

Dear Clients and Friends,

Welcome to our June issue of H.I.T. Greatest *Hits*.

Our industry is in the process of migrating from the “mainframe” era of healthcare to the “personal computing” phase where the accessibility of technology spreads from a privileged few to the many.

We still have a long way to go to reach the “web” era in healthcare. The journey has just begun but the change is coming faster than some might imagine. We can already see the promise of new technologies, including precision diagnostics (covered in more detail in this newsletter) and personalized medicine in improving care. Perhaps someday they will even become SaaS-based businesses. We can also envision a time when machines will automate much of the clinical work presently performed by doctors and nurses. Ultimately, these advancements will go a long way in bending the cost curve in healthcare.

One thing we are certain about is the continuing role that the HIT sector will play in bringing together the advances in algorithm science, extreme analytics, clinical discoveries, computing infrastructure, etc., into integrated solutions. We are confident that the HIT industry can deliver on that promise.

The migration from mainframe to the web took us 50 years. This time around the pace of change will be much quicker and the stakes equally as high.

Sincerely,

Afsaneh Naimollah

MARLIN & ASSOCIATES
Healthcare IT Review
June 2013

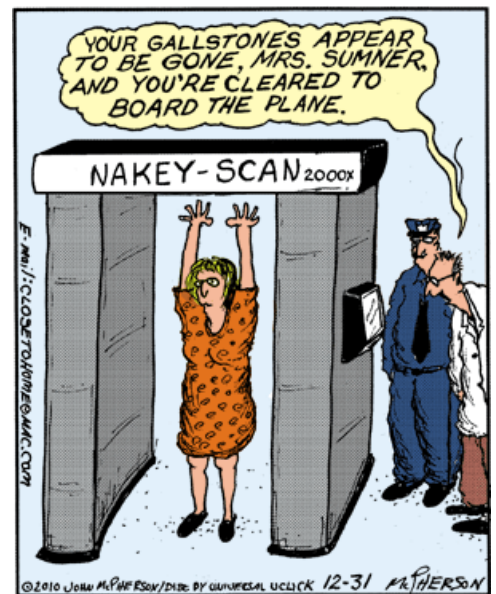
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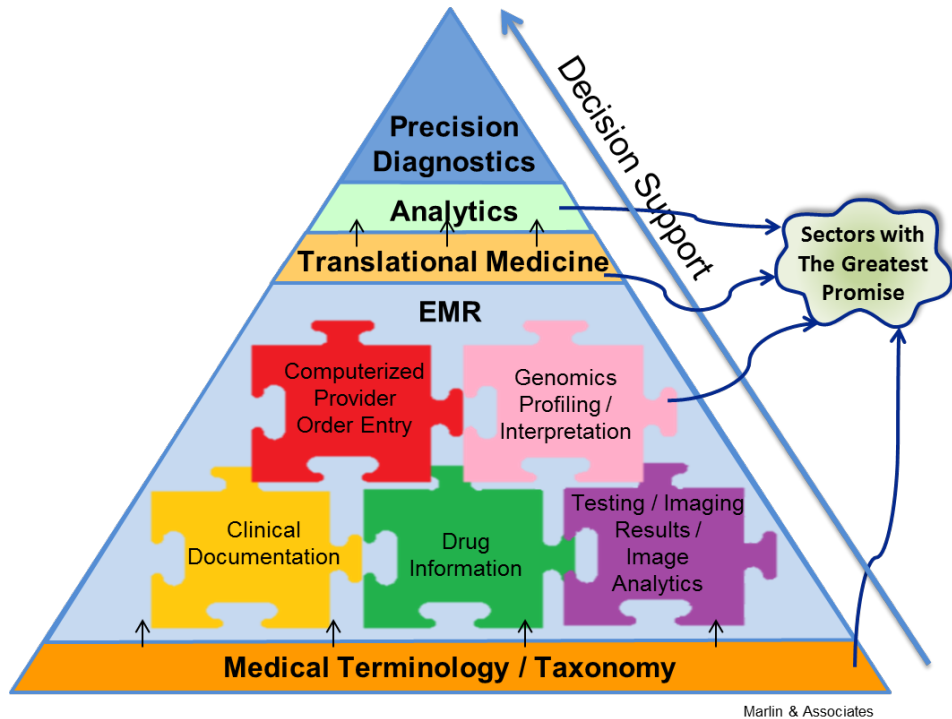


To lower health-care costs, many physicians are teaming up with airport security.

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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PRECISION DIAGNOSTICS BUILDING BLOCKS



SECTOR OVERVIEW

The goal of precision diagnostics is the integration of key building blocks in an effort to leverage technology to allow for holistic, accurate real-time diagnoses. To demonstrate this process, we have developed the above pyramid.

