MARLIN & ASSOCIATES

H.I.T. Greatest *Hits*

MARLIN & ASSOCIATES
Healthcare IT Review
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Dear Clients and Friends,

The healthcare industry has experienced consistent job growth through both good and bad economic times. According to Bureau of Labor Statistics, the number of U.S. healthcare workers grew by 75% between 1990-2012. In comparison, the number of U.S. workers in the entire economy grew by only 22% for the same period. Obviously some of the growth can be attributed to the increasing regulatory burden and the growing number of the elderly. But we do not believe these factors are enough to justify the ballooning workforce in our industry, particularly in light of the recent technology deployments.

Clearly the industry is beginning to respond to these pressures. Numerous hospitals have announced large budget cutbacks and layoffs. Cleveland Clinic's plan to cut its 2014 budget by $300M (a 6% reduction) is just one example. Granted, some of these cutbacks and layoffs are due to government reimbursement pressures, but something more subtle may be afoot. We are starting to spot the early signs of how our workforce will be shaped as we move toward value-based or outcome-based healthcare from the traditional fee-for-service model. This shift, which will ride on the wave of automation and deep data mining capabilities, requires competencies that are vastly different than what we have today.

The topic of measuring "value" in healthcare has been extensively discussed amongst the leading academic and healthcare scholars. In essence, "value" is the ratio of outcome to cost. But without good information, how can one measure the numerator or the denominator of that equation in a healthcare setting. Michael Porter, HBS strategy professor and Thomas Lee, the chief medical officer of Partners Healthcare have deliberated this topic in the October issue of HBR. We will share with you our views about their vision and ideas in the next newsletter. For now, we will leave you with one thought. You will soon see many job openings for Healthcare Value Scientists and Translational Medicine professionals.

Sincerely,

Afsaneh

Afsaneh Naimollah

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

Allscripts to integrate with payer analytics app
Allscripts plans to link its Professional EHR and Enterprise EHR products with payer analytics software from Maryland-based Inovalon. One goal of this integration is to provide clinical data (from the EHR) for provider risk-scoring analysis, in order to help both providers and insurers succeed in shared-risk and value-based reimbursement relationships.

In the new era of value-based reimbursement models, two-way data transparency between providers and payors is of great importance.

FDA issues final guidance on medical mobile apps
The Food and Drug Administration issued its final guidance which focuses on a subset of mobile applications that meet the statutory definition of a device. According to the FDA, mobile apps intended to be used as an "assessor" to a regulated medical device or transform a mobile platform into a regulated medical device, will be evaluated.

It is highly probable that some mobile apps will require approval from the FDA before marketing (and be subject to the 510(k) premarket notification process). The agency is expected to issue a proposed risk-based regulatory framework in January 2014. Excise tax on software could be a new phenomenon!

Jacob Reider, M.D. named acting head of ONC-HIT
As previously announced, Dr. Farzad Mostashari is leaving his post as head of the Office of the National Coordinator for Health Information Technology (ONC-HIT) on October 5, 2013. Dr. Reider, formerly a family physician with a long history of healthcare technology leadership roles and the existing ONC Chief Information Officer, will become the acting "National Coordinator" on October 4. Lisa Lewis will serve as acting principal deputy. David Muntz, the existing principal deputy national coordinator, is also leaving the government office to pursue private sector opportunities, according to media reports.

Filling Mostashari's shoes is no small task. The search for his replacement will be a big challenge for ONC. The new head needs to share the same sense of urgency which was so evident in Mostashari's style. We would like to see "commitment to innovation" and "persuasive powers" in the job description!

M&A TRANSACTIONS / INVESTMENTS

Greenway to go private and merge with Vitera
Greenway Medical Technologies (NYSE: GWAY), a leading healthcare technology provider to physicians, announced it will be going private for $644M cash ($20.35 / share, 4.8x LTM revenue, a 62% premium to GWAY's 90-day average stock price) and merge with Vitera Healthcare Solutions, which is owned by Vista Equity Partners. The new company will operate as Greenway Medical Technologies. Upon closing, the combined business will serve nearly 100,000 providers.

