

Edgar Filing: CARESCIENCE INC - Form 425

CARESCIENCE INC  
Form 425  
August 18, 2003

Filed by CareScience, Inc.  
pursuant to Rule 425 under the Securities Act of 1933  
and deemed filed pursuant to Rules 14a-12 and 14d-9  
under the Securities and Exchange Act of 1934

|                    |                   |
|--------------------|-------------------|
| Subject Company:   | CareScience, Inc. |
| Commission File No | 0-30859           |

This filing relates to a merger transaction among CareScience, Inc., Quovadx, Inc., a Delaware corporation, and Carlton Acquisition Corp., a Pennsylvania corporation and a wholly-owned subsidiary of Quovadx, Inc., pursuant to an Agreement and Plan of Merger dated as of August 13, 2003. The Agreement and Plan of Merger is on file with the Securities and Exchange Commission as an exhibit to the Current Report on Form 8-K filed by CareScience, Inc. on August 14, 2003, and is incorporated in this filing by reference.

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**Web Services Anywhere**

[QUOVADX LOGO]

**Access Any Data**

**Perform Any Process**

**From Anywhere**

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**Additional Information Regarding the  
CareScience Acquisition**

In this presentation we will be discussing Quovadx's proposed anticipated acquisition of CareScience, Inc. Quovadx intends to commence an exchange offer for the outstanding shares of CareScience and to file with the Securities and Exchange Commission (SEC) a Schedule TO and Registration Statement on Form S-4 relating to the exchange offer. CareScience intends to file a Solicitation/Recommendation Statement on Schedule 14D-9 with the SEC relating to the exchange offer. Quovadx expects to mail a Prospectus/Offer to Exchange and related offer materials to stockholders of CareScience, and CareScience expects to mail a Schedule 14D-9 to its stockholders. **Investors and security holders are urged to read these documents carefully when they are available because they will contain important information about the transaction.** Documents filed by Quovadx with the SEC may be obtained without charge at the SEC's website at [www.sec.gov](http://www.sec.gov) and at Quovadx's website at [www.quovadx.com](http://www.quovadx.com). Documents filed by CareScience with the SEC may be obtained without charge at the SEC's website and at CareScience's website at [www.carescience.com](http://www.carescience.com).

In addition to the Registration Statement on S-4, Schedule TO, Prospectus/Offer to Exchange and Schedule 14D-9, Quovadx and CareScience file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information filed by Quovadx or CareScience at the SEC public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549 or at any of the commission's other public reference rooms in New York, N.Y. and Chicago, Ill. Please call the SEC at 800-SEC-0330 for further information on the public reference rooms. Quovadx and CareScience filings with the SEC are also available to the public from commercial document-retrieval services and at the website maintained by the commission at [www.sec.gov](http://www.sec.gov).

[QUOVADX LOGO]

WEB SERVICES ANYWHERE



### **Forward-Looking Statements**

Certain statements in this presentation are forward-looking statements within the meaning of the the Private Securities Litigation Reform Act of 1995, including statements regarding the timing and expected completion of the CareScience acquisition, the anticipated effect of the acquisition on Quovadx's sales growth, revenue, cost structure, earnings and financial condition, the anticipated improvement in Quovadx's position in the industry in which it competes as a result of the transaction, and the expected effect of the transaction on Quovadx's product offerings. These statements reflect management's current expectations regarding future events, speak only as of the date of this release and may differ materially from actual future events. These statements are subject to a number of risks and uncertainties, including risk relating to consummation of the CareScience acquisition, potential difficulties in the assimilation CareScience's operations, technologies and products, the risk of loss of key personnel of CareScience, diversion of management attention from other business concerns, and risk that the foregoing and other factors will not yield the expected accretion in the future. We do not undertake any obligation to update or correct any forward-looking statements included in this release to reflect events or circumstances occurring after the date of this release.

QUOVADX is a trademark of Quovadx, Inc. CareScience is a trademark of CareScience, Inc. All other company and product names mentioned may be trademarks of the companies with which they are associated.

**Quovadx Announces Acquisition of CareScience**  
**Extends Leadership in the Healthcare Industry**

[QUOVADX LOGO]

**QVDX:**  
**Trailing Twelve Months Revenue: \$67.4M**

[CARESCIENCE LOGO]

**CARE:**  
**Trailing Twelve Months Revenue: \$13.5M**

CareScience Acquisition

\$28 Million Transaction (Includes Approximately \$14 Million Acquired Cash)

\$1.40 Cash per Share (\$18.6 Million)

