

IBM ACQUIRING MERGE HEALTHCARE

A RAPID REACTION REPORT

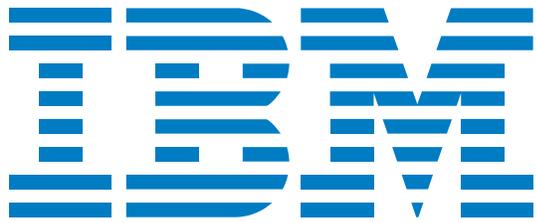
The IBM logo, consisting of eight horizontal blue stripes of varying lengths, is centered within a white oval shape.The word "MERGE" in a bold, orange, sans-serif font is centered within a white oval shape.

TABLE OF CONTENTS

Introduction	3
Acquisition Awareness	5
Impact of the Acquisition	6
What Providers are Saying	11
Conclusion	16
Appendix A: Vendors in this Report	19
Appendix B: Facilities in this Report	20

INTRODUCTION

Merge Healthcare customers are no strangers to living through mergers and acquisitions. In the past, Merge has been the one acquiring other companies. In fact, Merge is made up of eMed, Cedara, Amicas, Emageon, Camtronics, and they recently bought DR Systems. In addition they've acquired RIS Logic and Ophthalmic Imaging Systems.

This time, however, Merge is the one being acquired and its suitor is one of the largest, most prestigious companies in the world - IBM. This is IBM's largest acquisition in the past two years and should be a key component in its strategy to expand in the healthcare industry. The deal, reportedly worth \$1 billion, marks its third acquisition in healthcare in a relatively short period of time "since IBM set up Watson Health Initiative a new unit (based on IBM's innovative Watson technology) in April. It will help IBM apply one of its core capabilities to arguably one of the largest industries of the US economy."¹

According to Crain's, the Watson Health Cloud, is "a trove of more than 315 billion data files, from doctors' notes and archives of patient medical records to clinical trials and research."²

With the Merge acquisition, IBM hopes that it will enable Watson to "see." The combination of Merge's huge database of medical images, plus all of the other clinical data IBM already has, will "help doctors and other health care providers find patterns, like how a tumor has changed over time, and determine the best treatment options for their patients."²

1 Mourdoukoutas, Panos. "IBM To Purchase Merge Healthcare, Right Move, Right Time." Forbes. Aug. 6, 2015. <http://www.forbes.com/sites/panosmourdoukoutas/2015/08/06/ibm-to-purchase-merge-healthcare-right-move-right-time/>

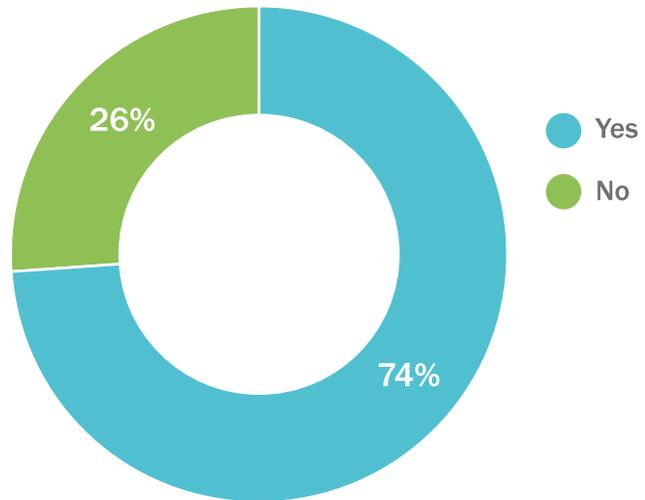
2 Schorsch, Kristen. "What IBM's \$1 billion deal means for Merge Healthcare—and its chairman's wallet." Crain's Chicago Business. Aug. 6, 2015. <http://www.chicagobusiness.com/article/20150806/NEWS03/150809896/what-ibms-1-billion-deal-means-for-merge-healthcare-and-its-chairmans-wallet>

On August 6, the day the acquisition was announced, we decided to launch research on the potential impact of the acquisition on the market, including the impact on Merge customers. How aware are Merge customers, and the market in general, of the acquisition? In just 2 days, we received input from over 130 healthcare leaders for this study. What will be the impact on Merge customers, and how will they react? These are just a few of the questions this **Rapid Reaction Report** will uncover.