We have long believed that the EHR market was ripe for consolidation given the hundreds of approved EHR players and many new entrants. Greenway's technology is well regarded by physicians and clearly more advanced than Vitera's platform.

Quality Systems acquires Mirth Corporation
Quality Systems (NASDAQ: QSII) , a leading provider of EHR, PM, and RCM solutions through its NextGen subsidiary, acquired Mirth, a Costa Mesa, CA-based provider of interoperability solutions, for $32M cash plus $27M in QSII stock ($59M total consideration).

Although Mirth's HIE presence does not match competitors such as Orion Health, Corepoint and Inter Systems, it's HL7 messaging and EHR integration solutions are some of the best offerings in the market. This acquisition is a wise choice for QSII.

Panasonic to sell its healthcare unit to KKR
Panasonic, the Japanese electronics company, will sell 80% of its Japanese healthcare unit to KKR for about ¥165 billion yen ($1.67B), according to media reports. This is the largest buy-out deal in Asia year to date. Panasonic healthcare provides digital medical records and sells blood glucose measurement devices.

Panasonic is divesting this unit as part of its strategy to raise cash and try to reverse losses in its electronic business. The healthcare division generated sales of ¥134.3 billion ($1.3B) and had an operating profit of ¥8.7 billion ($87M) for the fiscal year ended in March.

Magellan Health Services to acquire Partners Rx
Partners Rx, the Scottsdale, AZ-based commercial pharmacy benefits manager with a focus on health plans for self-funded employers, announced it will be acquired by Magellan Health Services (NASDAQ: MGLN), a leading specialty healthcare care management organization. The $100M consideration will be paid from cash on hand.

In response to changes resulting from implementation of the Affordable Care Act, many HMOs are exploring both vertical and horizontal expansion strategies to drive efficiencies and maintain profitability; closer alignment with PBMs seems to be a recent strategy of choice.

Medi-Data acquired by PracticeMax
Medi-Data Services (MDS), a Naperville, IL-based medical management firm, was acquired by PracticeMax, a national provider of medical practice management and technology services. Terms were not disclosed.

Pure-play practice management firms are finding increasing levels of competition from EHR and RCM vendors who are offering similar services. This combination makes a lot of sense to us.

Triad to be acquired by MedSolutions
Triad, a Plainville, CT-based provider of musculoskeletal health services, announced an agreement to be acquired by MedSolutions, the Franklin, TN-based medical cost management company backed by TA Associates. Terms were not disclosed.

Triad presents an opportunity for MedSolutions to expand into pain management, a complex area yet a potentially lucrative business. Once again, an overarching theme of this deal is improving care while reducing costs.

Consult A Doctor acquired by Teledoc
Consult A Doctor, a Miami Beach, FL-based provider of healthcare solutions for employers, was acquired by Teledoc, the Dallas-based telehealth provider backed by Cardinal Partners, Health Evolution Partners and Kleiner, Perkins, Caufield & Byers (among others).

This acquisition will expand Teledoc's reach into small and medium sized businesses. Telehealth technologies are still emerging but we believe the model is a viable one for lowering costs. The private equity community seems to agree.

eScan Data Systems acquired by TransUnion
eScan, an Austin, TX-based technology provider that helps hospitals and healthcare systems reduce uncompensated care, was acquired by TransUnion, which plans to integrate it with its new ClearIQ platform. ClearIQ is an automated patient access solution that provides integrated patient demographic, insurance, and financial information. Terms were not disclosed.

Given that ~20 million more patients will be covered under the Affordable Care Act while reimbursement pressures remain, we believe uncompensated care reductions will be an even more important initiative from healthcare providers going forward.

Enclarity acquired by LexisNexis
Enclarity, a California / Minnesota-based healthcare data and information solutions company backed by Bain Ventures, was acquired by LexisNexis. This acquisition follows the transfer of MEDai (a provider of clinical and financial intelligence solutions) from Elsevier to LexisNexis and the purchase of EDIWatch (a provider of insurance anti-fraud, waste and abuse technology).

