

H.I.T. Greatest Hits

October 2017



M&A

MARLIN & ASSOCIATES

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

HIT MARKET UPDATE

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DEAR CLIENTS AND FRIENDS

Welcome to our October 2017 HIT Market Update

According to PhRMS, it takes 10 years and \$2.6 billion to bring a drug to market and only two out of ten approved medications produce revenues that exceed their R&D costs. Many expect the picture to worsen in the coming years. Perhaps it is time to invest less in chemical engineering and pay more attention to bioelectronics medicines.

The vision for bioelectronic medicines is one of miniature, implantable devices that can be attached to individual peripheral nerves. The nervous system is essentially the body's electrical and communication systems that wires together all the nerves and organs starting at the brain and branching out to every other part of the body.

In 2016 Glaxo Smith Kline (GSK) and Verily Life Sciences, the healthcare division of Alphabet, committed \$750 million to form Galvani, the first significant initiative to build a new class of bioelectronics medicines. The aim is to marry deep understanding of biology with expertise in chip design, software and data analytics to produce more effective treatment at lower cost and faster time to market. Given the progress made to date, experts believe that in the next decade, bioelectronics can become central treatments in a host of major chronic diseases such as diabetes, asthma, hypertension, arthritis, Alzheimer, Parkinson and even cancer. Many startups are now pursuing the same goal.

If the dream of bioelectronics becomes a reality, imagine what the future could hold for the pharma industry. Would we see more joint ventures and big bets like Galvani? Possibly - but there are only so many large tech companies that are willing to venture into uncharted waters. Instead we expect bioelectronics to evolve along a path similar to that of biotech industry where, aided by substantial amounts of VC money, smaller and more nimble companies do the early stage development, and then sell to large pharma companies.

This new class of medicine has the potential to materially change the economics of the pharma industry where the largest companies pivot to become distribution arms for bioelectronics medicines. In that mode, pharma needs fewer scientists but more IC and software engineers. So next time you see a wanted ad by a pharma company looking for top IC engineers, we can assure you that is not a typo.

Sincerely,

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"Here - it's an invisible prescription for your imaginary pain."

- CVS in talks to buy Aetna in a \$66B transaction.
- General Atlantic-backed eviCore is acquired by Express Scripts for \$3.6B.
- Devoted Health, a new MA insurance company raises \$62 million.
- Healthcare BlueBook receives growth capital from Primus Capital.
- UK-based CAR-T cell company, Autolus, raises \$80 million of capital.

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IMPORTANT INDUSTRY NEWS

CVS in talks to buy Aetna for \$66 billion

Large health insurers have been some of the biggest consolidators in the HIT industry. For example, United Healthcare has purchased over 40 companies in the past 10 years. Now the tables have turned and CVS is coming after the third largest insurer, Aetna.

When Amazon announced that it is getting into the PBM business, we were not surprised to see Express Scripps buying the spend optimization company, eviCore. But the CVS/Aetna transaction is different both in magnitude and direction. Medication spend is only 15% of the total healthcare expenditure. The reach of this combination goes much, much further than just drugs. It could include expanding the mini clinics of CVS, bringing services to the home and scaling the combined companies' provider network- all under the same roof.

Digital physical therapy platform, PhysiTrack, plans an IPO in early 2018

One of the first digital therapeutic IPOs, the company has only raised \$3.5 million since its founding in 2012. The virtual platform replaces the traditional paper based exercise regimens and via its remote monitoring, enables compliance tracking and provides educational physical therapy content. The service is marketed to healthcare providers and is employed in 102 countries with 1.2 million patients. The big break for the company came when Apple decided to include the company in its Mobility Partner Program.

Best Buy offers \$29 a month monitoring service for care givers

By 2020, 45 million Americans will be caring for 117 million seniors. Best Buy's offering is a monthly \$29 fee which uses internet-connected gear. The company has started to test the service in two cities.

Remote monitoring of seniors is expected to be a \$50 billion market, with Google, Microsoft, Samsung and Amazon vying for a position via their smart home platforms. Only time will tell if Best Buy can carve a large enough market for its offering to make this an economically viable service.

