

Dear Clients and Friends,

Against the backdrop of the recent technological breakthroughs in healthcare, we have been pondering the economic, societal and moral implications of the projected rise in life expectancy.

Most of us agree that we are living in exciting times, where advancements and innovation in healthcare technology are helping us diagnose diseases at much earlier stages and offering new treatment options. The march forward is inexorable. In less than a decade, the size of computers will be as small as our blood cells where they can perform medical maintenance from within our bloodstream. According to some pundits, the sum total of all this means that by 2035, for every 100 people of working age (25-64) in the developed economies, there will be 45-60 people over the age 65. More than a quarter of children born in these countries today will live to see their 100<sup>th</sup> birthdays.

Clearly this momentous increase in the number of elderly among us has many implications from the average age of our workforce to the burden on the economies and nations (as a result of increased pension liabilities). If advances in technology are increasingly helping us produce more with fewer workers, then how do we face the resulting challenge of having an educated, healthy and aging population that can not find ways to be productively employed.

The recent events in America are good examples of how demographic trends and politics may shape our future. Congress recently slashed spending on the young and poor while failing to make any meaningful reform in health and pension spending. What are the implications if our policy makers have to increasingly respond to this grey tsunami. We do not pretend to have good answers to these difficult questions. But a few things are clear. Longer lives are a great triumph. We need solutions to make better use of longer life recognizing that older people can be a resource not a burden. We should continue to invest in health to lessen the disease burden, help prevent isolation and draw benefits for society by maintaining the independence and productivity of older people. After all humanity is measured by how well we treat the children and the elderly in our society.

Sincerely,

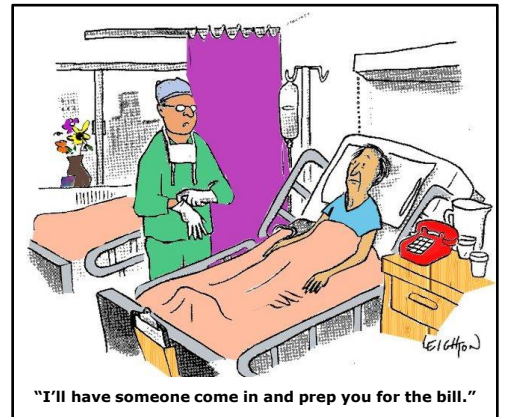
Afsaneh

## MARLIN & ASSOCIATES Healthcare IT Review May 2014

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## IMPORTANT INDUSTRY NEWS

### **BlackBerry enters healthcare through an investment in NANTHEALTH**

BlackBerry, the troubled Canadian mobile telecommunication company announced its investment in NANTHEALTH. Los Angeles-based Dr. Patrick Soon-Shiong, the CEO of NANTHEALTH, is one of the most successful healthcare investors in the world. NANTHEALTH is an investment vehicle where Dr. Soon has assembled 30 companies to help advance healthcare by converging science, technology and connectivity.

BlackBerry is the second telecommunication company that has invested in NANTHEALTH; Verizon made its investment in 2012. Additionally, Vodafone has an outstanding partnership with the group for developing remote patient care.

NANTHEALTH and BlackBerry will jointly co-develop data and messaging services on top of BlackBerry's QNX operating system which is one of the most secured, robust platforms in the technology industry, as well as its BBN services. As a matter of fact, Apple and Google are writing several programs for other verticals on top of the same ONX platform. We have long held the opinion that health mobile apps are one of the most promising areas for mobility players such as BlackBerry, Apple or Google – lets see if this partnership can move the needle for BlackBerry.

### **Merck teams up with EHR vendor Practice Fusion to improve patient health**

Merck is viewed as the most progressive pharmaceutical company when it comes to digital health initiatives. The newest collaboration with Practice Fusion will help doctors track the percentage of their adult patients who are up-to-date on their vaccines. Additionally, the doctors can see how well their patient population compares to the other physicians on the Practice Fusion platform. Doctors can now notify their patients who need to get vaccination, a task that has been traditionally the job of the payers.

