Cemax-Icon and Imation aim to avoid mistakes of consolidating PACS firms

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Boosting sales and service organizations is first priority
Does history repeat itself? Not if Cemax-Icon and Imation can help it. In announcing their acquisition agreement last month, the two firms said they intend to avoid the mistakes that large companies have made when acquiring small PACS software developers.

Imation of Oakdale, MN, plans to acquire Cemax-Icon by paying $30 million up front for the Fremont, CA, company, to be followed by $49 million in milestone payments over the next two years if Cemax-Icon hits revenue targets. The deal requires the approval of Cemax-Icon shareholders and regulatory clearances, and should close in the third quarter.

The acquisition appears to be a slam-dunk for both parties. Privately held Cemax-Icon is a rapidly growing developer of PACS and teleradiology software, but has not been able to grow as fast as it would like, due to working capital limitations. Imation has a major position in the medical imaging film and laser printer market thanks to its lineage as a spin-off of 3M, but has not developed a full line of products targeted at the PACS segment.

Imation hopes to achieve synergies by integrating the Cemax-Icon product offerings with its own products, such as the DryView dry laser printer and removable digital storage media, according to Cliff Pinder, vice president of medical imaging systems at Imation.

Despite the obvious benefits of the deal, the companies are working against the PACS market's spotty history when it comes to mergers between large and small companies. Two of the most visible examples have been Kodak's acquisition of Vortech Data in 1993 and E-Systems' purchases of Advanced Video Products and Image Data in 1992 and 1994, respectively. Both Kodak and E-Systems discovered that it took longer than planned to integrate the smaller firms into their operations, and both companies were forced to restructure their PACS operations before arriving at an acceptable corporate structure.

To avoid such pitfalls, Imation intends to provide Cemax-Icon with room to run, while giving it the corporate backing it needs to grow quickly. Cemax-Icon will not be integrated into Imation's operations; rather, it will be run as an independent subsidiary that will continue to be based in Fremont. Although his title will soon change, Cemax-Icon president and CEO Terry Ross will remain head of the subsidiary, with assistance from Imation veteran Brad Sauer. Both Ross and Sauer will report to Pinder, while other Cemax-Icon executives will report to Ross.

"Imation has great sensitivity about how to grow Cemax-Icon faster than we are growing, and not to try to integrate it into (Imation), where it would potentially get lost," Ross said. "We are intentionally going to run this differently from the way Kodak and E-Systems went about their marriages."

One of the first orders of business for the Imation-owned Cemax-Icon will be to grow its revenues, which were already booming at a 50% annual rate due to increased interest in PACS and teleradiology. Cemax-Icon posted sales of about $26 million in 1996; the company could have done even better, but had to defer some orders because it simply didn't have the resources to ship and install so much product, according to Ross. On the positive side, the company's backlog quadrupled from the beginning of 1996 compared with the same period in 1997.

Cemax-Icon plans to use Imation's capital infusion to triple its field sales force in the U.S., from seven at present to 20 in the near future. The company will also get a boost from Imation's sales representatives, who will not sell PACS but who will provide Cemax-Icon with leads as they call on...
hospitals to sell Imation laser printers and x-ray film. Imation reps will be trained to sell less sophisticated teleradiology systems, Ross said.

Another area that Cemax-Icon has targeted for attention is service. Cemax-Icon plans to train a number of Imation service engineers in supporting PACS networks, with an even larger number trained to support teleradiology systems. That should help resolve what has been a weak point for Cemax-Icon in the past, Ross said.

Cemax-Icon may also see some changes in its OEM relationships, which have long been a mainstay of the company's business plan. Those relationships that are less active will probably be allowed to die, although others are expected to blossom, Ross said. One of the most important examples of the latter is Cemax-Icon's recently signed agreement with Picker International of Cleveland to provide PACS products to the multimodality vendor. Picker was notified of Imation's interest in Cemax-Icon and signed off on the potential relationship with Imation before negotiations even began, according to Ross.

Disclosures:

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