CAPITAL RAISING ACTIVITY

Devoted Health, based in Newton, MA raises \$62 million in Series B

We are super happy to see new breed of insurance startups getting funded. Starting in 2019, Devoted will sell only MA plans. The company has impressive backers ranging from co-founders of Athena to former government officials including Kathleen Sebelius (HHS) and Bill Frist (Senate Majority Leader).

Recursion Pharmaceuticals of Salt Lake City, UT raises \$60 million led by Data Collective reaching total funding of \$82 million

The company's core focus has been to discover new therapeutic opportunities for genetic diseases. The technology is built upon an AI-powered approach to phenotypic screening and other aspects of the drug discovery process. Recursion is tackling multiple diseases from cardio, neuro to dermatology and oncology. We are great admirers of companies that can combine biology with data science to design massively parallel screening protocols. The future is bright for this company.

AgaMatrix raises \$32 million of debt, bringing total available funding for the company to \$62 million

The Salem, NH company secured the funding from Prospect Capital Purchases. AgaMatrix is one of the larger pure play companies in the diabetes care solutions for blood glucose monitoring and data management. Since its founding in 2001, the company has sold over 2 million blood glucose monitors and 7 billion disposable test strips.

There is a huge wave of innovation in this market from continuous non-invasive monitors to Google's smart contact lens.

Los Angeles, CA- based VoxelCloud raises \$15 million

This brings total funding to \$30 million. This is a classic case of combining imaging analysis, clinical data, cloud computing and AI to achieve a more accurate clinical action. Company's end to end solutions include lung cancer, diabetic retinopathy, coronary heart disease and liver disease. Sequoia and Tencent of China participated in the round.

M&A TRANSACTIONS

Truveris, based in New York, NY lands \$25 million Series D funding led by McKesson Ventures bringing total funding to \$55 million

Truveris analytics platform enables customers (both consumers and enterprise) to reduce pharmacy-benefits related costs. The company aggregates pharmacy data from employers, brokers, labor unions and others. We applaud any and all price transparency companies. This is the best way to create competition amongst PBM companies whose future is already cloudy.

Boston, MA- based Caresyntax raises \$12 million Series A

Caresyntax develops surgical analytics for hospitals and ambulatory surgical centers through combining IoT technology to identify and manage risk, automate workflow, and reduce surgical variability.

Primus invests in Nashville, TN-based Healthcare Bluebook

Primus Capital is one of the savviest PE firms in the healthcare sector. Healthcare Bluebook is a price transparency company helping employers and consumers assess pricing/quality for several common procedures at facilities in their area. We cheer for any company that can expose significant price differential which can sometimes vary by the factor of 2x to 10x.

Level Ex raises \$11 million in Series A for mobile physician training

Level Ex's technology is one of the more interesting platforms that we have seen in the simulation market. The company creates games that are aimed at replicating operating room scenarios. Using augmented reality and virtual reality is the next frontier that they will be exploring. Working on other specialties such as gastro and cardio are also on the road map. Apparently, doctors love the technology. According to Level Ex's stats, the average length of a game is 12 minutes and doctors replay them over and over to master a technique and compete against a colleague.

BaseHealth based in Sunnyvale, CA raises \$8.5 million

The company's predictive analytics engine leverages machine learning to identify patients with underlying risk in 43 chronic diseases to prevent costly treatments before the on set of disease. The technology is one of the best around for population health management.

eviCore Healthcare of Bluffton, SC is purchased by Express Scripts, the largest PBM, for \$3.6 billion

This is the most exciting deal of the month. eviCore is a spend optimization company catering to managed care organizations, self-insured entities and risk bearing providers. The company covers radiology, oncology, cardiology, lab and other specialties and administers benefits for over 100 million people.

With the future of the PBM sector in doubt, we think this is one smart move. eviCore was backed by General Atlantic.