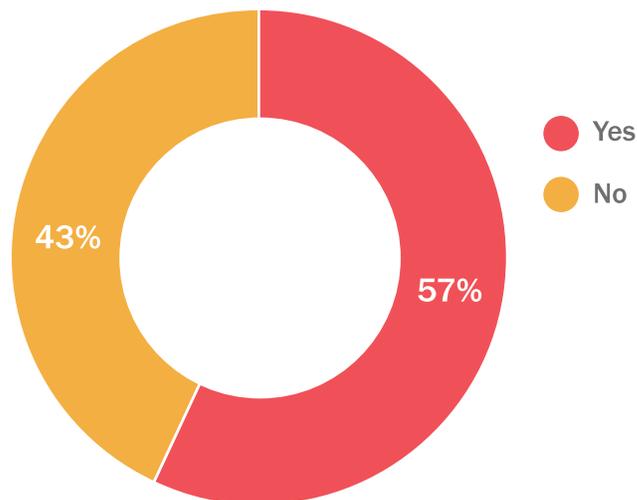
ACQUISITION AWARENESS

As might be expected, Merge customers were more aware of the acquisition than the industry as a whole. Of those that were not Merge customers, 43% said they had not heard the news.

Those that have heard about IBM's plan to acquire Merge Healthcare - Merge Customers



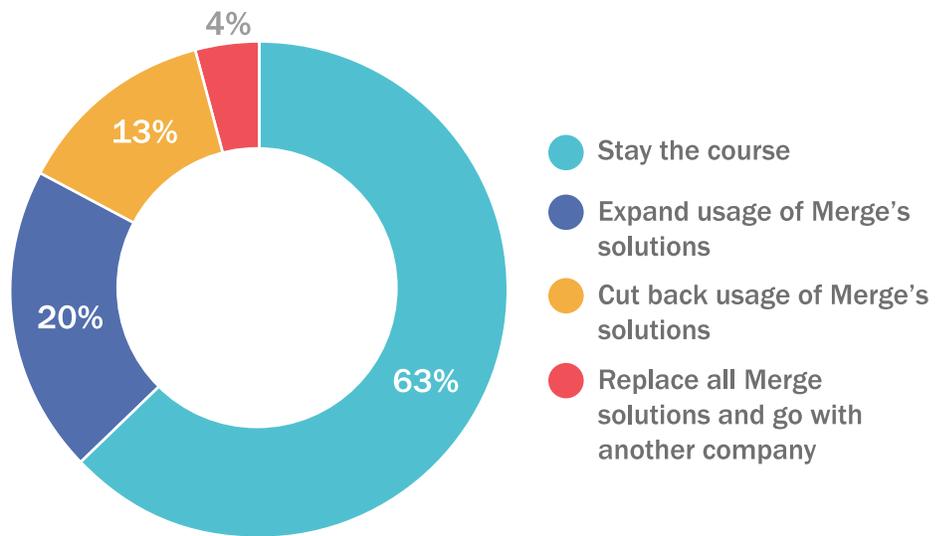
Those that have heard about IBM's plan to acquire Merge Healthcare - The Market



IMPACT OF THE ACQUISITION

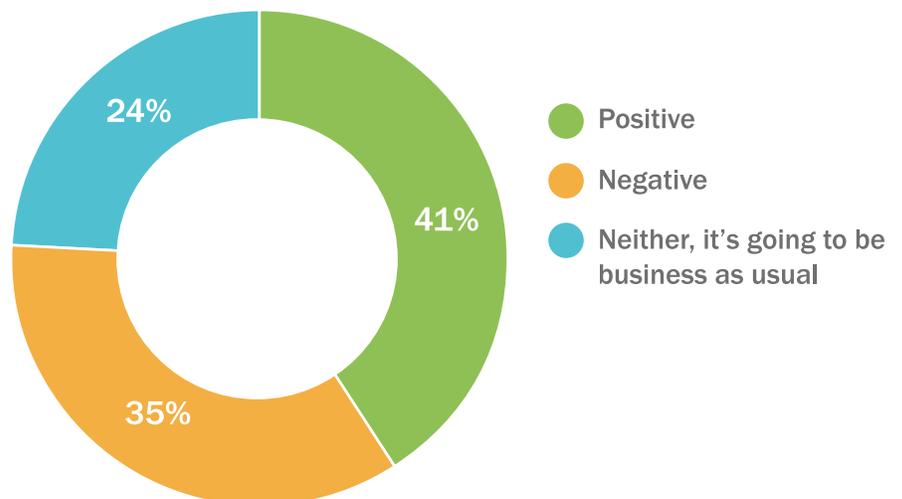
Many Merge customers felt the acquisition was positive and said they would stay the course with Merge. However, when compared with the market in general, a smaller percentage of Merge customers felt it was positive (41% of Merge customers vs. 53% of the market). Still, one in five Merge customers said they would actually expand their usage of Merge's solutions given that IBM would be the new owner.

