HEALTHCARE & INSURANCE SOURCING VENDOR PROFILE OF:

athenahealth – Healthcare Provider BPO

1. Background

athenahealth is a provider of technology and services to healthcare providers. Founded in 1997, it is focused on addressing health information, processes and technologies, and on the exchange and use of patient information.

In 2000, athenahealth launched its first revenue cycle management offering, athenaCollector, aimed at the U.S. physician practice market. Today, its services are grouped around five aspects of the management of patient care and data:

- Practice management, including a medical billing and revenue cycle management platform and services

- Electronic health records (EHR), including tools and services that aid the management and analysis of medical records in compliance with U.S. HIPAA and Meaningful Use requirements

- Patient communications, including a patient portal and services to handle outbound and inbound patient calls

- Care coordination, providing order transmission, insurance pre-certification and patient registration support for physicians and hospitals

- Analytics, providing financial, operations, population, and care management platform and services.

athenahealth offers these services using a business process as a service (BPaaS) model.

The company has ~2,650 employees and supports ~41,000 care providers in the U.S. and abroad.

The company is investing in expanding its services for existing clients, such as credentialing, contract management, and eligibility-related denials, and in expanding services into new care delivery models, such as ambulance transport companies, hospitalists and rural health clinics.

2. Revenue Summary

athenahealth achieved revenue of $422.3m in 2012, a growth of 30.3%.

Growth in 2013 is expected by athenahealth to be ~30% as it utilizes its January 2013 acquisition of Epocrates and the accompanying high penetration among physicians to support its business development goals.

Exhibit 1 shows NelsonHall's estimates of athenahealth's revenue breakdown by service line within healthcare provider BPO.

EXHIBIT 1

athenahealth Healthcare Revenue Breakdown

Service Line	Estimated 2012 Revenue ($m)	Estimated 2012 Growth (%)
Practice Management	~$305m	~21%
EHR	~$42m	~69%
Patient Communications	~$55m	~144%
Care Coordination	~$20m	NA
Analytics	NA	NA
Total:	$422.3m	30.3%

NelsonHall estimate

All of its revenue is derived from clients in the U.S.

3. Key Offerings

Exhibit 2 outlines the five segments of athenahealth's service offerings to healthcare service providers.

EXHIBIT 2

athenahealth's Healthcare Provider Service Offerings

Service	Activities Supported
Practice management & billing	• Cloud-based practice management software that supports patient registration, scheduling, check-in, charge entry, referral management, check-out, follow-up, collections, accounting and reporting activities • Automated patient eligibility verification • Billing Rules Engine • Back office business services that perform claim submission, posting, claim follow up and denial management
EHR	• Cloud-based EHR software that supports clinical face sheet, encounter documentation, order entry, closed loop order management, results viewing, patient call tracking, clinical reminder tracking and workflow task management • Clinical Rules Engine • Secure interfaces to pharmacies, hospitals, registries and health information exchanges • Back-office clinical team that manages incoming and outgoing faxes, routes faxes to practice staff via and sends out (electronically or via fax) documents, prescription renewals, referrals, consultation letters and authorizations
Patient communications	• Cloud-based automated messaging platform and patient portal • Live operator services to answer inbound patient calls and help patients with scheduling, bill payment and other requests
Care coordination	• Cloud-based platform that supports order transmission to labs, imaging centers, hospitals and other facilities • Back-office team that obtains required insurance pre-certifications and delivers pre-registration services
Analytics	• Cloud-based analytics software that integrates data from multiple systems (e.g., EHR, practice management, claims) • Financial analysis tools for managing fee-for-service contracts and revenue cycle performance • Population and care management tools for managing risk-based contracts

Each of these service areas is offered using a BPaaS model, combining its proprietary enabling technology with processing services. athenahealth also offers its software in a SaaS-only model. athenahealth's technology platforms include:

- athenaCollector for practice management and billing

- athenaClinicals for EHR management

- athenaCommunicator for patient communications management

- athenaCoordinator for care coordination

- athenaClarity for analytics.

athenahealth works with its healthcare provider clients to offer cloud-based medical practice applications and services to automate and manage financial, clinical and administrative processes and data.

Most of the time (~82% of clients booked in 2012) athenahealth begins working with a new client in both practice management (RCM) and in EHR. Patient communication services also frequently are in scope: this was true with ~66% of clients booked in 2012, a change from 2011 and earlier when the pattern of client contracting was largely for RCM only.