Welltok buys Tea Leaves Health from Everyday Health for \$90 million

Tea leaves, based in Roswell, GA was purchased by Everyday in 2015 for \$50 million. Tea Leaves provides a SaaS-based CRM solutions to help providers better engage with patients. Welltok, which has raised over \$160 million of capital to date, has a unique approach to combining social, gaming and personalization technologies to engage patients. The company offers its services to payers and health systems.

Thoma Bravo- backed Imprivata buys GE Caradigm's Identity and Access Management Business

In the environment of robust stock market, to take a company private is not for the faint hearted. Imprivata, based in Lexington, MA is a security company that was taken private in a \$500+ million deal in September of 2016.

The Caradigm transaction is probably the first of many acquisitions to come. After this divestiture, Caradigm has a better chance of making a go at the PHM market.

Halyard Capital sells Practice Insight to an unidentified buyer

PI has been owned by Halyard since 2011. The company is a wholesaler of EDI and EDI related services. Of note a few weeks ago the company entered into an agreement with Alpha II to introduce MIPS Registry Solutions. There is a lot you can do in the new world of reimbursement with PI's products.

ExlService picks up Health Integrated of Tampa, FL

HI is a provider of care management services to health plans to manage their most vulnerable members. Their solutions range from 100% outsourcing of care to case and utilization management. Exl provides operations management and analytics to the insurance industry. The company has an enterprise value of \$2.0 billion with sales of \$700 million.

Azalea Health Innovation buys Prognosis Innovation Healthcare based in Houston, TX

Both companies are niche EMR players. The target caters to rural and community hospitals. We are actually surprised that we are not seeing more consolidation amongst the small to mid size EMR vendors. May be this is a start.

Riverside Partners sells Pilgrim Quality Solutions to an unidentified strategic buyer

Riverside bought the company in 2011. Pilgrim is one of the better players in the compliance management for life science companies.

Vitals buys the online community business of MedHelp (a subsidiary of Aptus owned by Merck), and MedHelp's mobile platform is in turn sold to another Merck's subsidiary, StayWell

Vitals is a transparency and engagement company. MedHelp's community website is one of the largest in the country attracting more than 15 million monthly visitors with tens of thousands of conversations daily around 300 medical conditions. Vitals has nine million doctor reviews. This combination makes a lot of sense to us.

StayWell offers employer-specific solutions related to several medical specialties, and has services within 85 percent of US hospitals and health systems. The acquisition is a good one for Staywell as it brings access to three million users of MedHelps' various mobile apps.

Medsphere Systems of Carlsbad, CA and Stockell of Chesterfield, MO merge

Medsphere is an EHR vendor and Stockell is an RCM player. This is where the industry has been heading for a long time. We welcome the move.

Medecision buys part of Comvest-backed Axis PointHealth based in Westminster, CO

We understand that the asset purchase includes the platform business of Axis. Medecision is one of the largest PHM solution providers; serving Medicare and Medicaid patients for payers and catering to risk bearing hospitals. After this acquisition, Medecision becomes the largest independent provider of care management platforms and applications supporting over 50 million lives for the nation's largest 100 health plans. We call this scaling the business. Good for Medecision.

Convey Health Solutions buys Gorman Health Group based in Washington, DC

Convey services the MA and Part D markets. GHG helps over 150 government-sponsored health programs stay compliant and optimize revenue. The company is more of a consulting firm than a software vendor.

Avizia picks up Seattle, WA-based Carena

Both companies are in the business of virtual care and telehealth. Avizia, which has raised \$20 million, is backed by prestigious investors such as New York Presbyterian and Northwell. The combined entity now powers 25% of all telehealth programs run by hospitals.

Matrix Medical Network picks up LP Health Services based in Waltham, MA, from Munich American Reassurance Company

Matrix is a provider of in-home, facility and community-based risk adjustment and care management company and it caters to health plans (mostly MA population) and risk bearing providers. LPHS's solutions are sold to MA and Medicaid health plans focusing on post-acute assessments for hard-to-reach members. The acquisition expands the clinical network of Matrix to 4,000 providers across all 50 states.

WebPT Acquires Strive Labs based in Boston, MA

Backed by Battery Ventures, WebPT, is an EHR and practice management software company for the rehab therapy providers. Strive Labs is a CRM company covering the same sector. This move will undoubtedly make WebPT more entrenched in its addressable market.

