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Quality Pushing Deeper Into Doctors' Offices

HEALTHCARE: New offerings aimed at wave of 'digitization'

■ By VITA REED

Quality Systems Inc. wants to automate more of doctors' offices in a bid to keep growing.

Several members of the Irvine healthcare software maker's management team, including founder and Chairman Sheldon Razin and Chief Executive Steven Plochocki, outlined their growth strategy earlier this month at a meeting with analysts at National Harbor near Washington, D.C.

"This is a unique time for us," Plochocki said. "We are incredibly bullish and comfortable with the positioning that we've engaged in the last two to three quarters."

Quality already is among the faster growing public companies here.

Sales for the three months through September were up 22% to \$71.7 million. Profits were up 13% to \$11.8 million.

Last week, shares of Quality were up nearly 40% from the start of the year with a market value of \$1.7 billion.

The company makes software and sells related computers and other gear that doctors and dentists use to manage their practices.

Quality's software creates electronic medical records and helps with appointments, billing, referrals and insurance claims.

Now Quality wants to push deeper into medical practices by offering software to help doctors manage cash flow and collections and to allow them to easily exchange electronic medical records with other healthcare providers.

"We're in a great position as a company to take advantage of what I would call the 'digitization' of the medical field," Razin

said during the presentation.

Quality is looking to build what it calls its "revenue cycle management" business, which uses software and computers for coding and documenting insurance claims to help doctors manage payments and cash flow.

Last year, Quality bought two companies, Hunt Valley, Md.-based Practice Management Partners Inc. and Healthcare Strategic Initiatives Inc. of St. Louis, to expand its revenue cycle business.

Growth in revenue cycle management could surpass that in electronic medical records down the road, said Todd Weller, who follows the company for Stifel, Nicolaus & Co., a St. Louis-based investment bank.

Quality could be looking to buy another company that would expand its revenue cycle business, he said.

The company also is looking to sell software and computers for what are called health information exchanges, where healthcare providers share electronic records across a region or city, or among hospitals.

Operators of hospitals and other healthcare facilities, as well as independent practitioner associations—doctors who band together to share administrative duties—are showing interest in health information exchanges, said Scott Decker, a senior vice president at Quality's dominant NextGen Healthcare unit.



Plochocki: "unique time for us"



Razin: "We're in a great position"

Quality executives believe health information exchanges will become a significant market for the company, "given that most regions do not have exchanges and most providers are not connected,"

said Jamie Stockton, an analyst with Memphis, Tenn.-based investment bank Morgan Keegan & Co., in a research note.

Quality also is looking to expand its sales force.

During the company's most recent earnings conference call, Patrick Cline, NextGen's president, said he wanted to see the unit's sales force grow from about 75 people to 100 people within the next six to nine months.

Quality is getting a boost from \$20 billion in healthcare information technology spending from the economic stimulus package President Obama signed into law earlier this year.

"There seems to be a heightened comfort level in purchasing decisions relating to electronic health records systems," Plochocki said.

Plochocki estimates "about 80% of healthcare" will need to start using electronic medical records in the next five years, he said.

When healthcare reform is finally in place, doctors will be under more pressure to automate, he said.

Quality's analyst session took place during its annual users' group meeting, which was attended by about 2,800 people.