

**MARLIN & ASSOCIATES
Healthcare IT Review
October 2014**

Dear Clients and Friends,

We have written extensively about how advanced technologies are fundamentally changing the face of healthcare as we know it. Whether these changes come from extreme computing, advanced wireless networks or sensor-based smartphones, the fact remains that technology is rewriting the rules of engagement between payers, providers and patients. One common denominator across this continuum is the role of big data analytics; which we all agree is the next frontier for healthcare innovation and advancement in productivity.

Big data analytics range from clinical to administrative analytics and sometimes the co-mingling of the two. A third area of analytics that is rapidly emerging is the co-mingling of clinical risk management and actuarial sciences. This convergence will help hospitals become insurers themselves and dislodge the traditional role of health insurance companies. Many hospitals are eyeing the Kaiser Permanente's model, which runs an integrated healthcare delivery system by combining a health insurance company with subsidiary hospitals and medical practices. This "kaiserfication" is now gaining steam as some hospitals have started to insure their employees and others like Mt. Sinai are offering their own Medicare Advantage plans. Some believe bringing premium dollars back into the provider network is the right way to reformulate how consumers pay for their healthcare. Many healthcare economists agree that a joint provider-insurer can better design incentives for higher quality care, put a bigger emphasis on preventive care and save significant costs in technology and human resource deployment.

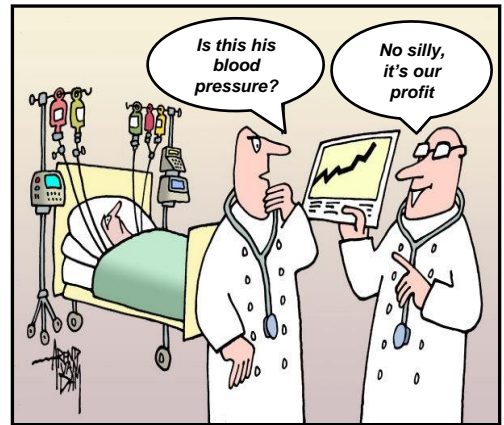
The jury is still out. Getting into the health insurance business is certainly not a walk in the park. The business is highly regulated and requires considerable capital. The good news is that hospitals will soon have access to the most advanced risk management techniques and can choose different arrangements depending on their risk tolerance. They can join hands with a large insurance company to share profits and losses. Vivity is a good example of this arrangement where seven CA hospitals joined Anthem Blue Cross to create a new insurance plan. Alternatively, hospitals can raise their own capital or seek new capital from the traditional insurers to set up their insurance operations. They can also choose to run their own marketing plans or outsource those tasks to current insurers. Whatever the permutation, the world of health insurance is about to change forever.

Sincerely,

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Marlin & Associates is a financial and strategic advisory firm and investment bank focused on advising owners and managers of U.S. and international companies that provide software, data, and related services. The firm is based in New York City, with offices in San Francisco, CA, Washington, DC, and Toronto, Canada. It has been the recipient of numerous awards including "Best Software Focused Financial & Strategic Advisory Firm - USA", "Healthcare & Life Sciences Deal of the Year", "Middle-Market Investment Bank of the Year", "Middle-Market Financing Agent of the Year - Equity", and "TMT Advisory Bank of the Year." Two transactions on which Marlin & Associates advised have been recognized as "Deals-of-the Decade."

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IMPORTANT INDUSTRY NEWS

Drive-by doctoring - the ugly face of healthcare

Upcoding and unbundling fraud are not new phenomenon. But creative minds never sleep. Recently we have been hearing about a new twist in how some specialists are charging patients for "assisting" their main physicians. This is called drive-by doctoring.

In a recent case documented by New York Times, a patient requiring neck surgery, was charged \$117,000 by an "assistant surgeon" whom he did not recall meeting. This charge was in addition to this own orthopedic doctor's bill which was for \$133,000. To be reasonable, we can agree that at times our own physicians need a helping hand from a colleague but for \$117,000!! According to industry insiders, this practice of drive-by doctoring has become fairly pervasive; causing great concerns amongst the payer community. So next time when you are lying in your hospital bed and a doctor whom you have never met comes and says hello, you may see a greeting charge of \$10,000 on your bill.

Epic ties MyChart app to Apple's HealthKit

Despite a few glitches with Apple's HealthKit product, Epic is demonstrating an unusual endorsement of the product by integrating it into its EHR System.