LexisNexis is making a push into healthcare cost containment and fraud / abuse detection. This strategy seems to be a natural extension of its risk and professional information solutions in other sectors.

Evolent Health raises $100M
Evolent Health, a Washington, D.C.-based population health management technology and advisory services provider, received $100M in Series B financing. TPG Growth is a new investor and joins The Advisory Board Company (NASDAQ: ABCO) and UPMC Health Plan, who are the original founding members.

Since its beginning two years ago, Evolent Health has raised nearly $125M. We can understand the excitement around Evolent given media reports of 300% year over year revenue growth. Population health management is certainly one of the most promising areas of healthcare under the new outcomes-based care model..

ZeOmega raises $21.5M in growth equity
ZeOmega, a Frisco, TX-based provider of population health management solutions, received $21.5M in funding led by Bregal Sagemount.

ZeOmega, backed by BlueCross BlueShield Ventures and Sandbox Industries, is an emerging leader in technology and services related to new healthcare models requiring the combined analysis of both clinical and financial data.

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PARTNERSHIPS & COMPANY NEWS

NextDocs raises $13.5M in funding
NextDocs, a Conshohocken, PA-based provider of regulated content management and compliance solutions, received $13.5M in capital led by OpenView Venture Partners.

NextDocs is capitalizing on the accelerating trend of life sciences companies that are planning to replace their legacy document management technologies, in favor of regulated content management. To date, NextDocs has received over $23M in funding.

Quantia raises $10M in Series B financing
Quantia, the Waltham, MA-based provider of physician relationship management solutions, received $10M in Series B financing lead by Safeguard Scientifics. Fuse Capital also participated in this round.

There are a number of emerging players in the physician relationship management space that are attracting capital. QuantiaMD offers a mobile and web-based platform that utilizes a mix of social media, game mechanics, and engagement sciences.

TA Associates acquires stake in SoftWriters
SoftWriters Holdings, a Allison Park, PA-based provider of pharmacy management software to the long-term care industry, received a majority investment form TA Associates. Terms were not disclosed.

The long-term care sector is attracting the interest of many private equity investors. Supportive demographics, greater electronic capabilities and new reimbursement models favoring care delivered outside the hospital create increasing tailwinds behind this sector.

Google investing in new healthcare company Calico
Google (NASDAQ: GOOG) is investing in a new company called Calico, which will focus on health and well being. Arthur Levinson, chairman of Roche's Genentech and a former Google director, will lead the new venture that seeks to address challenges related to aging.

Despite some starts and stops, Google has been surprisingly quiet in the healthcare technology sector. Perhaps a renewed focus on health by CEO Larry Page and increasing investments outside its core business (i.e. Google Glass) will lead it to commit more capital to its healthcare initiatives. Stay tuned.

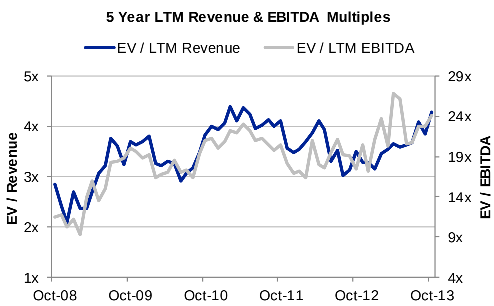
Cerner and Intermountain announce partnership
Cerner (NASDAQ: CERN) and Intermountain Healthcare, a Utah-based non-profit system of 22 hospitals and 185 clinics, announced a multi-year strategic partnership. Cerner is expected to implement it electronic health record and revenue cycle management solutions across all of Intermountain's hospitals and clinics. Financial terms were not disclosed; Cerner's stock closed 8% higher on the date of this announcement.

