

H.I.T. Greatest Hits

March 2017



M&A

MARLIN & ASSOCIATES

INVESTMENT BANKING AND STRATEGIC ADVISORY TO THE TECHNOLOGY,
INFORMATION AND HEALTHCARE INDUSTRIES

HIT MARKET UPDATE

New York

San Francisco

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DEAR CLIENTS AND FRIENDS

Welcome to our March 2017 HIT Market Update

Last week we attended HIMSS, the largest HIT conference. Although we were warned that the mood could be somewhat subdued, and despite a few cautionary signs, we came back inspired by the technologies we saw, the entrepreneurs we met and the outlook for the future. Here are a few of our observations.

- 1. Most vendors appeared cautiously optimistic.** Whether TrumpCare repeals or replaces ACA, people believe that the same IT sectors such as data integration, analytics, care management, and consumer technologies will remain as key priorities for healthcare organizations.
- 2. Healthcare settings show continued signs of unbundling.** Things that used to happen in doctors' offices are now being handled at home. This shift has massive consequences for the entire industry. Mobile technologies, remote monitoring, self-diagnostic tools, etc. have started to re-arrange the economics of our sector. The power of companies like Apple, Google or even Amazon will soon reverberate throughout the industry. Apple Watch, to some viewed as a failure, generated \$10 billion of revenue for the company; more than the sale of the entire EHR industry. We say watch for powerful new entrants.
- 3. Medicine becomes personal.** Predictive analytics vendors have moved from using IT to aggregate a variety of clinical, socioeconomic, life style and genetic data sets to turbocharging their clinical risk engines with AI capability. Cognitive medicine is no longer a promise but a reality. We saw real live cases of treatment plans designed with the level of precision that were previously unimaginable. But we still have some ways to go.
- 4. Interoperability is re-defined to create room for implementing the new incentive programs.** Interoperability is no longer just an API ecosystem. We saw some encouraging technologies similar to "clinical code processors" that can be used to extract and compute clinical metrics. These technologies can cohabit with interoperability players and will undoubtedly ease the pain of certification for the EMR vendors. The technical requirements for the next generation incentives such as MIPS and MACRA present daunting challenges for the EMR companies. Companies that can facilitate the migration will win big.
- 5. Tech spending of the largest health systems ballooned over the past few years but the heyday is over - budgets for 2017 will be flat to down.** Many of the CIOs that we talked to are determined to keep their costs down, consolidate their vendors and decrease operational complexities. The only way CIOs will entertain buying/piloting new technologies is if they can optimize the use of current systems and save hard dollars.
- 6. The government will be the biggest spender.** Several branches of the government, from VA to DoD, are overhauling their entire clinical systems. These two organizations alone are projected to spend over \$5-6.0 billion on HIT in 2017. Clearly, this bodes well for consulting, SI and large or small software vendors that can deliver robust solutions with high degree of interoperability.

Looking back at over 10 years of attending HIMSS, we are more convinced than ever that our industry is in the midst of a huge tidal change. Silicon Valley has moved into our zip code and plans to settle in.

Sincerely,

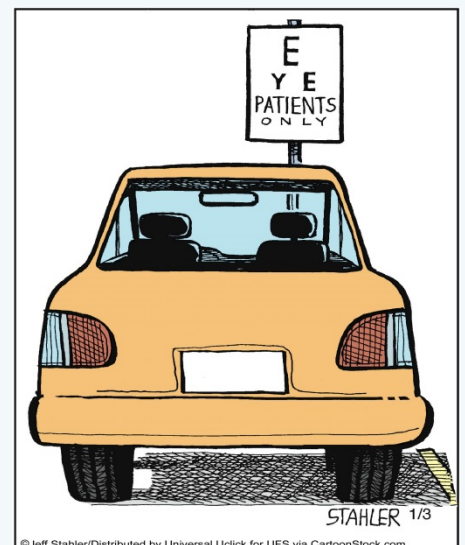


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- Verily, Google's healthcare arm, raises \$800 million from Singapore-based Temasek
- Flatiron, a leading oncology data company, raises \$175 million
- Goldman Sachs' investment arm, buys 5.34% of Japan-based M3, a social network for doctors, for \$450 million
- PointClickCare, a software company for senior care facilities, raises \$85 million from Dragoneer, JMI Equity and others

