

H.I.T. Greatest Hits

October 2016



M&A

MARLIN & ASSOCIATES

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

HIT MARKET UPDATE

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XEN Partners

DEAR CLIENTS AND FRIENDS

Welcome to our October 2016 HIT Market Update

In the early 1980's, corporate executives at IBM and AT&T predicted that global demand for personal computers would top 1,000 units and there will only be 2,000 subscribers for wireless phones. The world is a different place now. And yet, we hear echoes from the past where sceptics in our industry say change will come slowly and incrementally, if at all. Healthcare, they claim, is different and it would be difficult to make sweeping changes to the industry quickly. But the reality is different. Not only is change coming quickly, but remarkably, it is being embraced by both practitioners and patients, and reinforced by visionary entrepreneurs determined to shake up the system. One example that can give us a glimpse of the future is the emerging technology of blockchains. This technology has the potential to single handedly squeeze hundreds of billions of dollars of costs out of the system, giving us more reason to hope for an inclusive and affordable healthcare system.

Blockchains are essentially an open source distributed data base structure that use state of the art cryptography. The technology allows collaboration and exchange of data among related parties where tracking of all transactions and interactions are highly secured, underpinned with genuine privacy protection; a platform for truth and trust. They are designed to enable disparate systems to exchange data creating connectivity between multiple networks – weaving together systems and networks to provide a distributed database for managing unique digital assets. The exchange of data residing in EHRs seem to be a natural place to start -- it's all about facilitating the move from paper to digital to network clusters and ultimately to a single interoperability “engine”.

If providers, payers and patients had access to the same global “spreadsheet”, namely the EHR, imagine the savings that we could drive from this technology. Payers and providers spend \$300B annually on administrative functions related to data access and exchange, reconciliation of payments and fraud. Blockchains have the ability to put a serious dent in that spend. And we will undoubtedly see a significant rise in quality of care and patient satisfaction. The good news is that companies are already working on developing a purpose built healthcare blockchain. They are building a specific programmable communication layer that can connect a variety of our data sources to blockchains, facilitating the first steps of adoption.

Blockchains give us a real chance, another go to try to save our bloated healthcare system. We don't like to think of the technology as a disruptor but more as an organic necessity that takes advantage of the emerging trends in disintermediation and democratization of data sharing. If anybody tells you that the use of blockchains in healthcare is a pipe dream, remind them that most predictions about technology adoption have been grossly underestimated. We promise you won't lose this bet!

Sincerely,

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IMPORTANT INDUSTRY NEWS

Capital One forms the first healthcare blockchain joint venture to tackle revenue cycle management

Capital One, one of the largest financial institutions and Gem, which offers data management operating systems for blockchains, have formed a joint venture to “reconceptualize” the claims management and patient payment processes. The idea is that if organizations - either payers, providers or patients - can connect to the operating system layer of the blockchain, then data exchange obstacles that have plagued the healthcare industry for decades will slowly go away. Pokitdok is the second partner in this joint venture. They focus on the patient responsibility portion. Yes these are early days, but blockchains are already making huge progress in the fintech world which arguably is as complex as the healthcare industry. We think healthcare is not that far behind.

The top three categories of digital health investments represent 25% of total venture money raised in the sector

YTD the analytics and big data space has seen a surge in funding vs. 2015; these companies raised close to \$400 million in capital. Genomics saw \$275 million of funding with wearables and biosensors capturing \$260 million of capital.

iRhythm Technologies shares soar in IPO

We are happy to report that despite the choppy state of the IPO market, healthcare still shines true. iRhythm is a maker of a digital heart monitors. The original price for the IPO was set at \$17. As of the writing of this newsletter, the shares were trading at \$25. The company has \$48 million in sales, losing \$20 million. Total enterprise value stands at over \$600 million.

