

Passport Health not retreating from M&A strategy

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Passport Health cautiously says the grim economy is actually reinforcing its commitment to growth through mergers and acquisitions.

Executive Vice President Scottie Hudsmith (*left*) told VNC in an interview yesterday, "hospitals need us more than ever," because in this environment improving cash-flow and performance are more important than ever.



He illustrated the point by noting, without identifying the customer, that a new Passport client recently signed-on, and almost simultaneously laid-off about 500 people, including a large contingent of information-technology workers.

In addition, Hudsmith said, the incoming Obama Administration's emphasis on dramatically increasing use of healthcare IT will spur more healthcare institutions to hire tech vendors, allowing them to achieve gains without increasing overhead.

"We're concerned about the economy," he continued, "and we hate that the bad economy is driving more people toward us," but circumstances seem certain to embolden hospitals to address more aggressively their twin priorities of improving patient satisfaction and hospital financial performance.

At the same time, Hudsmith explained, the highly fragmented revenue-cycle management space invites further consolidation and partnering. He added, "We're hearing from the customers that they don't want to have so many vendors" providing pieces of their infrastructure.

Hudsmith noted that, while the company may be a bit more conservative in its forecasts, he is continuing his aggressive pursuit of acquisitions.

He acknowledged that the company and its peers are dealing with "more unknowns," and no management team can help but wonder "how many more hits can the economy take before it begins to hit us." Consequently, while Passport continues to hire, each open slot brings with it the question, "do we really need those positions?"

VC-backed Passport's [recent liquidity event](#) provides, he said, a great deal of latitude for such action. "We're financially very sound and have great investors who need and want to put their money to work."

At the same time, he continued, M&A initiatives represent "a different bet, when you think about it, now."

Thus, the company will be especially intent on ensuring acquisitions meet the company's "acquisition profile," which heavy emphasis on targets being technology-centric and not "people intensive." Hudsmith indicated that Revenue Cycle Solutions' [recent acquisition](#) of Birmingham-based CashRetriever would not have been a suitable deal for Passport.

He explained that with scant debt facilities available to leverage growth, with VC and private-equity investor demands increasing, "I think there are going to be more 'prospects'" for acquisition, but fewer



transactions completed, partly because "valuations in the seller's mind haven't 're-set', yet."

In a buyer's market, "the quality deals will get done," he added. Meanwhile, harsh realities are "going to leave a lot of wounded, floundering companies" gasping for a way out, particularly companies without cash or adequate credit.

Against that backdrop, Passport recently developed, thoroughly vetted and unveiled a new corporate [mission statement](#): "Passport is the health care community's partner of choice for revenue cycle intelligence that improves financial performance and patient satisfaction."

Hudsmith indicated that to differentiate itself as "partner of choice," the company is stepping-up a number of initiatives involving branding, promotion, sales and marketing.

Passport's reputation-centered corporate differentiation will become increasingly important for Passport, given that other RCM/RCI providers – most recently Ontario Systems (Artiva) and Emerging Health-Davincian – are establishing RCM "intelligence" positioning, as well.



Passport is leveraging partnerships with other companies, as part of its strategy. Hudsmith noted that the company makes a zero-based assessment of each identified need, to determine whether it should build, buy or partner to achieve a certain end. Passport's current [eleven most "notable"](#) channel, content and technology partnerships are listed on the company's website, and range from Equifax to electronic health record software provider PerfectByte (POMIS).

One of Passport's most significant partnerships is doubtless its side-by-side [marketing agreement](#) with Aequitas Capital Management. The pact addressed hospitals' demand for help with financial qualification of patients, a movement driven by rising bad debts and uncompensated care. Passport's aim, overall, is to be a one-stop supplier of all revenue-cycle components, whether provided by inhouse development, acquisitions or partnerships.

Reflecting Passport's emphasis on the "intelligence" component of its services, Hudsmith noted the company recently issued a request for proposals to create the Passport intelligence engine. For that project, the company invited ten companies -- in- and out-of-state -- to bid, and eight bids are now under review.

Hudsmith noted, also, that as Passport demands for handling "rich data" rise, the company is also very seriously exploring greater use of "[cloud computing](#)," which allows companies to rely more heavily on outsourced infrastructure and data centers, here and-or elsewhere. ♦