



**Healthcare-IT
Quarterly Analysis
(Third Quarter)**

September 2004

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This study (Ref: TP0236R04V01) provides brief look on activities in the Healthcare-IT Market in third quarter as well as TekPlus' analysis on major announcements. Please follow the licence conditions agreed during the original sale, as any breach of the terms of sale will constitute an illegal act. Please make sure that if you have a single site licence you do not send this issue to other sites or any third party.

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Quarterly Analysis – Third Quarter

Major Tek

NHS PACS contracts – the uncertainty continues!

In UK, the NHS PACS program has already hit turbulence and started to face troubles right from the beginning. Three months after awarding PACS contracts and even allocating funds, it seems now that the list of suppliers needs to be adjusted and even added too! - There may even be partial or complete drop outs!!

As TekPlus has stated in its previous Quarterly-Tek, the initial PACS contracts were awarded to GE Healthcare (for 3 clusters), Philips Medical (for 1 cluster) and Kodak & ComMedica (for 1 cluster). According to some solid speculation, Agfa is expected to replace GE for at least some clusters (maybe north east and eastern clusters), however there has been no official announcement as yet and speculation about this and other vendors are ripe.

Currently some few eye-catching points are that originally Agfa was nowhere on the list of the preferred PACS suppliers to NHS. Siemens was also a surprise absentee from the beginning. Additionally, The NPfIT program is known for its hard bargaining tactics and TekPlus firmly believes that substantial issues have risen with GE and maybe even other vendors over tariffs, terms and conditions. Hard bargaining and low returns must have played a substantial role if a vendor feels it is not worth continuing. Recent history of the NPfIT program shows that GE will not be the first one to back out if it comes to that – one only has to remember the US giant Lockheed Martin exiting earlier in LSP contracts and IBM mentioning something about not seeing any significant returns due to the bargaining. The speculations are that GE has had problems with the terms and conditions in the contracts. However it really is difficult to digest that a strong and professional company like GE would fail to agree terms.

In addition to the above issue, another complexity has risen after the NPfIT reclassified PACS as a "core NPfIT service". However, unlike other core services to be delivered by local service providers (LSPs), these will not be fully centrally funded. Also no extra funding will be provided (other than the £60 million already committed this year) despite the reclassification. It is also not clear how much cost the centres will have to bear. This means that the NHS trusts will have to use their allocated PACS supplier even if they may have to pay a bigger portion of the cost and could potentially obtain a better deal with other suppliers. This in effect would practically shut down the English PACS markets for suppliers other than the chosen

ones - namely GE Healthcare, Philips Medical, ComMedica/Kodak and probably Agfa? On the other hand the LSPs will be paid a fixed price for the PACS implementation across each cluster even if some trusts do not implement their solution.

All the English NHS trusts have been advised to terminate their independent PACS procurements immediately after the Department of Health's belated decision to make PACS a 'core' service. They have also been advised to plan for deployment of the systems as contracted by their cluster via the National Program. It currently appears that even existing PACS implementations in the English NHS trusts will have to be replaced with the LSP solutions. We believe as a result that a number of trusts will face high switching costs.

Healthcare-IT revamp in the US

In the US, consideration and creation of healthcare-IT policies has become a key priority this election year. It practically started with President George W. Bush stressing the utilisation of electronic medical records in his State of the Union speech in January, followed in April with the creation of a special post to make universal medical records a reality within a decade. In July 2004, the US National Health Information Infrastructure conference featured the government's much-anticipated first report on its health-information technology priorities. According to the report, the federal government should be more involved in efforts to wire the healthcare system by making investments in electronic medical records systems less risky, promoting interconnection between clinicians and encouraging consumer involvement in healthcare. The report also emphasised the reviewing of reimbursement strategies for electronic health records, the consideration of low-rate loans for electronic systems, the development of private sector certification standards and the need to speed electronic prescribing standards. The government also hopes to push for a private consortium to focus on interoperability.

