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## PRGX puts new focus on health-care auditing

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Free from debt and with new purpose, PRG-Schultz International is launching a new strategy and identity that will redefine the Atlanta-based audit recovery firm.

PRG-Schultz, which will now be known as PRGX, is forging ahead with a new practice of data analytics and business advising to grow its core retail and commercial audit recovery business, and is entering a new sector with audit recovery and advisory services for health-care insurers and Medicare.

"The firm we are trying to build over the next five years will change significantly," said Romil Bahl, president and CEO of the new PRGX, in an interview. "I suspect in the region of 20 percent [of our revenue] will come from health care, and 20 percent will come from our analytics line."

PRG-Schultz, born of the 2002 merger of Profit Recovery Group and Howard Schultz & Associates, nearly foundered in 2005. The combination of the two companies, which separately cornered the market in finding how major retailers overspend, ultimately led to a liquidity crisis in 2005 that put the company on the verge of bankruptcy.

When former Chairman, President and CEO Jim McCurry took the helm in 2005, he and former Chief Financial Officer Peter Limeri spent three years shrinking the balance sheet and shedding customers until the firm could be profitable again.

Financially stable and with a clean balance sheet, the new PRGX is building on a new strategy of not only trying to help companies identify where they spend too much, but using the more than 1 million gigabytes of purchasing data compiled from its clients each year to track spending, fraud, overpayments and model ways to improve systems.

Known as the audit recovery firm to 70 percent of the world's top retailers, including Wal-Mart Stores Inc., the new PRGX (Nasdaq: PRGX) is hoping to build its core business by not only finding where companies lose money, but new ways to profit. PRGX's typical merchandiser annually offers more than 200,000 different products in its more than 1,000 stores, and files more than 600,000 purchase orders with vendors.



BYRON E. SMALL

**Reinvention:** "The firm we are trying to build over the next five years will change significantly," said Romil Bahl, president and CEO of the new PRGX.

"We're the best at [audit recovery] and we believe we can be profitable at it again," said Bahl, whose company earned \$13.3 million in the first nine months of 2009.

"The premise is we should be able to mine that data for other actionable insights."

It's the same skill set that Bahl, a founder of Infosys Technologies subsidiary Infosys Consulting, said will help PRGX tackle one of the most complicated transactional models on Earth: health care.

PRG-Schultz was awarded a recovery audit contract with Medicare in a pilot program in California as part of the Prescription Drug, Improvement, and Modernization Act of 2003. The firm, one of three nationwide as part of the program, found more than \$330 million in overpayments and errors during its nearly three-year-long test.

Health care is an enormous and untapped market for audit recovery firms.

Health-care spending — from the private sector to the government — totaled more than \$2.5 trillion, and overspending and improper billing and other errors is estimated at \$500 billion, or 20 percent of that figure. "The numbers are big. It's a lot of zeros," said Alexander Paris Jr., president of Barrington Research Associates Inc. of Chicago, an independent investment

advisory, which has followed PRG-Schultz and its predecessor companies for 10 years.

Medicare processes 1.2 billion claims a year and expenditures were more than \$431 billion in 2007. Some experts predict as much as 20 percent of Medicare spending could be wasteful.

Bahl, who took over PRGX in January 2009, estimates the revenue potential for the audit recovery industry (which takes a small commission on the amount of savings found) could be \$7.8 billion annually. And PRGX wants a big piece.

The Senate version of health-care reform currently includes provisions to expand audit recovery throughout Medicare, making the sector far more lucrative for audit recovery players.

Bahl said the company expects to increase its employee base of about 1,600 worldwide by more than 25 percent over the next 18-24 months.

PRGX is also planning to invest \$15 million to \$20 million in growth initiatives and other internal improvements; about half will be capital expenses.

Paris said the new PRGX appears to have finally found itself.

"I think it's in fine hands from a financial perspective and Romil is exciting from my perspective," Paris said.

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