We anticipate that over time the value of the data collected by Practice Fusion will become more evident. The free EHR is now used by 100,000 physicians. The Company claims that it is turning 4 million patient visits a month and prescriptions for 1,500 drugs into insightful information, particularly for the consumption of the pharmaceutical companies.

## M&A TRANSACTIONS / INVESTMENTS

### **ABILITY to receive \$550M investment**

ABILITY Network, the Minneapolis, MN provider of a web-based health information network for hospitals, home health agencies, hospices and skilled nursing facilities, and backed by Bain Capital Ventures and Lehmi Ventures, agreed to receive \$550 million from Summit Partners in a majority recapitalization.

*This is Summit's largest healthcare deal to date. ABILITY is an exceptional investment opportunity in the HC industry. The company has demonstrated tremendous innovation and growth. In our opinion, ABILITY has one of the most competent management teams in the industry. We look forward to seeing the ABILITY story evolve under Summit Partners' ownership.*

### **CareInSync acquired by Hearst**

CareInSync, the Santa Clara, CA provider of a HIPAA-compliant, mobile care communication platform, was acquired by Zynx Health, the Los Angeles, CA provider of clinical decision support solutions and subsidiary of the Hearst Corporation. Terms were not disclosed.

*In the past two and half years, Hearst Corporation has invested nearly \$1 billion in a variety of healthcare assets, including: Homecare Homebase and Milliman Care Guidelines. CareInSync's mobile connectivity platform helps hospitals, nurses and case managers to communicate with home care and other aftercare providers for transition of care plans and engagement of patients, post-discharge.*

### **AccelaRAD acquired by Nuance**

AccelaRAD, the Atlanta, GA provider of medical image cloud computing solutions for imaging facilities and physicians, and backed by Eastside Partners, was acquired by Nuance Communications (NASDAQ: NUAN), the global provider of business and consumer voice and language solutions. Terms were not disclosed.

*There are a number of players in imaging transfer business. Nuance is planning to combine AccelaRAD mobile imaging platform into their PowerShare Network. Essentially the combined solution will allow doctors and radiologists in any hospital to share images and reports with one another over the cloud via computers or mobile devices. Various industry sources report that AccelaRad had \$6.0MM in revenue at the time of this acquisition.*

### **Fortel Analytics and Simpler Consulting acquired by Truven Health**

Fortel Analytics, the Maple Grove, MN provider of healthcare fraud technology, and Simpler Consulting, the Bloomfield, IA provider of Lean Enterprise performance management consulting services were acquired by Truven Health Analytics, the Ann Arbor, MI provider of healthcare analytics, data solutions and services. Terms were not disclosed.

*After a quiet 2013, Truven has made two back to back acquisitions thus far in 2014. Fortel, a revenue integrity company is a solid compliment to Truven's own payment integrity tools. Truven is now better positioned to offer pre and post payment fraud prevention.*

*We like healthcare software companies that acquire consulting services. Simpler is a good fit for Truven's cost and quality analytics business.*

### **TransEngen assets acquired by ZirMed**

TransEngen, the Shelton, CT provider of patient payment processing solutions, sold its payment processing, patient eligibly and patient estimation solutions to ZirMed, the Louisville, KY provider of RCM and other technology to hospitals, and backed by Sequoia Capital. Terms were not disclosed.

*Zirmed's traditional business is focused on clearinghouse services, but with increasing commoditization of those types of services, it appears the company is seeking to augment growth through acquisitions; the TransEngen assets include a larger client base with several enterprise customers.*

### **MDdatacor acquired by Symphony Tech Group**

MDdatacor, the Alpharetta, GA provider of healthcare data integration and analytic solutions for both payers and providers, and a subsidiary of Noridian Mutual Insurance Company, was acquired by Symphony Technology Group (STG), the Palo Alto, CA technology and services-focused private equity firm. Terms were not disclosed.