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Merger & Acquisition Activity Trends

IMPORTANT INDUSTRY NEWS

Health Catalyst and Regenstrief partner to commercialize natural language processing technology

Regenstrief Institute, which comes out of Indiana HIE, has developed an advanced version of nDepth; an acronym for NLP Data Extraction Providing Targeted Healthcare. The AI-powered text analytics technology has fine-tuned nDepth through extensive and repeated use of searching 230 million text records from more than 17 million patients. The core aim of the collaboration is to speed the process of patient care by unlocking the unstructured data within EMRs. Health Catalyst customers serve 85 million patients.

MD Anderson says good bye to IBM Watson

On the heels of signing one of its largest deals with Cleveland Clinic in December of last year, IBM Watson loses its longtime friend, MD Anderson. The two companies signed a comprehensive agreement back in 2013 amid much fanfare. Apparently the health system lost over \$60 million on the project which did not deliver the expected results. Although this is a sad outcome for IBM, we remain enthusiastic about the future of cognitive sciences in healthcare. IBM Watson is not the only game in town, there are better technologies built on more modern architecture. Watch the space.

M&A TRANSACTIONS

Publicly-held clinical testing company, LabCorp, rumored to be buying PPD, one of the largest CROs in the U.S. based in Wilmington, NC with a price tag of \$8.0 billion

Readers remember that LabCorp paid \$6.0 billion for Covance, a large CRO in 2015. PPD, owned by Carlyle and Hellman & Friedman, was taken private in 2011 for \$3.9 billion. We are not sure LabCorp's shareholders like the deal. On the day of the announcement, the stock lost \$800 million of its value but it has since recovered its loss. Beating its earnings estimate has clearly helped the cause. We will watch this closely but in the long run we think it makes sense for LabCorp to get into this business. Companies like Covance and PPD have huge visibility into the direction of diagnostics.

ABRY acquires MobileHelp, based in Boca Raton, FL for over \$100 million

MobileHelp started as a mobile medical alert company; in the PERS (Personal Emergency Response Systems) business. The product line is now expanded to include tablet-based monitoring devices where patients can track, monitor and share their vital signs. ABRY has a Midas touch and knows how to scale distribution businesses. This is a great platform with much promise in the health mobility space.

GoodRx and San Francisco-based Iodine enter into a merger agreement

GoodRx, backed by Spectrum Equity and Francisco Partners, was launched in 2012. Essentially, they're a drug price transparency company. People can use the app, enter the drug they are looking for, and their zip code, and the app shows a map of prices. Aetna provides a good deal of the data for the company. Iodine, which is a partner of Apple's CareKit, is a crowd sourced content company behaving more as a search function which displays other people's experiences on a variety of medications. This deal makes a lot of sense to us.

Warburg Pincus-backed Specialists On Call acquires NeuroCall based in Miami, FL

Specialists On Call provides emergency telemedicine services. NeuroCall specializes in remote, neurological telestroke and teleneurology services. They also provide general neurology coverage via two-way real time video consultation. The target was the direct competitor of SOC. Between the two companies; they have conducted 280,000 neurology teleconsultations to date. They cover 350 acute care hospitals. This type of consolidation is inevitable in the emerging telemedicine space.

The cancer research arm of HCA, Sarah Cannon, buys Genospace based in Cambridge, MA from Thomson Reuters

Genospace is a genomics company for precision medicine. The software stores large amounts of data, which enables doctors to analyze treatment options and can match patients to clinical trials. We are inspired by seeing health systems involved in scientific discoveries. That said, only a few organizations like HCA can afford to run their own clinical research organizations.

