

Dear Clients and Friends,

This month we celebrate the first anniversary of the H.I.T. Greatest Hits. We want to thank all our readers for your support and endorsements -- it has certainly been an eventful year for the industry and more exciting times are ahead.

In the last newsletter, we covered some of our key takeaways from HIMSS 2014. We discussed platform companies getting into point solutions, EHRs remaining as transformative applications but needing to expand functionalities and features in order to survive and consumer-focused healthcare companies rapidly becoming big businesses. Here are some additional observations from the conference:

1. Mobility reigns supreme - In the past, we have written about the growing importance of multi-modal delivery of healthcare applications, be it e-prescribing, EMR, claims data, etc. More importantly, we see an exponential rise of native mobile applications particularly on the *diagnostic* and *tracking* fronts. At HIMSS, we saw some vendors with credible products. We are more convinced than ever that these apps will present unprecedented global opportunities for our industry to improve care while cutting costs. The fact that only 14% of mobile traffic is now browser-based (the rest is via mobile apps) is indicative of how fast the world is changing.
2. Data becomes commoditized - As a result of automation, easy-to-build real-time rule-based technologies and advancements in contextual search, healthcare content providers, information aggregators and organizers are under intense pressure to find new creative ways to add value or perish. Pure-play clearinghouses, for example, are already becoming commoditized. We have seen this trend in many other verticals. For example, providing stock charts or portfolio trackers was a big business at one point. Now this information is completely free on the Web to consumers. Same is true with satellite imagery vs. Google Earth. The Web has a way of bringing ever more information and data to the masses at ever declining costs. After all, access to information is the essence of the Internet. Success lies not with how much data you can aggregate but how you manipulate, analyze and integrate that data while pushing it up the stack.

Sincerely,

Afsaneh Naimollah

MARLIN & ASSOCIATES Healthcare IT Review April 2014

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“...and this is Ralph, your anesthesiologist.”

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In this issue: ICD-10 Delay, A Sad Day for the HIT Industry

IMPORTANT INDUSTRY NEWS

Congress delays ICD-10 for a year - A significant set back for the industry

On March 27th, the House of Representative voted to delay the ICD-10 deadline until October 1, 2015. The Senate passed the bill on March 31st; this is the second back to back extension. The development came as a big surprise to many industry leaders and CMS which had been firmly resisting the delay, but once again, politics won over reason and logic. U.S. is the only developed nation that still uses ICD-9 codes. This is regrettable and embarrassing since the first version of ICD-10 was introduced all the way back in 1992. As a matter of fact, many countries have already moved to ICD-11. Imagine if we would have delayed the Y2K solution to year 2001!

What is disheartening to us is that groups such as AMA which really looks after the interests of small practices and smallest hospitals, have been lobbying aggressively for this delay. AMA's states its mission "to promote the art and science of medicine and the betterment of public health". Frankly, we are having a hard time syncing this mission statement with AMA's anti ICD-10 lobbying efforts. Nobody is arguing that this transition is not costly. Furthermore, there is no doubt that in the short term, we may lose some productivity. But these persistent delays will massively hurt our system in the medium to long term. We read about the most advanced analytics solutions and how they could better improve care and cut costs. We hear about the latest functionalities of the EMRs, health data exchanges and the good that will come out of co-mingling administrative and clinical data as a big way to bend the cost curve. We can not harvest any of these advancements with ICD-9. This delay is a real set back. How can this happen when CMS, AHA, AHIMA and so many others were behind keeping the October 2014 deadline?

The answer is that only 12% of the members of Congress have any science or technology background. We are certainly excited about the rapid technological and scientific advancements which are changing the very nature of our life, work and society. Sadly, the people who should be leading us in managing the consequences of these profound changes are the least qualified to deal with them.

Castlight Health IPO - Frenzy or Bubble?

The number of IPOs in 2013 (222) and the number of IPO's to date in 2014 (64) are both beating 10-year records. Over 30% of the 2014 IPOs are in healthcare. Thankfully many of these companies are established players who have been around 8-10 years. This is in sharp contrast against the backdrop of the dot-com bubble which saw some companies go public with only 4-5 years of operation. So we reckon that this IPO market is more frenzied and busy and less like a bubble. At least that is our bet.

