

Dear Clients and Friends,

Entrepreneurs have been described as “crazy diamonds” or “mysterious beings that hold the secret to boosting growth and creating jobs.”

We decided to dedicate the front page of this month’s Newsletter to Farzad Mostashari, the outgoing National Coordinator of Healthcare IT. To us, he is truly a modern-day entrepreneur and one of the most effective “Health IT Czars” that the agency has ever seen.

Mostashari was given a daunting task of allocating billions of dollars of government grants and stimulus funds to make our broken healthcare system more efficient through the adoption of the most advanced technologies. We have noted in the past that irrespective of our belief in government intervention, in this case, these grants and stimulus funds were the “seed money” which spurred one of the most dynamic phases of HIT investing.

The results speak for themselves. During Mostashari’s tenure since 2009, the adoption of EHR has tripled in doctor’s offices and increased five-fold at hospitals. Over half of prescriptions are now electronic. Functionalities for population health management are now available. Standards and protocols for information exchange and interoperability are now being implemented. Hospital readmission rates are down and we are beginning to see the results of pay for performance through intelligent measurement tools. On the back of favorable returns on their HIT investments, venture capital firms are now funding companies that give us new tools to manage our own health. As consumers, we will soon be able to download our own health information from EHR’s. The list goes on and on.

We will miss Mostashari’s expertise, enthusiasm and commitment to innovation. In his own way he is a passionate entrepreneur, a crusader against paper, a change agent who pushed both providers and payors kicking and screaming to adapt to the digital age. His famous quote saying “we can still do big things as a country” should make us all proud to be part of this industry.

Sincerely,



Afsaneh Naimollah

MARLIN & ASSOCIATES
Healthcare IT Review
September 2013

For further information contact:

Afsaneh Naimollah

Afsaneh@marlinllc.com

+1 (212) 257-6055

Stephen Shankman

sshankman@marlinllc.com

+1 (212) 257-6044



“Sometimes regulations don’t stifle innovation.”
Farzad Mostashari

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.

www.MarlinLLC.com

IMPORTANT INDUSTRY NEWS

Innovative cradle turns smartphone into biosensor

University of Illinois at Urbana-Champaign, where Internet Explorer was seeded, has now developed a cradle and app for the iPhone that uses the phone's built in camera and processing power as a biosensor to detect toxins, proteins, bacteria viruses and other molecules. This bio-detection platform can generate significant cost savings since many medical conditions could be monitored very inexpensively and noninvasively outside the labs. The technology comes with a wedge-shaped cradle that contains a series of optical components – lenses and filters – found in much larger and more expensive laboratory devices.



Smartphone applications have great potential to pro-actively monitor and detect changes in medical conditions. While many of these technologies are still emerging, we believe that personalized, consumer-focused healthcare solutions (such as this biosensor) will eventually play an important role in population health management.

Licensing deals increasing hospital revenue

A new survey from the Association of University Technology Managers found that licensing revenue from universities, hospitals, medical schools and life science research institutes grew 7% in 2012 to \$2.6B. Ongoing royalties increased by more than 30% to \$1.9B in 2012, suggesting that discoveries by these institutions are increasingly coming to market. Start-ups being formed from these areas increased 5% in 2012 to 705. City of Hope Medical Center / Beckman Research Institute and Memorial-Sloan Kettering Cancer Center led the list with \$224M and \$143M (respectively) in revenue generated from licensing last year.

Given the many cost pressures facing hospitals, diversifying revenue streams are a positive. However, historically these research institutions have made substantial R&D investments with low returns. Perhaps improving technology aiding better selection of candidates for development is beginning to swing the pendulum in the other direction.

M&A TRANSACTIONS / INVESTMENTS

Medtronic acquires Cardiocom for \$200M

Medtronic, a global medical technology leader, acquired Cardiocom, a Minnesota-based provider of telehealth and patient services for chronic disease management. This deal was an all cash transaction.