INTERNATIONAL TRANSACTIONS

M3 of Japan buys Qualitative and Quantitative Fieldwork Services- QQFS- of Sweden

M3 is a large, publicly-held company that is part a social network for doctors (four million of them), part education channel for physicians and part panels for the pharma to reach the doctors in its network.

M3 has sales of over \$750 million with an enterprise value of \$9.2 billion. QQFS is a data collection company covering the Nordic region and it caters to healthcare and life science sectors.

Johnson and Johnson buys surgical Process Institute (SPI) of Germany

The company engages in best practices checklist to standardize operations. SPI's unique offerings have been shown to reduce surgery variability and the time spent in the operating room.

Artificial intelligence cardiac imaging tech firm, Analytics 4 Life, lands \$25 million in funding bringing total capital raised to date to \$40 million

Kingston, Ontario-based company helps physicians assess the presence of coronary artery disease without radiation, contrast agents and cardiac stress.

The technology scans signals naturally emitted by the body with synchronous array of seven sensors on the company's proprietary collection device. The signal package is then sent to the cloud where it is analyzed by AI generating a personalized heart model of the patient. Pretty amazing technology which can replace very expensive and painful procedures.

Next gen CAR-T cell firm Autolus takes funding tally to \$173 million in Series C

London-based CAR-T cell player Autolus has raised \$80 million in a third-round financing that it says will fund proof-of-concept testing for three programs; namely, multiple myeloma, lymphoma and pediatric leukemia. Only a few weeks ago, we reported that FDA approved the first CAR-T cell therapy for Acute Lymphoblastic Leukemia or ALL. Watch for more funding in this exciting and life changing space.

Sinco Pharmaceutical of China receives \$150 million in funding

The company provides marketing, promotion and channel management services for international pharma companies that plan to tap the Chinese market. Given the sheer size of the market, and the hunger for foreign companies to tap its potential, we think Sinco will be a successful enterprise.

B-Soft of China raises \$140 million

The company has a comprehensive suite of HIS products ranging from administrative to clinical information systems as well as mobile solutions.

Chinese HIT companies are raising massive amounts of capital. We wonder if only the "crumbs" will be left for U.S. and European health tech companies wishing to enter the market.

Vios Medical of St. Paul, MN is acquired by Murata Electronics of Japan for \$100 million

Vios develops tablet based wireless monitoring platforms for the entire care continuum. Murata is a large broad-based Japanese conglomerate with over \$10 billion in sales. Healthcare is a new strategic focus for the company.

EXSCIENTA of United Kingdom raises \$18 million

Using AI, the company has been able to automate the drug design-make-test process. The company claims that their solutions can achieve results in a quarter of the time of traditional approaches. We think there is a case to be made for solutions that target bringing biospecific small molecules and optimizing the initial chemical designs. We will be watching this space.

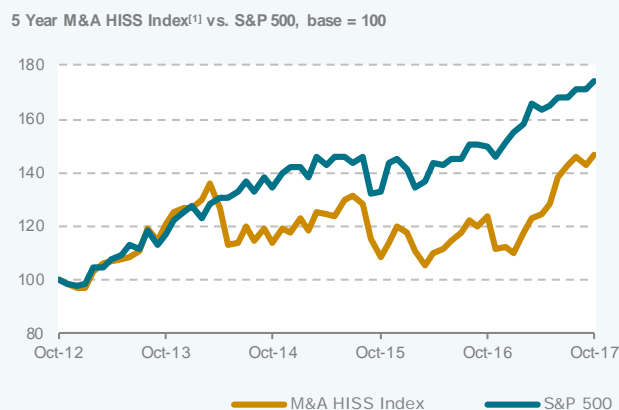
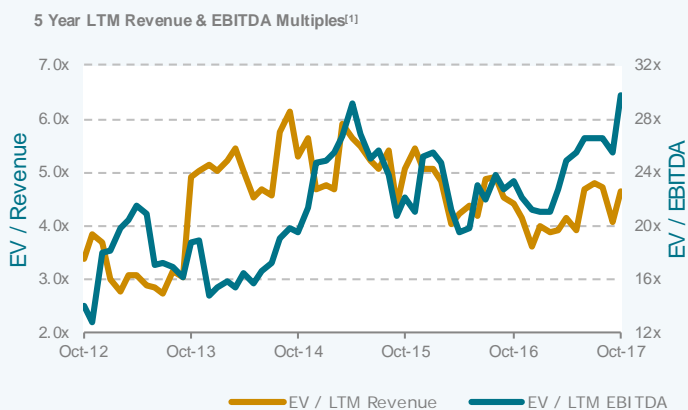
CathWorks of Israel receives \$15 million Series B