MyChart app is Epic's patient portal which allows its 170 million patients to access their lab results, appointment information, medications and more on their mobile devices. With patient permission, MyChart can access data from Apple's HealthKit data repository and share it with their provider. We believe that this partnership has profound implications for patients in particular for the ones suffering from chronic diseases. We can envision the day, in not too distant future, that EHRs will have real time seamless data feeds from patients; enabling providers to make more intelligent decisions.

Healthcare Analytics Market to Reach \$20.8B by 2020

Today the global healthcare analytics market is \$4.4 billion, with U.S. share of the market being close to 60%. IQ21 Research and Consultancy predicts a 25% CAGR from 2013 to 2020. The report cites 10 companies that will be the main beneficiaries of this growth; namely, Cerner, McKesson, Epic, IBM, Optum, Oracle, Allscripts, MedAnalytics, Truven Analytics and Information Builders. For the majority of CIOs surveyed for this report, deployment of healthcare analytics is a top priority ahead of ICD-10, ACO, VBR and others.

M&A TRANSACTIONS / INVESTMENTS

TriZetto to be acquired by Cognizant for \$2.7 billion

TriZetto, the Englewood, CO provider of healthcare information technology solutions to payers and providers, and backed by Apax Partners, BlueCross BlueShield of Tennessee and Cambia Health Solutions, agreed to be acquired by Cognizant Technology Solutions (Nasdaq:CTSH) for \$2.7 billion.

TriZetto's management has done a great job turning the company around. This is a terrific outcome for TriZetto's patient investors who bought the company in 2008. Cognizant has always been interested in payer businesses, as opposed to the provider side. TriZetto's roots are in the payer space although the company has succeeded in shoring up their provider business. Cognizant has bought itself another engine of growth as their healthcare revenues were steadily declining.

PatientKeeper to be acquired by HCA

PatientKeeper, the Waltham, MA provider of software and mobile applications that help physicians automate their day and improve their productivity and patient care, and backed by J.H. Whitney, New Enterprise Associates and others, agreed to be acquired by HCA (NYSE:HCA) for an undisclosed sum.

HCA is one of the largest provider networks in the U.S. with 164 hospitals and 114 surgery centers. Physicians at HCA-affiliated hospitals have been using PatientKeeper for seven years and are familiar with the company's value proposition. Overall, more than 58,000 physicians use PatientKeeper solutions. With that broad knowledge base, HCA has a great window into usability and workflow improvements.

Springfield Service Corporation, a division of Spi Global, to be acquired by Conifer for \$235M

Spi Healthcare, the Makati City, Philippines provider of RCM services to physician groups, agreed to sell its Springfield Service Corporation division to Conifer Health Solutions, the Frisco, TX provider of inpatient RCM and patient communication solutions, and subsidiary of Tenet Healthcare (NYSE:THC), for \$235 million.

This operation has 600 employees which serve more than 3,700 physicians, handling \$3.0 billion of charges. The company's services span from denials management and RAC services to ICD-10 gap analysis and education. We like this deal.



MethodCare acquired by ZirMed

MethodCare, the Chicago, IL provider of predictive analytics, was acquired by ZirMed, the Louisville, KY provider of RCM and other technology to hospitals, and backed by Sequoia Capital, for an undisclosed sum.

Zirmed is making a series of intelligent acquisitions to strengthen its analytical solutions. The company has made impressive strides in penetrating the larger provider systems. MethodCare is its largest acquisition in the analytics space. MethodCare has an excellent base of clients within the hospital market. The company's predictive analytics platform pulls data from both administrative and clinical data sets. This is a win-win.

Workable Solutions acquired by Maestro Healthcare Technology

Workable Solutions, the Orlando, FL provider of private health insurance exchange technology, and subsidiary of Alegeus Technologies, which is owned by Lightyear Capital, was acquired by Maestro Healthcare Technology, the Highland Park, IL health exchange and services company for employers, for an undisclosed sum.

Alegeus is one of the larger players in the benefit payment and administration space. They bought Workable Solutions in April 2013 so we are little surprised that they are selling the company so early. The original intent was to extend Alegeus' defined contribution model. Alegeus just appointed a new CEO, Steven Auerbach; perhaps there is a change of strategy afoot here.