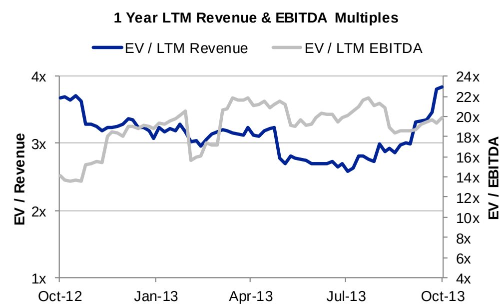
Intermountain is widely recognized as a leader in the areas of quality improvement and data analytics. Cerner's leading large-hospital, home-grown EHR system has been very successful in capturing market share. Of note, the partnership also covers revenue cycle management services, an area where Intermountain currently has a relationship with Accretive Health (NYSE: AH).

Over thirty northeast hospitals form new alliance
Over thirty hospitals located in NJ, NY and PA have formed an alliance, driven by demands of the Affordable Care Act. Named "AllSpire Health Partners", this alliance will be comprised of over $10.5B in revenue and more than 400,000 employees, covering nine million lives. Each of the seven hospital systems forming the alliance will deliver their priorities at an initial board meeting in October, with an overall focus on collaboration. Population health management, patient care services, group purchasing, sourcing, education will be particular areas of focus.

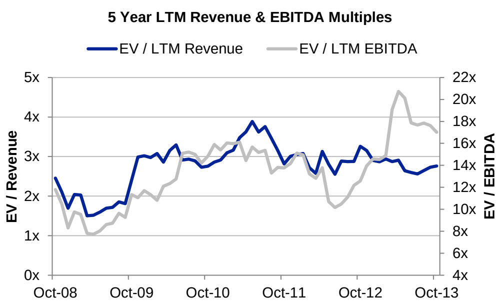
The AllSpire Health Partners alliance is believed to be the largest collaborative effort in the U.S. healthcare industry. There are a number of strategies being implemented by health systems (including mergers, cost cutting, new technology, etc.) to address the challenges of the Affordable Care Act and additional healthcare legislation. It remains to be seen if this 'airline' approach will become more popular.

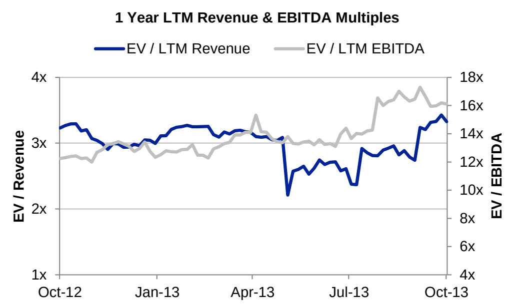
Healthcare Information Software Systems



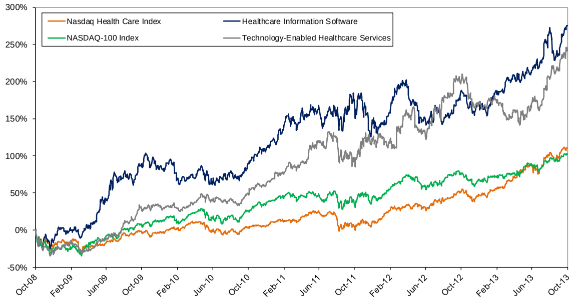


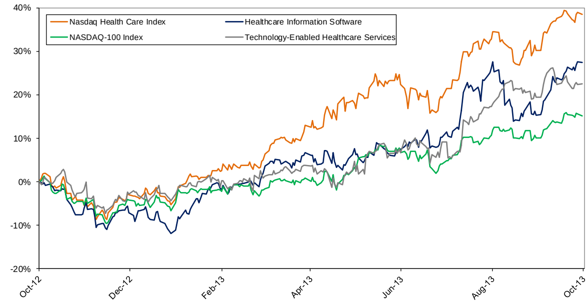
Technology-Enabled Healthcare Services





HIT Stock Price Performance versus Nasdaq Healthcare Index





PUBLIC MARKET TRENDS

As a group, Healthcare Information Software Systems revenue multiples (trim mean) are nearly 50% greater than the Technology Enabled Healthcare Services sector, and this gap has widened over the past month. EV/EBITDA multiples expanded over the past 12 months with the Healthcare Information Software Systems group now enjoying a 33% premium valuation versus its Technology-Enabled Healthcare peers (16.6x EV/EBITDA 2014E, vs. 12.5x), as the difference grew by almost 15% during September 2013.