DrFirst buys Gainseville, GA-based VisibilityRx

The core competency of DrFirst is in its electronic prescribing/messaging capabilities. The company has 60,000 physicians on its platform. VisibilityRx is a clinical trial recruiting company; it is a powerful value proposition for doctors to be able to seamlessly refer patients for specific clinical trials. This deal advances the cause of patients with difficult diseases. We are excited to see this merger.

PARAXEL International acquires Kennesaw, GA-based, The Medical Affairs Company

As one of the most powerful CROs in the world, PARAXEL has a mighty reach. TMAC is a contract medical affairs company similar to a media agency. Essentially, whatever CROs do not want to deal with independently, be it sending medical team to talk to physicians or helping patients with product adoption or proper utilizations, companies like TMAC can do that heavy lifting for them. They even cover for CROs in medical meetings and provide booth coverage at healthcare conferences. Interesting acquisition.

CAPITAL RAISING ACTIVITY

Verily Life Sciences, the healthcare arm of Google, raises \$800 million from Singapore government's investment arm, Temasek

Google has always been known for chasing dreams; many have come to be realized. Verily has multiple mandates including finding a cure for aging, building surgical robotics, making actual bugs to combat disease transmission, etc.. Clearly, these are admirable goals, but shareholders want to de-risk the investment and have a partner to shoulder some of the costs. Temasek writes big checks (\$180 billion of assets under management) and is willing to be a long-term partner. This is the perfect marriage.

It should be noted that this is a minority investment but it comes with a board seat. The funds will be allocated to Verily over a few years. We are told that Verily has about \$10 million in revenue mostly from licensing and not actual sale of products.

New York-based Flatiron Health raises \$175 million led by Roche, bringing the total equity raise to over \$300 million

This is not just a capital injection. Roche has committed to buying several of Flatiron's products. The company engages in building large data pipelines for oncology coupled with its own self-tailored EMR systems. These are big bets, but then again oncology is a huge market. We will see more investments by pharma into HIT companies. This is the classic power struggle between the disciplines of chemistry vs. technology. Pharma knows that they need both.

PointClickCare based in Mississauga, ON receives \$85 million from Dragoneer, JMI and other investors

Dragoneer is a powerful public/private investment fund based in San Francisco. The company has invested in companies like Spotify, Airbnb and others. Their presence here is a big sign of endorsement. PointClickCare sells a variety of software solutions into the senior care market; one of the highest growth sectors of healthcare. The company competes with other successful firms such as Homecare Homebase and Kinser Software.

Weight loss balloon maker, Allurion based in Wellesley, MA raises \$19 million from angel investors

Addressing obesity is a big business but not everybody can afford surgical remedies. Allurion's technology is an ingestible capsule. Once the capsule reaches the patient's stomach a doctor or a nurse fills the balloon with liquid to make the patient feel full and eat less. The balloon stays in for four months. The device has received approval in Europe. The company hopes for its FDA approval this year. This is certainly a novel idea with great promise.

Comprehend System, based in Palo Alto, CA raises \$15 million from Sequoia

Sequoia is undoubtedly one of the most successful VC's in the world. They were an early investor in Comprehend back in 2013. The company has raised over \$45 million to date and is in the business of quality control and monitoring of clinical trials. We all know that the industry is mired with paperwork, inefficiencies and high error rate - anyone that can create some serious quality control here will be a big winner.

Patient identity firm, Verato based in Mclean, VA raises \$12.5 million of Series B

Bessemer Ventures and Columbia underwrote the first round of funding for the company in Jan 2015 for the same amount. They are the only two investors in the current round.

What Verato addresses is a big problem in many industries. For example, Master Patient Index (MPI) finds only 60-70% of the consistencies. Through its Verato DIAGNOSE, the company not only stores out of date and incorrect data but also the most up-to-date attributes. They claim that this type of matching can create 98% accuracy.

HealthReveal based in New York, NY announces \$10.8 million Series A funding from GE Ventures, Greycroft and others

There are many ways to bend the cost curve of healthcare. Evidence based medicine and anticipating gaps in care are probably some of the most important ways for cutting costs.