*Following the firm's playbook, MDdatacor will be combined with other assets from STG to form Symphony Performance Health. STG also owns Symphony Health Solutions (provider of patient and physician insights).*

### **Hobart Group acquired by Precision For Medicine**

Hobart Group, the Gladstone, NJ provider of payer-focused strategic communications agency that provides managed care services (including message development and payer market research) for pharmaceutical and biotechnology companies, was acquired by Precision For Medicine, the Chevy Chase, MD provider of drug development and commercialization services for life sciences research and development, backed by Oak Investment Partners and J.H. Whitney. Terms were not disclosed.

*This is Precision for Medicine's first acquisition since receiving \$150 million in funding in April 2013. The acquisition of Hobart Group should help the acquirer integrate evidence generation, analytics, and communications to address the needs of the patient-centric, multipayer landscape that characterizes modern healthcare.*

### **Health Dialog Services acquired by Rite Aid**

Health Dialog Services, the Boston, MA provider of health coaching, shared decision making and analytics and backed by BUPA (London-based healthcare services group), was acquired by Rite Aid (NYSE: RAD), one of the leading drugstore chains. Terms were not disclosed.

*BUPA acquired Health Dialog in December of 2007 for \$775 million. This was BUPA's big push into the U.S. Healthcare sector. The acquisition has been a big disappointment for the company and now BUPA has started to divest its U.S. assets.*

*Health Dialog Services help employers and health plans to improve healthcare quality while reducing overall costs. The acquisition will help Rite Aid to support and grow Rite Aid Health Alliance , which is the firm's health-management effort to provide "comprehensive care and support to individuals with chronic and poly chronic health conditions" by collaborating with health care providers. Previously Health Dialog supported these efforts independently, but it will now function as a wholly owned subsidiary of Rite Aid.*

### **iHealth to merge with Connolly**

iHealth Technologies, the Atlanta, GA provider of payment policy management solutions and services for payers, and backed by Goldman Sachs Merchant Banking Division and Oak Investment Partners, agreed to merge with Connolly, Inc., the Atlanta, GA recovery audit services firm backed by Advent International Corp. Terms were not disclosed but market talk puts the price of the acquisition at over \$1.0B.

*There has been increasing interest in insurance claims services sector and M&A activity has picked up considerably. The combination has now created a formidable force in the audit and revenue integrity sector.*

### **PBA acquired by edgeMED**

Physicians Billing Alternative (PBA) the Coral Springs, FL provider of revenue cycle management and practice management solution services to physician practices, was acquired by edgeMED, the Boca Raton, FL provider of RCM and EHR services. Terms were not disclosed.

*The combined companies now can serve multiple specialties nationwide offering practices end-to-end functionality from EHR to practice management and billing.*

### **Optima acquired by Intermedix**

Optima, the Auckland, New Zealand provider of resource allocation software, company was acquired by Intermedix, the Fort Lauderdale, FL RCM and healthcare information technology and emergency response solutions provider to the emergency medicine market, and backed by Thomas Lee Partners. Terms were not disclosed.

*Optima, which provides support simulation and predictive analytics which are used by both the government and private sector, including emergency response agencies and airlines.*

*We like Intermedix global expansion strategy. The company acquired ESI/WebEOC in 2013. ESI is a global leader in crisis incident management and is based in Augusta, GA. Now Intermedix supports customers in 16 different countries. Optima's solutions support 5.5 million emergency responses annually across a population of more than 50 million.*

### **Health Robotics acquired by Aesynt**

Health Robotics, the Bolzano, Italy provider of IV automation technology, and backed by Tosho (Japan), was acquired by Aesynt, the Cranberry Township, PA provider of automation technology for the supply and medication-use processes, and backed by Francisco Partners. Terms were not disclosed.