This acquisition will make you more likely to:



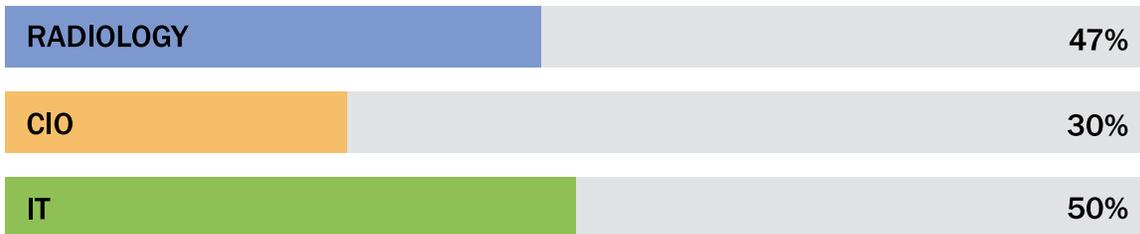
Just over one third of Merge customers said the impact would be negative. Despite that, only a handful felt that they would use Merge solutions less than before. It's really early in the process, and a lot could change, but so far this acquisition appears to be a net positive for IBM.

Will this acquisition be positive or negative for Merge Customers? - Merge Customers



While many Merge customers felt that the impact of the acquisition would be positive, CIOs were the least likely to say so. Radiology and IT were much more likely to feel that the acquisition was a good thing.

Those who feel the acquisition will be positive

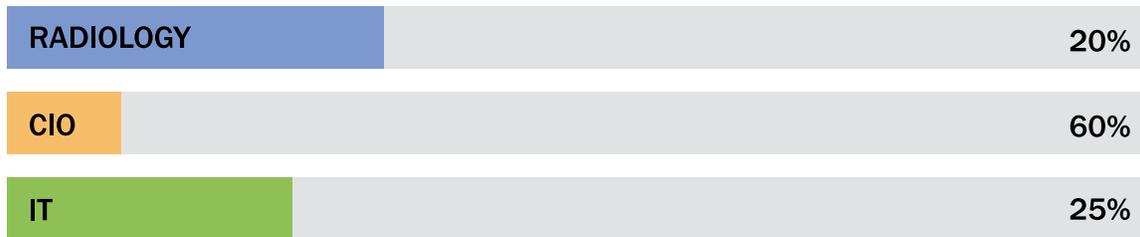


Those who feel the acquisition will be negative



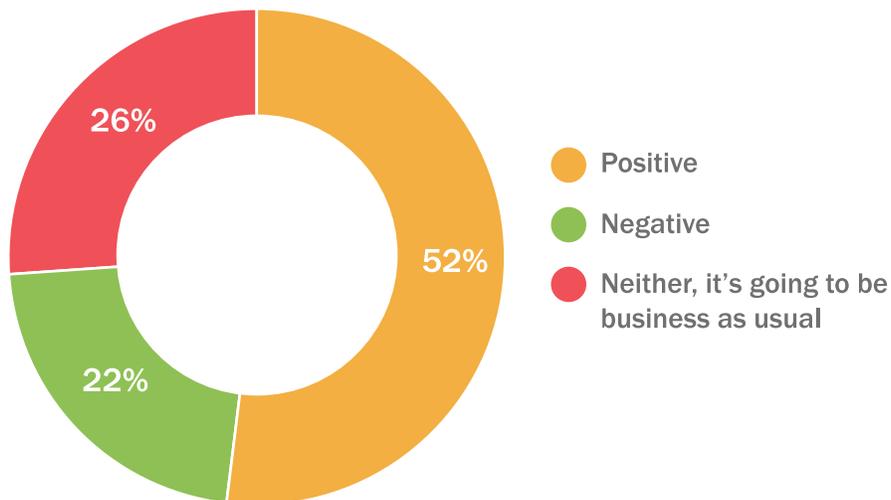
Merge customers in Radiology were most likely to feel that the acquisition was going to have little impact on the day-to-day functions of their job.