HealthReveal can anticipate and mitigate adverse medical events for individuals with chronic diseases. Their customers range from providers to payers and self-funded employers. HealthReveal's analytics engine ingests a variety of data sets including real time stream of clinical information, biometric and operational data. Although there are already a handful of companies in the market that are doing the same thing, we like the fact that the management comes from both the payer and the provider organizations.

Ascension Ventures invests \$10 million in Northbrook, IL-based IMO

Intelligent Medical Objects is one of the most important companies in the healthcare sector. Their medical terminology powers many of the EMRs who use the solutions to capture the physicians' clinical intent. Warburg Pincus took a majority stake in the company last September.

Ascension's investment arm is one of the most successful strategic investors in the healthcare industry. The fund has multiple LPs that represent other health systems which, between them, cover 474 hospitals. That is a powerful machine that can be put to use to expand IMO's market reach.

INTERNATIONAL TRANSACTIONS

Goldman Sachs' investment arm purchases 5.34% of Japan-based publicly-held M3 for \$450 million

M3 is Japan's largest social network for doctors. The company has successfully monetized their network; offering services such as drug information, on line news and content both in English and Japanese. Goldman purchased the stake from Sony who is the largest investor in M3.

Professional social networks can be powerful revenue machines. They are one of the most cogent platforms for surveys of any kind. Pharma is obviously a key interested party here. But we can also think about strategy consulting companies, equity analysts and media firms that would want to tap on the crowd sourcing content of this type of network.

LifeWatch AG of Switzerland receives a \$175 million offer from healthcare conglomerate firm, Aegis Victoria

LifeWatch sells wireless and remote monitoring products internationally. The company is best known for its cardiac monitoring devices.

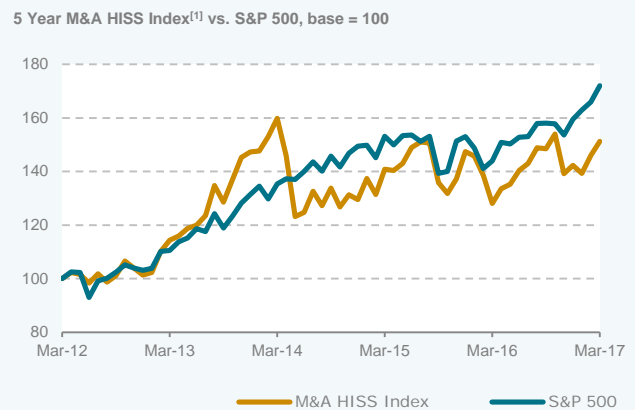
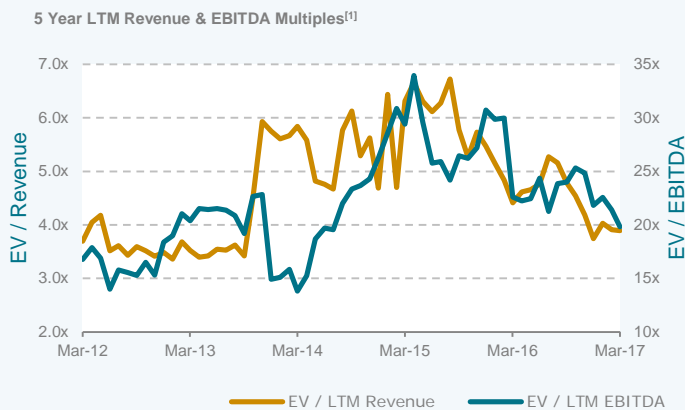
Some of us that have been around for a while know that Europe was the leader in wireless technologies. But when it comes to healthcare applications, the U.S. is way ahead of the game. LifeWatch is one of the few strong players in the sector. The takeover offer is in the form of stock. Not a bad price for a company that has \$93 million in sales and lost \$2 million.

