H.I.T. Greatest *Hits*

MARLIN & ASSOCIATES
Healthcare IT Review
June 2014

Dear Clients and Friends,

The confluence of recent technology trends portends massive changes in our industry. Let's look at the following facts: cost of computing has gone down by 33% annually to 5 cents per 1M transistors in 2013 from $527 in 1990, cost of sequencing per genome has dropped by 60% annually to just $1,000 today from $100M in 2001, the number of sensors in communication devices, such as phones, increased 30% between 2012 and 2013, and the installed base for each new computing cycle grew 10x from the previous cycle. We have 10B mobile internet units today vs. 1.0M of mainframe units in 1960.

So what are the implications of these technologies? Already, we are seeing the proliferation of mobile health apps accessed via sensor-based mobile devices (Apple's recent announcement covered in this issue). In 2013, over 36 million American used their phones to look up health information using at least one mobile health application. In a few years, more than 70% of doctors "visits" could be made via video phones. The importance of mobility in healthcare is certainly evidenced by the rise in VC investments in digital health, which increased 40% YoY to $1.9B in 2013.

On another front, we foresee the day that the cost of genome sequencing becomes as inexpensive as a simple blood test. When we get there, the promise of prevention, accurate diagnosis, and precision medicine will be a reality all rooted in quantitative science. This development alone can arguably save us hundreds of billions of dollars over time.

Mobile healthcare apps in the hands of the masses will fuel the ascendency of consumerism in our industry. This will give rise to a slew of new business models and super-charge the next wave of investing in the HIT sector. Healthcare consumerism has many facets today from price transparency, telehealth (remote consult), preventive/monitoring/wellness mobile apps, patient engagement, etc. Tomorrow, we may see products that financially incentivize consumers to stay healthy or programs that enable consumers to design their own insurance policy.

These exciting developments point to an important fact that medicine has become more of an *information technology* business with the potential to vastly accelerate our progress in cutting costs and improving care. We don't know precisely what the next wave of computing cycle will bring, but it may include plugging micro chips in our brains for enhancing memory or placing micro computers in our blood stream for monitoring our health. What we do know is that the future of healthcare will be way cooler than Star Trek!
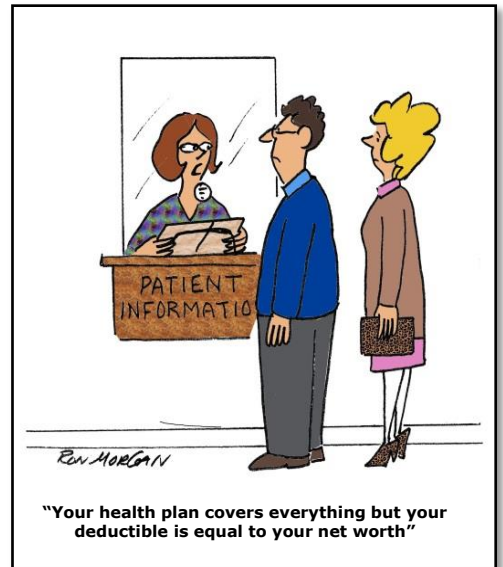
Sincerely,

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"Your health plan covers everything but your deductible is equal to your net worth"

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IMPORTANT INDUSTRY NEWS

Apple Releases HealthKit

We have held the opinion for some time that healthcare could become one of Apple's new tentacles for growth. Thus far, Apple has played the *platform* game in the healthcare industry, where a number of mobile health apps sponsored by the likes of Nike or fitbit have been written on its iOS platform. Now Apple wants to get into the mobile *app* market and the company has a brilliant strategy. Apple is selling its HealthKit app as an integrator of other mobile health apps whereby it can pull data from a variety of apps (written on the iOS platform) to create a customized user profile. The data can include blood pressure, weight, nutrition, exercise and a number of other data points as the mobile app market evolves. In this way, Apple hedges its bets by not competing with its health application developers while still participating in a meaningful way in the health mobile app market.

Apple also announced a partnership with Mayo Clinic where patients and consumers can use HealthKit to easily, but securely, access their personalized health information, and seek guidance and care when they need it. If this partnership gets some legs, we think the lines between EHR and PHR will cross and the two applications will essentially become one. In the words of John Noseworthy, the CEO and President of Mayo Clinic, Apple's HealthKit will revolutionize how the health industry interacts with people. We second that motion.