Telemedicine arrives behind bars

Poor quality of healthcare in the prison system is a widely known fact. The waste involved in transporting prisoners for hours to specialty care hospitals is mind boggling. Thanks to a few progressive doctors, all 55,000 inmates at New York City’s Rikers Island jail will now have access to care via eVisits. With the number of incarcerated men and women over the age of 55 rising every day, we believe this change will go a long way in cutting costs and providing better quality of care.

M&A TRANSACTIONS

Chicago-based Emmi Solutions is purchased by Wolters Kluwer for \$170 million

This is a great price for a company in the patient engagement business. Emmi has successfully navigated both the provider as well as the payer markets. The company expects revenues close to \$30 million for 2016. To us, this looks like an “infrastructure” buy for Wolters Kluwer who have immense content on drugs and clinical decision support resources to populate in Emmi’s solutions.

TransUnion boosts healthcare solutions with the acquisition of NYC-based RTech (Healthcare Revenue Technologies) for \$62 million

RTech focuses on post-service eligibility solutions for providers of all sizes. RTech has a strong market position in the Northeast region of the United States. Their technology has the capability to allow earlier detection and prevention of bad debt. In June of this year, TU announced the acquisition of the revenue cycle management vendor Auditiz.

US-based VEGA Medical Professionals is purchased by London AIM-listed Constellation Healthcare Technologies for \$24 million

It is amazing what a big difference a few years make. Constellation is a US based RCM company. The company bought a small billing company in the U.S. in 2013 and went public in London shortly thereafter. Since then, the company has made five acquisitions. The company now has over \$80 million in sales and \$170 million market cap. There is a lot to be said about having a public currency to do acquisitions.

Tute Genomics of Provo, UT is acquired by PierianDx

PierianDx is a clinical genomic analysis and interpretation company. Tute, a bioinformatics software platform focused on the constitutional and exome testing market will add great capabilities to PierianDx’s precision medicine capabilities. The company sells to both laboratories and academic medical centers. We all know that we have ways to go to correctly “interpret” the results of genetic testing. This is a good step forward for that cause.

CAPITAL RAISING ACTIVITY

Clayton, Dubilier & Rice launches Agilon Health by acquiring and merging Primary Provider Management Company (PPMC) and Cyber-Pro Systems Inc.

This is a great example of a firm with sophistication and deep domain expertise. CD&R has done it again. PPMC is a management service organization (MSO) which serves 450,000 Medicaid members in CA. Cyber-Pro manages 24,000 Medicare patients in Hawaii and sells proprietary clinical and administrative technology solutions to third parties to support health plans and physician risk MSO operations. Both Medicare and Medicaid will lead the pack for value-based reimbursement. Agilon will be well positioned to act as the infrastructure to help physicians navigate the new VBR world.

WestView Capital purchases Nashville-based LetterLogic

LetterLogic designs, fulfills and delivers patient statements for healthcare systems. WestView has done an amazing job in buying low tech to medium tech healthcare businesses and turning them into super successful enterprises. They currently own Apex Revenue Technologies which is a back-end revenue billing solutions. The two companies combined will have 15,000 client locations.

Vista Equity backed, Aptean, expands its life sciences reach by purchasing Westborough, MA-based based GQ Life Sciences

GQ Life Sciences is essentially a search engine for global patents to help organizations keep up with inventions around the world. Aptean is a comprehensive enterprise software company involved in a variety of industries and sectors ranging from CRM, supply chain management solutions and finance/administration. This is Aptean's fourth acquisition in 2016 alone.

Comvest Partners sells its portfolio company, Convey Health, based in West Palm Beach, FL, to New Mountain Capital

New Mountain is one of the most sophisticated healthcare investors around. Healthcare business process outsourcing is on a rapid growth path. Convey Health provides comprehensive services to Medicare Prescription Drug Plans, Medicare Advantage Plans, billing, eligibility and benefit programs. Comvest purchased the company in 2009. Good deal for both.