Those who feel the acquisition would be business as usual



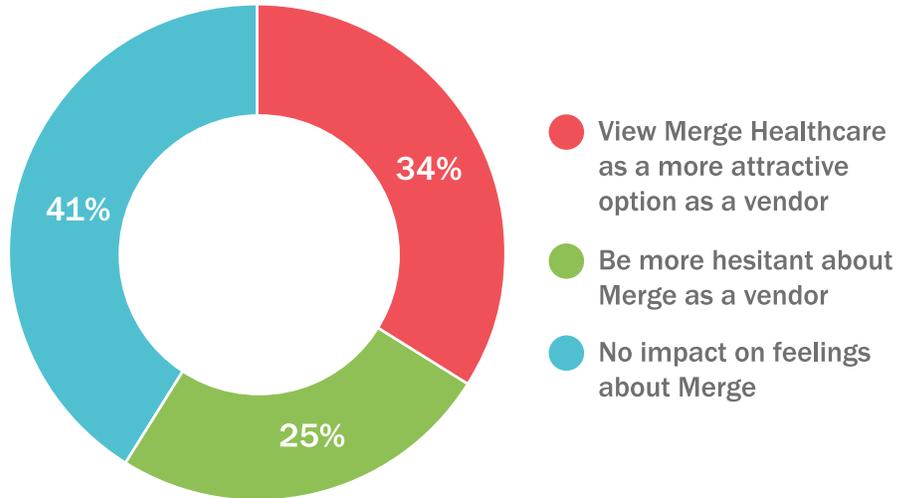
According to other healthcare professionals (who are not currently Merge customers), the majority of the group felt that the impact of the acquisition would be positive for current Merge customers.

Will this acquisition be positive or negative for Merge customers? - The Market



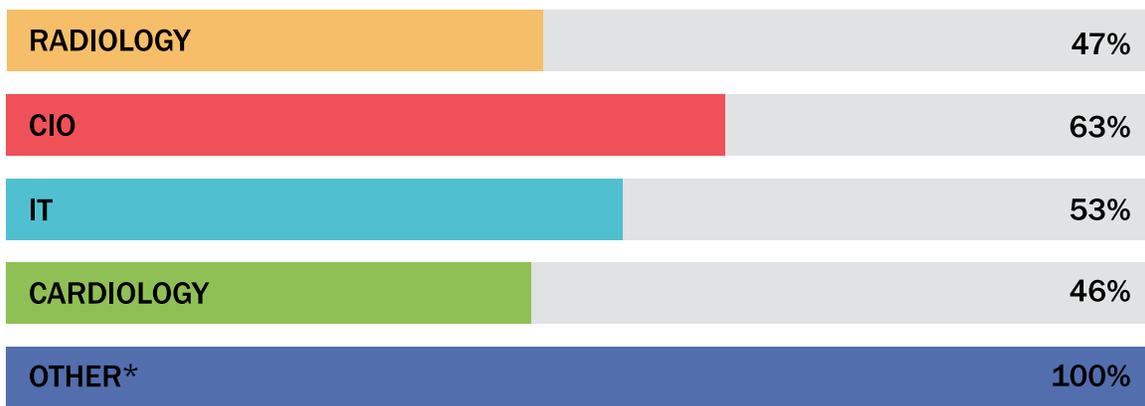
When the market at large was asked about the impact the acquisition would have on their perception of Merge, 34% said that they would actually view Merge as a more attractive option as a result of being acquired by IBM. However, some of these non-Merge customers said that it would have no impact on their view of Merge.

Will this acquisition make you more likely to:
- The Market



Unlike Merge customer CIOs, CIOs from the healthcare market at large were more likely than other groups to say that the acquisition would be positive. The majority of IT professionals also felt it would positive.

Those who feel the acquisition will be positive - The Market



* other includes: executive director, director of operations, and business systems analyst

Those who feel the acquisition will be negative - The Market



Of responding providers in radiology and cardiology, those that have seen Merge go through many M&A events over the past decade, thought that there would be little impact.

