Nuance taking aim at medical business

Burlington firm primed for medical records, billing business

By Michael B. Farrell | GLOBE STAFF | OCTOBER 15, 2012

Nuance Communications Inc. may be best known for its Dragon software that lets users control a computer simply by talking to it, and for building the technology behind voice-controlled smartphone apps such as Siri on the Apple iPhone.

But the Burlington speech giant’s biggest play is in health care — and it’s getting bigger.

With 450,000 clinicians around the world already using technology from Nuance to help create patient histories or generate diagnostic reports, the company expanded deeper into the medical technology business with two big acquisitions in just the past few weeks. It bought J.A. Thomas and Associates, an Atlanta clinical documents company with 80 employees, for $265 million, on Oct. 1, a few days after agreeing to buy Quantim, a health information business with 180 employees, from QuadraMed of Reston, Va., for an undisclosed price.

Nuance expects that with the new firms it will be able to bring its expertise in voice recognition to the medical records and health care billing processes, which are undergoing massive shifts to digital forms that will require health care providers to adopt new practices and invest in more sophisticated technology.

One major undertaking that offers opportunities for Nuance is the introduction of more billing codes that health care providers will have to use to identify charges on medical bills. Scheduled for 2014, the changes involve adding more than 100,000 new codes to already complex health care billing systems. That change alone could cost a large hospital as much as $20 million, according to some estimates.

“Health care is in a moment of transition,” said Janet Dillione, executive vice president
and general manager of Nuance's health care division.

Nuance has the ability to turn spoken clinical languages into data that can be cataloged on computers. But the acquisition of Quantim and J.A. Thomas gives it health care management software and knowledge of clinical documents that allows it to offer a more complete solution to health care providers. Automating these processes on a massive scale could amount to significant savings.

The same is possible for the shift to electronic medical records. Nuance's technology that turns dictation into medical facts can be a big time saver for harried doctors and nurses.

“We see a process that we can fundamentally make more efficient,” said Dillione.

Nuance has been at the forefront of giving machines humanlike abilities to understand and react to speech. In addition to its technology found on smartphone apps and its computer dictation software, it is also bringing voice recognition to cars and TV sets.

It has acquired many of its advancements in speech technology by buying other companies. Since starting out in 1992 as Visioneer Inc., Nuance has acquired more than 50 other businesses. Other recent acquisitions include the $200 million deal for one-time rival Vlingo Inc., a Cambridge company that it had once sued for patent infringement. Last month it bought Ditech Networks Inc., a San Jose, Calif., voice processing company, for $22.5 million.

Another purchase in the health care field brought it Transcend Services Inc., an Atlanta medical documents company, for $300 million in April.

“There is a tidal wave of opportunity in speech as an interface,” said John Bright, a
director at Avondale Partners, an investment advisory firm in Nashville. “Their objective is to have the right offerings to ride that wave of opportunity.”

In doing so, Nuance has spent more than $3.6 billion on 34 acquisitions in the past decade, according to Bright’s analysis. Although he said some investors have been concerned about a lack of information about some acquisitions, Nuance is buying in markets with big opportunities, such as mobile technology and health care.

The company is on track to report $1.8 billion in revenue this year, which would be 38 percent above its sales last year of $1.3 billion, according to the ratings agency Moody’s. The Wall Street firm expressed concern about Nuance’s pace of acquisitions, and has given the company a rating two notches below investment grade.

“The level of risk is a little bit higher and the level of debt is a little bit higher than you would expect for an investment grade company,” said Matt Jones, senior analyst with Moody’s.

On Friday, the company’s stock price closed at $23.32, giving it a market cap of $7.2 billion.

One of the company’s biggest acquisitions was the $400 million purchase of eScription Inc., a Needham medical transcription and voice recognition company, in 2008, which went a long way to expanding Nuance’s health care business; today that sector makes up 40 percent of the company’s revenues.

“Nuance sees themselves as taking their speech recognition and driving it deeper into the electronic medical records opportunity,” said Bright.

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