

Posted date: 11/27/2006

Insurer Acquisitions Spur TriZetto Gains

Healthcare: Software maker grows with deals, makes own buys

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Newport Beach-based TriZetto Inc., a provider of software and services to health insurers, has pulled through a wave of consolidation with its growth intact.

In the past two years, a handful of big health plan operators combined in a set of deals that narrowed TriZetto's customer base.

Instead of losing business, "We've been able to increase our business with the consolidating entities," said TriZetto founder and Chief Executive Jeffrey Margolis.

The deals—UnitedHealth Group Inc.'s buy of PacifiCare Health Systems Inc. last year, and Anthem Inc.'s 2004 acquisition of WellPoint Health Networks—have boosted TriZetto, according to Margolis.

The company now reaches 35% of the nation's health insurance population, or roughly 100 million people, by way of UnitedHealth and WellPoint, which Anthem now goes by.

"When you have products and services in the marketplace that are of great value, they do survive mergers and acquisitions," Margolis said.

It's a numbers game for TriZetto, said Gene Mannheimer, a senior research analyst in the San Diego office of investment bank Caris & Co.

"One of the ways they get paid is by the number of lives (their customer) has under coverage," he said. "Plan A buys plan B. TriZetto gets the benefit of plan B's members."

After Anthem acquired WellPoint, "TriZetto's WellPoint revenue increased," Mannheimer said.

And as UnitedHealth has grown, TriZetto has grown, he said.

The trends driving insurers toward TriZetto's software and services are the same, according to Margolis. "Any time you work in the healthcare industry, the storm or challenge is change and the rate of change," he said.

TriZetto helps health plans and benefits administrators manage data by providing software and Web sites. It also runs sites that allow patients, doctors and insurers to track health information, appointments and claims.

The company's clients pay monthly fees to TriZetto, which acts as a consultant, tailoring its software and services to each.

Health plans are looking to "show more value" to enrollees and put more information in their hands



Margolis: company's offerings "survive mergers and acquisitions"

amid rising out-of-pocket healthcare costs, Margolis said. They also are looking to better serve the growing senior population, including with information on Medicare drug coverage.

TriZetto has had bumps along the way.

Three years ago, the company's market value on Wall Street was a fraction of what it is now—about \$740 million at recent check.

Founded in 1997, TriZetto had to battle a dot-com stigma after its shares crashed in early 2000 and languished until early 2005.

TriZetto's shares are about even on the year, though they're on a run of late, rising about 40% since August.

The company's sales are growing, and TriZetto is profitable for the most part.

In the third quarter, sales rose 18% from a year earlier to \$86.4 million. The company lost \$5.7 million, vs. a \$6.5 million profit a year earlier.

The net loss was spurred by a “a couple of anomalies,” Margolis said.

TriZetto took a \$15 million charge in the quarter to settle patent litigation with San Francisco's McKesson Corp. Expensing of stock options also was a factor.

The company's earnings before interest, taxes, depreciation and amortization were \$17.9 million, up 18% from a year earlier.

In the quarter, TriZetto signed new contracts worth \$75.9 million, bringing its backlog of booked but not yet completed work to \$748 million.

TriZetto is looking to acquisitions for further growth.

In October, the company said it planned to buy Plan Data Management Inc. of New York, a smaller rival focused on Medicare clients, for undisclosed terms.

It's awaiting the closure of a \$134.2 million cash and debt assumption deal for Quality Care Solutions Inc., a Phoenix-based, venture-backed company.

Management changes are part of the TriZetto story, Margolis said.

Joining in the past three years: Kathleen Earley, president and chief operating officer; Chief Financial Officer James Malone and Philip Tamminga, an executive vice president who runs TriZetto's consulting practice.

“Let's just say it's working out well with these folks,” Margolis said. “I call them the ‘billion-dollar team’ because it's a team of people who are capable of running a billion-dollar-plus public company.”

Margolis, an alum of FHP Inc., which later became part of PacifiCare, is TriZetto's visionary and direction setter, analyst Mannheimer said.

“But what the company was missing was the strong, day-to-day leadership,” he said.