Medtronic is broadening its medical device offering to include more services and solutions, with an initial focus on heart failure. Cardiocom, which is focused on diabetes and cardiovascular disease, represents a foray into new territory by Medtronic as they attempt to become more integrated with healthcare consumers who have chronic conditions.

SSI buys Medibis

The SSI Group (SSI), an Alabama-based provider of end-to-end healthcare RCM and payment solutions, acquired Medtelligence (dba Medibis), expanding its capabilities to ambulatory surgery centers across the United States. Oklahoma-based Medibis integrates with existing HIT providers to provide analytics, dashboards and communication tools.

SSI has built a strong 'boot-strapped' RCM offering featuring connectivity and integration with over 1,000 payers. Medibis provides SSI with greater exposure to the ASC market, which is becoming a surgery venue of choice due to its lower cost proposition.

6N Systems acquired by Marlin Equity

6N Systems, a New York-based financial and clinical solution provider to the long-term / post-acute (LTPAC) care market was acquired by California-based Marlin Equity (not related to Marlin & Associates). 6N has been merged with SigmaCare, another recent Marlin Equity acquisition, to create a LTPAC market leader.

Investments in the long-term and post-acute care market are attracting investor interest due to favorable demographics such as aging population living longer and initiatives attempting to keep patients out of hospitals, both of which are expected to drive growth in the sector.

"We haven't slain all those dragons just yet, but we sure have made a dent." Farzad Mostashari

Xifin acquires PathCentral

Xifin, a San Diego-based provider of SaaS RCM solutions to diagnostic providers, acquired PathCentral, an Irvine-based HIT solution provider for pathologists. PathCentral's healthcare network includes Johns Hopkins, Massachusetts General Hospital and Kindstar Global (China).

PathCentral's next generation laboratory information system (LIS) includes an online information exchange and digital consultation forum for pathologists, which Xifin will attempt to leverage with providers, payers, physicians and patients to enable clinical decision support and coordinated care collaboration.

Logibec buys ReaEvolution

Logibec Groupe, a Montreal-based company backed by OMERS Private Equity, acquired ReaEvolution, a Quebec-based company focused on medical charting and clinical decision support for pre-hospital and emergency care. Terms were not disclosed.

This acquisition will be integrated with Logibec's Artefact clinical product suite which includes radiology and pharmacy information management systems. While cross-border deals are infrequent in HIT, it appears the HIT consolidation theme is gaining steam internally in many global markets.

First Databank acquires Design Clinicals

First Databank, a San Francisco-based provider of clinical drug knowledge, acquired Design Clinicals, a Seattle-based HIT solution provider for medication reconciliation.

Providers are facing challenges related to the medication reconciliation process at each transition of care (one of MU-1 menu objectives for hospitals). As such, Design Clinicals stands to benefit from the medical reconciliation requirement which is part of MU-2.

Merck buys controlling stake in Physicians Interactive

Merck Global Health Innovation Fund (GHIF) took a controlling interest in Massachusetts-based Physicians Interactive, which offers web-based and mobile clinical tools and marketing solutions to doctors. Financial terms were not disclosed.

This takeover follows a \$17M stake taken by GHIF in January 2012. Merck GHIF appears to favor investments with clinical components and we see physician marketing solutions as becoming increasingly relevant as doctors confront declining reimbursement rates.

Medfusion founder buys back company from Intuit

Intuit sold practice management provider Medfusion (now known as Intuit Health) back to founder Steve Malik for an undisclosed sum. Mr. Malik sold the company to Intuit for \$91M three years ago. Going forward, Intuit plans to focus on its tax business and small business solutions.

Intuit Health was facing declining revenue and lackluster results. The company took an impairment charge recently on the heels of losing an unnamed large client, who acquired a company with similar solutions. Comebacks by founders who know the business inside and out are always exciting. They typically lift the hopes and spirit of employees and often turn out to be great success stories the second time around.

