

A Publication from INPUT's Outsourcing Information Systems Program

Systematics Expands Health Care Business

Systematics Information Services, Inc., long a major player in the banking outsourcing market, is now taking a significant step toward becoming a major player in the health care services outsourcing market.

In late August, Alltel Corporation, the parent of Systematics, announced an agreement to acquire TDS Healthcare Systems Corporation. TDS is a privately-held company with headquarters in Atlanta (GA). It currently is a leading provider of enterprise health care information systems in the U.S., with clients in Canada and Europe. Its current annual revenues are approximately \$80 million.

New Subsidiary Formed

A new subsidiary will result from the acquisition—Systematics Healthcare Services. It will include the current operations of TDS and the operations Systematics Information Services runs under its outsourcing contract

with Beverly Enterprises, one of the largest suppliers of long-term health care and nursing home facilities in the U.S. Exhibit 1 summarizes Systematics' current activities in the health care market.

Measured Expansion

John Steuri, Chairman and Chief Executive Officer of Systematics, explains the acquisition this way, "We have been carefully pursuing the health care information processing market since 1992 when we signed a key outsourcing contract with Beverly Enterprises... We believe the acquisition of TDS is a strategic move that will significantly expand our opportunities in health care. The combination of Beverly and TDS solidifies our presence and expertise in this growing market."

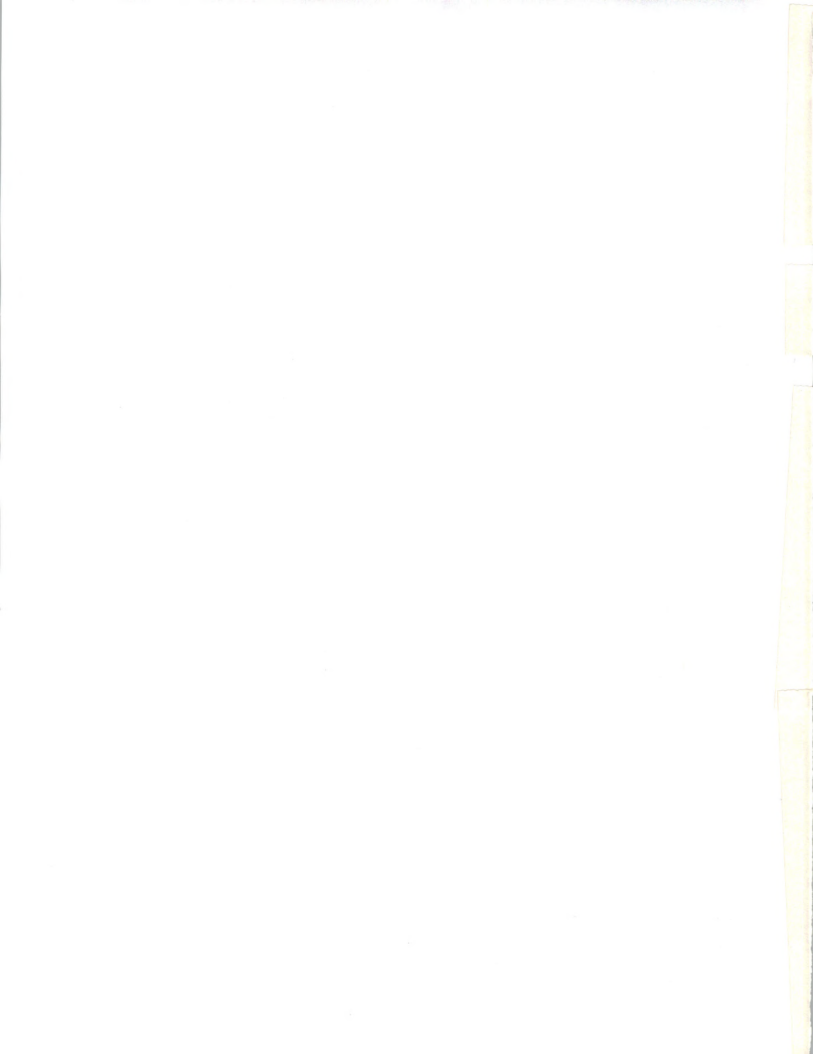
The acquisition appears to be a good fit for both companies. Gene Cattarina, TDS President and COO, will continue to manage TDS under the

Exhibit 1

Systematics Healthcare Services, Inc.

Outsourcing	– Beverly Enterprises – Several small TDS accounts
TDS 7000 Series®	– Comprehensive health care enterprise information system

Source: INPUT



new arrangement. "The combination of Systematics' outsourcing expertise and TDS' acknowledged industry leadership in patient care-driven information systems has uniquely positioned us to meet the challenges and opportunities of the emerging health care environment," Cattarina said. "Clearly, the proven performance of the TDS systems and Systematics outsourcing services capabilities will be an extremely powerful force in health care computing."