Castlight went public in March of 2014. The company is essentially in the business of price transparency, aiming to get employers the best price for their employees' healthcare needs. The shares were priced at \$16 and once trading opened, the stock shot up to \$42 valuing the company over \$3.0b. That is a mighty valuation for a company with \$13.0MM in revenue, \$100MM in backlog and losing \$62MM. The price has since fallen to more sane levels. At the time we went to print, Castlight's share price was \$22.50.

We think the amount of savings that Castlight can generate for its customers is in the billions. So when the company claims that it has an addressable market of \$5.0b, we are not surprised. That said, the model has some inherent vulnerabilities. For one, Castlight relies on access to pricing data from multiple sources including insurance companies and hospitals. The Company claims that they have information on 1 billion claims transactions (U.S. issues 5.6 billion claims a year). Clearly, the larger insurance companies themselves are able to get into this business and some already have. We certainly don't believe that majority of employers will put their trust in the hands of payors to cut their medical costs. That leaves us with the government as a potential competitor. Again, we think a private enterprise can do a much better job here. The good news is that Castlight and its competitors are tackling the market in different ways. So we have an opportunity to see which model would eventually succeed others. At the end of the day, the pie is big enough to feed a few major players. In our view, companies that can provide price transparency directly to the consumers themselves are the ones that will endure and thrive.

M&A TRANSACTIONS / INVESTMENTS

Tomorrow Networks acquired by Physicians Interactive

Tomorrow Networks, the New York, NY provider of mobile advertising solutions for healthcare marketers, and backed by Remedy Partners, was acquired by Physicians Interactive (PI), the Reading, PA provider of online and mobile clinical resources and solutions for healthcare providers. Terms were not disclosed.

Tomorrow Networks is one of the most innovative players in the newly emerging and high growth healthcare mobile advertising space. PI has a comprehensive digital marketing platform for the life science industry with solutions ranging from eSampling to campaign development and management. We have had our doubts about the healthcare industry embracing this type of technology, but it looks like PI is succeeding and making inroads. We like this transaction.

Summit Health to be acquired by Quest

Summit Health, the Southfield, MI provider of on-site prevention and wellness programs for employers, agreed to be acquired by Quest Diagnostics (NYSE: DGX), the global clinical laboratory and diagnostic testing company. Terms were not disclosed.

We first scratched our head reading about Quest buying a company which is essentially a nurse staffing company for on-site wellness programs of employers and retail clinics. Upon further reflection, we think Summit Health can be a good complement to Quest Diagnostic's 'Blueprint for Wellness' activities which conducts health assessment services for employers and individuals.

QuadMed to acquire minority stake in Stat Health

QuadMed, the Sussex, WI provider of employer-sponsored solutions and an owner/operator of health, laboratory, fitness and rehabilitation facilities, and subsidiary of Quad/Graphics (NYSE: QUAD) will acquire a minority stake in Stat Health Services, the Scottsdale, AZ provider of provider of e-health services for the treatment of common minor medical conditions via e-visits and virtual exam rooms.

Stat Health is yet another excellent example of a company that is leveraging technology to bring down the cost of care. We are enthusiastic proponents of e-visits.

Health Solutions acquired by Interactive Health

Health Solutions Services, the Owings Mills, MD provider of on-site wellness solutions in the United States and internationally, was acquired by Interactive Health Solutions, the Schaumburg, IL provider of health awareness and preventative care programs for employers, backed by CI Capital Partners. Terms were not disclosed.

Both players are established corporate wellness companies, having been around since 1992. We like the fact that Interactive has some international experience as we think that is the next frontier for growth for corporate wellness. Health Solutions has 450 clients and conducts over 300,000 screenings per year.

PeopleLYNK acquired by Greenway

PeopleLYNK, the Fort Myers, FL provider of patient engagement solutions, was acquired by Greenway, the Carrollton, GA provider of healthcare information technology solutions, primarily to ambulatory providers, and owned by Vista Equity Partners.

