

MARLIN & ASSOCIATES
Healthcare IT Review
April 2013

Dear Clients and Friends,

We are pleased to share the first in what we hope will be a series of thoughtful insights on recent developments, mergers and acquisitions, and trends in the Healthcare IT ("HIT") sector. We call it Marlin & Associates' H.I.T. Greatest *Hits*. We write this in response to the overwhelming positive feedback we received on our Market Commentary on the Next Generation Healthcare Information Networks. That piece was an undertaking that took us six months and we are gratified that many of you found the report insightful.

We can all agree on the dizzying pace of change the healthcare IT industry is facing. New alliances, partnerships, and mergers seem to be announced weekly. We believe that our readers are better served with more frequent commentary and observations about the industry and important M&A transactions.

We welcome your feedback and suggestions. Please email your comments directly to me at Afsaneh@marlinllc.com. I hope you will enjoy reading this month's issue.

Sincerely,

Afsaneh Naimollah
Partner

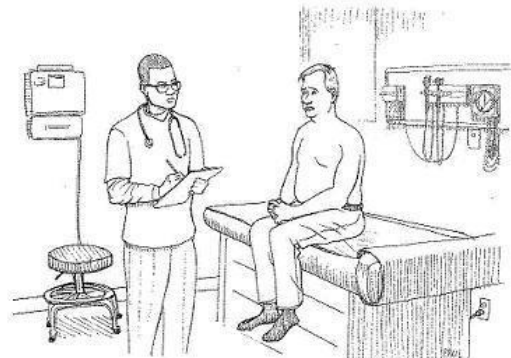
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"Will I still be able to not exercise?"

Marlin & Associates is one of the most active investment banking and strategic advisory firms providing strategic and financial advice to worldwide buyers and sellers of middle-market technology firms. Our firm is headquartered in New York, NY and has additional offices in San Francisco, CA; Washington, DC; Toronto, Canada; and Hong Kong, China serving companies that provide information and technology to a wide range of communities including those that serve the banking, capital markets, insurance, marketing and healthcare arenas.

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HIMSS NEWS

In early March, we attended HIMSS in New Orleans. This annual conference never fails to impress and this year was no exception. 35,000 people passed through! We met some promising companies in eHealth, analytics and patient engagement/loyalty. The challenge remains on how to string all these pearls together and that is what makes HIT such an interesting and dynamic sector.

A lot of important announcements were made at the conference, but two really got our attention:

A new coalition between five HIT vendors on system interoperability could create more liquid data sharing

- These include Cerner, Athenahealth, RelayHealth / McKesson, Allscripts, and Greenway Medical Technologies. This new CommonWellHealth Alliance will certify HIT products that will work on the national infrastructure. This alliance is a not-for-profit association that will collaborate with all healthcare information technology developers and encourage other vendors to join in. *We are a bit puzzled why Epic Systems is not part of this Alliance.*

This is a step in the right direction. The Alliance has very specific areas of initial focus including data access management technology and patient record location and query services.

In our opinion, longer-term, this type of interoperability amongst some of the largest EHR systems will change the role of Health Information Exchange ("HIE") organizations. Assuming that each EHR system can produce standardized documents and share the information, the role of HIE's may well evolve to become a network of networks; a premise we predicted in our 2010 Market Commentary. As a matter of fact, GE/Microsoft's joint venture, Caradigm, announced that they will discontinue their HIE software and will instead resell, under a private label, Orion Health's HIE platform software. Yes, it is time for HIE 2.0.

Allscripts acquires dbMotion - dbMotion is a data integration company backed primarily by Israeli venture funds. The company was sold for approximately \$230MM with \$140MM cash upfront plus \$50MM of Allscripts' common stock and a \$40MM 18-month note. The company had raised over \$60MM prior to the sale.

dbMotion started in the "plumbing" side of healthcare – focusing on interoperability and data extraction. The company is a spin-off of Ness Technologies, an Israeli based IT services company. A few years ago dbMotion's decided to build application layers on top of their platform. This proved to be a turning point and contributed to the success of the company. These applications reside with the providers' front office systems which can extract data from various sources and can be used for multiple purposes including population management and care coordination.

In our opinion, this is a smart move on the part of Allscripts. dbMotion can not only increase the importance and visibility of Allscripts' products in the eyes of its users and generate additional revenue, but it can also significantly help Allscripts with its own internal connectivity issues as they relate to the Company's products. Clearly, dbMotion's capabilities will go a long way to ease product integration for Allscripts' future acquisitions. This is a big plus. dbMotion is not a "tuck in" acquisition for Allscripts, it will serve as a new core competency.