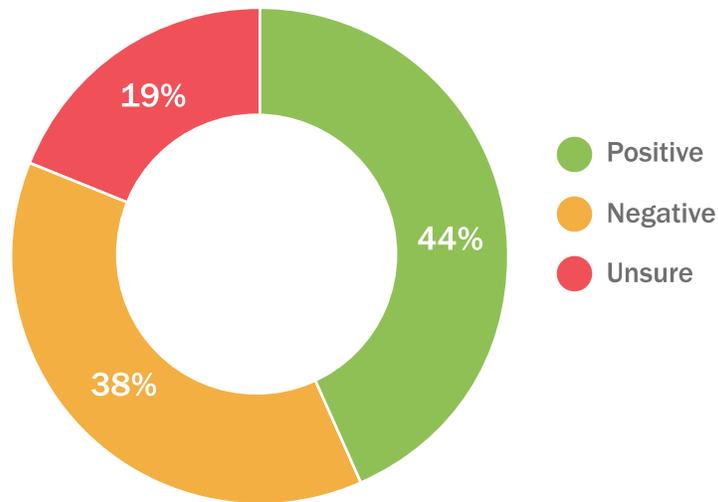
Those who feel the acquisition will be business as usual - The Market



WHAT PROVIDERS ARE SAYING

When providers were asked to share their thoughts on the IBM acquisition of Merge, Merge customers' comments were positive slightly more than they were negative. Some were still unsure how they felt about the acquisition and will most likely decide how they feel based on how successful IBM is at integrating Merge's products and people into IBM's superstructure over the next 12 months. IBM has a great opportunity to win a lot of new supporters or to create a significant pool of detractors based on how well they execute (pun intended) on this acquisition.

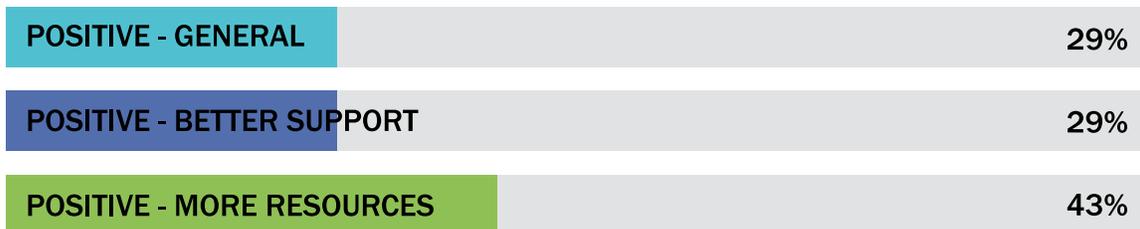
Comments on IBM Acquisition of Merge - Merge Customers



The positive comments centered around a couple of major themes. Several Merge customers said that additional resources from IBM are a benefit. One IT Director said,

“I believe the resources IBM will bring to Merge will make the products better, more reliable, and in the future, much more robust. IBM is a powerhouse and as they move into the healthcare area more and more, I believe we will be seeing great things from them as a company.”

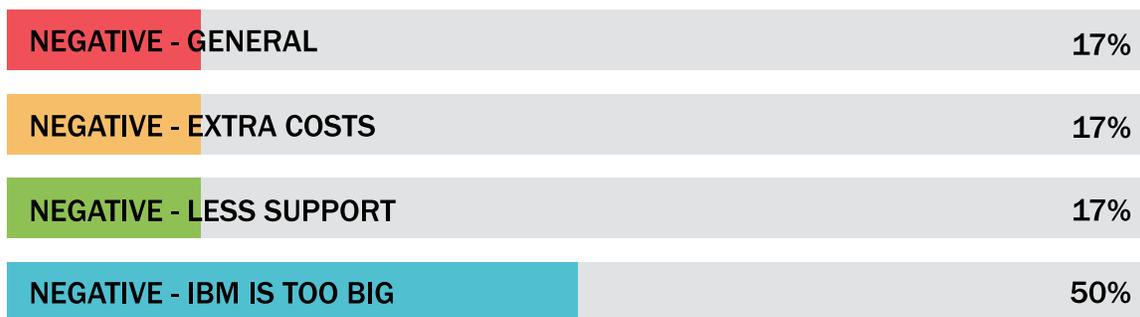
Positive comments on IBM Acquisition of Merge - Merge Customers



Negative comments centered around the theme that because IBM is so big, they will add too much bureaucracy to the development process. One CIO put it this way:

