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H.I.T. Greatest *Hits*

MARLIN & ASSOCIATES
Healthcare IT Review
August 2013

Dear Clients and Friends,

We all agree that the healthcare industry can learn valuable lessons from financial institutions, be it in risk management, security, developing standards or building collaborative business models. After all, these institutions are among the most technologically advanced companies in our economy. Granted the challenges in our industry may be different and standards are still emerging, but many HIT companies are successfully applying business models and technologies conceived and implemented within the financial vertical.

This brings us to the subject of common standards and the phenomenon we call the "network effect". As more people adopt a standard, the more useful it becomes, which spurs more people to use the standard; examples range from the telephone to credit cards. If our healthcare system can eventually bring providers, payors and patients together in a similar fashion to a credit card network, we will be well on our way to cutting billions of dollars of administrative costs from the system. A few visionary companies are, in fact, doing just that through successfully building payment networks, where providers receive reimbursements within 24 hours and patient payments are significantly expedited.

The more providers join the network, the more payors see the value of signing on. This is precisely the network effect that contributed to the massive success of credit cards. Perhaps, like the credit card business, providers (merchants) will someday subscribe to multiple payment networks. What is clear is that pioneering companies in this field stand an excellent chance of setting the standard and becoming the backbones of all healthcare delivery payments. Standardization is a key subject on our healthcare national agenda. Healthcare payment networks are a good place to start.

Sincerely,

Afsaneh

Afsaneh Naimollah

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He was injured at a debate on healthcare reform

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 healthcare, banking, capital markets, insurance, and marketing industries.

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IMPORTANT INDUSTRY NEWS

Nine Pioneer ACOs to exit CMS program

Nine of the original 32 “Pioneer ACOs” (or 28%) announced that they were leaving the experimental CMS accountable care organization (ACO) program that began in September 2012. The goal of the program is to provide more coordinated care for Medicare beneficiaries, while reducing costs. Two ACOs are leaving the program completely and may apply their investments to private insurer contracts, while seven are planning to apply to the less risky alternative Medicare Shared Savings Program (MSSP) ACO model. One of the main issues for all nine exiting ACOs is that they did not achieve the savings targeted by the Pioneer program.

Although all of the 32 Pioneer ACO participants improved patient care and outperformed Medicare fee-for-service organizations for all 15 comparable quality measure, CMS reported that only 13 of the 32 Pioneer ACOs produced savings ($88 million in 2012). According to published sources, two ACO participants had shared losses of approximately $4 million. Program savings were generated in part by reducing hospital admissions and re-admissions. CMS data said Pioneer ACOs were rated higher by beneficiaries on all patient experience metrics when compared to 2011 fee-for-service results.

Accountable care is a marathon not a sprint. The fact that many Pioneer ACO’s achieved savings in the first year, is a testament to the potential cost savings ahead. We see this recent development as a bump in the road. We believe ACOs are an innovative model that can bring strong benefits. The Medicare ACO has even given a boost to the private ACO market which is estimated to be 300 nationwide.

We believe as CMS fine tunes its measurement standards for ACOs and as the model becomes more systematized, the ACOs will be in a position to generate meaningful savings.

US venture capital firms invested $850M in 90 different HIT companies in the first half of 2013.

M&A TRANSACTIONS / INVESTMENTS

Healthsense acquires WellAware

Healthsense, a provider of aging services technologies backed by Merck Global, acquired WellAware Systems (backed by .406 Ventures). WellAware utilizes sensors and analytical software to track important wellness indicators such as sleep.

Remote monitoring technologies, such as WellAware’s, are being incorporated in a number of newer healthcare models, such as ACOs. WellAware expands Healthsense’s solution set for the senior population, a fertile ground for the remote monitoring sector.

Kareo acquires the billing company ECCO Health

Kareo, a cloud-based medical office software and services company to small physician practices, acquired ECCO Health, a Las Vegas-based medical billing company. This acquisition follows the January 2013 launch of Kareo Billing Services.