The report outlined four key goals -

- To include 'informing clinical practice' to help facilitate decision-making by doctors and other health professionals as well as 'interconnecting clinicians'
- To make patient records accessible to multiple practitioners at multiple care sites, which among other things can prevent the need for redundant tests or procedures
- To 'personalise care' by involving patients more directly - both in terms of choice and personal responsibility
- To 'improve population health' by using computerised records to track disease outbreaks and other health problems and to facilitate biomedical research.

TekPlus believes the US market will develop significantly as it undergoes the implementation of these changes. There is no doubt that the backing and drive is there from the government to push things along and the vendors also seem to be pushing hard. The key question is will it be a planned and strategic deployment or will it become another sorry tale of wasted investment. The US needs to learn from other progressive countries and needs to put the checks and balances required in place to facilitate better deployments and to keep the bigger picture in mind.

HIS related news

Sweden based Sectra AB, a provider of information and telecommunication technologies in the medical field, has acquired Stockholm based Mamea Imaging AB. Mamea Imaging provides digital radiology solutions.

In August 2004, Cerner Corporation acquired Gajema Software, a provider of laboratory information management and logistics markets. This acquisition is expected to expand Cerner's Outreach Laboratory solutions.

In July 2004, IBA Health and Kodak Health Imaging have entered into a global software licensing and product development agreement where –

- IBA gives an exclusive global license to Kodak for its software for healthcare-IT applications, which Kodak can use as part of its portfolio.
- Kodak and IBA will develop clinical products to be marketed worldwide.
- The agreement is expected to yield more than 50 million Australian dollars to IBA over the next five years.

PACS related news

According to speculations, Agfa is expected to replace GE Healthcare to provide PACS solutions in at least two clusters in the UK-NHS PACS contracts. The rumours are that GE has problems with the terms and conditions in the PACS contracts and so has been dropped. No clear picture has still emerged.

A licensing agreement has been made between DeJarnette Research Systems Inc. and Fujifilm Medical Systems. Fuji has licensed DeJarnette's PACSware Migration Gateway 2.0

toolkit technology. Fuji plans to use the technology in its legacy PACS data migration business segment.

In September 2004, Cedara Software signed a definitive agreement to acquire all of the issues and outstanding shares of eMed Technologies Corporation, provider of PACS and web-based medical imaging radiology solutions. Cedara will pay cash consideration of \$48 million for the acquisition. In response eMed Technologies has obtained the necessary shareholder's consent for the acquisition.

Korean PACS vendor Marotech and UK-based software developer Meridian Technique have signed a partnership agreement. Under the deal Marotech will supply Meridian's OrthoView orthopedic digital planning software integrated with its Marosis PACS network. The first installation is currently under way at Pusan National University Hospital.

Other significant HIT related news

Perot Systems has received a \$380 million IT outsourcing deal over seven years from Stanford Hospital and Clinics and Lucile Packard Children's Hospital at Stanford. Perot Systems will manage large chunks of their information technology solutions. The deal will cover applications, project management, infrastructure and data centre operations.

Microsoft Corp. and its healthcare partner WellPoint Health Networks Inc. have picked two vendors for a major e-prescribing initiative. Microsoft's Healthcare and Life Sciences Group, acting as a technology consultant to WellPoint, will work with Allscripts Healthcare Solutions and Zix Corp. Both companies' software and one-year service subscriptions will be offered free to some 19,000 WellPoint network physicians.

This month, McKesson launched an automated text message reminder service for NHS outpatients in the UK. The vendor claims that it can help save the NHS £300 million per year by reducing the number of missed appointments and can cut waiting periods by 11 percent.

The National Health Services in Scotland began its national EPR procurement process this month by issuing OJEU invitations. NHS Scotland plans to procure a system known as Generic Clinical System (GCS), which will provide a set of tools to facilitate flexible local system development and implementation while enforcing common standards and providing standard interfaces and facilities. According to the contract notice it is anticipated that the contract could be awarded as a national licence to a single supplier or as a framework contract with two or more suppliers, which could be used by any organisation in NHS

Scotland. NHS Scotland aims to complete the procurement process in the first or second quarter of 2005, with implementation due to begin in late 2005. The deadline for receipt of tenders or requests to participate is 15 September 2004.