Kernel raises \$100 million with the aim of augmenting human intelligence

Bryan Johnson, the founder of Braintree, is investing \$100 million of his own money in Kernel. The ambitions of the company are high and wide. The ultimate goal is an implantable device beneath the skull that can facilitate communications between brain cells by hacking the neural code that enables our brain to store and recall key information. Such a device could correct faulty signals to mend a cognitive impairment.

Imagining the world of augmented intelligence may sound far fetched for now, but we have complete confidence that the technology will be there at a fraction of the cost of tens of billions of dollars that the is spent on R&D for diseases caused by cognitive deficiencies.

Carrick invests \$50 million in Philadelphia-based InstaMed

We have been huge fans of InstaMed for many years. The company has taken significant leaps ahead of its competitors in the health payment space by working with both payers and providers. Providers can collect more money from patients and payers, and reduce time to collect. Payers, in turn, cut settlement and disbursement costs with electronic payments and facilitate consumerism for their members.

We admit that the nexus of healthcare and fintech is a crowded space, but InstaMed will keep its lead for many years to come. This is a great deal both parties.

Warburg Pincus, one of the most respected global equity firms, buys majority shares in Chicago-based Intelligent Medical Objects

IMO is the leader in medical terminology solutions for EHR systems. IMO's proprietary content has over 800,000 clinical concepts and mapping to five million terms across more than 100 code sets. The technology allows physicians to easily find and enter medical terminology at the point of care. But for this promising company that is just a beginning. IMO's technology is foundational to EHR vendors and as a tightly embedded capability inside the clinical workflow, the company has massive opportunities for growth in multiple clinical and administrative areas of healthcare. We will be watching IMO closely as they continue to innovate and excel in changing the healthcare landscape.

Vlocity, based in San Francisco, CA gets \$50 million in funding in Series B

Vlocity is a CRM company run by a former executive at Siebel, one of the pioneers in the CRM field. The company focuses on four industries, which include healthcare. Sutter Hill Ventures and Salesforce are among the investors. Vlocity's secret sauce is that their solutions are designed specifically for companies with poor customer service reputations. Vlocity has over 50 clients. There is a lot more runway to go here. We can think of thousands of companies that are bogged down in clunky legacy CRM solutions that have adversely affected their customer satisfaction.

Denver-based Welltok raises \$33 million in Series E funding

Welltok designs and develops a technology that drives engagement through a combination of social, gaming and personalization. The company has raised close to \$150 million to date. Concurrent with the new funding, the company has also secured a \$13 million line of credit.

We have a lot of respect for Jeff Margolis, the CEO of Welltok, who founded TriZetto in the late 90's. Through organic and inorganic growth, the company has managed to put together an impressive health optimization platform. That said, the market for consumer / patient engagement is becoming more and more difficult to navigate.

Science 37, based in Los Angeles, punches forward with a new \$31 million Series B funding

We love this company. This is a second generation CRO technology company. Science 37 closes the gap between traditional trials and advanced telemedicine platforms. It allows researchers to directly communicate with patients and mobile nurses from homes using videos, photographs and surveys. There are a few companies in the U.S. and particularly in Europe that have successfully deployed the model. The solution will surely accelerate the speed of clinical trials and make them a lot less expensive.

Los Angeles-based house call services company, Heal raises \$26.9 million in Series A

Technology has a mysterious quality. It sometimes brings the old models back anew. House calls used be the norm but that dynamic changed for several decades, until now. Heal, which already services 10,000 patients, will use the funding to expand its footprint in California. The post money valuation of the company is rumored to have been \$110 million. Average fee for a visit is \$99 and doctors are available seven days a week from 8am to 8pm. The company accepts a variety of insurance including Medicare. We love the model and wish Heal much success.

Reciprocal Labs, based in Madison, WI raises \$21 million in Series C bringing total raise to \$44 million

Known as Propeller Health, the company provides a mobile platform for respiratory health management. Asthma attacks are serious business. With an embedded sensor on top of the inhaler, the technology helps monitor patients and upload their information to their doctor. The company has developed over 45 programs with a variety of providers including Dignity Health. GlaxoSmithKline's venture arm and 3M Ventures are among the new investors in this round.