Care coordination, one of athenahealth's newer offerings, is intended to support a market-based approach to health information exchange. This offering was launched in August 2011 following its acquisition of Proxsys in July 2011. NelsonHall estimates that this service is used by ~5% of athenahealth's client base at present but is expected to be an integral component of its offerings going forward by addressing physician orders and insurance pre-certifications, likely to be in scope with ~50% of clients in the next 3-5 years.

athenahealth also offers services including:

- ICD-10 preparation and migration

- Meaningful use performance and attestation support

- Data integration and management services to support:

  - Population health management

  - Caregiver network management

  - Emerging accountable care and outcome-based payment models beyond fee for service, such as capitation, PROMETHEUS and gain sharing.

4.   Delivery Capability and Partnerships

athenahealth supported the collection of ~$9.2bn in medical billings in 2012 on behalf of ~39,750 medical providers.

athenahealth has ~770 personnel engaged in the delivery of production systems, enrollment services, paper claim submissions, claim resolutions, clinical operations, professional services, account management and client services.

Exhibit 3 outlines athenahealth's five delivery locations in the U.S.

EXHIBIT 3

Athenahealth's Healthcare Provider BPO Delivery Footprint

Location	Service Focus	~FTEs
Belfast, Maine	• Phone-based patient services • Denial management • Check & remittance processing	~600 FTEs
Alpharetta, Georgia	• Account management • Client services • Production systems development	~50 FTEs
Rome, Georgia	• Account management • Client services • Production systems development	~50 FTEs
Austin, Texas	• Production systems development • Business process and workflow design	~20 FTEs
Birmingham, Alabama	• Care coordination • Order transmission • Referral management • Hospital patient registration • Insurance pre-certification	~50 FTEs

NelsonHall estimate

athenahealth's primary delivery center is in Belfast, ME, from which it provides client services and professional services such as implementation, client training and helpdesk and technical support.

The two centers in Georgia support account management and client services, as well as the development of production systems, while the center in Texas supports platform innovation and development.

The center in Alabama came with its 2011 acquisition of Proxsys and handles delivery of care coordination and its athenaCoordinator platform.

athenahealth also has subcontracted personnel in Chennai, India, to supplement service delivery through arrangements with Dell Services and IBM. This use of offshore resources is intended to improve delivery margins.

athenahealth partners with MedOasis for the delivery of medical billing and collection services to anesthesia practices.

5. Target Markets

5.1 Current Clients

athenahealth targets two segments of healthcare providers:

- Health systems

- Independent medical groups/physician practices.

The revenue breakdown of these two segments is health systems ~80%, independent medical groups and physician practices ~20%.

With hospitals systems, athenahealth typically targets the president or executive director of the medical group, though occasionally the contracting process also includes the hospital CFO.

With independent practices, it targets the head doctor and the practice manager. In the past, the focus had been the practice manager due to the emphasis on RCM. With the recent expansion in scope to include EMR, the decision process is shifting to add the head doctor due to the clinical considerations that go beyond billing.

athenahealth notes a shift in these client segments: in 2011 ~70% of physicians operated in practices with under five doctors, whereas today ~60% of physicians are employed by hospital systems. This is shifting the challenges facing healthcare providers to include staff management as well as care coordination and health information management. Its introduction of care coordination services is a response to this market shift.

athenahealth prices its offerings as a percentage of collections rather than a fee per transaction (aside from its care coordination services which are priced at $1 per order). The intent behind this is to align the incentives for itself with those of its practice clients and improve the revenue collected. The specific percentage charged depends on the volume and the average value of claims.

athenahealth's account management organization conducts monthly benchmarking reviews of care and billing performance metrics with its clients to compare performance against publicly-available data on peers, as well as athenahealth's own client data to identify areas for improvement.

The company has a sales and distribution partnership with PSS World Medical aimed at elder care providers.

5.2   Market Focus

Exhibit 4 shows the number of healthcare providers using each of athenahealth's platforms as of March 31, 2013.

EXHIBIT 4

Healthcare Providers Using athenahealth's Platforms

Service Platform	Health System Users	Physician Users
athenaCollector	40,937	28,850
athenaClinicals	12,139	8,776
athenaCommunicator	16,296	11,840

Examples of healthcare provider clients include:

- Lowell General Physician Hospital Organization: providing healthcare data management services for claims, administrative and clinical data, contract awarded in January 2013

- Children's Hospital Los Angeles Medical Group: providing practice management and medical billing services using athenaCollector, contract awarded in December 2012

- Medford Medical Clinic: providing electronic health records, medical billing and practice management services, and patient communications services, contract awarded in June 2012.

athenahealth also provides its technology in a SaaS model. For example:

- ProMedica: providing revenue cycle and practice management software using athenaCollector, contract awarded in April 2012.