EDS is to receive £9 million compensation from the UK Department of Health for its cancellation of a 10 year contract to supply NHSmail (awarded in September 2002). Earlier in July 2004, Cable & Wireless replaced EDS and received a £29.3 million worth nine-year replacement contract for supplying 65,000 users with email and related services.

In August 2004, the National Programme for IT in England announced six new "enterprise-wide" agreements between suppliers of software and hardware infrastructure and services. Tata Consultancy Services, Cisco, EMC Computer Systems, Hewlett Packard, SeeBeyond and Sun have been chosen to supply a number of backup, infrastructure and migration services to the LSPs. All six will supply hardware, software and support to NHS organisations or subcontractors through partner services.

In July 2004, BT Syntegra selected Axios Systems for provision of help desk and IT service management system for the NHS central data 'spine' and the London cluster.

In July 2004, Philips Medical and Siemens Medical received agreement from Premier Purchasing Partners in the United States, the group purchasing organization of Premier for the provisioning of full-line imaging modalities and related services. The three-year agreements are effective Sept 1, 2004 through August 31, 2007. The estimated sales volume for all product categories should approach \$2 billion over the three-year period of the contract.

GE Healthcare and Confirma, a provider of CAD for breast MRI signed a strategic alliance in July 2004. Under the agreement, GE will distribute Confirma's CADstream software to its worldwide MR customers.

In August 2004, GE Healthcare Financial Services and Kodak Health Imaging signed a global vendor financing agreement that will enable Kodak Health Imaging to offer its customers with a full range of GE equipment financing options, including operating and capital leases, loans and customized financing programs.

In August 2004, Kodak Health Imaging announced the expansion of its services offerings at the meeting of American Healthcare Radiology Administrators. Its professional services portfolio includes storage and archiving services, enterprise information management, integration services, network services, privacy and security services, project management

services and educational services. Its other services include accessory services, software refresh program and multi-vendor medical imaging equipment services.

Eastman Kodak made a marketing agreement with Cephire Technologies in July 2004 to expand US sales of Kodak's innovative Secure Email Services beyond the healthcare market (it was originally developed for healthcare customers). Under the agreement, Kodak will leverage Cephire's established customer sales channels to expand sales of Kodak Secure Email Services in legal, financial, retail, government and other verticals.

In September 2004, Fujifilm Medical Systems announced the expansion of its services portfolio offered to Synapse PACS customers. The vendor has added 'Storage Consulting' into its service portfolio that will include evaluation of the customer's storage needs and delivering them with technically sound and comprehensive storage analysis and recommendations. The service is aimed to help customers with their storage decision processes amid the growing storage options.

In September 2004, IBA Health and Telstra, one of Australia's leading telecommunications vendor announced their intention to create a strategic alliance. The alliance will aim to be preferred suppliers to the Australian healthcare sector for transaction and financial services. Both the vendors will develop and market essential connectivity solutions for the healthcare sector such as –

- Web based healthcare applications and services for sharing of patient information and clinical data (by physicians)
- Applications that enable creation of EPRs
- Web based claiming and billing solutions

Kodak Health Imaging has signed a four-year research and development deal with the University of Rochester Medical Center in Rochester to develop the next generation of digital imaging and information technology products.

GE Healthcare and medical reference firm eMedicine.com have signed a co-marketing agreement to provide a co-branded, GE Healthcare version of eMedicine's Clinical Knowledge Base (which contains medical and drug information for over 6,500 conditions) to its Centricity customers.

IBM and Siemens have agreed to partner in a venture to provide medical imaging management systems. The alliance is designed to help address the storage concerns of the users. The plans are to link Siemens' RIS and PACS with IBM's eServer and Total Storage technology. Both the vendors will jointly market the products. Siemens will offer IBM as its platform of choice and IBM will offer support and consulting to the alliance's customers. Two

healthcare organisations – University Hospital Brno in the Czech Republic and St. Michael's Hospital in Toronto – are already working with them.

In August 2004, Picis, a provider of surgical and critical care unit systems and Ibex Healthdata Systems, a provider of automated emergency department information systems merged. Under the deal, Picis will retain its name and sustain current operations and Ibex will be called "Ibex, a Picis company," and will continue to sell and develop emergency department information systems for clients using Ibex and Picis perioperative products. The newly formed company now has approximately 320 employees and more than 900 clients in the U.S. and Europe. The 2004 combined revenues of both companies are expected to be around \$50 million.