Adreima and Optimum Outcomes merge

Phoenix-based and Waud Capital-backed Adreima, a Medicaid eligibility and RCM solution provider to hospitals, merged with Optimum Outcomes, an Illinois-based receivables and account management solution service provider. The new company will keep the Adreima name and be based outside of Chicago.

This is another example of consolidation in the RCM space as the industry prepares to confront the ICD-10 transition and healthcare billing complexity continues to rise. We believe the RCM consolidation theme is still in the early to middle innings.

Modernizing Medicine raises \$14M

Modernizing Medicine, the Florida-based specialty specific EHR provider, received \$14M from Summit Partners, which it plans to use to expand into other areas.

To date, Modernizing Medicine has raised nearly \$30M. Specialized EHRs providers that target complex, workflow specific areas of medicine (such as dermatology and ophthalmology) appear to finding a niche among physicians who are frustrated with one size fits all EHR offerings that typically need costly customization.

CareCloud raises \$9M from Adams Street Partners

CareCloud, a cloud-based EHR vendor located in Miami, received \$9M from Adams Street as part of the company's Series B financing round.

Due to high interest, CareCloud increased its Series B round to \$29M (including Adams), brining its total funding to \$55M. Companies resembling the athena model continue to attract many investors willing to pay high multiples.

Change Healthcare raises \$15M

Change Healthcare, a Tennessee-based leading provider of healthcare cost transparency and consumer engagement solutions, raised \$15M in its latest round of financing, led by HLM Venture Partners.

Change Healthcare has now raised over \$30M as it focuses on driving sustainable engagement at the individual level, helping consumers better utilize their benefits and make informed healthcare decisions based on quality and cost.

Phytel raises \$5M in new funding

According to a regulatory filing, Dallas-based and Polaris-backed Phytel, a provider of population health management solutions, received \$5M in new funding.

Phytel has now raised over \$20M. As a 15+ year old company featuring a suite of population health management solutions and a strategic relationship with Verisk, Phytel seems well positioned to benefit from an increasing focus on controlling health care costs for patient populations as well as initiatives to keep patients out of the hospital.

PARTNERSHIPS & COMPANY NEWS

United adds electronic bill-payment service through InstaMed

UnitedHealthcare added a new electronic bill-payment service (through Philadelphia-based InstaMed) to its claims management website, enabling its plan participants to pay medical bills electronically with credit/debit cards or bank account information. This solution connects both payers and providers in United's plans.

United believes this new payment solution can capitalize on consumers' increasing responsibility for medical bills. This is a significant agreement for InstaMed's offering as we believe the company stands an excellent chance of becoming the de facto standard for online payor-provider-patient healthcare payments.

Surescripts announced 19 new HIE customers

Surescripts, the Virginia-based leader in e-prescribing, announced a deal to expand its offering of secure messaging software to 19 new state Health Information Exchanges (HIE).

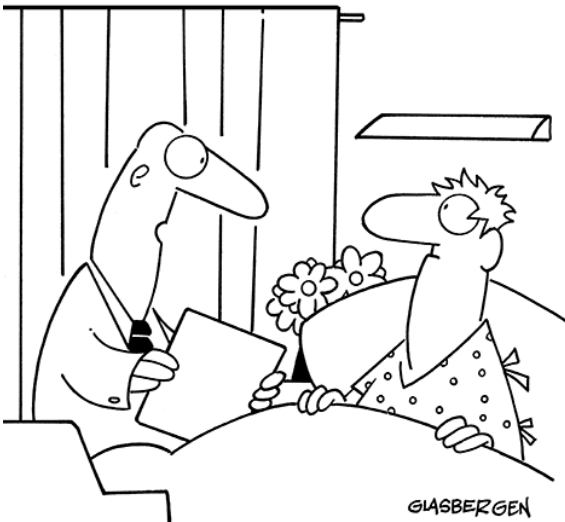
The acquisition of Kryptiq in 2012 was a significant strategic move for Surescripts. Kryptiq's technology is based on the federally developed Direct Project protocols. This is another important step for Surescripts to become a more pervasive force in connectivity and interoperability beyond its e-prescription capabilities.

