An Intelligent Healthcare Information Technology Acquisition
A Case Study

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In our M&A practice we strive to align the right buyer with the seller and combine that with the appropriate deal structure. If we can do that while keeping the deal process flowing in a smooth and positive way, the outcome can be rewarding for both buyer and seller. PER-SE Technologies, one of the largest healthcare information technology and business services companies recently completed the acquisition of Flexestaff, a Web based staffing, scheduling, and shift bidding software company.

PER-SE's Hospital Resource Management Solutions division provides ANSOS One-Staff, a market-leading enterprise-wide workforce management solution. That solution is installed in approximately 1100 hospitals. Flexestaff, on the other hand, was a two-year-old company with a cutting edge, high value solution, and a limited install base. The founders made one of the most difficult decisions that Entrepreneurs can make – to no longer go it alone.

Several factors contributed to this decision. First, the market discovered the value of this solution and several large players were beginning to focus resources on this space. A race for market share was beginning. Hospitals are generally risk adverse in their Information Technology decision making – preferring an enterprise giant to an edgy start-up. That fact had Flexestaff stuck between the early adapters and broad market acceptance. After some encouraging initial success, the sales cycle began to lengthen.

Integration Risk - Another sales inhibitor was the customer's desire for this product to integrate with their existing resource management system. With scarce resources, that became a major hurdle for this young company. I give the founders a great deal of credit for their objective situational analysis. They made the difficult, but correct decision to seek a strategic buyer.

Enter PER-SE Technologies. PER-SE was involved in an aggressive systems enhancement effort and their clients were responding favorably. Prior to this effort, product updates had lagged, inhibiting the sales team's activities in prospecting for new accounts. This acquisition sent a clear message to the marketplace – we are committed to providing the best IT tools available and will go out and acquire those technologies when necessary. The sales force now has a new exciting product to offer to their installed accounts. They also have injected new energy into their prospecting efforts.

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PER-SE management made a critical decision to buy rather than build. This is an enlightened attitude and in this case should pay huge dividends. Many large technology companies eliminate this key successful strategy by invoking the “not invented here” mantra.

PER-SE Senior Management simply viewed the situation analytically rather than emotionally. A key factor that influenced this decision was the time to market issue. Of course, PER-SE could have developed the product themselves, but the time to market was estimated to be between 12 and 18 months. That simply was not acceptable to them given the current surge in the marketplace from their major competitors and a well-funded venture backed start-up. They weighed the opportunity cost of lost sales and perhaps some customer defections against the acquisition cost. Conclusion: getting this product to market now was imperative.

A second factor was that the cost to internally develop this offering was viewed to be in the same range as the cost of the acquisition. The final determining factor for PER-SE was that they wanted the acquisition to be cash flow accretive. What that means is that PER-SE wanted the cash outflows comprising the transaction value to be offset by the gross profit margin produced by the new product sales.

Therefore, the deal structure became an important issue. If Flexestaff had insisted on an all cash at close deal, they would have limited their transaction value. By agreeing to a structure where a portion of the value was in cash at close and a meaningful portion was a generous earn out tied to future revenues, we dramatically improved the effective selling price. There is certainly risk associated with this approach for the seller, but the buyer was willing to compensate them for this risk. This allowed the buyer to meet their accretive acquisition requirement.

Let’s project how the seller will fare. Over the next several years he will have one of the largest providers of Healthcare IT selling the product. Now 15 sales reps from the PER-SE division will be representing the product instead of the 2 sales reps pre-acquisition. Not only will these sales reps be calling on new accounts, but will also be calling on 1100 installed accounts using their product that fits beautifully with their acquired new product. It will be a relatively easy process to get existing customers to add on this new valuable capability.

Because the seller agreed to this risk sharing structure and the elements were favorable for explosive sales growth, the seller will most likely achieve a transaction value 70-100% above the original guaranteed transaction value. With a well-written contract, the seller will achieve outstanding total transaction value.

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