IMPORTANT INDUSTRY NEWS

Aetna creates new unit for health management, IT services

Aetna started its foray into HIT in 2010, when it bought Medicity for close to \$500MM, the largest HIE-builder at the time. The Company already owns ActiveHealth, a health management IT and analytics company which it bought in 2005 for \$400MM. The Medicity acquisition, however, was a significant push for Aetna showing that it is serious about positioning itself as a next generation HIT company. The new group, named Healthagen, will be headed by Chuck Saunders as the CEO. Chuck joined the company in January 2011 to run Aetna's Strategic Diversification initiative. Healthagen will house all of Aetna's HIT operations including Medicity, ActiveHealth and iTriage. *Remember that United Healthcare formalized their HIT effort by establishing Ingenix, now Optum, several years ago. We continue to watch these two companies closely to ascertain similarities and differences in their long-term strategy. For example, we find it intriguing that Aetna bought Medicity on the heels of Optum's purchase of Axolotl, the smaller competitor to Medicity.*

FindZebra.com – A new search engine for rare diseases

We found out about this little gem in the International Journal of Medical Informatics. "Zebra", which is medical jargon for a surprising diagnosis, has been a tough area for providers. Now, providers can use the Zebra engine to quickly identify rare and genetic diseases. *We expect the technology will continue to evolve and improve over time – like any other search engine. But because it is designed solely for rare diseases, a recent study showed that the engine is generating significantly better results vs. using more general search engines such as Google.*

NOTABLE M&A TRANSACTIONS

There have been a number of interesting HIT transactions of late. Some of note include:

ABILITY Network enters into a merger agreement to purchase IVANS

ABILITY, which operates a web-based health information network connecting providers to CMS, purchased IVANS, a communication network providing Medicare access portals for provider organizations. ABILITY is selling the P&C portion of IVANS' business to Applied Systems, an insurance software company.

We believe that this combination is good for the industry and can address and reduce the administrative costs of connecting payers and providers.

Marlin & Associates advised ABILITY on this transaction.

Optum announces the acquisition of Humedica

Optum, the HIT arm of United Healthcare, purchased Humedica, a SaaS-based clinical business intelligence company serving providers and life science and research organizations. The acquisition certainly adds a sophisticated product offering to Optum's analytics platform. Optum's recently launched Optum Labs initiative, coupled with this acquisition, demonstrate the commitment of Optum to win the control of clinical data as a supplement to their claims data. *The war on data supremacy is certainly on and the analytics companies are beneficiaries of this trend as their value keeps going up.*

The Gores Group acquires GE Healthcare Strategic Sourcing – Meridian Medical Management

The Gores Group is a private equity firm based in Los Angeles. Meridian Medical Management offers electronic billing and EMR solutions to large multi-specialty physicians groups. *This transaction is on the back of another sale of RCM company, MED3000, acquired by McKesson.*

IMS Health purchases Appature, an enterprise marketing solutions company

Appature, which had raised nearly \$10MM from venture capital investors, is a marketing company focused on brand and campaign management as well as data integration and marketing analytics. Appature's main clients are in the life sciences sector. *This is a good complement to IMS' existing offerings.*

Cymetrix buys CareClarity

Cymetrix, an RCM provider for healthcare organizations and hospital-affiliated physicians, purchased CareClarity, which offers on-demand analytics applications for the hospital market focused on clinical and financial data. *We see a pattern here with another analytics company finding a home.*

Cerner, one of the largest HIT vendors, acquires PureWellness and LABOTIX Automation

PureWellness provides an online wellness platform to individuals and corporations for the administration and management of corporate wellness programs and health plan member engagement strategies. LABOTIX provides automation solutions for clinical laboratories. *Cerner has certainly quickened the pace of their acquisitions. In the past six months the company has purchased four technology companies.*

Practice Fusion, a free EMR vendor, acquires 100Plus

100Plus is a start-up that provides predictive modeling to nudge people into leading healthier lifestyles. *We have started to see how Practice Fusion is positioning itself to be more than an EMR business. We like the trend.*

Telus Health Solutions, the HIT arm of Telus, a telecommunication services company in Canada, acquires MD Practice Software's Electronic Medical Record Business