The performance of both sectors significantly exceeded the NASDAQ Health Care Index over the past five years. That trend changed in the past 12 months with the NASDAQ Health Care Index (+38%) performing better than both the Healthcare Information Software Systems (+27%) and Technology-Enabled Healthcare Services (+23%) groups. Over the past month, the Healthcare Information Software Systems group has performed the best (+12%), while the other three groups still posted positive returns. All three of these indexes have outperformed the NASDAQ-100 by at least 5% over the past year. For company names in each index, please refer to the following page.

Marlin & Associates' Healthcare IT Indices include the following companies

Healthcare Information Software Systems

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	18,523	17,735	6.0x	5.3x	18.1x	15.6x	13%	13%	33%	34%
athenahealth, Inc.	3,991	4,204	7.1x	5.5x	37.7x	28.1x	41%	29%	19%	20%
Medidata Solutions, Inc.	2,646	2,506	9.1x	7.5x	38.3x	30.7x	26%	21%	24%	24%
Allscripts Healthcare Solutions, Inc.	2,641	3,114	2.2x	2.1x	15.3x	11.6x	(2%)	5%	14%	18%
The Advisory Board Company	2,178	2,138	4.2x	3.7x	23.7x	19.9x	17%	15%	18%	18%
Quality Systems Inc.	1,294	1,164	2.6x	2.3x	11.2x	9.0x	(1%)	11%	23%	26%
CompuGroup Medical AG	1,195	1,528	2.5x	2.3x	11.5x	9.7x	1%	6%	21%	24%
Computer Programs & Systems Inc.	648	636	3.1x	3.0x	12.1x	11.4x	11%	5%	26%	26%
Greenway Medical Technologies, Inc.	614	603	4.3x	3.7x	nm	27.7x	3%	16%	6%	14%
Merge Healthcare Incorporated	244	479	2.0x	1.9x	10.6x	8.7x	(2%)	5%	19%	22%
Trim Mean	**1,901**	**1,987**	**4.0x**	**3.5x**	**18.5x**	**16.6x**	**8%**	**12%**	**20%**	**22%**
Median	**1,736**	**1,833**	**3.7x**	**3.3x**	**15.3x**	**13.6x**	**7%**	**12%**	**20%**	**23%**

Technology-Enabled Healthcare Services

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
McKesson Corporation	29,766	31,735	0.2x	0.2x	9.6x	8.6x	4%	4%	3%	3%
MedAssets, Inc.	1,542	2,373	3.5x	3.3x	10.7x	9.9x	6%	7%	33%	33%
WebMD Health Corp.	1,454	1,228	2.4x	2.2x	10.9x	8.9x	9%	8%	22%	25%
Healthstream Inc.	1,047	946	7.4x	6.2x	39.8x	30.8x	23%	20%	19%	20%
Accretive Health, Inc.	920	723	0.7x	0.6x	8.2x	6.3x	11%	15%	8%	9%
EMIS Group PLC	635	613	3.9x	3.6x	11.5x	10.2x	14%	8%	34%	35%
Healthways Inc.	633	899	1.3x	1.1x	10.8x	8.5x	6%	13%	12%	13%
Vocera Communications, Inc.	457	332	3.2x	2.8x	nm	39.2x	3%	16%	2%	7%
Craneware plc	184	154	3.5x	3.3x	12.1x	10.6x	2%	8%	29%	31%
Trim Mean	**955**	**1,016**	**2.6x**	**2.4x**	**10.9x**	**12.5x**	**7%**	**11%**	**18%**	**20%**
Median	**920**	**899**	**3.2x**	**2.8x**	**10.8x**	**9.9x**	**6%**	**8%**	**19%**	**20%**

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