We start with the foundational layer of EMRs where common terminology and taxonomy of medical concepts as well as clinical intent are processed. This is one of the most promising areas in healthcare where we can achieve some degree of standardization in semantic mapping of clinical workflows.

Currently, EMR systems all include basic clinical information on patients such as clinical documentation, drugs, labs and imaging information. The next phase in EMR development is the addition of patient genomic data. This is one of the most critical steps toward precision diagnostics. Today, this information is completely separate from EMRs with a few providers attempting to bring this content into EMR systems as PDF files – the equivalent of searching the web without a browser. We believe, in the not too distant future, the

genomic data will become readable and usable as computable observations which can then be stored as another clinical data point in the EMR.

With the more complete EMR, we can then move up the decision support chain into “Translational Medicine”. This may be a new concept to some. Translational Medicine is essentially an interdisciplinary endeavor where basic scientific discoveries in multiple fields such as physics, biology, computer science, social science, etc., are “translated” into new ways to improve clinical practices. For example, correlative engines used in gene sequencing have similar algorithms to high frequency stock trading where tens of millions of variables are ingested and analyzed in real time.

And lastly, the analytics block is where a multitude of clinical data points from disparate sources are consumed and analyzed in order to identify the best prevention and treatment available to the patient. Analytic technologies are now able to include both predictive - “what is likely to happen” and explanatory - “what should we do about it” data models.

IMPORTANT INDUSTRY NEWS

WEDI picks Leaders for New Report on Next Generation HIE

The Workgroup for Electronic Data Interchange has announced leaders of four workgroups that will work on the 2013 WEDI Report, envisioned as a definitive roadmap for the next generation of health information exchange technologies.

Almost 20 years ago, WEDI set in motion an industry transforming report on EDI which spurred the HIPAA administrative and financial transaction sets. In the new report, WEDI will assess the role of emerging technologies in healthcare and impacts of the administrative and clinical technologies during the past 20 years. The chair of the report is Dr. Louis Sullivan, who founded WEDI in 1991.

The report is broken into four parts: Patient Enablement, Payment Models, Data harmonization & Exchange and Innovative Encounter Models. Representatives from Verizon, Humana, Availity, and Intermountain Healthcare are amongst companies that have been appointed to join the workgroups.

CMS makes available \$1.0Bn of Grants to Encourage Innovation

This is the second round of funding under the Affordable Care Act. The goals of the first round of funding were to avoid mistakes and readmissions, improve population health status and create health information technology infrastructure. The new 3-year program has four areas of focus: reducing costs in outpatient and post-acute settings, improving care for patients with specialized needs, testing new financial and clinical models, and linking clinical care delivery to preventive and population health.

Quebec to roll out a \$1.6Bn EHR System

After its remarkable success with four regional pilot programs, the province is rolling out the system to all 17 regions. This is good news for the citizens of Quebec, but it remains to be seen if government-run healthcare IT projects of this magnitude will show better success than commercial initiatives.

NOTABLE TRANSACTIONS / INVESTMENTS

Healthland acquires American HealthTech

Healthland, backed by Franciso Partners and a market leader in healthcare information technology solutions for rural hospitals and their affiliated care facilities, has acquired American HealthTech, a provider of integrated software and electronic health records solutions for long-term and post-acute facilities.

The combination of these two businesses allows providers to have access to hospitals, post acute facilities and clinics on the same platform.

Altegra Health acquires the TransUnion Healthcare Analytics division (HCA) of TransUnion

Altegra, backed by Parthenon Capital and a leading provider of performance improvement software and services for health plans, acquired the Healthcare Analytics business unit of TransUnion (HCA). HCA provides health plans, providers, and accountable care organizations access to a robust and dynamic library of quality metrics, performance analytics and care management tools.

This is a smart strategic move by Altegra. It further consolidates the role of Altegra in the payor market and allows the Company to expand the breadth of its analytics products.

Qualcomm Life acquires MyTelehealth Solutions

Qualcomm Life, a subsidiary of Qualcomm, Inc. has acquired MyTelehealth Solutions, which was backed by Silverstream Capital. The Company's leading product, HealthyCircles, is an integrated, accessible and interoperable Software as a Service Care Orchestration Engine that seamlessly connects health care professionals, patients, families, caregivers and associated systems to monitor and manage patients' care outside of an acute care setting.

With this acquisition, Qualcomm Life's 2net Ecosystem customers are able to receive and share health data beyond the walls of a hospital; empowering members of a patient's personalized care team.

Jawbone acquires BodyMedia

Aliph, Inc. (dba. Jawbone) is a consumer electronics company that develops noise eliminating Bluetooth headsets. BodyMedia, backed by investors such as Ascension Health Venture, is a wearable body monitoring system to help people lose weight and monitor their activity levels.