*Francisco Partners purchased McKesson Automation (re-named Aesynt) in November 2013. This cross-border acquisition helps build a more complete set of pharmacy automation solutions, an area where global technology appears synergistic with the U.S. healthcare market.*

### **Alignment Healthcare raises \$125M**

Alignment Healthcare, the new Irvine, CA provider of integrated care coordination solutions for population health management, secured a \$125 million commitment from General Atlantic.

*This is the second significant healthcare investment by General Atlantic in 2014. Last month the firm invested \$120MM in CitiusTech a provider of consulting and business process services for healthcare organizations. Alignment's model which incorporates advanced clinical and risk assessment aims to integrate with hospitals, physician groups and health plans, offers a more effective way of providing value-based-care where hospitals and health plans are closely aligned.*

*The PHM market is being chased by a number of different companies. We have tremendous respect for General Atlantic's investment team and like the unique approach that Alignment is taking to tackle the PHM field a little differently.*

### **Doximity raises \$54M in Series C funding**

Doximity, the San Mateo, CA operator of an online professional physician network, and backed by Emergence Capital, Mergenthaler and InterWest Partners, raised \$54 million in funding co-led by Draper Fisher Jurvetson and T. Rowe Price Associates.

*Long touted as the LinkedIn for doctors, Doximity's total funding has now reached \$81MM. We are intrigued by the participation of T. Row Price and have started to see them in other healthcare IT deals as a new investor class. One in every three doctors is now a member of Doximity network. Over 20,000 peer-to-peer messages are sent through Doximity on a given day. Since January 2013, when the company started its recruiting product, 100,000 jobs have been sent to its members.*

### **hCentive raises \$35M in funding**

hCentive, the Reston, VA technology provider for health plans, state agencies, dental plans and TPAs, raised \$35 million (\$25M for growth, \$10M for buyouts) from an undisclosed strategic investor, valuing the company at \$150 million post-money.

*On the heels of the successful development of healthcare exchanges in the U.S., hCentive raised \$35 million in its first investment round from a "very large healthcare provider." hCentive also landed the project to launch the (SHOP) exchanges that would allow small businesses to buy insurance for their employees, which begins in October 2014 - the company is quickly becoming a B2C player as well.*

### **Omada Health raises \$23 in Series B funding**

Omada Health, the San Francisco, CA provider of group-based programs for chronic disease prevention, raised \$23 million led by Andreesen Horowitz and included participation from Kaiser Permanente.

*Omada Health, with its focus on prevention of diabetes, was formed by a group of technologists and entrepreneurs from Google, IDEO, Harvard Medical School, and Amazon, which has apparently caught the attention of blue-chip Silicon Valley investors.*

### **Orange Health raises \$22.5M in Series A funding**

Orange Health Solutions, the Jacksonville, FL provider of outsourced administrative services and accountable care organization services, raised \$22.5 million in funding from Great Point Partners for the purchase of Longwood, FL MZI Healthcare, provider of benefit administration services.

*Orange Health was established in 2012 by two veterans from the payer sector. The company provides medical cost management, practice and office management including administrative services as well as ACO services. MZI Health is a software and services company that offers health benefit management services including eligibility, claims payment processing as well as consulting and analytics solutions.*

### **InfoBionic raises \$17 in Series B funding**

InfoBionic, the Lowell, MA provider of a cloud based service and patient monitoring platform, raised \$17 million led by Safeguard Scientifics (NYSE: SFE) and included participation from previous investors.

*Safeguard acquired 20% of the company and will help InfoBionic launch the MoMe System later this year, which will target cardiac monitoring. The remote patient monitoring space is a large opportunity that continues to get more crowded, but this appears to be promising, specialized technology.*

### **Health Fidelity raises \$14.1M**

Health Fidelity, the Menlo Park, CA provider a clinical natural language processing (NLP) platform, and raised \$14.1M from existing investor Charter Life Sciences.

*NLP is one of the most critical foundational technologies in healthcare. The technology is predominately used for converting unstructured clinical notes into rich fully structured information that can extract "meaning" which can be used for identifying clinical concepts to improve the quality and efficiency of care delivery process.*

### **InfoMC raises funding**

InfoMC, the Conshohocken, PA provider of healthcare process management for behavioral healthcare, raised an undisclosed amount of funding from new investor Main Line Equity Partners.