With this acquisition, Systematics becomes a player in the two major segments of the health care provider market. The nursing and long-term care industry has been expanding rapidly for some time now. The need for enterprise information systems that are patient-care oriented has long been evident as well. The TDS system is highly regarded in the market, and can be implemented on a variety of platforms and under a variety of health care systems (Europe and Canada). Since health care delivery systems in the U.S. will evolve toward one of those environments over the next few years, Systematics is now well-positioned to provide all the services the health care community will need to meet the new requirements.

Repeat of a Successful Pattern

This is not the first time Systematics has grown by acquisition. In February 1992, Systematics acquired Computer Power, Inc., the nation's leading processor of single-family mortgage loans. As a result of that acquisition, Systematics now includes about 50% of the nation's top mortgage bankers and commercial banks among its client set. There is no doubt the acquisition has been both successful and financially rewarding for Systematics.

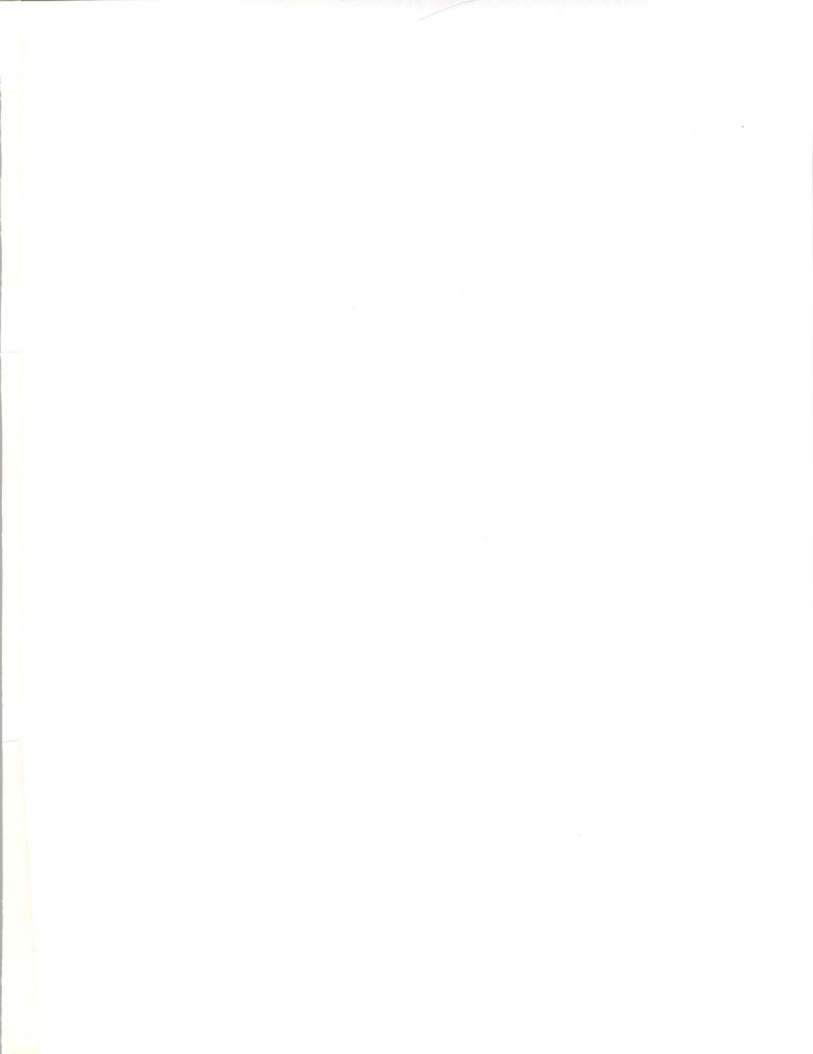
The acquisition of TDS could have a similar effect. TDS currently has more than 200 community, university, and governmental health care facilities as clients in the U.S., Canada, and Europe.

The TDS relationship appears to be a good strategic move for Systematics. First, timing is good, because the issue of health care has become such a prominent issue for all as a result of the Clinton Administration initiative. Second, early observations and comments indicate that cultures of the two companies are compatible and the transition will be smooth. The fact that the COO of TDS will continue to lead its operations is a healthy sign. Third, Systematics can bring a great deal of experience in outsourcing operations to the partnership. This is expected to become the least painful way for beleaguered health care organizations to extract themselves from obsolete administrative systems in the years ahead.