0.1818 Share QVDX per CARE share

2.4 Million new QVDX shares to be issued

Transaction, Net of Cash, Valued at 1X Trailing Twelve Months Revenue

Highly Visible, High Margin, Recurring Revenue Model with Significant Backlog

Expected to be Accretive to 2004 Results

CareScience at a Glance

|                                  |    |                    |
|----------------------------------|----|--------------------|
| <b>Trailing 12 Months:</b>       |    |                    |
| Revenue:                         | \$ | 13.5 Million       |
| Gross Profit:                    | \$ | 6.7 Million        |
| Gross Margin:                    |    | 50%                |
| R & D:                           | \$ | 4.1 Million        |
| SG&A:                            | \$ | 9.2 Million        |
| <b>Balance Sheet at 6.30.03:</b> |    |                    |
| Cash & Investments:              | \$ | 14.6 Million       |
|                                  |    | \$0.3 Million Debt |
| Working Capital:                 | \$ | 10.7 Million       |
| Revenue Backlog at 6.30.03:      | \$ | 33.2 Million       |

CareScience Offerings

Solutions Provider to Hospitals and Healthcare Systems

Care Management System for Quality Measurement and Care Management

Care Data Exchange for Cross-enterprise Data Sharing and Patient-centric Data Access

Care Management Services Ranging from Consulting and Facilitation to Care Management Business Process Outsourcing Partnerships

Identified Synergies

Revenue Opportunity

Cross-Sell CareScience Products to 1700 Quovadx Health Care Customers

Offer QUOVADX Technology to CareScience Customers

Cost Reduction Opportunity

Elimination of Public Company Costs

Data Center Consolidation

R & D Synergies

Absorption of General and Administrative Functions

CareScience Strategic Fit

CARE Offers:

Deep Care Management and Clinical Process Improvement Expertise

Industry-leading Care Process Analysis Technology

Over 170 Hospital Customers in 34 States

Highly Visible, High Margin, Recurring Revenue Model with Significant Backlog

QVDX Offers:

Integration Platform and Adaptive Applications

Complementary Product Offerings, R&D Efforts

Growing Sales Force and Distribution Network

Over 3500 customers, 1700 in Healthcare

Quovadx Creates Competitive Process Advantage

[GRAPHIC]



Company Profile

[GRAPHIC]

450 professionals in nine U.S. offices and one in the U.K

Quovadx Customers - 3500+

[GRAPHIC]

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Our Strategic Evolution

[GRAPHIC]

## Market Opportunity

### Two Major Market Segments

#### Worldwide Application Integration Spending

\$5 billion in 2000; \$9 billion in 2005

#### Global Healthcare IT spending

\$69 billion in 2002; \$103 billion in 2006

### Quovadx Emphasizes Key Customer Priorities

#### Providers

Clinical Quality, Reimbursement Improvement, Facility and Resource Utilization

#### Payers

Controlling Employer Costs, Sophisticated Disease Mgmt., Managing Drug costs, CRM

#### Pharma

Integration, Multichannel CRM, Post Merger Integration, 21CFR Part 11

#### IT

HIPAA, E-Health

**Source: Gartner 2002, 2003**

Focus on Strategic Sectors

[GRAPHIC]

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Leading the Way in Web Services

Quovadx Core Competency is XML

Tremendous Advantage

Avoid Translation, Complexity, etc.

WS-I Leadership - Demonstrating Supply Chain Application on WS-I Test Site

Major Advantage to Healthcare Organizations

Reuse of Laboratory and Radiology Results

## Software License Fee Multiplier

|                                    | License<br>Fee  | Recurring Revenue<br>(Mtcce, Hosting, Transaction<br>Fees)<br>Expected 3-Year Value as a Percentage of License Fee | Professional<br>Services |
|------------------------------------|-----------------|--|--------------------------|
| <b>ADAPTIVE APPLICATIONS</b>       |                 |  |                          |
| <b>Provider Adaptive Framework</b> |                 |  |                          |
| <b>Cash Accelerator</b>            |                 |  |                          |
| The INSURENET Solution             | \$50K - \$250K  | 250% - 500%  | 0% - 50%                 |
| QDX HIPAA Express                  | \$100K - \$250K | 55% - 60%  | 50% - 100%               |
| QDX Trading Partner Manager        | \$100K - \$200K | 55% - 60%  | 50% - 100%               |
| <b>Payer Adaptive Framework</b>    |                 |  |                          |
| Medical Management*                | \$500K - \$1.5M | 55% - 60%  | 150% - 500%              |
| <b>PLATFORM V COMPONENTS</b>       |                 |  |                          |
| Business Process Management        | \$200K - \$500K | 55% - 60%  | 100% - 200%              |
| Integration                        | \$50K - \$250K  | 55% - 60%  | 50% - 100%               |
| Legacy Integration                 | \$10K - 50K     | 55% - 60%  | 0% - 50%                 |

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\* Includes Utilization Manager, Case Management, Disease Management, and Customer Focus

Vendor Comparison

[GRAPHIC]



Quarterly License Revenue - Sequential Growth

[CHART]

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Market Share

[CHART]

No Clear Winners

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Quarterly License Revenue

[CHART]

|                                   |     |     |     |     |     |
|-----------------------------------|-----|-----|-----|-----|-----|
| <b>License Rev. As % of Total</b> | 11% | 18% | 24% | 31% | 38% |
|-----------------------------------|-----|-----|-----|-----|-----|

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Revenue Mix

6 Months 2003

[CHART]

4th Qtr. 2004 Target

[CHART]

