Domain Monitor: **EHR**

Allscripts Acquires Practice Fusion: It's About Market Share

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Executive Summary

In January 2018, enterprise EHR vendor Allscripts announced its acquisition of Practice Fusion, a cloud-based ambulatory EHR known for its free-to-physicians, advertisement-driven revenue model. As one of the remaining enterprise vendors with a playbook and experience with acquisitions, Allscripts will likely continue to selectively acquire EHR and health IT companies in the coming years.

Key Takeaways

- At time of acquisition, Practice Fusion claimed 30,000 small physician practice clients.
- Success depends on Allscripts converting clients from an advertising to license model, turning them into more active users, leveraging their data, and selling them additional products and services.
- Most other small ambulatory EHR vendors will die or wither on their own due to larger market forces; there will be little benefit to Allscripts (or any other vendor) acquiring them.
- There are still half a dozen significant (predominately) ambulatory EHR players – such as eClinicalworks, athenahealth, and NextGen – which won't go softly into the night.
- Under strong management, Allscripts has stabilized and increased its market position, primarily through the acquisitions of McKesson EIS and now Practice Fusion. However, Allscripts will continue to face formidable challenges from incumbents Cerner, Epic, and to some degree MEDITECH.

Introduction

Allscripts' acquisition of Practice Fusion brings it a modern cloud-based ambulatory EHR, with 30,000 small practice clients serving 5 million patients a month. Founded in 2005, Practice Fusion was known for uniquely offering its EHR for free to practices willing to view screen advertisements, mostly from pharmaceutical companies, and selling patient experience data.

Despite its visibility, size (a few hundred employees), revenue (estimated at $50M to $70M), and partner list (it claimed 600), Practice Fusion was not living up to stakeholder expectations. Given that the company received between $150M and $200M of investment capital over the years, Allscripts' acquisition price of $100M was described in the media as a fire sale.

What happened? Here's part of the timeline (see also Table 1):

2015: Practice Fusion changes CEOs. It is part of a move to position itself for an IPO in 2016 (as well as consider some additional strategies, including being acquired, which only became public recently). Meanwhile, JP Morgan values the company as much as $1.5 Billion. Exciting times!

2016: Practice Fusion announces a 25% staff reduction, which it states is necessary to keep the company in the black. In addition, many physician clients lose faith when news surfaces that Practice Fusion had not adequately disclosed that solicited patient reviews would be made public; this ends with an FTC settlement. Close ties to the failing Theranos don't help the company's reputation, either. The IPO doesn't pan out.

2017: With YOY meaningful use attestation flat (about 8,400 physicians, or only 25% of Practice Fusion's clients) and enterprise EHR vendors improving their ambulatory offerings, Practice Fusion continues to actively shop itself for a buyer.

Early 2018: Media reports claim that offers for Practice Fusion as high as $250 million were on the table in 2017 but were soured by industry concerns about Department of Justice investigations into EHR certification compliance (as exemplified by the $155M eClinicalworks settlement).

Year	Estimated Revenue	"Value"
2013	n/a	$635M
2014	$27M	
2015	$47M	$1.5B (possible IPO)
2016	$60M	
2017/18	$60M to $70M	$100M (sale to Allscripts)

Table 1: Partial market estimates for Practice Fusion (unverified, from various news sources)

Why Allscripts?

The broader enterprise EHR space has now consolidated to four major players: Epic, Cerner, Allscripts, and MEDITECH. They each continue to spread across the continuum of care by investing in clinical specialties, ancillaries, PHM, and analytics.

Of these vendors, only Allscripts and Cerner – both public - have made significant acquisitions.

- Epic is totally organic – it has not and will not make acquisitions.
- Cerner, with the largest revenue, acquired Siemens Health Services in 2015. Along with its Department of Defense business, Cerner has plenty to manage in 2018, so acquisitions may be less likely this year, though this depends on the leadership strategy of its new CEO, Brent Shafer.
- MEDITECH's one significant acquisition (LSS in 2011) was done to bring clients to its own enterprise-integrated ambulatory offering.

Competing against Epic and Cerner at the mid- to high-end enterprise market, and with MEDITECH at the mid-to-low end market, has been a challenge for Allscripts. With its experience in EHR M&A (such as Eclipsys and Misys) and with a strong 2017, management has taken significant steps to shore up and expand its market position.

The most significant recent step: Allscripts' acquisition of McKessons' Paragon acute product at the end of 2017 for $185M. This doubled the company's acute care footprint (though it remains relatively small) and gave it a new revenue source and cross-selling opportunity. It also provided Paragon users with some assurance that their EHR was now in the hands of a large vendor with the strength to support the solution going forward.

