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## Quality Systems Readies for Electronic Records Push

**HEALTHCARE:** Federal delay seen fading; decade of buying?

■ By VITA REED

Irvine-based **Quality Systems Inc.** expects a “nice, steady escalator ride for the next five years” with federal healthcare reform and stimulus spending, according to Chief Executive **Steven Plochocki**.

The maker of healthcare software expects stimulus incentives to entice doctors, dentists and hospitals to adopt electronic records, he said.

Reimbursement changes and regulations growing out of healthcare reform also stand to create demand, according to Plochocki.

“We’re very confident and bullish on the upcoming three to five years,” he said.

“Clearly, the first three years should be probably some of the most aggressive movement in terms of doctors and hospitals becoming electronic.”

Quality’s software creates electronic health records for doctors, dentists and hospitals. It also helps healthcare providers with billing, appointments, referrals and insurance claims.

For some time the company has been betting on federal spending, which has been slow to come. Funding for electronic medical records was included in the 2009 stimulus package and the 2010 healthcare reform bill and now is starting to come through.

Sheldon Razin, Quality’s founder and chairman, has described the federal spending—which provides more than \$20 billion in incentives to help doctors go electronic—as “pouring gasoline on the fire.”

But regulators have taken their time in issuing rules and certifications for electronic records software.

“They missed their mark by about 10 months,” Plochocki said.

Electronic records originally were expected to be certified by late 2009.

In October, Quality’s three major products finally received federal certification, which allows their users to get incentive payments.

“Clearly, being certified is a huge selling point,” Plochocki said. “If you’re a doctor or

### QUALITY SYSTEM INC.

Irvine

**Business:** healthcare software

**Market value:** \$2.4 billion

**Projected 12-month revenue through March:** \$350 million, up 20%

**Projected 12-month profit through March:** \$60 million, up 24%



**Plochocki:** “I think people will be very pleased with our results”

a hospital, in order to qualify for the stimulus money, you need to be filing (medical records) electronically in a meaningful fashion on a certified system.”

Dentists also are eligible for incentives, particularly if 30% or more of their business comes from the federal and state Medicaid health insurance program for the poor.

With healthcare reform, Quality expects growth in its revenue cycle management business, which uses software for medical billing and collection.

The company expects doctors to turn to its software to boost cash flow and offset lower reimbursement and shrinking profits.

“If you’re not billing through (software) that’s properly coded, properly documented, you could have some cash flow problems,” Plochocki said. “The reform that was signed into law last year is really a catalyst, a jet fuel for our revenue cycle management business.”

Quality has moved beyond dentists and doctors. Last year, it bought Opus Healthcare Solutions Inc., an Austin, Texas-based maker of electronic records for hospitals.

Software for hospitals “will be one of our principal growth drivers over the next five to eight years,” Plochocki said.

Quality now has 75 hospitals using its software and is in talks with about 50, he said.

### Hot Stock

The company’s been one of the hotter stocks among Orange County’s publicly traded companies in the past few years,

though it did cool for a while as investors awaited the impact of federal spending.

Quality’s shares are up about 15% so far this year with a recent market value of about \$2.4 billion.

Results for the three and 12 months through March are due in late May.

“I think people will be very pleased with our results,” Plochocki said.

Analysts on average are looking for Quality to post a profit of \$17.8 million on sales of \$350.5 million for the March quarter.

Quality’s historical pattern of 20% to 25% revenue growth should continue through the 12 months ending in March 2012, wrote Eric Coldwell, an analyst with Milwaukee-based Robert W. Baird & Co.

The company “brings unique investment characteristics,” Coldwell wrote.

Those include nearly four decades in the business, widespread use of Quality’s software and a “first-rate reputation and deep content knowledge that younger vendors can’t match,” he said.

The adoption of electronic records is set to play out during the next 10 years, Coldwell said.

Quality’s rivals include Cerner Corp. of North Kansas City, Mo., Epic Software Corp., a privately held company from Milwaukee, Athena health Inc. of Watertown, Mass., and San Francisco’s McKesson Corp., a diversified healthcare company that offers electronic medical records.