Fishawack Communication based in the UK is sold to LDC Limited (Lloyds bank private equity arm) for \$48 million

Fishawack is a full service medical communication agency. It offers clinical and regulatory writing services, reports and other forms of literature. The company was owned by another private equity firm, GCP, who bought the business in 2013. Given the complexity of the pharma business, we say that this is going to be a big business.

Healthcare Information Software Systems

Public Market Data



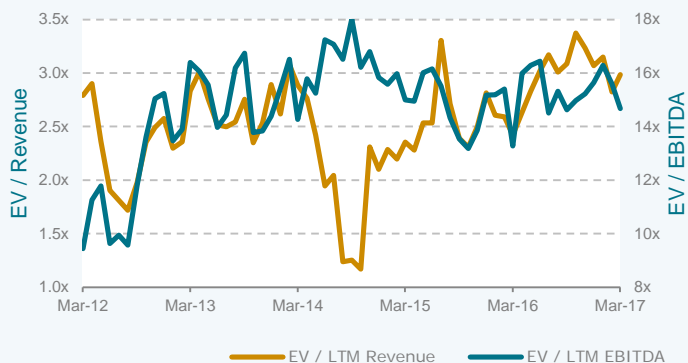
Company (USD millions)	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2016A	CY2017E	CY2016A	CY2017E	CY2016A	CY2017E	CY2016A	CY2017E
Cerner	18,708	18,915	4.0x	3.6x	14.4x	11.0x	8%	10%	28%	33%
Veeva Systems	6,459	5,940	11.0x	9.1x	35.5x	29.3x	32%	21%	31%	31%
athenahealth	4,729	4,873	4.5x	3.8x	45.5x	15.9x	17%	19%	10%	24%
Medidata	3,223	3,112	6.7x	5.6x	47.5x	23.3x	18%	19%	14%	24%
Health Equity	2,625	2,459	13.9x	11.1x	40.0x	31.2x	40%	26%	35%	35%
Allscripts	2,231	3,895	2.5x	2.3x	25.6x	11.0x	12%	11%	10%	21%
CompuGroup Medical	2,003	2,360	3.9x	3.5x	17.9x	14.7x	3%	10%	22%	24%
The Advisory Board	1,825	2,299	2.9x	2.9x	12.3x	11.6x	5%	(1%)	23%	25%
Inovalon	1,765	1,459	3.4x	3.3x	19.7x	13.9x	(2%)	4%	17%	24%
Quality Systems	948	949	1.9x	1.8x	15.5x	10.3x	2%	2%	12%	18%
NantHealth	918	714	6.9x	4.1x	nm	na	78%	66%	na	na
iRhythm Technologies	852	779	12.2x	8.8x	nm	na	77%	39%	na	na
Benefitfocus	797	839	3.6x	3.2x	nm	55.2x	26%	14%	na	6%
Computer Programs & Systems	359	510	1.9x	1.9x	18.5x	10.2x	47%	2%	10%	18%
Trim Mean	2,365	2,473	5.3x	4.3x	25.8x	17.2x	24%	15%	19%	24%
Median	1,914	2,330	4.0x	3.6x	19.7x	14.3x	18%	12%	17%	24%