Acquisition Challenges

The Practice Fusion acquisition purportedly increases Allscripts' ambulatory practice count significantly from its previous 45,000 mid-to-large practice clients. However, there is no guarantee that Allscripts will be able to (or try to) convert an advertising revenue model into a more traditional license model (though some Practice Fusion clients do pay for a non-ad model). Nor is it guaranteed that Practice Fusion clients – many of which have not been that active, given the low percentage of MU attestations – will take part in the cross-selling that Allscripts is counting on.

Allscripts already has the most complex EHR portfolio among enterprise EHR vendors. While Practice Fusion fills the small physician practice niche, other Allscripts EHRs also overlap with that segment (Figure 1).

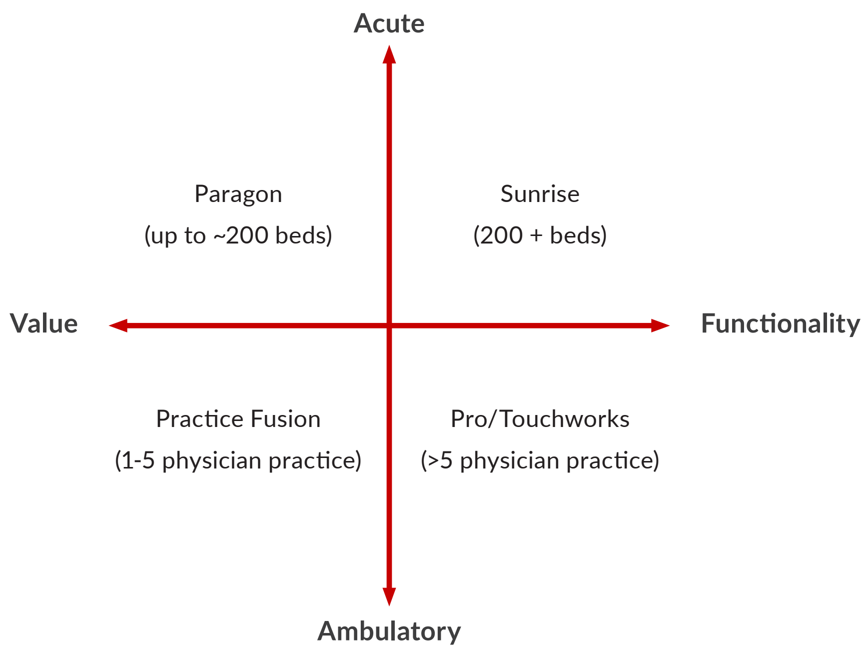

Figure 1: Allscripts' EHR Portfolio

More EHR Acquisitions?

With few if any acute care EHR vendors left to acquire (HMS or CPSI), it's worth asking if Allscripts will turn to the hundreds of ambulatory EHR vendors. However, only a handful stand on semi-firm footing today – and the future is bleak for even the large ones.

Not since Epic or Allscripts has an ambulatory vendor successfully gone "upstream" in the acute care and enterprise space – though that hasn't stopped the leading independent ambulatory vendors from trying (athenahealth has had limited success, eClinicalworks is just getting started, and Nextgen has given up).

These ambulatory players have thousands of employees and would be tough for Allscripts or any health IT vendor to swallow. But it could happen – each of those players has faced challenges in the last few years ranging from disappointing earnings to layoffs to lawsuits.

Vendors in the "next tier down" – such as e-MDS, Greenway, Amazing Charts, drchrono, MEDENT, and aprima – seem more likely acquisition targets for Allscripts. But at what point are the acquisitions not worth the effort? As provider organizations are gobbled up by health systems, they are often forced to swap out their EHRs in favor of what the new parent uses (often Cerner or Epic). Buying small EHR vendors whose client base is at risk of switching seems like an unneeded risk.

The Real Value of Market Share

Although past models for most acute or ambulatory EHR vendors focused on license or subscription fees, new revenue opportunities arise as enterprise vendors expand their portfolios and partnerships. These opportunities include selling a broader range of products and services, including ancillaries, RCM, care management, PHM, and analytics. It also includes increased access to prescribing patterns and patient data (Allscripts CEO Paul Black estimates the company has access to approximately 100M patient records), which can be sold, deidentified if necessary, to buyers such as payers and life sciences firms. It's also worth remembering that Practice Fusion did build a considerable business from advertising revenue – that may not be the sole way for a health IT vendor to succeed, but it does have some legs.

Conclusion

Allscripts' acquisition of Practice Fusion aligns with its playbook and gains the company clients, some of which it may be able to convert to licenses – and, more importantly, sell additional products and services, as well as leverage their data. The same is true for any clients Allscripts can reach via acquisition.

The enterprise EHR market is a like a big chess game. As we move from the midgame to the endgame, the big vendors use their positional strength to invest in and/or remove pawns as well as more significant pieces like Practice Fusion from the board. Aside from some major news, like Cerner acquiring Allscripts or athenahealth, we're looking at 4 to 6 major players in 2018 ruling the enterprise board.

Contact

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