Humana partners with Greenway in primary care

Humana recently announced a partnership with Georgia-based Greenway Medical Technologies to provide integrated technology to primary care providers. Humana plans to subsidize up to 85% of the cost to purchase Greenway's PrimeSUITE for EHR, practice management and interoperability.

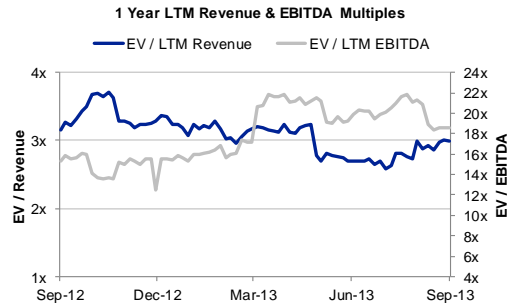
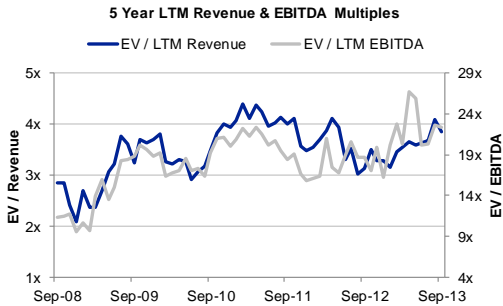
Many large healthcare insurance and provider networks have signed agreements with individual EHR vendors to drive standardization across their platform. However, many times these 'hunting licenses', even backed by subsidies, face some challenges convincing physicians to unplug their existing EHRs.

© Randy Glasbergen / glasbergen.com

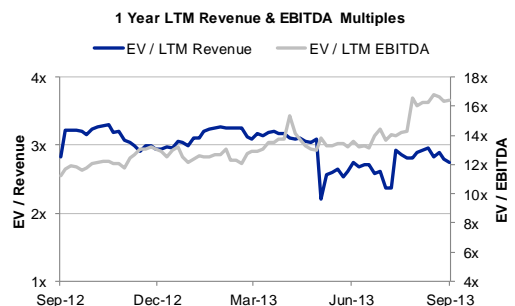
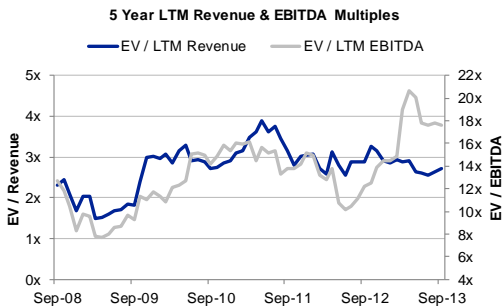


"I respect that you're a vegetarian, but I can't authorize using an artichoke heart for your transplant."

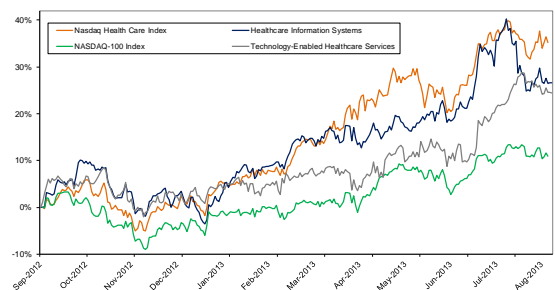
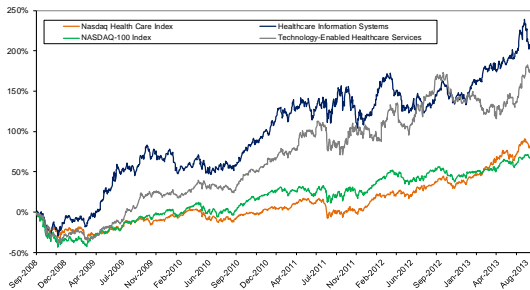
Healthcare Information Software Systems