MD Practice Software was formerly owned by the Canadian Medical Association. This is the Telus' third acquisition in the healthcare IT space in the past twelve months. Where are Verizon and AT&T? *Do we have something to learn from our Northern neighbors? Thus far the U.S.-based telecommunication companies have focused on building HIE's competing with the likes of Medicity and Axolotl. Not very promising. We look forward to at least seeing these companies participate in a more meaningful way in remote monitoring and mHealth; a natural extension to their existing business.*

inVentiv Health, an HIT Company involved in the clinical, commercial, and consulting sectors, purchases an equity stake in Mytrus

Mytrus provides services to the pharmaceutical and biotechnology companies which enable patients to participate in clinical trials from their homes. *This can materially expand the universe of participants in a clinical trial which is good for the industry.*

"Healthcare is broken not just when it comes to the cost but in so many other ways."

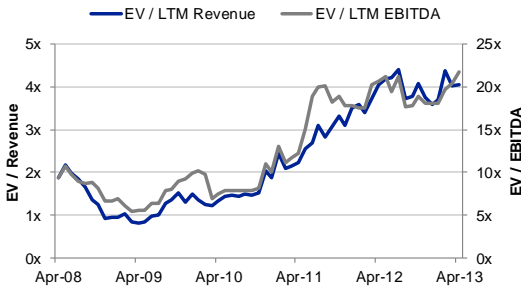
"If you pay people for the outcomes they will figure out a way to get the outcomes."

"You know what scales? Hard work, determination, perseverance. Grit scales."

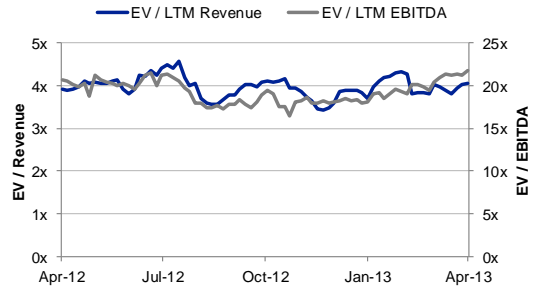
All quotes by Farzad Mostashari, MD National Coordinator of Health IT- HIMSS 2013