CathWorks develops medical devices for the interventional cardiology market. The company's technology is based on processing visual information and automatic multi-layered algorithms.

Marlin & Associates' Index Performance

Healthcare Information Software Systems

Public Market Data



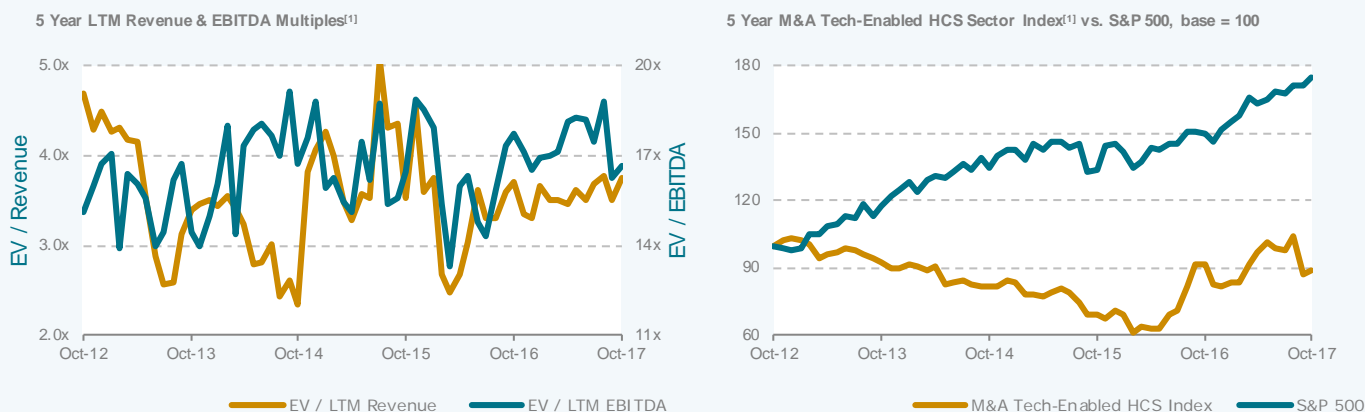
| Company (USD millions) | Market Cap | Enterprise Value | EV / Revenue | | EV / EBITDA | | Revenue Growth | | EBITDA Margin | |
|-----------------------------|---------------|---------------------|--------------|-------------|--------------|--------------|----------------|------------|---------------|------------|
| | | | CY2016A | CY2017E | CY2016A | CY2017E | CY2016A | CY2017E | CY2016A | CY2017E |
| Allscripts | 2,578 | 4,289 | 2.8x | 2.4x | 28.2x | 11.6x | 12% | 15% | 10% | 21% |
| athenahealth | 5,037 | 5,245 | 4.8x | 4.3x | 49.0x | 19.6x | 17% | 13% | 10% | 22% |
| Benefitfocus | 1,046 | 1,098 | 4.7x | 4.3x | na | 68.2x | 26% | 10% | na | 6% |
| Cerner | 24,099 | 24,005 | 5.1x | 4.6x | 18.3x | 14.0x | 8% | 11% | 28% | 33% |
| CompuGroup Medical | 2,966 | 3,346 | 5.0x | 4.5x | 26.3x | 19.2x | 3% | 11% | 19% | 24% |
| Computer Programs & Systems | 397 | 538 | 2.0x | 2.0x | 16.4x | 11.2x | 47% | 1% | 12% | 18% |
| Connecture | 15 | 110 | 1.3x | 1.4x | na | na | (15%) | (7%) | na | na |
| Health Equity | 3,124 | 2,914 | 16.3x | 12.8x | 53.6x | 35.2x | 41% | 27% | 30% | 36% |
| Inovalon | 2,439 | 2,159 | 5.1x | 4.8x | 29.1x | 19.7x | (2%) | 6% | 17% | 24% |
| Invitae | 405 | 373 | 14.9x | 5.0x | na | na | 199% | 195% | na | na |
| iRhythm Technologies | 1,148 | 1,071 | 16.7x | 11.2x | na | na | 77% | 50% | na | na |
| Medidata | 4,671 | 4,574 | 9.9x | 8.3x | 69.8x | 33.6x | 18% | 19% | 14% | 25% |
| NantHealth | 502 | 438 | 4.4x | 4.1x | na | 1.2x | 72% | 8% | na | 332% |
| Omniceil | 1,959 | 2,126 | 3.1x | 2.9x | 33.8x | 23.8x | 43% | 6% | 9% | 12% |
| Orion Health | 123 | 124 | 0.9x | 0.9x | na | na | 4% | (4%) | na | na |
| Quality Systems | 985 | 1,007 | 2.0x | 1.9x | 18.2x | 12.8x | 2% | 4% | 11% | 15% |
| The Advisory Board | 2,223 | 2,671 | 3.3x | 3.3x | 21.5x | 13.6x | 5% | 0% | 15% | 24% |
| Veeva Systems | 8,675 | 7,950 | 14.6x | 11.8x | 65.3x | 36.2x | 33% | 24% | 22% | 33% |
| Trim Mean | 2,984 | 2,495 | 6.2x | 4.8x | 34.4x | 20.9x | 25% | 13% | 16% | 24% |
| Median | 2,091 | 2,143 | 4.8x | 4.3x | 28.6x | 19.4x | 18% | 10% | 15% | 24% |