CMS releases hospital payment data for 2012

Earlier this year, CMS released data on chronic conditions among Medicare fee-for-service beneficiaries. It also made a controversial release of data in April on Medicare payment information covering more than 800,000 physicians. CMS has now released its second annual update on Medicare hospital charge data. The data includes charges for the 100 most common Medicare inpatient stays at 3,000 hospitals and 30 common outpatient services. The data reveals significant variation between geographies. For example a hip replacement in Contra Costa, CA was only $46K vs. $150K in Fairfield, CT. Treating chest pain averaged $58K in Sacramento, CA area vs. $12K in Los Angeles, CA.

M&A TRANSACTIONS / INVESTMENTS

Health Advocate to be acquired by West Corp

Health Advocate, the Plymouth Meeting, PA provider of health advocacy / concierge services agreed to be acquired by the West Corporation (Nasdaq: WSTC), the global communication services provider, for $265 million or 3.1x EV/LTM revenue.

There has been a lot of controversy around whether or not healthcare concierge services can generate substantial savings for employers. The low usage rate by employees has been cited as one factor. For West Corp., this acquisition makes a lot of sense. The company has significant call center capacity and wants to move up the value chain in the CRM sector. Health Advocate has 12,000 clients and 600 employees, most of whom are working at the Company's call centers.

Healogics to be acquired by CD&R

Healogics, the Jacksonville, FL provider of advanced wound care services, and backed by The Apollo Group and others, agreed to be acquired by Clayton, Dubilier & Rice, the New York, NY private equity firm, for $910 million or approximately 3.0x revenue.

Big deals in the healthcare sector are hard to come by. This $900M+ transaction is one of the largest transactions to date. The company has $300M in revenue and runs over 600 hospital outpatient wound care facilities, translating to an over 30% market share. Over 25% of hospital beds today are occupied by patients with wounds, and with the rise of diabetes and surgical interventions this figure is likely to increase.

Altos Solutions acquired by Flatiron Health

Altos Solutions, the Los Altos, CA provider of a web-based oncology-specific EMR, was acquired by Flatiron Health, the New York, NY cloud platform provider for oncology clinical and practice management. Terms were not disclosed. Simultaneously, Flatiron raised $130 million in Series B funding, led by existing investor Google Ventures, in part to help finance this acquisition.

This is a big raise for a company that incorporated in 2012. Flatiron is essentially a big data play in the oncology field. Altos is the largest EMR company for oncology practices. This combination makes perfect sense to us.

Cymetrix acquired by Navigant

Cymetrix, the Irvine, CA provider of outsourced revenue cycle management services to hospitals, and backed by Riordan, Lewis & Haden, was acquired by Navigant (NYSE: NCI), the provider of consulting services to healthcare and other industries, for $100 million, consisting of $75.0M upfront with $25.0M earn out.

We have seen some reasonable activity in the hospital billing and practice management sector. MED3000's acquisition by McKesson and The Outsource Group's acquisition by Parallon come to mind. Navigant is predominately a consulting company so we were a bit curious when we saw the announcement. The company is clearly morphing from a pure consulting model and wants to be able to offer specific products/solutions to its customer base, which are largely hospitals.

Intelligent Healthcare acquired by ZirMed

Intelligent Healthcare, the Santa Monica, CA provider of clinical integration and population health management solutions, was acquired by ZirMed, the Louisville, KY provider of RCM and other technology to hospitals, and backed by Sequoia Capital. Terms were not disclosed.

On the heels of the small acquisition of TransEngen, a payment processing company, in April 2014, Zirmed has made yet another acquisition. We often compare Zirmed with Passport, the latter being more focused on the hospital sector and sold to Experian in November of 2013. It appears that Zirmed may want to expand its footprint beyond the administrative side of healthcare into more clinical applications such as PHM.

Encore Health to be acquired by Quintiles

Encore Health Resources, the Houston, TX provider of healthcare information technology consulting services, agreed to be acquired by Quintiles (NYSE: Q), the world's largest contract research organization (CRO). Terms were not disclosed.

Quintiles core business is in clinical development. Encore is essentially a consulting and system integration company involved in strategy, EHR implementation, RCM and analytics services and has specific expertise with Epic. Through this acquisition, once again, the industry is acknowledging that the EHR is the holly grail of all the important patient data. Encore's competency around implementation will prove valuable for Quintiles over time.