As we stated in our last month's newsletter, EMR providers will quicken their pace of acquisition of "edge players" and PeopleLynk's patient engagement platform is a good example of this trend. The Company does a great job in distributing content triggered by workflow events in a multi-modal fashion, including text, email or voice calls.

Med Access acquired by TELUS Health

Med Access, the Kelowna, British Columbia provider of electronic medical records to over 2,000 Canadian physicians, was acquired by TELUS Health Solutions, the Vancouver, British Columbia provider of healthcare information management solutions and a subsidiary of TELUS, the large Canadian telecommunications provider. Terms were not disclosed.

We see TELUS as one of the most visionary telecommunications firms with a coherent strategy in healthcare. After all, having a secured telecommunication network is a strategic foundation for distributed healthcare software, be it EMR, population health, messaging, etc. MedAccess is TELUS' second EMR acquisition. The company has a strong base in Alberta, Saskatchewan, Manitoba and the Ontario regions.

CitiusTech receives minority investment from General Atlantic

CitiusTech, the Princeton, NJ / Mumbai, India provider of healthcare technology consulting and business process services, received a minority investment (reported to be 26% for \$120 million) from General Atlantic, the global growth equity firm with approximately \$17 billion under management.

Rizwan Koita, Citius' CEO, is a former McKinsey executive. This is Rizwan's second success story after leaving McKinsey in 2000. According to local Indian papers, Citius, which started in 2005, had \$50MM revenue in 2013 but is growing at over 55% a year. Citius is one of the best run companies with an advanced healthcare clinical platform called BI Clinical. The product is used by 3800 locations across the world. The funding will help the Company to further expand its geographical reach into Europe, Middle East and Asia. General Atlantic, with deep experience and a successful history of investing in the Indian BPO market, has selected a first-rate partner.

Health Care Compliance Strategies acquired by HealthStream

Health Care Compliance Strategies (HCC), the Jericho, NY company focused on interactive online compliance training for healthcare organizations, was acquired by HealthStream (Nasdaq: HSTM), a provider of SaaS workforce development and research/patient experience solutions, for \$16 million, implying a 2.4x LTM revenue valuation.

Healthstream's entire acquisition history has consisted of buying niche players. HCC is no exception. HCC has one of the most robust and comprehensive compliance solutions generating solid revenue growth as well as healthy margins. This is an excellent acquisition for Healthstream.

Health Outcomes Sciences raises \$12.8M in Series A funding

Health Outcomes Sciences (HOS), the Overland Park, MO provider of clinical and financial decision support solutions, raised \$12.75 million in funding led by Grayhawk Capital and Kansas Bioscience Authority.

Until clinical decision support tools can incorporate artificial intelligence (AI) technologies, the sector will continue to face challenges. Then again, we have to take small steps to go far. HOS has been around since 2005 and knows a thing or two about predictive modeling. We will be monitoring the Company's progress, focusing on their clinical support activities.

Sense4Baby acquired by AirStrip

Sense4Baby, the San Diego, CA developer of a wireless fetal technology that can remotely monitor high-risk pregnancies, was acquired by AirStrip Technologies, the San Antonio, TX developer of mobile medical software applications. Terms were not disclosed.

AirStrip is one of our favorite remote monitoring/clinical mobility companies. Through the Company's AirStrip ONE, one in six babies born in the U.S. is monitored using the product in labor and delivery. The product allows doctors to monitor live data for patients in labor in the hospital setting. The Sense4Baby is a comparable story. Their system allows medical professionals to conduct fetal non-stress tests anytime, anywhere, moving data rather than patients through the care continuum.

Invuity raises \$36M in Series E funding

Invuity, the San Francisco, CA developer of medical devices to improve visualization in minimally invasive surgeries, and backed by Kleiner Perkins Caufield & Byers and others, raised \$21 million in equity and \$15 million in debt, led by HealthCare Royalty Partners and participation from a number of existing investors.