*Founded in 1994, this is InfoMC's first institutional investment for the company that combines healthcare technology and process management for its managed care, behavioral health and public sector customers.*

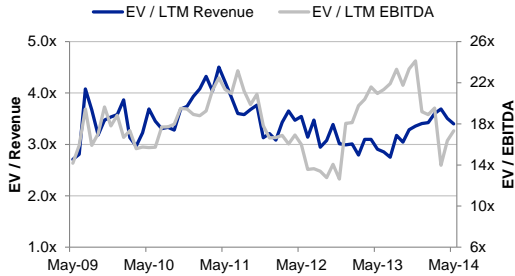
### **Flatiron Health raises \$8M in Series A funding**

Flatiron Health, the New York, NY provider of a business and clinical intelligence platform for cancer care givers, raised \$8 million in funding which included participation from Laboratory Corporation of America, Google Ventures and BoxGroup among others.

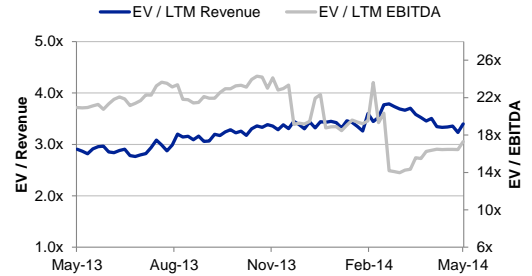
*Co-founded in 2012 by two partners who previously sold an advertising technology company to Google, Flatiron's "OncologyCloud" product helped earn the company a grant from the NYC Economic Development Corporation initiative in 2013.*

## HEALTHCARE INFORMATION SOFTWARE SYSTEMS

**5 Year LTM Revenue & EBITDA Multiples**

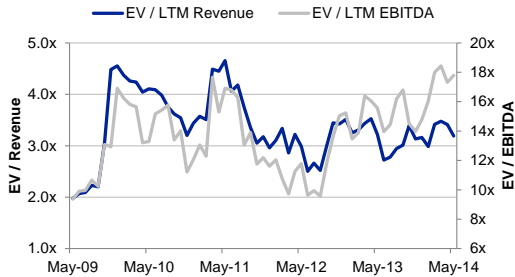


**1 Year LTM Revenue & EBITDA Multiples**

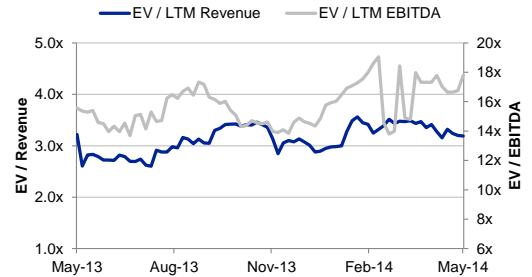


## TECHNOLOGY-ENABLED HEALTHCARE SERVICES

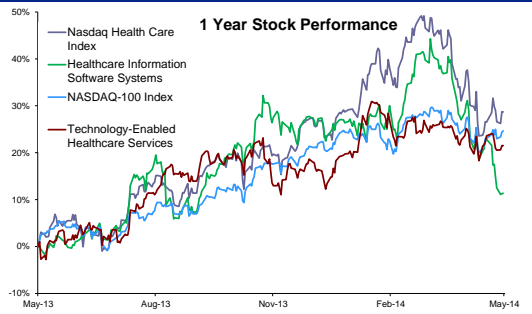
**5 Year LTM Revenue & EBITDA Multiples**



**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 30-35% higher than the Technology-Enabled Healthcare Services sector, but this valuation gap has contracted by 20-25% recently, largely due to pressure on the stock prices and multiples of Medidata (-34% over last month, athenahealth -23%, Advisory Board -13% and Cerner -9%). Since May 2013, the Technology-Enabled Healthcare Services group has underperformed the other three indices above, but also experienced less volatility over the past month.