MedSynergies to be acquired by Optum

MedSynergies, the Irving, TX provider of practice management and RCM services to physicians groups, and backed by FTVentures, agreed to be acquired by Optum, the Eden Prairie, MN provider of technology-enabled health services business, and subsidiary of UnitedHealth Group (NYSE:UNH), for an undisclosed sum.

FTVentures invested in MedSynergies in 2004 when the company was involved in financing receivables. The company has come a long way and built an impressive array of solutions to help hospitals and physician groups increase revenue and cut costs. MedSynergies works with 9,300 providers and 56 specialties. In 2013 alone, the company processed \$1.7 billion of claims covering 11 million patient visits.

Lift Labs acquired by Google

Lift Labs, the San Francisco, CA designer of a tremor-cancelling high-tech spoon for people with neurodegenerative diseases, was acquired by Google (Nasdaq:GOOGL), for an undisclosed sum.

Google X is the long term projects division of Google which also houses Google Life Sciences activities. Lift Labs will be housed within Google Life Sciences which is working on a number of consumer health technologies. It is reported that 11 million Americans suffer from hand tremor and have difficulty eating. Google will be using the same foundational technology for other hand held devices.

Rise Health acquired by Best Doctors

Rise Health, the Oak Brook, IL provider of population health management solutions, and backed by Santé Ventures, was acquired by Best Doctors, the Boston, MA provider of a platform that integrates medical experts and physicians to provide a better diagnosis and treatment plans, for an undisclosed sum.

Founded in 1989 by Harvard Medical School physicians, Best Doctors works with the top 5% of doctors (ranked by peer review) to help people get the right diagnosis and treatment. With the addition of Rise Health's vertically integrated PHM solution, Best Doctors is broadening its capabilities to better target improved outcomes with reduced costs.

eCardio Diagnostics acquired by Preventice

eCardio Diagnostics, the Houston, TX provider of remote cardiac monitoring products and services, and backed by Sequoia Capital, was acquired by Preventice, the Rochester, MN provider of mobile health applications and patient monitoring systems, for an undisclosed sum.

Preventice, founded in 2011, is backed by Merck Global Health and Arthur Ventures. eCardio has a 10 year history in remote cardiac monitoring. The combination of this experience with Preventice's wireless remote monitoring systems is a recipe for success. The CEO of eCardio will be the CEO of the combined entity.

Medical Payment Exchange raises funding

Medical Payment Exchange, the Rockville, MD provider of solutions that helps providers manage reimbursement claims, raised an undisclosed amount of funding from The Riverside Company.

We are pleasantly surprised to see a large PE firm, such as Riverside, invest in a young start-up. Founded in 2013, MPE aims to create a platform for providers to manage reimbursement claims.

XD3 Solutions to be acquired by TELUS Health

XD3 Solutions, the Québec, QC provider of dispensary management software solutions for pharmacies, agreed to be acquired by TELUS Health Solutions, the Longueuil, QC provider of technology services to the healthcare sector in Canada and internationally, and subsidiary of TELUS (TSX:T), for an undisclosed sum.

We have written about TELUS' healthcare acquisitions over the years. TELUS is a leading telecommunication company based in Canada. We wish some of our own telco companies could break out of their shells and look more seriously at healthcare IT transactions. This pharmacy management software acquisition is a good addition to TELUS' healthcare assets which include an EMR division.

Privia Health raises \$400M in funding

Privia Health, the Arlington, VA provider of physician-based wellness and care management solutions, raised \$400 million in funding led by Goldman Sachs Merchant Banking Division and included participation from Cardinal Partners and Health Enterprise Partners and others.

Privia has an ambitious plan to extend doctors offices to include comprehensive wellness teams. The network is membership-based for medical practices. Patients can transact their entire clinical continuum from doctors visits, prescription refills to collaboration with their physicians and wellness team, through this platform. The company's services are offered to providers, payers and employers.

Teladoc raises \$50.3M in funding

Teladoc, the Dallas, TX provider of telehealth services, raised \$50.3M in funding led by new investor JAFCO Ventures and included participation from QuestMark Partners and Greenspring Associates and existing investors including KPCB, Cardinal Partners and Trident Capital.

Teladoc has raised close to \$100m in funding. Given the three digit growth of the company year over year, Teledoc plans to use the proceeds to enter new services and potentially do some acquisitions. We also like the recent partnership between Teladoc and Castlight, which is essentially a cross-selling arrangement between the two companies

iHealth Lab raises \$25M in funding

iHealth Lab, the Mountain View, CA provider of mobile, connected health devices, and subsidiary of Andon Health, raised \$25.0 million in a round of funding from new investor Xiaomi Ventures.