## Target Operating Model

|                            | Percent of<br>Revenue | Target<br>Margin |
|----------------------------|-----------------------|------------------|
| Revenue                    |                       |                  |
| License                    | 50%                   | 85% - 90%        |
| Services                   | 20%                   | 45% - 50%        |
| Recurring                  | 30%                   | 45% - 50%        |
| Gross Margin               |                       | 65% - 70%        |
| Operating expenses:        |                       |                  |
| Sales and Marketing        | ~22%                  |                  |
| General and Administrative | ~13%                  |                  |
| Research and Development   | ~10%                  |                  |
| Total operating expenses   | ~45%                  |                  |
| Operating Margin           |                       | 20% - 25%        |

Margin Comparisons:  
2Q03 vs1Q03

| Segment               |    | Q2/03  | Q1/03     |
|-----------------------|----|--------|-----------|
| Software license fees | \$ | 7,242  | \$ 5,340  |
| Cost of revenue       |    | 2,158  | 2,928     |
| Gross margin          |    | 5,084  | 2,412     |
| <i>Margin %</i>       |    | 70.2%  | 45.2%     |
| Professional services | \$ | 4,317  | \$ 4,554  |
| Cost of revenue       |    | 3,129  | 3,003     |
| Gross margin          |    | 1,188  | 1,551     |
| <i>Margin %</i>       |    | 27.5%  | 34.1%     |
| Recurring revenue     | \$ | 7,785  | \$ 7,539  |
| Cost of revenue       |    | 5,164  | 4,889     |
| Gross margin          |    | 2,621  | 2,650     |
| <i>Margin %</i>       |    | 33.7%  | 35.2%     |
| Total Revenue         | \$ | 19,344 | \$ 17,433 |
| Cost of revenue       |    | 10,451 | 10,820    |
| Gross margin          |    | 8,893  | 6,613     |
| <i>Margin %</i>       |    | 46.0%  | 37.9%     |

## 2Q03 vs. 1Q03 GAAP Results

| <b>(In Thousands, except per share)</b>       | <b>2Q03</b> | <b>1Q03</b> | <b>Change</b> |
|---|-------------|-------------|---------------|
| Gross margin                                  | \$ 8,893    | \$ 6,613    | \$ 2,280      |
| Selling and marketing                         | 4,052       | 3,842       | 210           |
| General & administrative                      | 3,146       | 3,030       | 116           |
| Research and development                      | 2,246       | 2,247       | (1)           |
| Amortization of acquired intangibles          | 307         | 457         | (150)         |
| Total costs and expenses                      | 9,751       | 9,576       | 175           |
| Operating earnings (loss)                     | (858)       | (2,963)     | 2,105         |
| Interest income, net                          | 207         | 189         | 18            |
| Net income (loss)                             | \$ (651)    | \$ (2,774)  | \$ 2,123      |
| Earnings (loss) per share (basic and diluted) | \$ (0.02)   | \$ (0.09)   | \$ 0.07       |
| Weighted average shares (basic and diluted)   | 30,406      | 30,188      | 218           |
| EBITDA  | \$ 1,538    | \$ (149)    | \$ 1,687      |

## Balance Sheet Highlights

| (In Thousands, except<br>per share and DSO)       | 6/30/2003 | 3/31/2003  |
|---|-----------|------------|
| Cash, cash equivalents and short-term investments | \$ 42,091 | \$ 44,909  |
| Per share   | \$ 1.38   | \$ 1.49    |
| Accounts receivable                               | \$ 16,799 | \$ 18,964  |
| DSO   | 78        | 98         |
| Note Receivable                                   | \$ 2,318  | \$ 2,543   |
| Working capital                                   | \$ 48,767 | \$ 49,507  |
| Total assets                                      | \$ 97,574 | \$ 103,832 |
| Stockholders' equity                              | \$ 83,945 | \$ 84,178  |
| Book value per share                              | \$ 2.75   | \$ 2.79    |



## Q2 Cash Usage

**Review of Second Quarter Cash Usage  
(In Thousands)**

|                                       |    |         |
|---------------------------------------|----|---------|
| Cash Earnings                         | \$ | 1,947   |
| Cash Used in Operating Activities:    |    |         |
| Decrease in Unearned Revenues         |    | 2,054   |
| Decrease in Other Assets              |    | (2,856) |
| Decrease in Receivables               |    | (3,262) |
| Decrease in Payables & Accrued Liab.  |    | 157     |
| Net Cash Used in Operating Activities |    | (1,960) |
| Investing and Financing Activities    |    |         |
| PP&E Additions                        |    | (273)   |
| Capitalized Software                  |    | (1,002) |
| Other                                 |    | 417     |
| Net Change in Cash                    | \$ | (2,818) |

QVDX An Attractive Investment

Growth Strategies

Pursue Web Services

Extend Business Model to New Markets

Further Develop Partner and Distributor Alliances

Investment Appeal

Operate in Large, Growing Market

Offer Attractive ROI for Customers

Highly Leveraged Model

Solid Balance Sheet, No Debt