Nashville, TN-based Axial Healthcare rings up a \$16.5 million raise

Over 100 million Americans experience a long episode of pain each year. Axial has the technology to predict the onset of pain. The technology is an evidence-driven predictive pain management solution that is used by insurers and providers with the ability to curb the overuse of opioids to achieve safety and better outcomes. We are seeing a trend in narrow clinical decision support solutions, and this one is a good example.

RxAnte of Portland, ME receives growth investment from UPMC

UPMC, as a strategic investor, is one of the most successful firms around. RxAnte currently manages medication use for nearly 7 million people on behalf of health insurers and providers. UPMC has used the company's technology for the past three years. Results have been impressive, saving excess costs and directly contributing to the plan's superior Star Rating performance on medication adherence measures by CMS.

Mountain View, CA-based company, Moov raises \$12 million in Series A

This wearable fitness device allows fitness tracking with real-time audio coaching to track the user's physical motion. You actually hear guidance via headphones about in-the-moment feedback. We have not tried the device, but believe this will be best suited for individuals who seek high intensity workouts. We can hear our "Higher Self" calling!!!

Silversmith takes a minority position in Madison, WI-based Nordic Consulting Partners

Nordic is one of the largest Epic system integration companies. The company has over 300 employees. Nordic predicts revenues of \$180 million in 2016 up from \$135 million in 2015. The ecosystem in and around Epic is analogous to how SAP system integration businesses proliferated as SAP became the de facto ERP system of choice. The type of services that Epic SI companies can offer range from staff augmentation to managed services and consulting, with the latter two being the more desirable revenue streams. Kaiser Permanente Ventures and SV Life Sciences are amongst the existing investors of Nordic.

INTERNATIONAL TRANSACTIONS

M3 of Japan makes its largest acquisition buying France-based Vidal for \$110 million

M3 is a physician network that counts 250,000 doctors in Japan as its members. The company uses that base to sell a variety of services to the pharma industry. Vidal is a sophisticated drug database. This deal makes a lot of sense to us and it may send a signal that M3 is reaching beyond its borders for additional growth. The company is listed on the Tokyo exchange.

UK-based LumiraDx raises \$44 million

LumiraDx squarely focuses on what caregivers need to look after their patients. Their software enables caregivers of any kind, from doctors to nurses and care managers, to get quick and easy access to patients' information. This is a very busy space and we will watch this company closely to see how they could with larger companies.

Medical Channel of Australia receives \$25 million of funding to purchase rival Community Network

Medical Channel is a point of care digital media company which primarily covers waiting rooms entertainment and education. The combined business now offers advertisers an audience of 6.25 million viewers per month in more than 3200 health providers in Australia. There are U.S. competitors in this sector who have done well through advertising on behalf of pharma companies.

EPS holdings of Japan raises \$20 million from Suzuken

EPS is an acquisitive CRO. Suzuken, which is also based in Japan, is a pharmaceutical distribution business. The announcement claims that this capital injection is to strengthen the partnership between the two companies. Both companies are public with Suzuken being the much larger entity. EPS' solutions are considered more sophisticated and they can help Suzeken involvement in more profitable sectors of the pharma industry.