6.   Strategy

athenahealth has four 2013 priorities, in order of importance:

- Financial stability
- Improving productivity
- Service enhancement
- New service development.

In applying this to its 2013 focus, athenahealth is investing in achieving three outcomes:

- Supporting clients in managing risk
- Transforming the athenaNet user experience
- Extending its network of partners.

athenahealth is investing in embedding ICD-10 and Meaningful Use Stage 2 within its offerings ahead of upcoming regulatory deadlines. In support of this, the company is investing in training its personnel and clients using athenaUniversity.

Another component of its support of risk management is in the use of analytics and reporting to manage health information. athenahealth made two acquisitions toward this end in 2012:

- Healthcare Data Services, which supports healthcare organizations in their management of risk-based payment models

- Anodyne Health Partners, which sells data analytics software to large group practices.

athenahealth is also investing in integrating these platforms and data into its existing services to expand its ability to deliver population-based cost and quality data analysis and reporting. In February 2013 it introduced athenaClarity, its analytics service that benchmarks productivity and measures cost and quality in support of multiple reimbursement models from fee-for-service to accountable care.

To improve clients' user experience with its technology-enabled services, athenaNet is investing in:

- Expanding its support for existing clients with new capabilities, for example:
  - Credentialing
  - Contract management
  - Eligibility-related denials

- Extending its services into new care delivery models, such as:
  - Ambulance transport companies
  - Hospitalists
  - Federally-qualified health centers
  - Rural health clinics

- Supporting patient interactions outside the physician's office, including:
  - Enabling patients to update demographics, insurance and health history via the patient portal
  - Managing patient scheduling, pre-registration, online check-in and sign privacy forms using the patient portal
  - Conducting patient co-payment collections via the patient portal and live operator support
  - Adding mobile apps to allow access to the patient portal.

It also is working to enable its platforms for new and emerging environments, including mobile platforms. It introduced a mobile app for the iPhone for athenaClinicals in April 2012 and is working on one for the iPad. It is also increasing browser support alternatives, adding Safari desktop and mobile in Q1 2013 and planning to introduce support for Chrome and Firefox later in 2013.

The January 2013 acquisition of Epocrates enhances athenahealth's ability to develop mobile apps and mobile workflows.

A key initiative for 2013 is extending its partner network in a program named More Disruption Please (MDP). The goal of the program is to connect various groups participating in healthcare in an open platform that encourages the development of new technologies. At present, it has integrated 13 MDP partners into athenaNet and has a goal for an additional 20 MDP partners to be added in 2013.

In addition, it launched athenahealth Marketplace (a healthcare app store) for MDP partners in April 2013.

7. Strengths and Challenges

7.1   Strengths

- Proprietary platforms supporting medical billing and practice management, electronic health records, patient communication and care coordination

- Delivery model is enabled by workflow tools as well as reporting and analytics tools

- The BPaaS delivery model is an attractive alternative approach for medical practices to access billing services and infrastructure, and athenahealth has established a position as a leader in this model for healthcare provider

- Strong record of growth, with 13 consecutive years of 30% predominantly organic revenue growth.

7.2   Challenges

- BPaaS is a new delivery model within healthcare, requiring additional investment in awareness and education among potential clients

- Presently athenahealth has only moderate market awareness among physicians and practice managers, though the acquisition of Epocrates brings with it increased recognition among physicians and a potential means for improving market awareness.

8. Outlook

athenahealth has taken a bold approach with its delivering services to healthcare providers using the BPaaS model. It had early success among smaller physician practices that lacked technology and administrative resources to deliver RCM, and it has continued to make innovation a priority, extending its delivery suite by adding care coordination, adding support for patient engagement with its patient portal, and adding support for mobile devices.

However, athenahealth risks overreliance on technology and automation as the means of supporting hospital systems – especially given the newness of BPaaS and the challenges it faces in increasing awareness of its capabilities and the advantages of this delivery model. Hospitals are already undergoing a great deal of change, unhappy with initial efforts in deploying EHRs and facing challenges with complying with the ACA and new reimbursement models. This represents a potential obstacle to the pace of client adoption of BPaaS.

All told, athenahealth has a strong foundation in terms of its suite of platforms and its domain expertise. This, along with its audacious aspirations for transforming the delivery of healthcare administration support, places it among the leading companies that support healthcare providers.

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