[1] NantHealth added as of 6/2/16. iRhythm Technologies added as of 10/20/16

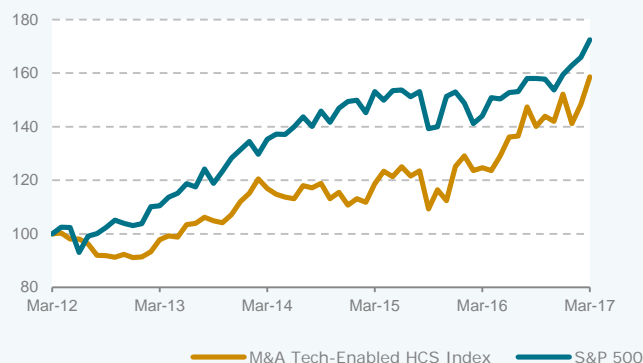
Technology-Enabled Healthcare Services

Public Market Data

5 Year LTM Revenue & EBITDA Multiples⁽¹⁾



5 Year M&A Tech-Enabled HCS Sector Index⁽¹⁾ vs. S&P 500, base = 100

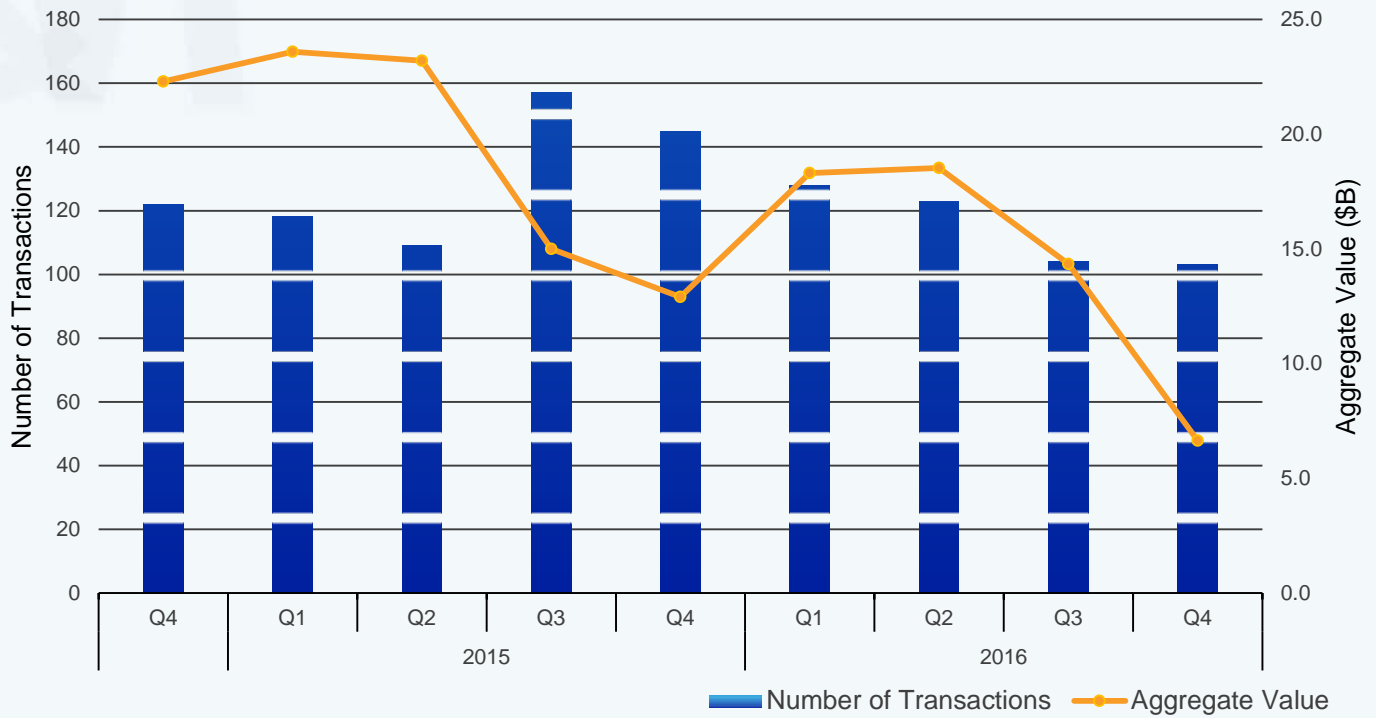


Company (USD millions)	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2016A	CY2017E	CY2016A	CY2017E	CY2016A	CY2017E	CY2016A	CY2017E
McKesson	33,329	41,489	0.2x	0.2x	9.0x	10.1x	4%	1%	2%	2%
Cotiviti	3,381	4,053	6.5x	5.8x	18.9x	15.0x	15%	11%	34%	39%
WebMD	2,865	2,919	4.1x	4.1x	14.5x	12.3x	11%	2%	29%	33%
HMS Holdings	1,599	1,621	3.3x	3.0x	17.1x	12.3x	5%	7%	19%	25%
Evolent Health	1,328	1,479	5.9x	3.6x	nm	n/a	159%	66%	na	n/a