Forcea acquired by IMS Health

Forcea, the Belgium-based provider of business intelligence and performance management solutions for hospitals and life sciences organizations, was acquired by IMS Health (NYSE: IMS), the global healthcare information and technology services company. Terms were not disclosed.

Since going public earlier in 2014, we have wondered if IMS will be more or less active on the M&A front. The company typically makes over 6-8 acquisition a year but Forcea is IMS's first in 2014. Forcea helps hospitals and pharmas in their budgeting and planning process by extracting information from various sources including ERP, CRM and IMS.

HealthPost acquired by Advisory Board

HealthPost, the Houston, TX provider of cloud-based healthcare appointment scheduling solutions, was acquired by The Advisory Board (Nasdaq: ABCO), a provider of best practices research and analysis, business intelligence and performance technology software solutions, for $26 million.

This is an interesting acquisition by Advisory Board. Granted the company paid a full price for HealthPost but the fact that ABCO wants to enter the market for appointment scheduling is telling us that the company is looking for new avenues for growth. Crimson, a subsidiary of ABCO, already offers provider performance assessment tools. HealthPost surely will strengthen and extend those capabilities.

AmeriDoc acquired by Teledoc

AmeriDoc, the Dallas, TX provider of cloud-based telemedicine services, was acquired by Teledoc, the Dallas, TX first and largest provider of U.S. telehealth solutions.

Teledoc has had an impressive growth over the past few years. The company has 7.5 million members who have 250,000 consults with Teledoc's physician network annually. AmeriDoc is a smaller competitor to TeleDoc but has a strong pediatrician network.

Dynamic Clinical Systems acquired by Press Ganey

Dynamic Clinical Systems (DCS), the Hanover, NH provider of patient-reported outcomes solutions, zwas acquired by Press Ganey, the South Bend, IN provider of healthcare performance solutions for hospitals. Terms were not disclosed.

DCS is one of the few enterprises that focuses on outcome measurements as reported by patients via survey tools and other methodologies. The company serves clinicians and researchers at academic medical centers with key domain expertise of in the areas of oncology and spine care.

NantHealth raises $100M in funding

NantHealth, the Culver City, CA, provider of cloud-based intelligent clinical operating systems, raised $100 million in from the Kuwait Investment Authority, bringing its total announced funding to $160 million.

We wrote about Blackberry and Nanthealth partnership in our May issue. This significant investment by Kuwait's sovereign Fund is yet another endorsement for Dr. Soon-Shiong's vision of evidence-based, molecularly-driven medicine.

Oscar raises $80M in funding

Oscar Insurance, the New York, NY provider of health insurance products, raised $80 million in a round of funding led by Joe Lonsdale (Formation8) and included participation from existing investors Thrive Capital, Stan Druckenmiller, Khosla Ventures, General Catalyst Partners and others.

We love disruptors of any kind. Oscar holds the promise of becoming a next generation insurer. The company had already raised $75M in seed funding. Industry estimates puts the sales of the company at around $72M and the pre-money valuation of this new round at close to $800M.

Evariant raises $18M in Series B funding

Evariant, the Farmington, CT provider of integrated SaaS-based business intelligence, marketing and optimization solutions, raised $18.3 million in funding led by Lightspeed Venture Partners.

Evariant's approach to marketing, market segmentation and campaign management is unique and differentiated. The Company not only helps physician group form marketing campaigns but it also extends the service to patient engagement and referral management.

Apixio raises $14M in Series C funding

Apixio, the San Mateo, CA provider of big data analytics for clinical and billing healthcare information, raised $13.5 million in funding led by new investor Bain Capital Ventures.

We have followed Apixio for some time and believe the company has one of the strongest analytics technologies around. Since the company started to focus on its HCC optimizer business, growth has been strong. This capital will be put to good use to further expand the business. One of the big benefits of the HCC optimizer is the accuracy in its risk scores for Medicare patients which can result in more than $150 revenue / patient to provider organizations. The product is also available for commercial health plans.

Wellcentive raises $12M in growth equity

Wellcentive, the Roswell, GA provider of population health management solutions, raised $12 million in a round of funding led by new investor Summit Partners and included participation from existing investors.