Healthcare Information Services & Analytics

5 Year LTM Revenue & EBITDA Multiples

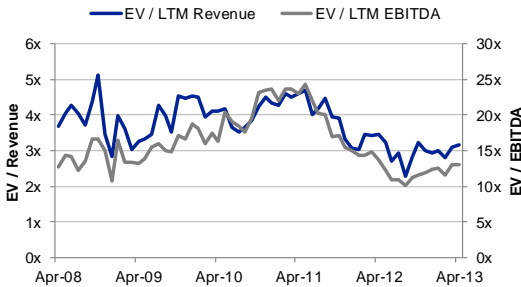


1 Year LTM Revenue & EBITDA Multiples

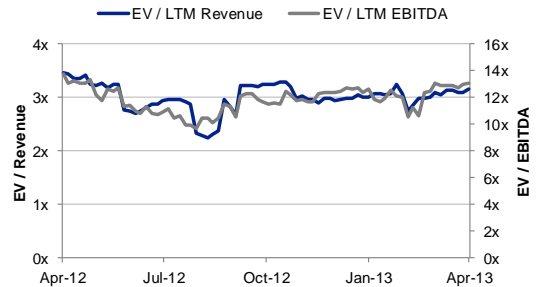


Healthcare Provider Systems & Solutions

5 Year LTM Revenue & EBITDA Multiples

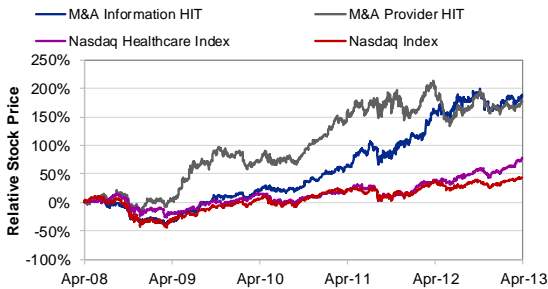


1 Year LTM Revenue & EBITDA Multiples

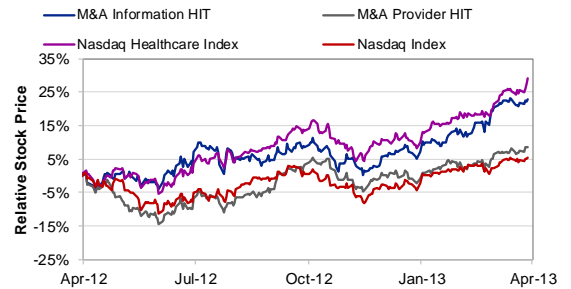


HIT Stock Price Performance versus Nasdaq Healthcare Index

5 Year Indexed Stock Price Performance



1 Year Indexed Stock Price Performance



PUBLIC MARKET TRENDS

It is no surprise that Healthcare Information Services & Analytics companies enjoy higher multiples as compared with the Healthcare Provider Systems & Solutions sector which includes many RCM companies. The former group has demonstrated a substantial rise in multiples in the past five years reaching 20.0x EV/EBITDA multiple. Over the last 12 months, however, valuations have steadied. The Healthcare Provider Systems & Solutions universe, on the other hand, has witnessed little change measured on the five-year as well as twelve month basis.

The stock prices of both sectors have substantially outperformed NASDAQ Healthcare Index over the past five years. In the past year, the trend has reversed with NASDAQ Healthcare Index outperforming both sectors. The broader NASDAQ Index has underperformed all healthcare sectors.

Marlin & Associates' Healthcare IT Indices include the following companies

Healthcare Information Services & Analytics

Company (USD millions)	Enterprise Value	Market Cap	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			2012	2013	2012	2013	2012	2013	2012	2013
The Advisory Board Company	\$1,745	\$1,844	4.7x	3.9x	29.9x	21.6x	31%	21%	16%	18%
Cerner Corporation	\$15,474	\$16,315	5.9x	5.1x	21.7x	15.9x	21%	15%	27%	32%
Healthstream Inc.	\$512	\$605	4.9x	4.1x	24.6x	21.5x	26%	21%	20%	19%
Healthways Inc.	\$709	\$418	1.0x	1.0x	12.3x	8.4x	-2%	7%	8%	12%
McKesson Corporation	\$26,896	\$25,143	0.2x	0.2x	9.3x	8.6x	10%	1%	2%	3%
National Research Corp.	\$404	\$399	4.7x	4.1x	14.7x	12.8x	14%	15%	32%	32%
WebMD Health Corp.	\$1,000	\$1,192	2.1x	2.2x	43.1x	13.3x	-16%	-5%	5%	17%
Mean			3.4x	2.9x	22.2x	14.6x	12%	11%	16%	19%
Median			4.7x	3.9x	21.7x	13.3x	14%	15%	16%	18%

Healthcare Provider Systems & Solutions

Company (USD millions)	Enterprise Value	Market Cap	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			2012	2013	2012	2013	2012	2013	2012	2013
Accretive Health, Inc.	\$792	\$988	0.8x	0.8x	14.8x	9.0x	15%	11%	6%	8%
Allscripts Healthcare Solutions, Inc.	\$2,739	\$2,399	1.9x	1.8x	22.0x	9.7x	0%	5%	9%	19%
Athenahealth, Inc.	\$3,333	\$3,526	7.9x	6.1x	nm	29.4x	30%	29%	12%	21%
CompuGroup Medical AG	\$1,410	\$1,091	2.4x	2.3x	10.1x	9.1x	13%	5%	23%	25%
Computer Programs & Systems Inc.	\$580	\$600	3.2x	2.9x	13.0x	10.7x	6%	9%	24%	27%
Craneware plc	\$155	\$181	3.8x	3.4x	13.6x	11.5x	8%	9%	28%	30%
EMIS Group PLC	\$644	\$651	4.6x	4.4x	12.2x	12.7x	23%	5%	38%	35%
Greenway Medical Technologies, Inc.	\$444	\$471	3.6x	3.0x	nm	25.8x	38%	18%	6%	12%
MedAssets, Inc.	\$2,025	\$1,145	3.2x	3.0x	10.4x	9.2x	11%	6%	30%	32%
Merge Healthcare Incorporated	\$484	\$270	1.9x	1.8x	15.6x	8.2x	7%	7%	12%	22%
Quality Systems Inc.	\$981	\$1,088	2.3x	2.1x	7.8x	8.1x	22%	9%	29%	26%
Mean			3.2x	2.9x	13.3x	13.0x	16%	10%	20%	23%
Median			3.2x	2.9x	13.0x	9.7x	13%	9%	23%	25%