^[1]Invitae added as of 2/2/15. NantHealth added as of 6/2/16. iRhythm Technologies added as of 10/20/16.

Marlin & Associates' Index Performance

Technology-Enabled Healthcare Services

Public Market Data

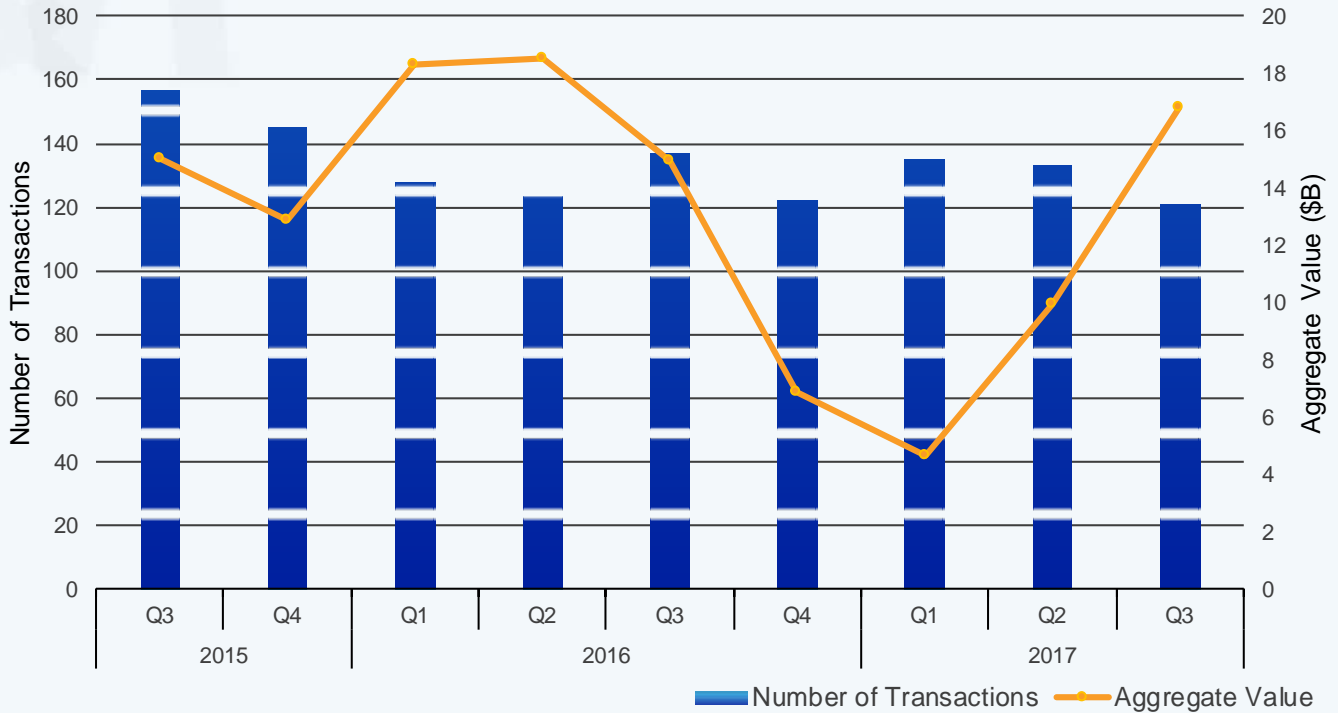


| Company (USD millions) | Market Cap | Enterprise Value | EV / Revenue | | EV / EBITDA | | Revenue Growth | | EBITDA Margin | |
|---------------------------|---------------|---------------------|--------------|-------------|--------------|--------------|----------------|------------|---------------|------------|
| | | | CY2016A | CY2017E | CY2016A | CY2017E | CY2016A | CY2017E | CY2016A | CY2017E |
| Accretive Health (R1 RCM) | 380 | 428 | 0.7x | 1.0x | 1.4x | nm | 405% | (26%) | 53% | 1% |
| Castlight Health | 561 | 471 | 4.6x | 3.5x | na | na | 35% | 31% | na | na |
| Cotiviti | 3,245 | 3,886 | 6.2x | 5.6x | 18.2x | 14.5x | 15% | 11% | 34% | 39% |
| Craneware | 481 | 428 | 8.0x | 6.9x | 26.2x | 22.3x | 15% | 16% | 31% | 31% |
| Emis | 764 | 756 | 3.6x | 3.5x | 13.9x | 13.4x | 2% | 3% | 26% | 26% |
