

entrepreneurs

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What to expect when you're expecting (to be acquired)

By Emily Kubis

For entrepreneurs of all stripes, developing a growth strategy is tough. In health care, it can be especially challenging to access the industry, even though building partnerships with potential customers of your product — or maybe your company — is crucial. But as two recent deals with Nashville ties show, it can be done.

The first transaction came from local hospital giant HCA Holdings, which bought a Massachusetts software company called PatientKeeper last September in a deal that began as a simple software sale.

"As we were working out the details, trying to put together a sale or a joint venture, it became sort of convoluted," PatientKeeper CEO Paul Brient says. "Someone said, 'Maybe we should just buy you guys.' We were a pretty happy software company, not necessarily on the market, but the vision we jointly held was so compelling."

PatientKeeper focuses on physician workflow and has a suite of IT solutions ranging from clinical documentation to medication reconciliation. Following its acquisition by HCA, the company has continued to develop its electronic health record capabilities and other products.

"We're a wholly owned subsidiary, and that's intentional," Brient says. "We're deploying all of our software in HCA hospitals, but we really wanted to take the innovation engine of PatientKeeper and marry it with the clinical innovation that HCA has and accelerate what either organization can do."

A second — and much larger — acquisition that speaks to the value of a strong partner came last November when local revenue cycle management company Emdeon agreed to pay up to \$185 million for Brentwood-based Change Healthcare, which markets cost-transparency solutions. The merger accelerates Emdeon's push toward the health care consumer engagement market.

"I don't think we ever set out to say that our singular focus, from an exit strategy perspective, was an acquisition," says Doug Ghortner, president and CEO of Change Healthcare.

Ghortner says Change Healthcare evaluated pursuing an acquisition, taking the company to the public market or teaming up with a private-equity partner. Ultimately, he says, leveraging Emdeon's scale will further advance the Change Healthcare cause of fundamentally changing how health care is purchased.

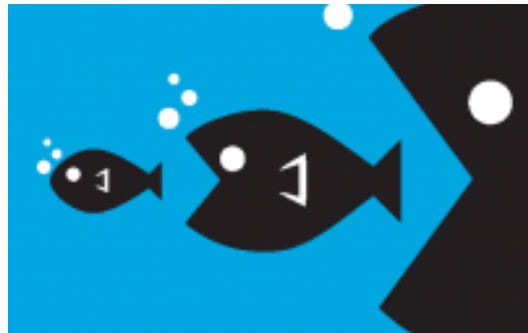
Here, Brient and Ghortner offer advice for health care entrepreneurs evaluating their next steps:

Choose partners thoughtfully

Ghortner: When you look to raise capital, not all capital is created equal and it's important you are thoughtful about whom you work with and who's best in your business. They need to believe in your vision and what to support your company through that growth curve.

Keep the culture ...

Brient: We innovate very differently as a small company than a large company would innovate. Some things needed to integrate but we wanted to get the best of what HCA has to bring while preserving our flexible culture. For example, as a tech company, we have a very flexible vacation policy. Take vacation when you need to take vacation and work when you need to work. They can't have that kind of policy at HCA, and they don't. But we kept ours because it was consistent to the culture.



... which will require some effort

Ghortner: It's very intentional that we do preserve that culture and invest in it on a day-to-day basis. We want to be nimble and innovative and we want to preserve that entrepreneurial spirit. But it's not like we had to start doing that post-Emdeon transaction. It's something we've focused on from day one.

Don't let your acquisition change your entire strategy

Brient: The biggest challenge for a smaller company working for a big one is that you can get killed by it. That can be the death of you. They can consume you and they're your biggest customer, so you obviously want to satisfy them, because your projections are based on their revenue. But satisfying them could make your product not useful to the rest of the market.

Prep your sale well in advance ...

Ghortner: It's worth investing in strong financial reporting systems so you know how you manage your business, and the communication tools. So it's easy for you to disseminate messages to your employees. Invest in the platform that allows you to track projects in a robust fashion, internally and externally. Doing so will pay incredible dividends as you move toward an exit in the future.

... but don't narrow your focus too sharply

Brient: You have to be really deliberate. We want HCA to be successful and for us to have a viable product outside of HCA. But it's a real challenge, and there are certainly companies who have had their future dramatically altered, and not necessarily in a positive way. So my advice is get some smaller customers first, then worry about the big customers.