S.

hospitals. Personal Health Records (PHR) and SmartCard usage continue to make strides, but have not yet hit critical mass.

EMR/EHR Penetration

A recent survey suggests that pediatricians are gaining significant momentum with implementing Electronic Medical Record-Keeping EMRs. However, solo MD practices still lag with only 3.5% penetration, while nearly 1/3 of larger practices have made the technology leap. In recent years, over 800 million outpatient visits were made at small MD practices, compared to more than 110 million visits made at larger MD practices.

Case Management

Demand for Case Management (CM) services in both the inpatient and outpatient settings will increase. Since CM services are not reimbursed under current reimbursement rules, most hospital CEOs limit their CM staff. This will change. CEOs should overstaff the CM department with MBA/MHA types that coordinate care in partnership with emerging Hospitalist positions – with a view to managing reimbursement issues designed to maximize revenue and promote all services provided by the hospital and its associated clinics. Current HIS systems do a poor job of meeting the needs of most CM departments.

Talent Management

Recruitment of highly competent staff and the development/retraining of existing staff will be key to the long-term growth of the industry. Tools that manage this human capital will stimulate deal flow.

Supply Side Management

In many cases, clinical managers are forced to manage supply side relationships. Many hospitals are billion-dollar businesses, yet most of them do not have Enterprise Resource Planning (ERP), Just-In-Time (JIT) inventory and vendor management solutions that manage the entire continuum of care and supporting logistics. Some vendors are deploying “smart shelf” technology that automatically detects product usage, which triggers JIT medical supply chain replacement activity. Other vendors have developed electronic pedigree (ePedigree) applications that track supplies through the entire manufacturing and distribution supply chain.

Disparity in the HIS Community

HIS firms are continuing to invest heavily into their CPOE and Medication Administration Record (MAR) offering which will continue to create deal flow with smaller companies that have nailed the workflow and process automation sequence. Kaiser’s $2 billion non-equity spending spree with Epic caused many within the HIS community to pause and wonder. Moreover, it continues to create a swirl of activity around the free (as in $0) HIS offering offered by the U.S. Government.

VA hospitals, over the last decade, have developed a system called CPRS/Vista that is a fully functioning HIS with integrated Computer Physician Order Entry (CPOE), PACS, electronic prescribing with complete PMS integration. The product is installed in hundreds of paperless facilities around the world, providing instant access to millions of VA patient records with complete interoperability. Since the software was developed using public funds, it is available for free. One has to wonder about hospital board decisions that approve an HIS installation, which cost tens of millions of dollars and years to implement, when there are free options available.

National Health/Local Integration

Regional Health Information Organizations (RHIO) are forming to facilitate the flow and access of medical information to distant clinicians for emergency and other telemedicine needs. To date, RHIOs have received their initial funding from several sources but have limited self-sustainable business models. Some federal and state projects are stimulating HIT funding, however, and Electronic Medical Record (EMR) usage will be mandated by the U.S. Government and by some states.

Financial Dashboards

Financial Information Systems (FIS) will continue to evolve as CFOs begin to abandon their green bar reports and move to sophisticated, real-time, flexible and demand-generated dashboards, in order to run their businesses.

Quality

As six sigma and other quality-de-jour programs penetrate healthcare from other manufacturing sectors, quality-related software and service vendors will begin to look attractive to the HIS/CIS players already in the healthcare space.

Service Companies

Outsourcing back office service lines offshore to India and Ireland will continue to grow. However, the growing popularity of outsourcing administration, IT, revenue cycle and supply chain management will continue to be fueled by the large domestic service providers as well as niche and regional firms.

In conclusion, early indications of Q1 2010 activity are showing positive signs for Healthcare M&A. We believe that 2010 will be another extremely busy year for HIT-focused strategic coaches, mergers and acquisitions teams, their clients and supporting legal, accounting and tax professionals.

About the Authors

Mr. Collins has oversight responsibility for all DeSilva+Phillips transactions and is the Financial Operations Principal of DeSilva+Phillips Corporate Finance, LLC. Prior to joining D&P, Ken was the President of Macmillan Publishing, Europe; Executive Vice President and Publisher of *American Banker* and *Investment Dealers' Digest*; Senior Vice President, John Wiley & Sons, Inc., responsible for all scientific, technical, legal and medical publishing programs; Vice President of Finance and also Vice President and Publisher of Fawcett Books Group, a division of CBS Consumer Publishing; Division President and CFO of Cooper Industries; Former Director of the Association of American Publishers and former Secretary and Director of the Copyright Clearance Center. Ken has earned a B.A. degree from Williams College and an M.B.A. from Harvard Business School.

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With over 140 deals under his belt, Mr. Brennan is an industry veteran with a strong record of results-driven business execution and deal making, which includes twenty years of experience in strategy, corporate/business development, sales and marketing management, international business while deploying software, services and devices. Jim has successfully led two healthcare turn-around projects; founded several companies; led the acquisition or sale of numerous healthcare companies; managed healthcare teams, which successfully delivered more than 400 healthcare IT projects; led over 200 people in the U.S. Air Force; launched several mobile computing products; currently sits on two boards and has been awarded a U.S. Patent. Mr. Brennan has earned a Masters of Business Administration (Finance) degree from New York University and a Bachelors of Science (Electrical Engineering) degree at Cornell University. Jim is a member of HIMSS, HFMA and is a Fellow of the American College of Healthcare Executives (ACHE).

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