In the past 12 months the NASDAQ Health Care Index (+29%) performed better than the Healthcare Information Software Systems sector (+11%) and the Technology-Enabled Healthcare Services group (+22%). WebMD (+87%) and McKesson (+60%) and Healthways (+27%) were the best performers over the past year in the Technology-Enabled Healthcare Services sector with 2 of the 3, Healthways and WebMD, posting modestly positive returns (+5%) over the past month.

## 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	18,069	17,199	6.1x	5.2x	23.1x	14.8x	9%	17%	26%	35%
athenahealth	4,635	4,729	7.9x	6.4x	nm	36.1x	41%	25%	9%	18%
Allscripts	2,717	3,216	2.3x	2.2x	nm	14.1x	(5%)	4%	1%	16%
The Advisory Board	2,125	2,053	4.1x	3.6x	33.8x	19.7x	16%	15%	12%	18%
Medidata	1,892	1,903	6.9x	5.6x	59.7x	23.7x	27%	23%	12%	24%
CompuGroup Medical	1,302	1,719	2.6x	2.4x	15.6x	11.3x	3%	9%	17%	22%
Quality Systems	889	795	1.8x	1.7x	10.9x	8.6x	(4%)	5%	17%	20%
Computer Programs & Systems	704	682	3.4x	3.2x	12.7x	11.2x	10%	5%	27%	29%
Merge	219	428	1.8x	2.0x	16.6x	10.2x	(7%)	(7%)	11%	19%
<b>Trim Mean</b>	<b>2,038</b>	<b>2,157</b>	<b>3.9x</b>	<b>3.5x</b>	<b>20.4x</b>	<b>15.0x</b>	<b>8%</b>	<b>11%</b>	<b>15%</b>	<b>21%</b>
<b>Median</b>	<b>1,892</b>	<b>1,903</b>	<b>3.4x</b>	<b>3.2x</b>	<b>16.6x</b>	<b>14.1x</b>	<b>9%</b>	<b>9%</b>	<b>12%</b>	<b>20%</b>

### 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	39,590	42,033	0.3x	0.3x	12.6x	9.5x	6%	22%	3%	3%
MedAssets	1,408	2,184	3.2x	3.1x	10.5x	9.3x	6%	4%	31%	33%
WebMD	1,978	2,106	4.1x	3.6x	28.6x	13.5x	10%	12%	14%	27%
HMS Holdings	1,429	1,568	3.2x	3.4x	12.3x	12.5x	4%	(5%)	26%	27%
Healthways	633	893	1.3x	1.2x	31.7x	10.9x	(2%)	12%	4%	11%
Emis	649	674	3.8x	3.0x	11.6x	9.2x	22%	27%	33%	32%
Accretive Health	812	615	0.6x	0.7x	8.7x	8.8x	6%	(13%)	7%	8%
HealthStream	632	530	4.0x	3.2x	23.1x	21.5x	28%	27%	17%	15%
Vocera Communication	380	252	2.5x	2.3x	nm	n/a	2%	9%	na	n/a
Craneware	248	217	5.1x	4.7x	18.3x	15.8x	0%	9%	28%	30%
<b>Trim Mean</b>	<b>990</b>	<b>1,103</b>	<b>2.8x</b>	<b>2.6x</b>	<b>16.7x</b>	<b>11.5x</b>	<b>7%</b>	<b>11%</b>	<b>18%</b>	<b>21%</b>
<b>Median</b>	<b>730</b>	<b>784</b>	<b>3.2x</b>	<b>3.0x</b>	<b>12.6x</b>	<b>10.9x</b>	<b>6%</b>	<b>10%</b>	<b>17%</b>	<b>27%</b>

#### United States

New York, NY  
San Francisco, CA  
Washington, DC



#### International

Toronto, Canada  
Hong Kong, China