Xiaomi Ventures is a unit of one of China's largest smartphone manufacturers, Xiaomi. This is the first institutional funding round for iHealth. The company makes wireless blood pressure and blood glucose monitors, and featured the first health devices to be carried in Apple retail stores. The new funding and partner will help the company further penetrate global markets.

Sandlot Solutions raises \$23.3M in funding

Sandlot Solutions, the Dallas, TX provider of a EHR interoperability, analytics and population health management platform, raised \$23.3 million in funding led by new investor Lehmi Ventures and included participation from North Texas Specialty Physicians and Santa Rosa Holding.

Lehmi Ventures completed a \$17 million preferred stock investment as part of this round of funding. Clinical interoperability was largely ignored during the initial EHR adoption cycle but in our view, is a critical component in order to effectuate next-generation healthcare changes, such as value-based reimbursement.

HealthEdge raises \$30M in funding

HealthEdge Software, the Burlington, MA provider of an integrated financial, administrative and clinical software platform for healthcare payers, raised \$30.0 million from unnamed investors.

HealthEdge has raised over \$50 million since 2004. At its founding, the company had acquired over \$100 million of IP and other assets, serving as the foundation for its patented HealthRules product suite. The company is partnered with Optum for BPO services for healthcare payers to help lower costs and drive efficiencies. The company can help payors join exchanges and ACOs and build P4P or VBR programs

InstaMed raises \$15M in funding

InstaMed, the Philadelphia, PA provider of healthcare and payment transaction processing solutions, raised \$15.0 million in funding from unnamed new and existing investors.

We have long been great fans of InstaMed, which we view as having the foundation to become the PayPal of healthcare. The company has signed up notable, national payers such as UnitedHealthcare.



Jiff raises \$18M in Series B funding

Jiff, the Palo Alto, CA provider of enterprise solutions for self-insured providers to manage a number of digital health tools, raised \$18.0 million in Series B funding led by new investor Venrock and included participation from existing investors Aberdare Ventures and Aeris Capital AG.

Jiff has raised nearly \$26 million to date and the addition of Venrock as a backer is notable, given the firm's, long successful history in early HIT investing. Jiff is a comprehensive digital platform to engage employees through incentives, games and coaching in order to improve their health. The company works closely with Towers Watson, a leading health benefits company.

Propeller Health raises \$14.5M in Series B funding

Propeller Health, the Madison, WI provider of a mobile platform for respiratory health management, raised \$14.5 million in funding led by Safeguard Scientific and included participation from existing investor The Social+Capital Partnership.

Propeller Health has raised over \$20 million to date and is focused on treating asthma and COPD. By combining sensors, mobile apps, analytics and personalized feedback, the Propeller system helps patients keep track of their medication by placing a sensor on top of their inhaler. This seems like a promising next-generation approach to help lower costs in a \$100 billion industry.

Lumiata raises \$10M in Series A funding

Lumiata, the San Mateo, CA provider of medical science based graph analytics, raised \$10.0 million in funding led by Khosla Ventures and included participation from BlueCross BlueShield Venture Partners.

The company uses unique graph analytics for payers and providers to produce insights and prediction related to patients' symptoms, diagnoses, procedures and medications. The graph extracts various data points to identify patient risk, gaps of data and presumably helps care providers to more accurately predict patients' needs. This one is a bit over our head!

HealthSCOPE raises funding

HealthSCOPE Benefits, the Little Rock, AR provider of administrative and other support services to self-funded employers, raised an undisclosed amount of funding from ABRY Partners.

The whole area of claims administration for large employers has been a fertile market with continuing growth. HealthSCOPE is a former subsidiary of Central Benefits Mutual Insurance Company and has been around since 1985. The company has a broad base of services ranging from medical, dental and vision claim administration to pharmacy benefit, COBRA, and FSA/HRA management. This is a great platform for additional product development or acquisitions.

Livongo Health raises \$10M in Series A funding

Livongo Health, the Palo Alto, CA provider of a consumer digital platform for patient with diabetes, raised \$10.0 million in funding from new investor General Catalyst Partners.