On the heels of a $20M raise earlier this year, Kareo is embarking on a plan to offer end-to-end services to its clients from EMR to billing. Kareo seems to be following the ‘athenahealth’ model of combining could-based software with medical practice services. We are watching this space closely as several new companies following similar models have been funded in the past year.

Temis acquires i3 Analytics

Paris-based Temis, a leading provider of text analytics software for enterprises, acquired Maryland-based i3 Analytics, a SaaS mapping platform for the biopharma sector.

This deal emphasizes Temis’ commitment to the Life Sciences market, in particular the clinical trial sector. We have seen a number of U.S. based PE/VC firms investing in local healthcare markets internationally. The Temis/i3 analytics deal is a strategic cross-Atlantic acquisition, a rarity in the HIT industry. We don’t believe this will be a trend, but rather anticipate more healthcare cross-border M&A activity within Europe itself.

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Marlin Equity acquires eHealth Solutions

Marlin Equity Partners acquired California-based eHealth Solutions (aka SigmaCare), a provider of clinical software to the long-term and post acute care market.

We view the long-term and post-acute care market as possessing favorable characteristics due to an aging population living longer as well as healthcare initiatives attempting to keep patients out of hospitals.

Zotec to acquire MMP for $200M

Zotec Partners, a provider of revenue cycle management for physicians, signed an agreement to acquire Medical Management Professionals (MMP), a healthcare billing company (and subsidiary of publically traded CBIZ) to create one of the largest billing companies in the U.S. specializing in radiology, anesthesiology, pathology and emergency medicine.

Consolidation in the billing RCM sector is on the rise. This combination is certainly one of the larger transactions in the industry .

Stinger Medical and Enovate merge

Stinger Medical, backed by Riverside Partners, and Enovate merged to become the largest provider of mobile clinical work stations in the United States.

The new company, Enovate Medical, will offer a complete line of mobile work stations, wall stations, wall arms and medication transfer and exchanges services, all of which are increasingly in demand as hospitals adopt next generation healthcare information systems.

Group of investors including Hercules Technology Growth Capital acquires Orion HealthCorp

Atlanta-based Orion HealthCorp, a provider of billing and practice management solutions for office-based physicians was acquired by a group of investors.

There have been a growing number of RCM M&A transactions in the market. We believe the pace of consolidation in the billing sector will quicken as many buyers, particularly financial investors, are looking for consolidation platforms.

<u>Crazy ICD-10 Codes</u>

V91.07XA	Burn due to water ski on fire
W59121XA	Bitten by a turtle

Mediware purchases CPR+

Mediware acquired Definitive Homecare Solutions (aka CPR+), a leader in homecare software. Mediware plans to integrate this business into its Alternative Care Solutions business.

Mediware has been a very active consolidator in the homecare solutions space, including its recent Fasttrack deal in June, as it seeks to take advantage of a secular shift toward more home-based care

BACTES acquired by Sharecare

Sharecare, an online health and wellness engagement platform backed by Galen Partners, acquired BACTES, a provider of Release of Information and audit management services.

This is the third acquisition in the last year for Sharecare, which was founded by Dr. Mehmet Oz. Sharecare appears to be buying a variety of businesses to build a critical mass of revenue, a strategy not too dissimilar to the early days of WebMD.

Practice Fusion raising $60M

Practice Fusion, a free EMR provider, has closed a $60M fourth round of funding that values the company at approximately $500 - $600M. The company has raised nearly $100M to date.

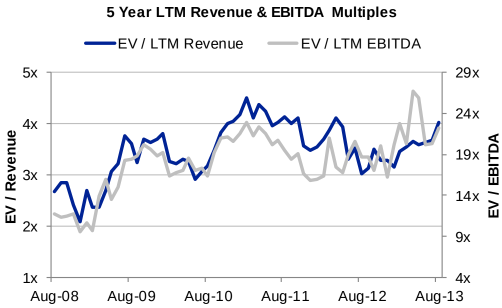
Practice Fusion started as a free EMR company, a brilliant strategy to penetrate the market quickly. Now with a large installed base of 150k physicians, the company has started to offer paid services such as e-prescribing, lab connectivity, etc. Without commenting on the valuation, we believe Practice Fusion is on its way to becoming a more pervasive force in the small practice segment.