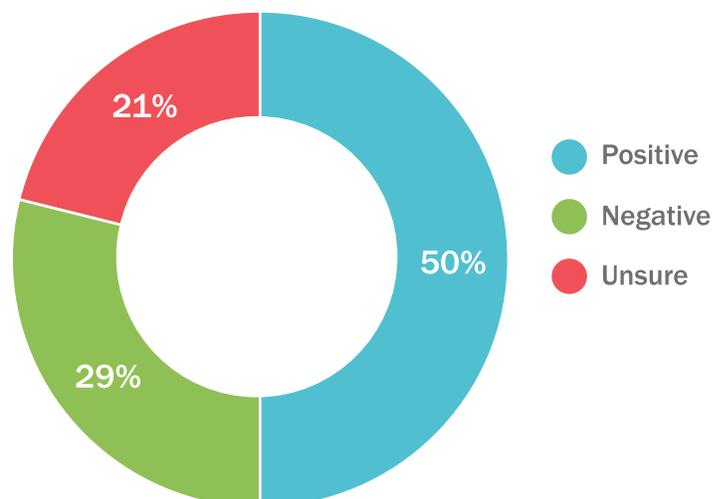
“Like most big companies, once they buy a smaller company, they don’t know how to manage a smaller company and ruin it.”

Negative comments on IBM Acquisition of Merge - Merge Customers



Providers from the healthcare market had more positive comments than current Merge customers. Half had something positive to say about the acquisition, while 44% of Merge customers had positive comments.

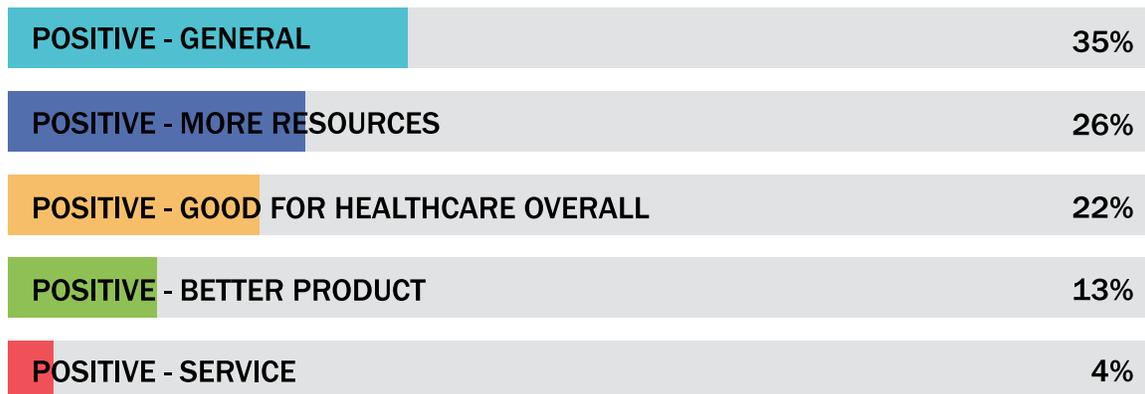
Comments on IBM Acquisition of Merge - Market



Comments again focused on the vast resources of IBM and how they can positively add to what Merge is already doing. Another important theme providers focused on was the impact of IBM's strategy on healthcare overall in its continuing push into personalized medicine. One radiologist said,

“For years, hospitals and imaging centers have been collecting large amounts of imaging data. The acquisition of Merge will provide IBM/Watson and its learning algorithms with efficient access to massive amounts of imaging data. New patterns will emerge. Healthcare will evolve.”

Positive Comments on IBM Acquisition of Merge - Market



Those who had negative impressions of the acquisition were split between a few lines of thought. Several felt that IBM lacks healthcare knowledge and expertise and therefore will not be able to execute their strategy the way they have outlined. One CIO said,

“I worry that IBM will not have the PACS / Imaging expertise to be able to positively influence the company in a way that advances the healthcare customer’s outcomes. IBM is trying to improve their “Watson Healthcare” platform, but I think there is a bit of disconnect between what IBM envisions, and the traditional size of Merge’s customer base (smaller or more regionalized healthcare players).”