Livongo Health was founded by Glenn Tullman, the former CEO of Allscripts. Mr. Tullman has a history of philanthropy in diabetes research. Working in tandem with General Catalyst, Livongo developed an FDA-cleared, two-way interactive glucometer and has a broader vision of evolving the platform to treat other chronic diseases.

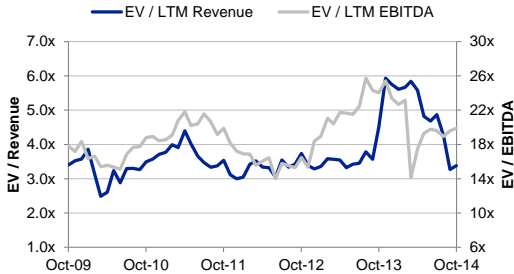
Wellframe raises \$8.5M in Series A funding

Wellframe, the Boston, MA provider of mobile technology and artificial intelligence for care management from hospital to the home, raised \$8.5 million in funding led by new investor DFJ and included participation from Formation8, Waterline Ventures and Queensbridge Venture Partners.

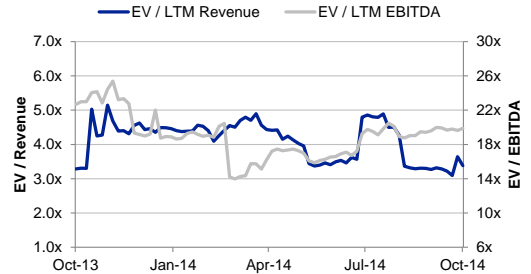
We typically do not cover deals under \$10 million but made an exception here as we are impressed by the AI technology and the approach of Wellframe. The company combines a logic structure via protocols to patients in a wireless environment via mobile and table interfaces. In addition to access to clinical protocols of the patient, the company uses AI on patient's interaction with the care plans to predict clinical protocol optimization.

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

5 Year LTM Revenue & EBITDA Multiples

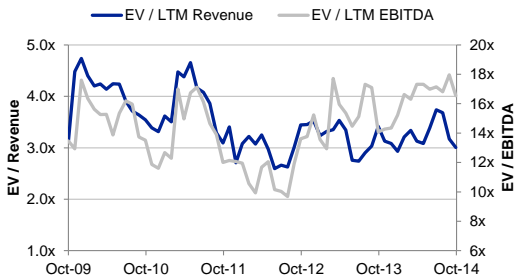


1 Year LTM Revenue & EBITDA Multiples

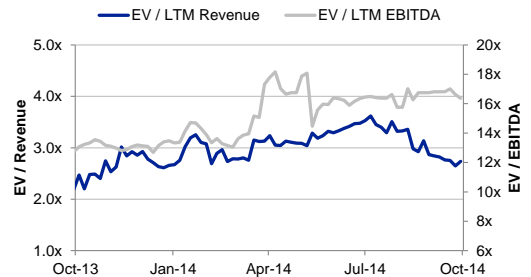


TECHNOLOGY-ENABLED HEALTHCARE SERVICES

5 Year LTM Revenue & EBITDA Multiples

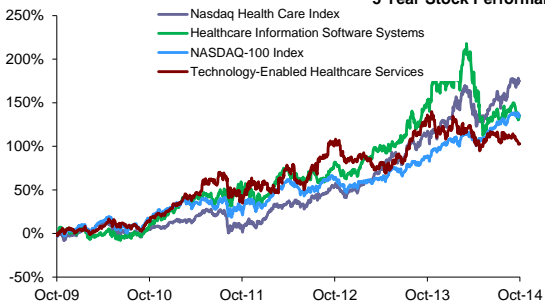


1 Year LTM Revenue & EBITDA Multiples

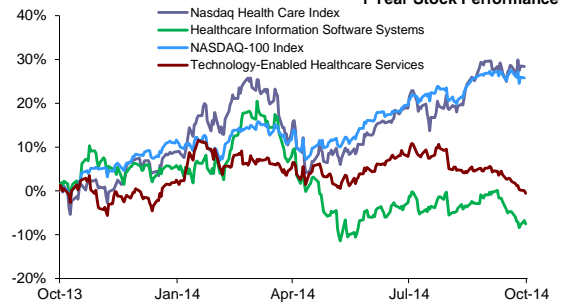


HIT STOCK PERFORMANCE VERSUS NASDAQ

5 Year Stock Performance



1 Year Stock Performance



PUBLIC MARKET TRENDS

The Healthcare Information Software Systems group 2014 revenue multiple (trim mean) is 64% higher than the Technology-Enabled Healthcare Services sector, which is approximately 10% greater than last month. Of note, Castlight Health (24x), Veeva Systems (13x) athenahealth (7x) and Medidata (7x) are trading at the highest revenue multiples within the HIT group (see next page for details). For 2014 EBITDA multiples, the Healthcare Information Software Systems group enjoys a similar premium (+50%) as last month versus its Tech-Enabled Healthcare Services peers, the latter group which contains names such as MedAssets, Accretive Health, and Healthways that trade below 11x 2014E EBITDA.