HaloDoc of Indonesia raises \$13 million

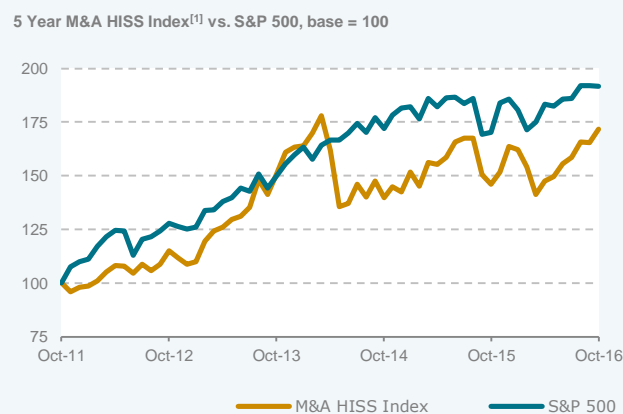
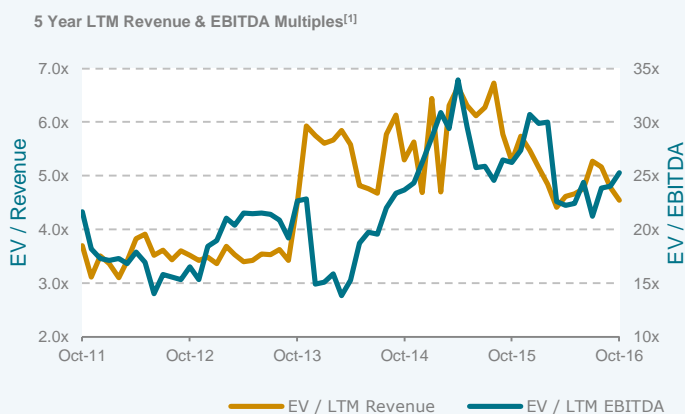
The founder of HaloDoc is the son of the founder of Indonesia's largest pharma company. This is Jonathan Sudharta's third venture into healthcare in Indonesia. He is a change agent who is importing successful digital health ideas from the West. HaloDoc is an app that provides online consultation, medicine delivery and on demand lab tests and a hospital/doctor directory as well as appointment scheduling. We love this type of technology which creates a level playing field for all countries.

Carlyle spreads its wings in healthcare in Germany by taking majority ownership in the dental CAD company, exocad GmbH

exocad has interesting roots. The company is a spinoff of Fraunhofer Institute for Computer Graphics Research IGD. Dental software industry has proven to be a lucrative sector for many investors. Carlyle has done multiple investments in the sector.

Healthcare Information Software Systems

Public Market Data



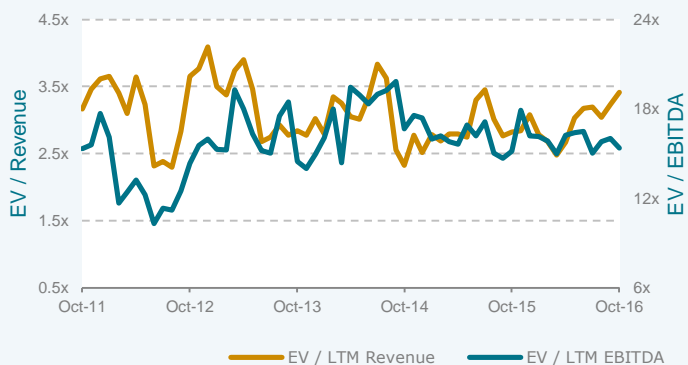
Company (USD millions)	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2015A	CY2016E	CY2015A	CY2016E	CY2015A	CY2016E	CY2015A	CY2016E
Cerner	19,871	19,826	4.6x	4.0x	16.4x	12.3x	31%	13%	28%	33%
Veeva Systems	5,555	5,076	12.4x	9.6x	57.3x	33.0x	31%	29%	22%	29%
athenahealth	4,069	4,230	4.6x	3.8x	69.5x	17.5x	23%	19%	7%	22%
Medidata	2,752	2,682	6.8x	5.8x	67.0x	25.4x	17%	18%	10%	23%
CompuGroup Medical	2,284	2,655	4.4x	4.3x	26.3x	19.1x	5%	2%	17%	23%
Allscripts	2,230	3,713	2.7x	2.4x	33.0x	12.8x	1%	13%	8%	18%
Inovalon	2,130	1,660	3.8x	3.5x	11.8x	12.7x	21%	8%	32%	28%
Health Equity	1,998	1,848	14.6x	10.4x	53.2x	29.8x	44%	40%	27%	35%
The Advisory Board	1,637	2,193	2.9x	2.7x	21.4x	11.4x	34%	7%	13%	23%
NantHealth	1,566	1,340	23.0x	10.4x	nm	na	72%	120%	na	na
Benefitfocus	984	991	5.4x	4.2x	nm	na	35%	27%	na	na
Quality Systems	768	790	1.6x	1.6x	13.8x	9.0x	3%	2%	12%	17%
iRhythm Technologies	528	651	18.0x	n/a	nm	na	66%	n/a	na	na
Computer Programs & Systems	348	499	2.7x	1.8x	15.0x	8.6x	(11%)	51%	18%	21%
Trim Mean	2,209	2,319	6.9x	4.8x	33.7x	16.7x	26%	21%	17%	24%
Median	2,064	2,020	4.6x	4.0x	26.3x	12.8x	27%	18%	17%	23%