We are excited about the whole wearable medical monitoring market. We believe this is one of the more attractive areas for investing in healthcare consumer space. Jawbone knows how to sell into the consumer electronics market. BodyMedia is a great wearable monitoring device looking to expand and scale in that market. This acquisition plays well into the strengths of both companies.

Qiagen NV (NASDAQ: QGEN) acquires Ingenuity Systems for \$110M

Qiagen, a provider of sample and assay technologies worldwide, has acquired Ingenuity Systems, a provider of software solutions which analyzes and interprets the biological meaning of genomic data. Ingenuity had 2012 net sales of approximately \$20M, which implies a revenue multiple of 5.5x.

As genome sequencing becomes embedded in EMR systems, data driven technology companies or even select HIT companies may be amongst the buyers for the few remaining independent firms in the genome sequencing/interpretation sector.

Tableau IPOs on NYSE

Stanford-born and Seattle-based Tableau Software (DATA), a self-service analytics and data visualization software company, enjoyed a tremendous debut on the public markets, closing on its first day of trading at over \$50/share, up over 60 percent from its \$31/share IPO price. The company raised over \$250M through the sale of approximately 14 percent of the company. Tableau generated \$143.1M in revenues for the last 12 months.

Perhaps this IPO will break the drought in the recent HIT IPO market.

Proteus Digital Health raises \$62.5M

Proteus Digital Health, develops and commercializes digital health products ranging from medication adherence to measuring sleep patterns and stress levels. Results are then delivered to mobile devices or are embedded in wearable sensor-based tools. BodyMedia, recently purchased by Jawbone, is one of the collaborating partners of Proteus.

The company has a number of innovative products in its pipeline including medications with embedded sensors that communicate and telemetered devices that capture heart data for heart failure patients. Oracle is a new investor in this round joining Novartis Venture Funds and others.

HealthTap raises \$24M

HealthTap, a mobile health platform that connects millions of people with a network of more than 38,000 top doctors for free, raised \$24M in Series B financing. Khosla Ventures led the round, in which prior investors Mayfield Fundand Mohr Davidow Ventures also participated.

HealthTap has grown rapidly over the past year, nearly quadrupling the number of doctors in its network, and serving tens of millions of people worldwide via its web and mobile apps. The company could become one of the success stories in the consumer oriented healthcare market.

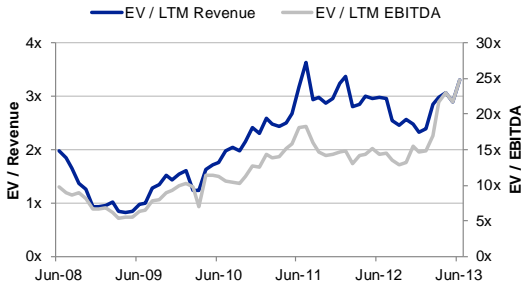
ConsultingMD raises \$10M led by Venrock

ConsultingMD provides access to medical information and opinions from the world's top physicians to individuals and to businesses that want to provide the best care for their employees. The company aims at bringing patients together digitally with doctors and increasing its network of prestigious medical expert. The company focuses on providing second opinions as well arranging referrals.

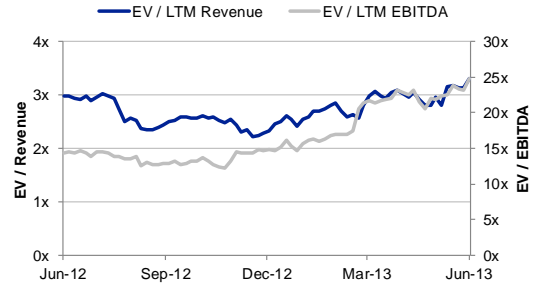
A number of viable business models are emerging to cater to the need of connecting consumers to the most appropriate doctors whether through telephone, e-visits, kiosks or house calls.