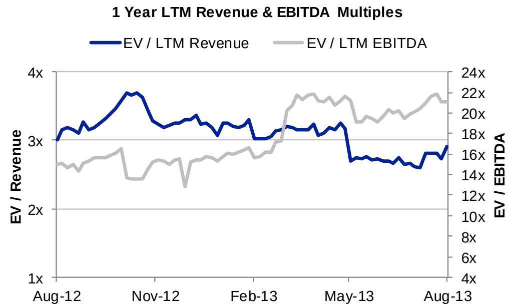
MedSynergies closes $65M financing

MedSynergies, backed by FTV Capital, provider of physician alignment services, has raised $65M from a single investor. The company also announced JVs with Catholic Health Initiatives to become CHI's central platform for physician services, RCM, Practice Management and other functions.

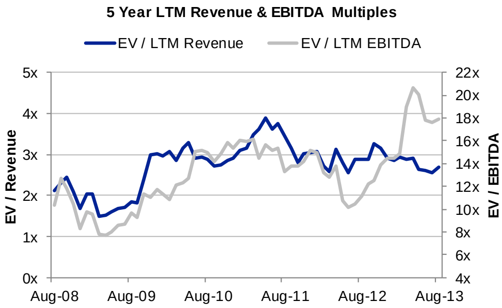
As one of the first companies to partner with health systems to align risks and rewards, MedSynergies has rapidly grown over the past few years. One reason is the success of the company in methodizing their processes of how they contract and partner with hospitals.

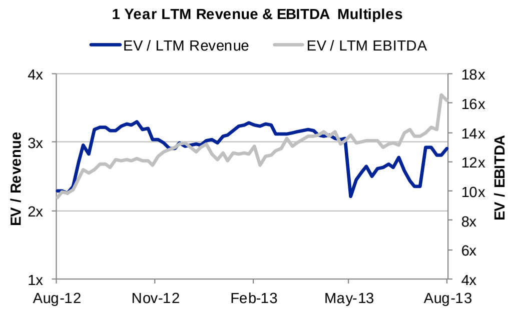
Healthcare Information Software Systems



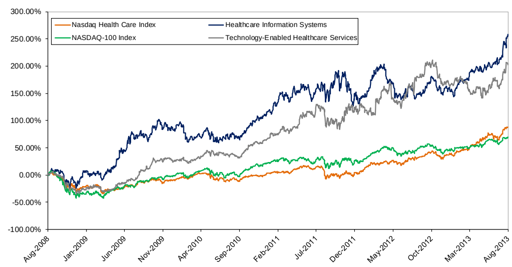


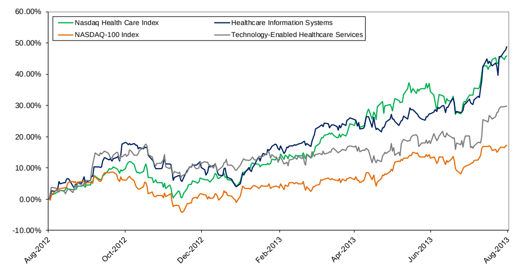
Technology-Enabled Healthcare Services





HIT Stock Price Performance versus Nasdaq Healthcare Index





PUBLIC MARKET TRENDS

As a group, Healthcare Information Software Systems multiples are nearly 50% higher than the Healthcare Technology Enabled Services sector. The former group benefits from high-flyers such as athenahealth and Medidata, which equity research analysts expect to grow revenue 41% and 26% in 2013, respectively. Both groups have seen EV/EBITDA multiples expand significantly over the past 12 months but EV/Revenue multiples have been relatively unchanged. In our view, this speaks to the margin challenges faced by these companies as they reinvest in the business to drive top-line growth.