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

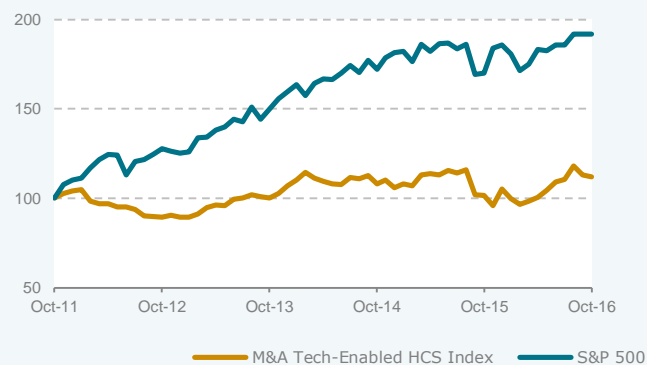
Technology-Enabled Healthcare Services

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

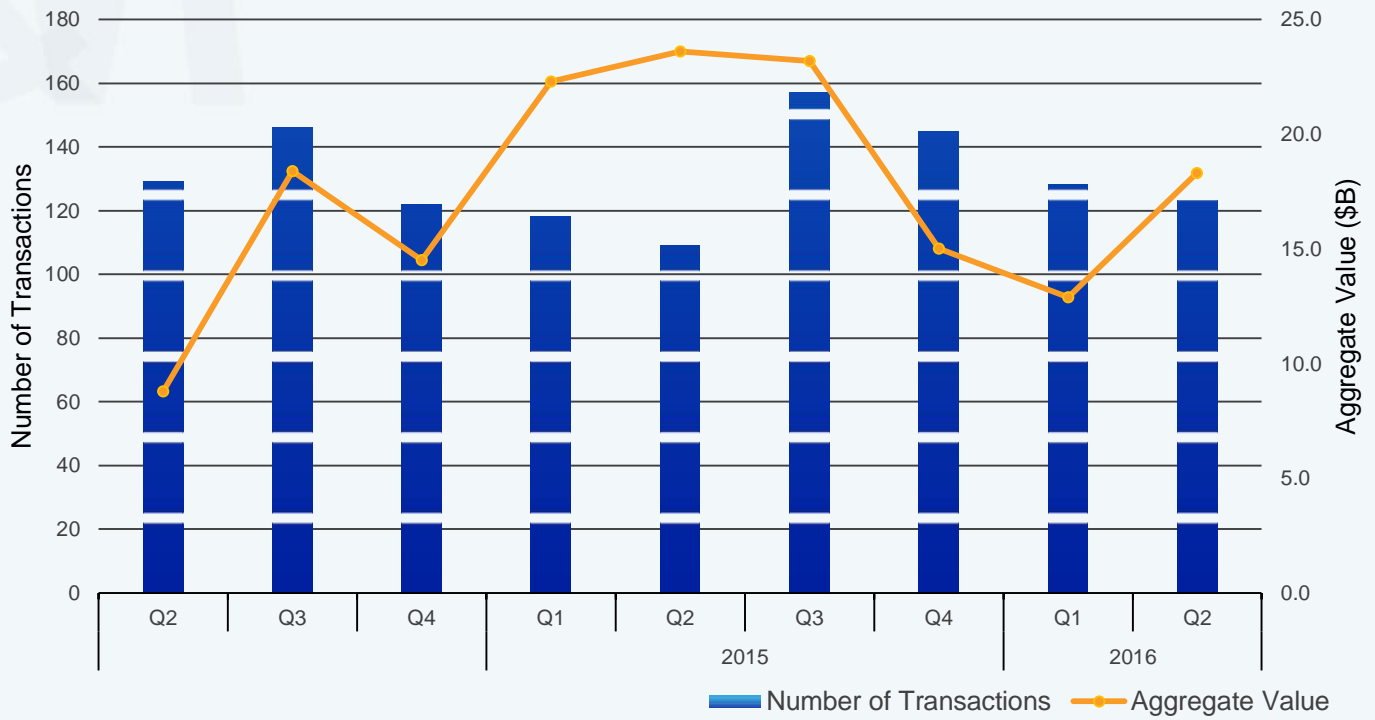


Company (USD millions)	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2015A	CY2016E	CY2015A	CY2016E	CY2015A	CY2016E	CY2015A	CY2016E
McKesson	36,594	40,752	0.2x	0.2x	9.5x	8.6x	10%	4%	2%	2%
Cotiviti	2,887	3,649	6.7x	5.9x	18.4x	15.2x	23%	13%	37%	39%
WebMD	2,667	2,691	4.2x	3.8x	18.4x	11.7x	10%	11%	23%	33%
HIMS Holdings	1,764	1,774	3.7x	3.6x	19.6x	14.4x	7%	5%	19%	25%
Evolent Health	1,405	1,500	15.5x	6.1x	nm	n/a	na	154%	na	n/a
Healthways	931	1,153	1.5x	2.3x	34.9x	11.6x	4%	(34%)	4%	19%
HealthStream	866	727	3.5x	3.2x	28.7x	21.1x	22%	10%	12%	15%
MINDBODY	801	731	7.2x	5.3x	nm	n/a	45%	37%	na	n/a
Teladoc	683	653	8.4x	5.3x	nm	n/a	78%	58%	na	n/a
Emis	649	653	3.4x	3.3x	13.1x	9.8x	13%	4%	26%	34%
Vocera Communication	463	342	3.3x	2.7x	nm	n/a	9%	22%	na	3%
Castlight Health	429	303	4.0x	3.0x	nm	n/a	65%	33%	na	n/a
Everyday Health	348	434	1.9x	1.7x	18.0x	9.5x	26%	11%	10%	18%
Accretive Health	236	177	1.5x	0.8x	nm	n/a	(44%)	79%	na	n/a
Tabula Rasa Healthcare	204	278	4.0x	3.2x	39.5x	23.8x	45%	25%	10%	13%
Craneware	171	122	2.6x	2.3x	8.6x	7.2x	8%	16%	30%	32%
Trim Mean	1,264	1,295	4.0x	3.3x	20.1x	12.7x	22%	23%	19%	23%
Median	801	727	3.6x	3.2x	18.4x	11.6x	15%	16%	19%	22%