Healthcare Information Services & Analytics

5 Year LTM Revenue & EBITDA Multiples

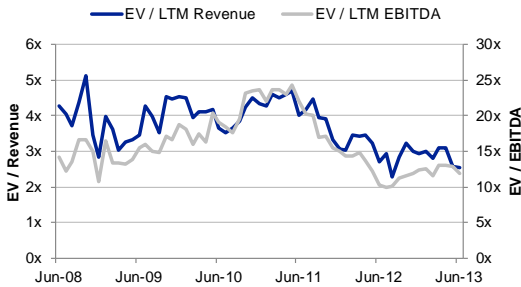


1 Year LTM Revenue & EBITDA Multiples

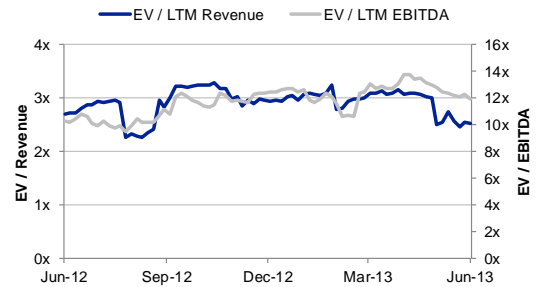


Healthcare Provider Systems & Solutions

5 Year LTM Revenue & EBITDA Multiples

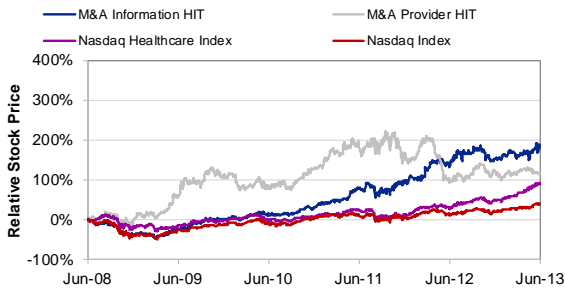


1 Year LTM Revenue & EBITDA Multiples

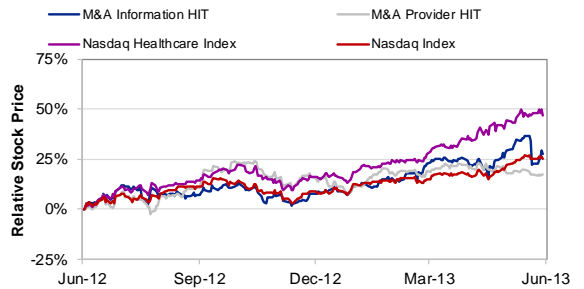


HIT Stock Price Performance versus Nasdaq Healthcare Index

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 over the past five years – nearly reaching a 25.0x EV/EBITDA multiple. Over the last 12 months, HIS companies have continued to outperform the Provider HIT sector.

The performance of both sectors have substantially exceeded the NASDAQ Healthcare Index over the past five years; however, this trend has reversed in the past year. The Provider HIT Index has been tracking the NASDAQ Index, while HIS Companies have enjoyed a rise similar to that of the NASDAQ Healthcare Index. This may in part be based on investors' views that RCM companies should be valued similarly to the BPO sector.

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	\$1,800	\$1,875	4.9x	4.0x	31.3x	22.3x	31%	21%	16%	18%	
Cerner Corporation	\$16,049	\$16,872	6.1x	5.4x	22.5x	16.5x	21%	15%	27%	32%	
Healthstream Inc.	\$617	\$713	6.0x	4.9x	29.7x	26.2x	26%	22%	20%	19%	
Healthways Inc.	\$729	\$460	1.1x	1.0x	12.7x	8.4x	-2%	8%	8%	12%	
McKesson Corporation	\$28,219	\$25,802	0.2x	0.2x	9.8x	9.0x	10%	1%	2%	3%	
WebMD Health Corp.	\$1,250	\$1,449	2.7x	2.6x	nm	14.2x	-16%	1%	5%	19%	
			Mean	3.5x	3.0x	21.2x	16.1x	12%	11%	13%	17%
			Median	3.8x	3.3x	22.5x	15.4x	15%	11%	12%	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.	\$911	\$1,107	1.0x	0.9x	17.0x	10.3x	15%	11%	6%	8%	
Allscripts Healthcare Solutions, Inc.	\$2,922	\$2,447	2.0x	2.0x	23.5x	11.6x	0%	1%	9%	17%	
athenahealth, Inc.	\$3,164	\$3,106	7.5x	5.3x	nm	29.5x	30%	41%	12%	18%	
CompuGroup Medical AG	\$1,451	\$1,164	2.4x	2.3x	10.6x	9.3x	15%	4%	23%	25%	
Computer Programs & Systems Inc.	\$537	\$555	2.9x	2.7x	12.1x	10.3x	6%	10%	24%	26%	
Craneware plc	\$134	\$161	3.3x	3.0x	11.8x	9.8x	8%	10%	28%	30%	
EMIS Group PLC	\$654	\$660	4.7x	4.4x	12.4x	13.0x	23%	6%	38%	34%	
Greenway Medical Technologies, Inc.	\$344	\$357	2.8x	2.4x	49.3x	20.1x	38%	17%	6%	12%	
MedAssets, Inc.	\$1,866	\$999	2.9x	2.7x	9.6x	8.5x	11%	6%	30%	32%	
Merge Healthcare Incorporated	\$514	\$308	2.1x	1.9x	16.6x	8.7x	7%	7%	12%	22%	
Quality Systems Inc.	\$947	\$1,065	2.2x	2.0x	7.5x	7.9x	22%	9%	29%	26%	
			Mean	3.1x	2.7x	17.0x	12.6x	16%	11%	20%	23%
			Median	2.8x	2.4x	12.2x	10.3x	15%	9%	23%	25%

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