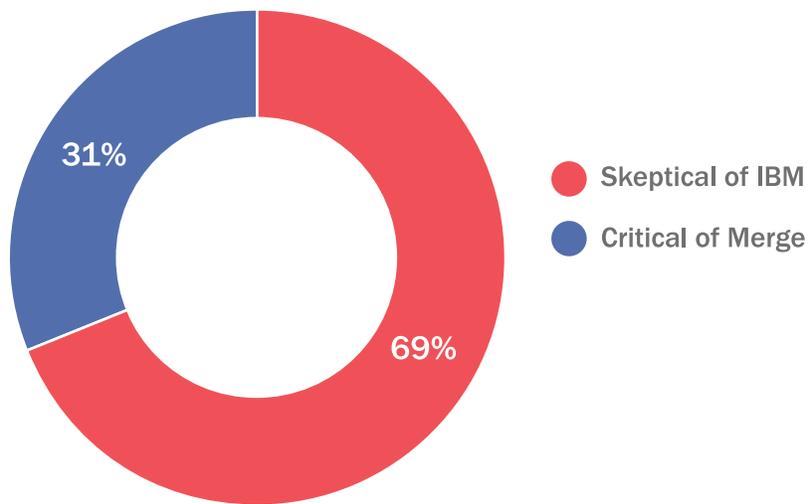
Negative Comments on IBM Acquisition of Merge - Market



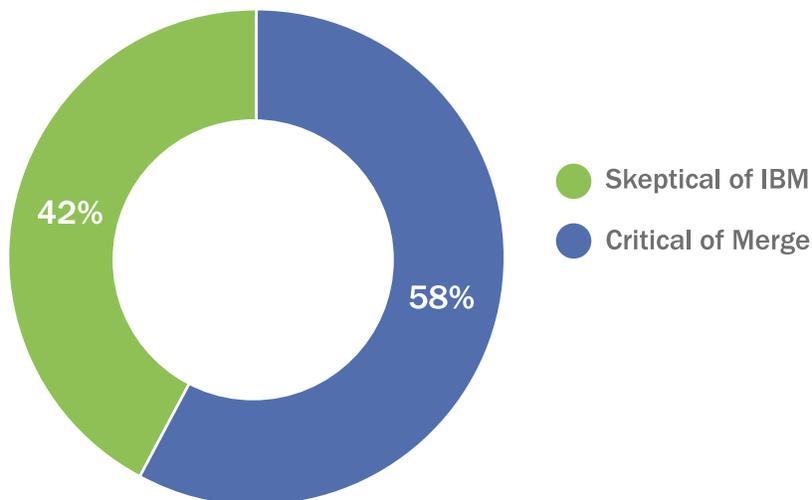
CONCLUSION

The announcement that IBM will acquire Merge Healthcare for \$1 billion created a huge splash. Reaction by the news media has been mostly positive, pointing to IBM's strategy of creating a large database of health information that will help identify patterns and inform clinicians' decisions and diagnoses in the future.

Which company represents the danger in this merger? - Merge Customers



Which company represents the danger in this merger? - Market



Reactions of those in the industry were also generally positive. While those in the market in general tended to be more critical of Merge, Merge customers were more skeptical of IBM. One such provider said,

“The history of large IT companies succeeding in the health IT space is not a good one (e.g., Google, Microsoft, HP, Cisco, Intel, etc). My guess is after 2 years of challenges trying to sell Watson to health care organizations, IBM realized they needed help. So they bought a customer base and a sales force with experience. They also see the imaging business as moving to the cloud and want a big early piece of that business. Conceivably, they could adapt Watson technology to perform automated machine learning/image understanding tasks that are also being pursued by several startups. It is fitting that Ginni Rometty calls that a ‘moon shot’—as you know it is exceptionally difficult to innovate like that in a large company. We shall see.”

Merge customers were more hesitant to jump on the bandwagon, and while about 40% said it would be positive, the remainder felt it would be negative for them or have no impact on their day to day operation.

The market in general was more positive and thought IBM would be able to offer some benefits to Merge customers. One CIO said,

“My thoughts on many of the IBM acquisitions is that they are positioning themselves for interoperability and population health. Merge will bring medical images exchange into the fold.”

IBM’s focus on the future of medicine (personalized with increased efficiencies) is highly commendable and it has acquired some very key assets to help them achieve this. So long as IBM is able to continue to develop and support the many different Merge Healthcare solutions, this acquisition will go down as a landmark moment in healthcare. If however they jettison many of the key solutions and personnel from Merge Healthcare, this will end up being just another HIT asset land grab that benefits the few at the expense of the many. Our hope, and belief, is that IBM will pull it off.

Along with the data and comments shared in this Rapid Reaction Report, [reactiondata](#) has much more data and many more comments available. Those with a [reactiondata](#) license may contact Jeremy Bikman (jeremy.bikman@reactiondata.com) to get the additional data and comments not included in this report. Those that don't have a license but would like to learn more about how to get a [reactiondata](#) license can contact Taylor Madsen (tmadsen@reactiondata.com).