Tivity Health	1,150	1,359	2.7x	2.5x	10.3x	11.6x	(35%)	9%	26%	22%
MINDBODY	1,076	1,005	7.2x	5.6x	nm	n/a	37%	30%	na	3%
Teladoc	1,011	981	8.0x	5.4x	nm	n/a	59%	49%	na	n/a
HealthStream	777	674	3.0x	2.7x	24.3x	18.8x	8%	12%	12%	14%
Emis	708	711	3.5x	3.4x	12.1x	11.0x	3%	5%	29%	31%
Vocera Communication	567	493	3.9x	3.1x	nm	62.8x	23%	24%	na	5%
Castlight Health	369	255	2.5x	2.0x	nm	n/a	35%	23%	na	n/a
Tabula Rasa Healthcare	230	306	3.3x	2.6x	23.9x	16.4x	32%	27%	14%	16%
Accretive Health	219	184	0.9x	0.5x	nm	n/a	76%	96%	na	0%
Craneware	171	122	2.3x	2.0x	7.2x	6.4x	16%	14%	32%	31%
Trim Mean	1,409	1,465	3.8x	3.1x	15.1x	13.4x	24%	22%	24%	19%
Median	1,044	993	3.3x	3.0x	14.5x	12.3x	16%	18%	27%	22%

Teladoc added as of 7/1/15, Cotiviti added as of 5/26/16, Tabula Rasa added as of 9/30/16