In the past 12 months, the returns of both the NASDAQ Health Care Index (+28%) and the NASDAQ-100 (+26%) were stronger than both of M&A's HIT indices. Over 75% of public HIT companies posted negative returns over the past month with shares of Castlight Health (+4%), Emis (+4%) and Imprivata (+3%) performing the best and HMS (-19%), Benefitfocus (-18%) and Merge (-15%) performing the worst.

Marlin & Associates' Healthcare IT Indices include the following companies

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

Company <i>USD millions</i>	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
Cerner	20,879	20,046	7.1x	5.9x	26.9x	17.3x	9%	19%	26%	34%
athenahealth	5,040	5,147	8.7x	6.9x	nm	38.3x	41%	26%	9%	18%
Veeva Systems	4,141	3,791	18.0x	12.5x	nm	49.4x	62%	44%	19%	25%
Medidata	2,468	2,485	9.0x	7.3x	nm	30.9x	27%	24%	12%	24%
Allscripts	2,435	2,953	2.2x	2.1x	nm	13.4x	(5%)	3%	1%	16%
The Advisory Board	1,684	1,634	3.3x	2.8x	26.9x	16.5x	16%	15%	12%	17%
CompuGroup Medical	1,207	1,606	2.7x	2.5x	16.0x	12.0x	3%	10%	17%	21%
Quality Systems	856	739	1.7x	1.6x	10.2x	11.3x	(4%)	7%	17%	14%
Benefitfocus	700	666	6.4x	4.9x	nm	n/a	28%	29%	na	n/a
Computer Programs & Systems	643	619	3.1x	2.9x	11.5x	10.4x	10%	5%	27%	28%
Imprivata	381	297	4.2x	3.2x	nm	n/a	32%	29%	na	n/a
Merge	216	423	1.8x	2.0x	16.4x	10.3x	(7%)	(7%)	11%	19%
Trim Mean	1,955	2,006	4.8x	4.1x	17.7x	18.8x	16%	17%	15%	21%
Median	1,445	1,620	3.7x	3.1x	16.2x	14.9x	13%	17%	14%	20%

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

Company <i>USD millions</i>	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
McKesson	46,182	54,536	0.4x	0.3x	16.8x	11.6x	5%	30%	2%	3%
WebMD	1,916	2,087	4.0x	3.6x	28.4x	13.3x	10%	12%	14%	27%
HMS Holdings	1,707	1,809	3.7x	4.1x	14.1x	16.4x	4%	(10%)	26%	25%
MedAssets	1,293	2,082	3.1x	2.9x	10.0x	8.9x	6%	5%	31%	33%
Castlight Health	1,179	1,019	nm	23.7x	nm	n/a	212%	232%	na	n/a
Premier	1,072	806	1.0x	0.9x	nm	nm	na	15%	38%	39%
Accretive Health	787	590	0.7x	0.6x	9.5x	6.6x	(9%)	20%	7%	9%
Emis	770	773	4.5x	3.5x	13.9x	11.2x	22%	29%	33%	31%
HealthStream	689	578	4.4x	3.4x	25.2x	21.8x	28%	28%	17%	16%
Healthways	569	820	1.2x	1.1x	29.1x	10.2x	(2%)	12%	4%	11%
Everyday Health	425	410	2.6x	2.3x	38.8x	13.8x	13%	16%	7%	16%
Craneware	227	195	4.6x	4.3x	16.4x	14.2x	0%	7%	28%	30%
Vocera Communication	208	88	0.9x	1.0x	nm	n/a	2%	(10%)	na	n/a
Trim Mean	967	1,015	2.6x	2.5x	19.2x	12.5x	9%	15%	19%	22%
Median	787	806	2.8x	2.9x	16.6x	12.4x	6%	15%	17%	25%

United States

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International

Toronto, Canada