APPENDIX A: VENDORS IN THIS REPORT



<http://www.ibm.com/en-us/homepage-a.html>



<http://www.merge.com/>

APPENDIX B: FACILITIES IN THIS REPORT

3T Imaging
Alice Peck Day Memorial Hospital
Ankle & Foot Clinic Of Everett
Arch Health Partners
Avera Sacred Heart Hospital
Bakersfield Heart Hospital
Baptist Beaumont Hospital
Baptist Health
Baptist Medical Group
Bennett County Healthcare Center
Bert Fish Medical Center
Billings Clinic Hospital
Blanchard Valley Health System
Blue Mountain Hospital District
California Pacific Medical Center - St Luke's Campus
Cardiovascular Imaging Ltd
Central Georgia Diagnostics
Children's Of Alabama
Children's Healthcare Scottish Rite
College Medical Center
Community memorial hospital
Coosa Valley Medical Center
Covenant Health
Cox Hospital
Cuero Community Hospital
Danbury Hospital
Department of Veterans Affairs
Duncan Regional Hospital
Ellis Medicine
Excela Westmoreland Hospital
Flagler Hospital
Florida Hospital Celebration Health
Florida Hospital Fish Memorial and FH Deland
Florida Hospital Lake Placid
Florida Hospital Memorial Medical Center- New Smyrna Health Park
Franciscan St. Elizabeth Health (AHRA)
Gadsden Regional Medical Center
Good Samaritan Hospital
Greensboro Radiology
Greenville Health System Laurens County Memorial Hospital
Guam Memorial Hospital Authority
Harmon Memorial Hospital
Healthcare Service Corporation
HealthPartners, Inc.
Hoag Heart and Vascular Institute
Houston Methodist
Howard University Hospital
Hutchinson Clinic
Infirmary Health System, Inc.
Iowa Radiology
John C Fremont Healthcare District
Johns Hopkins Medicine
Kaweah Delta Medical Center
Kingsbrook Jewish Medical Center
Larchmont Imaging Center
Lawrence Memorial Hospital - KS
Lexington County Health Services District, Inc.
Magee Women's Hospital Of UPMC
Marshall County Hospital
Mayo Clinic Health System - Eau Claire
Mayo Clinic in Florida
McAlester Regional Health Center
MD Anderson Cancer Center
Medical Clinic of Houston

Medical Diagnostic Imaging
MedStar St Marys Hospital
Mercy Medical Center
Methodist Hospital
Methodist Hospital Of Southern California
Middlesex Hospital
Midland Memorial Hospital - West Campus
Millennium Physician Group
Mission Hospital
Murray-Calloway County Hospital
Nanticoke Memorial Hospital
New London Hospital
Northwestern Memorial Healthcare
Ochsner Medical Center - Kenner
Oncology Analytics
Outpatient Imaging Affiliates
Palouse Imaging Consultants PI
Park Nicollet Health Services
Post Acute Partners
Presence Saint Joseph Hospital (Provena - St Joseph Hospital)
Proliance Surgeons
Providence Hospital
Radiology Affiliates Imaging
Riverside Tappahannock Hospital
Riverwood Healthcare Center
RML Specialty Hospital
Saint Francis Hospital
San Juan Regional Medical Center
Sanford Aberdeen Medical Center
Sanford Health Bemidji
Sansum Clinic
Santiam Hospital
Sarah Bush Lincoln Health System
Sharp HealthCare
Saint Joseph Mercy Health- Ann Arbor
Southern Surgical Hospital
St Vincent Heart Center Of Indiana
St. Joseph's Regional Medical Center
Stamford Hospital
Stanford University
Starr Regional Medical Center (FKA: Woods Memorial Hospital)
Stillwater Medical Center
Summit Pacific Medical Center
SUNY Downstate
The Nemours Foundation
ThedaCare
Torrance Memorial Health System
TRA Medical Imaging
UC Health
UC Irvine Health
UNC Healthcare
University Health Monroe
University of Illinois Medical Center at Chicago
University of Maryland Medical System Corporation
University of North Carolina Chapel Hill
University of Pennsylvania Health System
University of South Florida
University Radiology Group
UPMC - Presbyterian Shadyside
UT Southwestern University Hospital - St Paul
Veterans Medical Center
Virginia Urology
Wilson Memorial Hospital