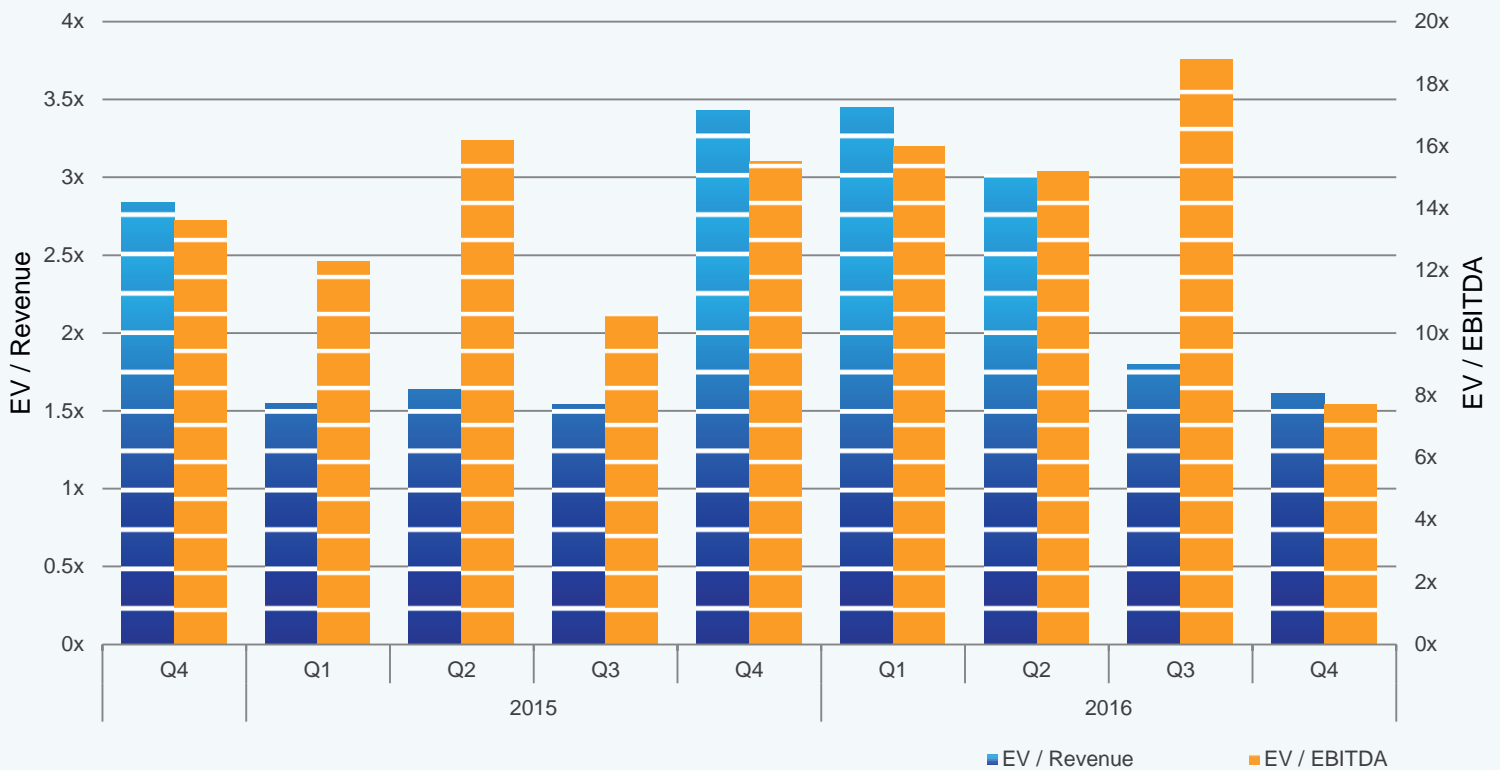
MERGER AND ACQUISITION TRANSACTIONS

Healthcare Technology and Services Transaction Activity



Note: Excludes Medtronic acquisition of Covidien, Anthem acquisition of Cigna, Aetna acquisition of Humana, and Abbott acquisition of St. Jude

Healthcare Technology and Services Transaction Multiples



PEER AND INDUSTRY GROUP RECOGNITION

“We are always grateful to be recognized for our hard work, but we are more pleased that we are able to help our clients achieve the results that they seek.”

Ken Marlin

Founder and Managing Partner

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(2014, 2015, 2016) - The M&A Advisor**

**M&A Award USA TMT Advisory Firm of the Year
(2012, 2015) – Acquisition International**

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- Boutique Investment Banking Firm of the Year (2014, 2015, 2016)*
- Advisory Firm of the Year (2015)*
- Middle Market International Professional Services (B-to-B) Deal of the Year (2013)
- Financial Services Deal of the Year (2013, 2012 and 2011)
- Information Technology Deal of the Year (2011)
- Middle Market Deal of the Year <\$25M (2011)
- Corporate and Strategic Acquisition of the Year (2011)
- Middle Market Financial Services Deal of the Year (2011 and 2010)
- Middle Market Information Technology Deal of the Year (2011 and 2010)
- Middle Market International Financial Services Deal of the Year (2013 and 2010)
- Middle Market International Information Technology Deal of the Year (2010)
- Middle Market Financial Services Turnaround Deal of the Year (2009)
- Middle Market Information Technology Turnaround Deal of the Year (2009)
- Middle Market International Deal of the Year (2008)
- Middle Market Financial Services Deal of the Year (2008)
- Middle Market Technology Deal of the Year (2008)
- Middle Market Investment Banking Firm of the Year (2008 and 2007)*
- Middle Market International/Cross Border Deal of the Year (2007, Below \$100M)
- Middle Market Financial Services Deal of the Year (2007, Below \$100M)
- Middle Market Financing Agent of the Year – Equity (2007)*
- Middle Market Computer and Information Technology Deal of the Year (2007)

**TMT Advisory Firm
of the Year (2016)**

**Boutique Investment
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(2016)**

**– ACQ5
(Acquisition Finance
Magazine)**



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- North America Small Mid Markets Corporate Deal of the Year (2013)
- Corporate M&A Deal of the Year (2010)
- Technologies Deal of the Year (2010)

* Firm-wide Awards





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