Invuity has a unique technology which essentially gives surgeons expanded visualization/illumination in minimally invasive surgeries such as breast, spinal or orthopedic procedures. Invuity provides a cool light vs. the traditional headlight. The cool light is placed inside the incision eliminating shadows, glare and thermal hazards and enables surgeons to make fewer and smaller incisions, quickening recovery periods.

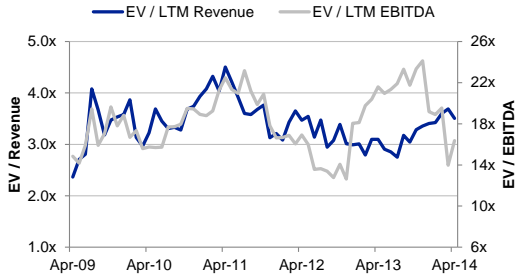
Clinicient raises \$15M in Series C funding

Clinicient, the Portland, OR provider of web-based physical therapy EMR and revenue cycle solutions, backed by Village Ventures and others, raised \$15 million in funding from Catalyst Investors, the New York, NY growth equity firm.

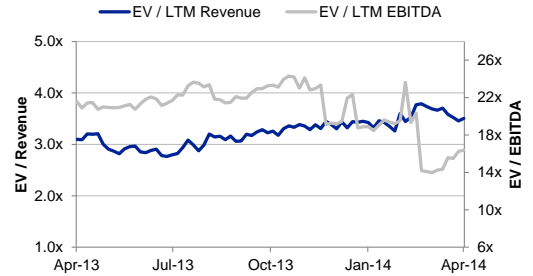
Physical therapy is one of the most underserved markets when it comes to technology offerings. Clinicient is trying to change that by building an end-to-end solution. Clinicient's offerings range from front office modules, such as registration, to EMR/documentation solutions to back office RCM services. This is consistent with the theme which we have long espoused; one service provider for both clinical and administrative functions.

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

5 Year LTM Revenue & EBITDA Multiples

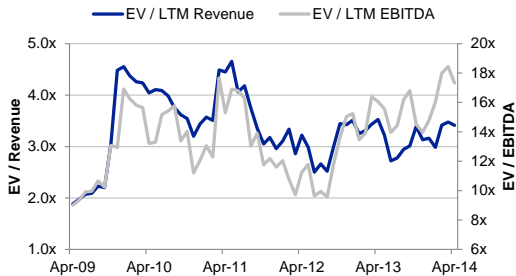


1 Year LTM Revenue & EBITDA Multiples

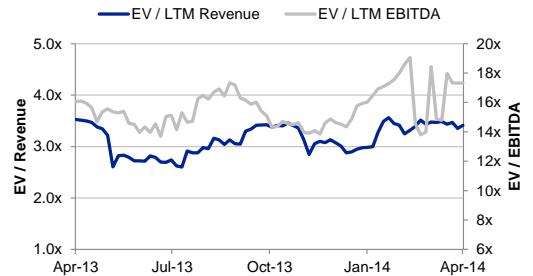


TECHNOLOGY-ENABLED HEALTHCARE SERVICES

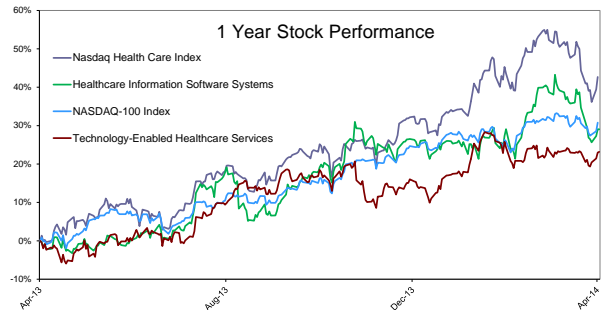
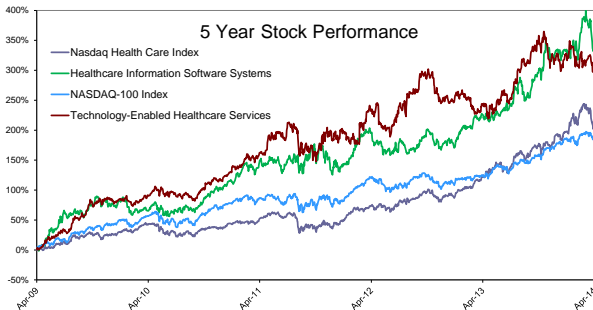
5 Year LTM Revenue & EBITDA Multiples