In the crowded PHM sector, Wellcentive stands as having a good reputation. Companies such as Lumeris, Covisint, ABCO, Optum, Explorys all roam the same zipcode as Wellcentive. The company is price competitive and is purported to have better clinical integration and predictive risk modeling.

Kyruus raises $11M in funding

Kyruus, the Boston, MA provider of physician optimization software solutions, raised $11.2 million (of a $20 million round) in funding from nine unnamed investors. Kyruus is backed by Gerson Lehrman, Lux Capital, Venrock and others.

The $20M funding brings the total funds raised by the company to close to $40M. The patient access and referral management is a hot market due to the emerging network based care delivery models.

Mango Health raises $5M in Series A funding

Mango Health, the San Francisco, CA provider of gamification solutions for medication adherence, raised $5.25 million in funding from Kleiner Perkins Caufield & Byers.

Mango has been able to beautifully fuse the gaming background of its founders with medication adherence applications, one of the most pressing needs in healthcare today. We are big fans of bringing the principles of successful horizontal technologies into the healthcare sector.

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

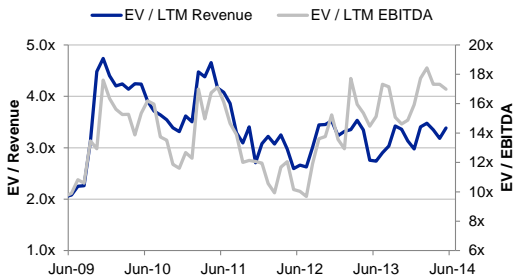**5 Year LTM Revenue & EBITDA Multiples**
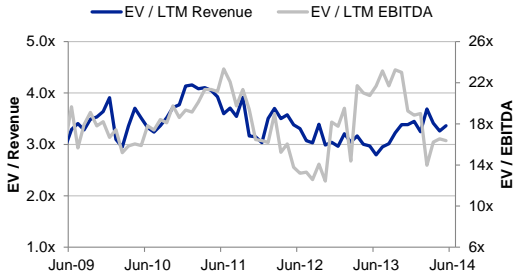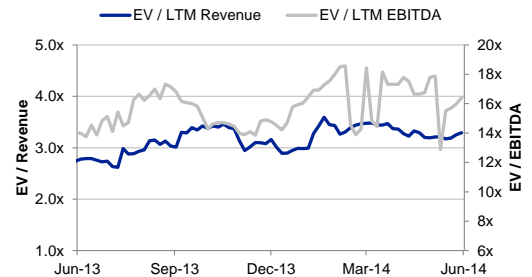

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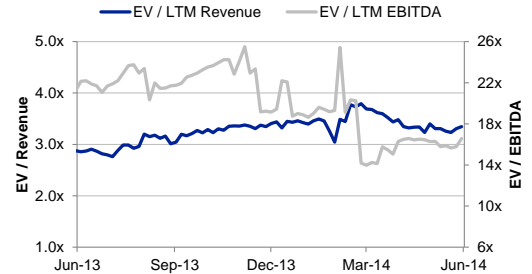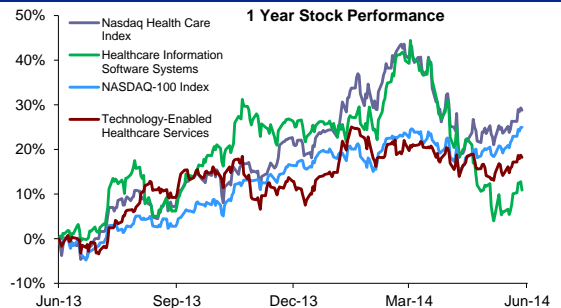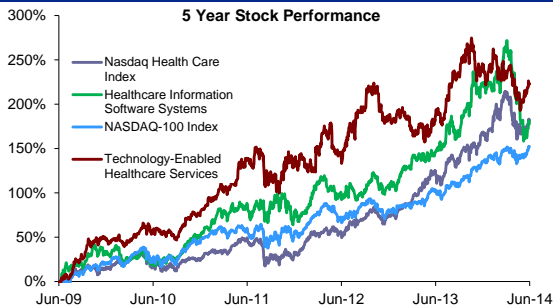