Technology-Enabled Healthcare Services



HIT Stock Price Performance versus Nasdaq Healthcare Index



PUBLIC MARKET TRENDS

As a group, Healthcare Information Software Systems revenue multiples are approximately a third higher than the Technology Enabled Healthcare Services sector. Revenue multiples for each group have remained fairly steady over the past year. EV/EBITDA multiples expanded over the past 12 months with the Healthcare Information Software Systems group now enjoying a 20% premium valuation versus its Technology-Enabled Healthcare peers (14.6x EV/EBITDA 2014E, vs. 12.0x). However, this valuation gap has narrowed over the past month.

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 (+35%) performing better than both the Healthcare Information Software Systems (+27%) and Technology-Enabled Healthcare Services (+25%) groups. Over the last three months, the Technology-Enabled Services group has performed the best, while the other three groups have still posted strong returns. All three of these indexes have outperformed the NASDAQ-100 by at least 10% 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 <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	16,447	15,659	5.3x	4.7x	16.0x	13.8x	13%	13%	33%	34%
athenahealth, Inc.	3,940	4,152	7.0x	5.4x	37.2x	27.5x	41%	29%	19%	20%
Allscripts Healthcare Solutions, Inc.	2,652	3,125	2.2x	2.1x	15.3x	11.6x	(2%)	5%	14%	18%
Medidata Solutions, Inc.	2,329	2,189	7.9x	6.5x	33.4x	26.9x	26%	21%	24%	24%
The Advisory Board Company	2,085	2,045	4.1x	3.5x	22.5x	19.0x	17%	16%	18%	18%
Quality Systems Inc.	1,252	1,122	2.5x	2.2x	10.8x	8.7x	(1%)	11%	23%	26%
CompuGroup Medical AG	1,044	1,367	2.3x	2.1x	10.6x	8.9x	1%	6%	21%	24%
Computer Programs & Systems Inc.	612	599	2.9x	2.8x	11.4x	10.5x	11%	5%	26%	27%
Greenway Medical Technologies, Inc.	406	394	2.8x	2.5x	47.0x	17.4x	3%	14%	6%	14%
Merge Healthcare Incorporated	257	492	2.0x	1.9x	10.9x	9.0x	(2%)	7%	19%	21%
Trim Mean	1,790	1,887	3.6x	3.2x	19.7x	14.6x	9%	12%	20%	22%
Median	1,669	1,706	2.9x	2.7x	15.6x	12.7x	7%	12%	20%	22%

Technology-Enabled Healthcare Services

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
McKesson Corporation	28,202	30,171	0.2x	0.2x	9.1x	8.2x	4%	4%	3%	3%
WebMD Health Corp.	1,599	1,372	2.7x	2.5x	12.2x	10.5x	9%	8%	22%	24%
MedAssets, Inc.	1,395	2,226	3.3x	3.1x	10.0x	9.3x	6%	7%	33%	33%
Accretive Health, Inc.	987	791	0.7x	0.7x	9.0x	6.9x	11%	15%	8%	9%
Healthstream Inc.	927	826	6.5x	5.4x	34.9x	27.0x	23%	20%	19%	20%
Healthways Inc.	655	920	1.3x	1.1x	10.9x	8.7x	6%	13%	12%	13%
EMIS Group PLC	650	640	4.2x	3.9x	12.4x	11.1x	14%	8%	34%	35%
Vocera Communications, Inc.	401	276	2.7x	2.3x	nm	33.2x	3%	15%	2%	7%
Craneware plc	167	139	3.2x	2.9x	10.7x	9.7x	3%	9%	30%	30%
Trim Mean	945	1,007	2.6x	2.4x	10.9x	12.0x	8%	11%	18%	19%
Median	927	826	2.7x	2.5x	10.8x	9.7x	6%	9%	19%	20%

United States

New York, NY
San Francisco, CA
Washington, DC



International

Toronto, Canada
Hong Kong, China