1 Year LTM Revenue & EBITDA Multiples



HIT STOCK PERFORMANCE VERSUS NASDAQ



PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue and EBITDA multiples (trim mean) are ~50% higher than the Technology-Enabled Healthcare Services sector, and this valuation gap contracted by 10% over the past month for both metrics. The premium multiples of Medidata, athenahealth, and Cerner as well as the continued turnaround at Allscripts, are mainly responsible for these valuation differences.

In the past 12 months the NASDAQ Health Care Index (+29%) performed better than the Healthcare Information Software Systems sector (+29%) and the Technology-Enabled Healthcare Services group (+23%). The strong returns of Medidata (+109%), athenahealth (+75%) and Allscripts (+32%) over the past year have supported the higher returns from the Healthcare Information Software Systems sector. WebMD (+69%) and McKesson (+63%) were the best performers over the past year in the Technology-Enabled Healthcare Services sector.

Marlin & Associates' Healthcare IT Indices include the following companies

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
Cerner	19,807	19,094	6.7x	5.7x	25.6x	16.6x	9%	17%	26%	35%
athenahealth	6,192	6,352	10.7x	8.4x	nm	48.9x	41%	26%	9%	17%
Allscripts	3,218	3,718	2.7x	2.6x	nm	16.2x	(5%)	4%	1%	16%
Medidata	2,979	2,968	10.7x	8.6x	nm	36.1x	27%	24%	12%	24%
The Advisory Board	2,384	2,313	4.6x	4.0x	38.1x	22.3x	16%	15%	12%	18%
CompuGroup Medical	1,227	1,641	2.5x	2.3x	15.0x	10.8x	3%	8%	17%	22%
Quality Systems	1,016	922	2.1x	2.0x	12.7x	10.0x	(4%)	5%	17%	20%
Computer Programs & Systems	721	698	3.5x	3.3x	13.0x	11.5x	10%	5%	27%	29%
Merge	230	447	1.9x	2.1x	17.3x	10.8x	(7%)	(7%)	11%	19%
Trim Mean	2,534	2,659	4.7x	4.1x	17.8x	17.8x	8%	11%	15%	21%
Median	2,384	2,313	3.5x	3.3x	16.2x	16.2x	9%	8%	12%	20%

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
McKesson	41,317	43,760	0.3x	0.3x	13.2x	9.9x	6%	22%	3%	3%
WebMD	1,858	1,985	3.9x	3.5x	27.0x	13.0x	10%	11%	14%	27%
HMS Holdings	1,683	1,823	3.7x	3.9x	14.2x	14.5x	4%	(5%)	26%	27%
MedAssets	1,528	2,298	3.4x	3.2x	11.1x	9.7x	6%	4%	31%	33%
Accretive Health	807	610	0.6x	0.7x	8.6x	8.7x	6%	(13%)	7%	8%
HealthStream	744	636	4.8x	3.8x	27.7x	24.8x	28%	26%	17%	15%
Emis	657	681	3.9x	3.1x	11.9x	9.7x	22%	26%	33%	32%
Healthways	601	851	1.3x	1.2x	30.2x	10.4x	(2%)	11%	4%	11%
Vocera Communication	407	279	2.7x	2.5x	nm	n/a	2%	9%	na	n/a
Craneware	238	208	4.9x	4.5x	17.5x	15.2x	0%	10%	28%	29%
Trim Mean	1,035	1,145	3.0x	2.7x	17.5x	11.8x	7%	11%	18%	21%
Median	775	766	3.5x	3.2x	14.2x	10.4x	6%	10%	17%	27%

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