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

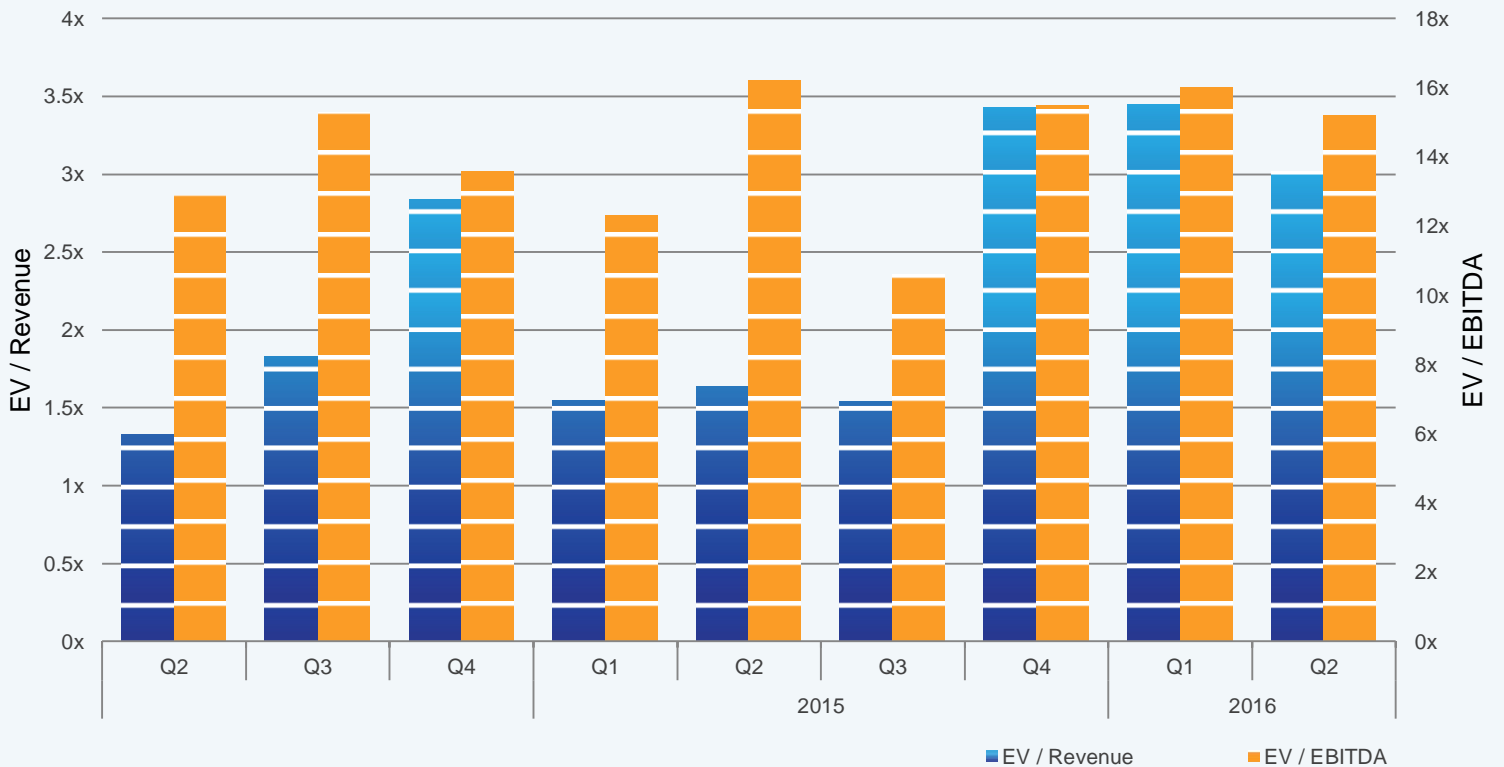
MERGER AND ACQUISITION TRANSACTIONS

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

**Boutique Investment Banking Firm of the Year
(2014, 2015, 2016) - The M&A Advisor**

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

The M&A Advisor and The M&A Forum have recognized Marlin & Associates for excellence in multiple deal categories including:

- Boutique Investment Banking Firm of the Year (2014, 2015, 2016)*
- 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)
- Middle Market Financing Deal of the Year - Equity (2007)
- Middle Market Financing - Financial Services Deal of the Year (2007)

**TMT Advisory Firm
of the Year (2015)**

**Boutique Investment
Banking Firm of the
Year
(2015)**

**– ACQ5
(Acquisition Finance
Magazine)**



The Global M&A Network has recognized Marlin & Associates for excellence in multiple deal categories through its M&A Atlas Awards:

- Financial Technology Deal of the Year (2012, 2011)
- 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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