The performance of both sectors have significantly exceeded the NASDAQ Healthcare Index over the past five years; however, this trend has changed in the past 12 months with the NASDAQ Healthcare Index performing in-line with the Healthcare Information Software Systems group while the Technology-Enabled Healthcare Services group lagged. For company names in each index, please refer to the following page.

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Marlin & Associates' Healthcare IT Indices include the following companies

Healthcare Information Software Systems

Company *USD millions*	Market Cap	Enterprise Value	EV / Revenue CY2013E	EV / Revenue CY2014E	EV / EBITDA CY2013E	EV / EBITDA CY2014E	Revenue Growth CY2013E	Revenue Growth CY2014E	EBITDA Margin CY2013E	EBITDA Margin CY2014E
Cerner Corporation	17,272	16,484	5.6x	4.9x	16.9x	14.5x	13%	13%	33%	34%
athenahealth, Inc.	4,115	4,328	7.3x	5.6x	38.8x	28.5x	41%	29%	19%	20%
Allscripts Healthcare Solutions, Inc.	2,746	3,222	2.2x	2.1x	13.9x	11.1x	0%	5%	16%	19%
Medidata Solutions, Inc.	2,475	2,334	8.5x	7.0x	35.6x	28.6x	26%	22%	24%	24%
The Advisory Board Company	2,149	2,109	4.2x	3.6x	22.6x	19.6x	17%	15%	19%	18%
Quality Systems Inc.	1,362	1,232	2.7x	2.5x	11.6x	9.1x	(1%)	11%	23%	27%
CompuGroup Medical AG	1,205	1,498	2.3x	2.2x	9.5x	8.5x	5%	6%	25%	26%
Computer Programs & Systems Inc.	618	605	3.0x	2.9x	11.7x	10.6x	11%	5%	26%	27%
Merge Healthcare Incorporated	423	628	2.4x	2.2x	10.6x	9.9x	6%	7%	22%	22%
Greenway Medical Technologies, Inc.	357	344	2.5x	2.2x	nm	32.2x	3%	13%	3%	7%
Trim Mean	**1,887**	**1,995**	**3.7x**	**3.3x**	**17.6x**	**16.5x**	**10%**	**11%**	**22%**	**23%**
Median	**1,756**	**1,803**	**2.9x**	**2.7x**	**13.9x**	**12.8x**	**9%**	**12%**	**23%**	**23%**

Technology-Enabled Healthcare Services

Company *USD millions*	Market Cap	Enterprise Value	EV / Revenue CY2013E	EV / Revenue CY2014E	EV / EBITDA CY2013E	EV / EBITDA CY2014E	Revenue Growth CY2013E	Revenue Growth CY2014E	EBITDA Margin CY2013E	EBITDA Margin CY2014E
McKesson Corporation	28,457	30,426	0.2x	0.2x	9.2x	8.2x	4%	4%	3%	3%
WebMD Health Corp.	1,681	1,455	2.9x	2.7x	12.9x	11.1x	8%	8%	22%	24%
MedAssets, Inc.	1,321	2,151	3.2x	3.0x	9.7x	9.0x	6%	7%	33%	33%
Accretive Health, Inc.	1,006	810	0.8x	0.7x	9.2x	6.9x	11%	15%	8%	10%
Healthstream Inc.	871	770	6.0x	5.0x	32.7x	25.1x	23%	20%	18%	20%
EMIS Group PLC	684	674	4.5x	4.2x	13.2x	11.8x	14%	8%	34%	36%
Healthways Inc.	587	851	1.2x	1.1x	9.9x	8.2x	6%	12%	12%	13%
Vocera Communications, Inc.	352	225	2.2x	1.8x	nm	24.9x	3%	18%	2%	7%
Craneware plc	149	120	2.8x	2.5x	9.3x	8.4x	3%	9%	30%	30%
Trim Mean	**929**	**991**	**2.5x**	**2.3x**	**10.7x**	**11.7x**	**8%**	**11%**	**18%**	**20%**
Median	**871**	**810**	**2.8x**	**2.5x**	**9.8x**	**9.0x**	**6%**	**9%**	**18%**	**20%**

United States

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International

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