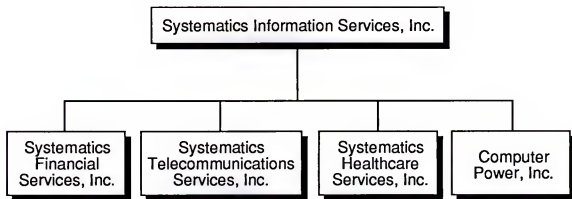
The Broadened Scope of Systematics

As recently as 1990, when Systematics was acquired by Alltel, its market was almost exclusively in the banking vertical market. It had a well-deserved reputation in that industry for industry knowledge and reliability. Since then, mostly through acquisition and the winning of several key major contracts, the company has become a factor in both the telecommunications market and the health care services market. It is likely to successfully increase its penetration of these three segments by continuing to provide a high level of industry knowledge since its entry into a new market has been accompanied by association with an industry leader. Alltel brought it the industry expertise and contacts it needed to participate in the burgeoning telecommunications market as a supplier of billing services for cellular phone companies.

Alltel's acquisition of TDS brings with it a long proven history of expertise in the health care industry. It has a team of over 500 professionals with experience in hospital administration, health care professional services, and business management. Its history dates back to 1971 when Technicon's Data



Systematics New Operating Structure

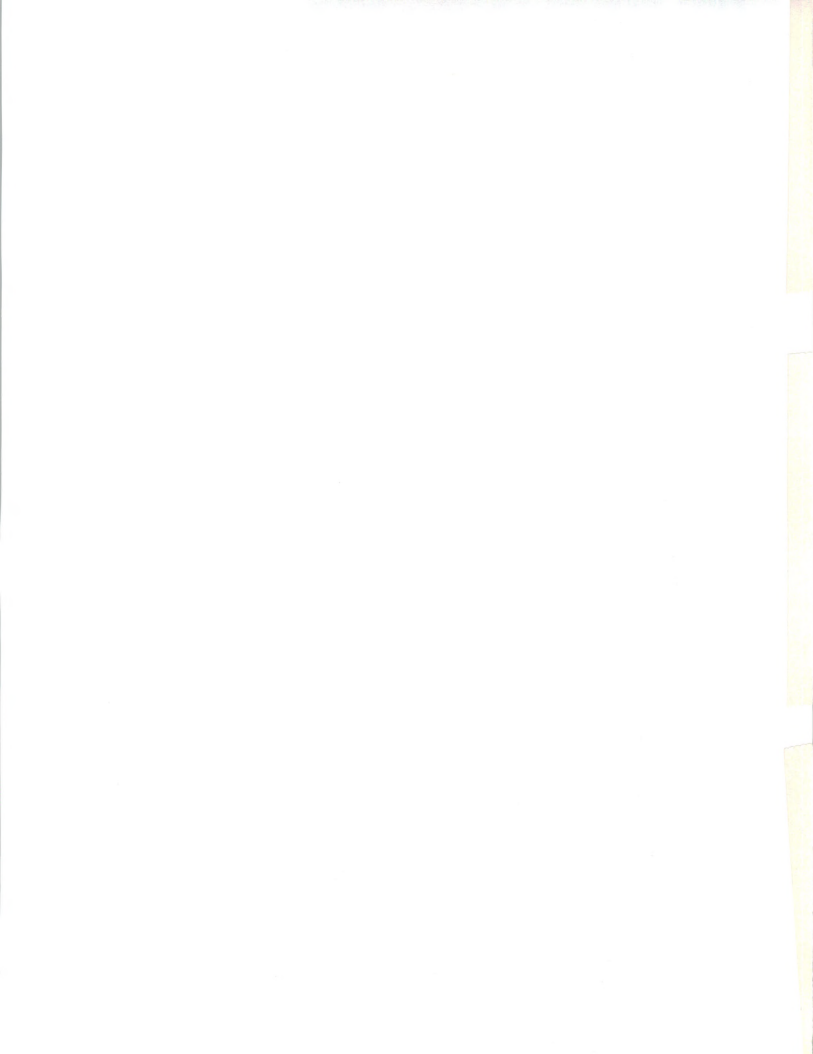


Systems Division acquired a prototype medical information system from Lockheed Missiles and Space Company. It has been operating as TDS since 1987.

As illustrated in Exhibit 2, the new Healthcare Services unit is a subsidiary of the holding company along with the Telecommunications and Financial Services companies and Computer Power, Inc.

Systematics' strategy continues to be a pattern of investment to expand its internal operations, (A new major data center expansion is currently in process on its Little Rock campus) coupled with carefully timed acquisitions to broaden its market coverage or increase its penetration in a selected market. The Beverly Enterprises contract win seemed to be a divergence from that pattern, but the acquisition of TDS indicates the basic strategy is still in place.

This Research Bulletin is issued as part of INPUT's Outsourcing Information Systems Program for the information services industry. If you have questions or comments on this bulletin, please call your local INPUT organization or J.P. Richard at INPUT, 1953 Gallows Road, Suite 560, Vienna, VA 22182, Telephone (703) 847-6870, Fax (703) 847-6872.



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