In July 2004, WebMD entered into an agreement to buy ViPS, a provider of consulting information technology and decision support to the government and payers for \$160 million in cash. The acquisition will bring WebMD with additional resources in the government sector.

Siemens Medical acquired Israel-based CADVision Medical Technologies for undisclosed terms. With this acquisition Siemens Medical is boosting its position in the market of computer-aided diagnosis.

The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) in the US had proposed that every hospital should have barcode readers in place by January 2007. This proposal was one of several that JCAHO submitted as its 2005 National Patient Safety Goals for its accredited organisations. However later on, with pressure from the American Hospital Association (AHA) it retracted this proposal (in July 2004). A key reason for AHA's stand was; they wanted hospitals to have the freedom to choose the technologies they needed according to their own policies for reducing medication related errors - be it barcoding or be it something else.

In July 2004, a bill called 'Josie King Act' was submitted to the Congress in US. The bill is aimed to revamp the healthcare information technology infrastructure in US. It is expected to bring improvements in patient safety, quality of care, and efficiency through information technology. The Josie King Act's mission is to "create a series of interconnected regional health information networks to enable patients and providers to share information securely. Another patient safety bill was passed in the Senate in July 2004, which called for new standards of interoperability in healthcare-information technology systems. The bill aims to improve medical care by creating a voluntary error-reporting system and safeguarding the privacy of that data.

Significant solution news

Planar Systems Inc., a provider of flat-panel displays, has received Food and Drug Administration approval to market the Dome C5i system for displaying and viewing mammograms.

NEC-Mitsubishi Electronics Display of America Inc., a provider of flat-panel desktop displays and Richardson Electronics Ltd., a provider of engineered medical display systems announced a partnership agreement. The companies plan to bring medically certified, high-resolution LCD grayscale monitors to the diagnostic imaging market.

In the UK, EMIS has launched its own online appointment booking service, EMIS Access, which allows patients to send secure messages or book appointments with their GPs over the web.

In July 2004, Siemens Medical and HiP Graphics entered into a contract for the further development of syngo InSpace, an interactive image processing software that enables 3D processing of extremely large volume data sets in real time. Siemens and HiPGraphics have been cooperating successfully since 1992. Their shared interests are in software developments for advanced three-dimensional medical imaging.

Philips Medical received an FDA clearance for over-the-counter sale of its HeartStart Home Defibrillator. In July 2004, Philips Medical also launched its Radiation Oncology products that can help physicians to more accurately target tumours.

In July 2004, Eclipsys announced the general availability of release 11.4 of its advanced revenue cycle management software solution — Sunrise Access Manager/Patient Financial Manager. Release 11.4 provides greater capabilities including a denial management module, upfront medical necessity checking with Advance Beneficiary Notification, improved workflow management, scheduling and ambulatory billing enhancements.

In July 2004, Agfa received an FDA clearance for its IMPAX Mammography Diagnostic Workstation. It is a multi modality workstation that provides one-stop review and results distribution for digital breast imaging studies as well as access to other general imaging results.

PACS vendor Rogan Delft has launched a new diagnostic viewing application called

View Pro-X. The workstation has integration capabilities for RIS, HIS, 3D and speech recognition.

Scimage has introduced an upgraded version – version 2.0 of its PICOMEnterprise PACS package. The upgraded version provides an order-driven workflow for radiology departments in addition to its original features. It also includes a new interface engine to provide a single point of entry through any third party RIS, EMR, or practice management systems.

DeJarnette Research has expended its product line; it has launched Ledger – a HIPAA logging and reporting package for radiology departments. DeJarnette has also released version 2.0 of its PACSware Migration Gateway, which supports multiple migration strategies based on study dates and platter volumes.

Orex Computed Radiography has launched Or-PACS, a DICOM 3.0 image analysis, communication and archiving software package for its CR product line. It offers functions including viewing stations, dual high-resolution monitor support, CD-ROM burning, and both short- and long-term storage.