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

5 Year LTM Revenue & EBITDA Multiples

1 Year LTM Revenue & EBITDA Multiples

HIT STOCK PERFORMANCE VERSUS NASDAQ

5 Year Stock Performance

Nasdaq Health Care Index
Healthcare Information Software Systems
NASDAQ-100 Index
Technology-Enabled Healthcare Services

1 Year Stock Performance

Nasdaq Health Care Index
Healthcare Information Software Systems
NASDAQ-100 Index
Technology-Enabled Healthcare Services

PUBLIC MARKET TRENDS

The Healthcare Information Software Systems group 2014 revenue multiple (trim mean) is 30% higher than the Technology-Enabled Healthcare Services sector, which is consistent with last month, after decreasing earlier in 2014 when former high-flying stocks such as Medidata, athenahealth and Advisory Board had their wings clipped a bit. In terms of 2014 EBITDA multiples, the Healthcare Information Software Systems group still enjoys a slight premium (+10%) versus its Tech-Enabled Healthcare Services peers, but that gap has narrowed recently.

In the past 12 months both the NASDAQ Health Care Index (+29%) and the NASDAQ-100 (+25%) performed better than the Technology-Enabled Healthcare Services group (+18%) and the Healthcare Information Software Systems sector (+11%). McKesson (+66%), Craneware (+45%) and WebMD (+41%) were the best performers over the past year in the Technology-Enabled Healthcare Services sector and all three posted solid 5-10% returns over the past month. On the other hand, nearly all of the Healthcare Information Software System companies' stock prices were flat or down over the prior month.

Marlin & Associates' Healthcare IT Indices include the following companies

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
Cerner	19,038	18,167	6.4x	5.4x	24.4x	15.9x	9%	18%	26%	34%
athenahealth	4,757	4,852	8.2x	6.5x	nm	36.8x	41%	25%	9%	18%
Allscripts	2,639	3,147	2.3x	2.2x	nm	14.3x	(5%)	3%	1%	16%
Medidata	2,015	2,026	7.3x	5.9x	63.6x	25.2x	27%	23%	12%	24%
The Advisory Board	1,801	1,759	3.5x	3.0x	29.0x	17.6x	16%	15%	12%	17%
CompuGroup Medical	1,330	1,725	2.7x	2.5x	15.9x	11.8x	3%	9%	17%	21%
Quality Systems	943	830	1.9x	1.8x	11.4x	10.2x	(4%)	6%	17%	17%
Computer Programs & Systems	710	680	3.4x	3.2x	12.7x	11.4x	10%	5%	27%	28%
Merge	212	421	1.8x	2.0x	16.3x	10.2x	(7%)	(8%)	11%	19%
Trim Mean	**2,028**	**2,145**	**3.9x**	**3.5x**	**19.7x**	**15.2x**	**8%**	**11%**	**15%**	**21%**
Median	**1,801**	**1,759**	**3.4x**	**3.0x**	**16.3x**	**14.3x**	**9%**	**9%**	**12%**	**19%**

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
McKesson	44,565	52,888	0.4x	0.3x	16.1x	11.4x	6%	25%	3%	3%
WebMD	1,791	1,965	3.8x	3.4x	26.7x	12.6x	10%	12%	14%	27%
HMS Holdings	1,653	1,775	3.6x	4.0x	13.9x	16.3x	4%	(10%)	26%	25%
MedAssets	1,445	2,220	3.3x	3.1x	10.7x	9.5x	6%	4%	31%	33%
Accretive Health	755	559	0.7x	0.6x	9.0x	8.0x	(9%)	2%	7%	8%
Emis	720	745	4.2x	3.3x	13.0x	10.0x	22%	27%	33%	33%
HealthStream	718	616	4.7x	3.7x	26.9x	24.4x	28%	26%	17%	15%
Healthways	606	867	1.3x	1.2x	30.7x	10.6x	(2%)	12%	4%	11%
Vocera Communication	324	203	2.0x	1.8x	nm	n/a	2%	7%	na	n/a
Craneware	249	219	5.1x	4.7x	18.4x	16.0x	0%	9%	28%	30%
Trim Mean	**1,001**	**1,121**	**2.9x**	**2.7x**	**17.9x**	**12.3x**	**6%**	**12%**	**18%**	**21%**
Median	**738**	**806**	**3.4x**	**3.2x**	**16.1x**	**11.4x**	**5%**	**10%**	**17%**	**25%**

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