| Evolent Health | 1,200 | 1,230 | 4.8x | 2.9x | na | na | 162% | 68% | na | na |
| Fitbit | 1,603 | 927 | 0.4x | 0.6x | na | na | 17% | (25%) | na | na |
| HealthStream | 753 | 637 | 2.8x | 2.6x | 30.3x | 17.5x | 8% | 9% | 9% | 15% |
| HMS Holdings | 1,705 | 1,893 | 3.9x | 3.4x | 19.6x | 14.0x | 3% | 14% | 20% | 24% |
| McKesson | 32,719 | 36,103 | 0.2x | 0.2x | 8.0x | 8.5x | 4% | 4% | 2% | 2% |
| MINDBODY | 1,115 | 907 | 6.5x | 5.0x | na | nm | 37% | 30% | na | 3% |
| Tabula Rasa Healthcare | 433 | 432 | 4.6x | 3.4x | 52.2x | 23.4x | 34% | 36% | 9% | 14% |
| Teladoc | 1,809 | 1,613 | 13.1x | 6.9x | na | na | 59% | 89% | na | na |
| Tivity Health | 1,729 | 1,903 | 3.8x | 3.4x | 18.2x | 15.6x | 11% | 11% | 21% | 22% |
| Vocera Communication | 892 | 821 | 6.4x | 5.1x | na | nm | 23% | 26% | na | 6% |
| Trim Mean | 1,253 | 1,223 | 4.3x | 3.6x | 19.2x | 16.2x | 33% | 18% | 21% | 16% |
| Median | 1,115 | 907 | 4.6x | 3.4x | 18.2x | 15.0x | 17% | 14% | 21% | 15% |

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

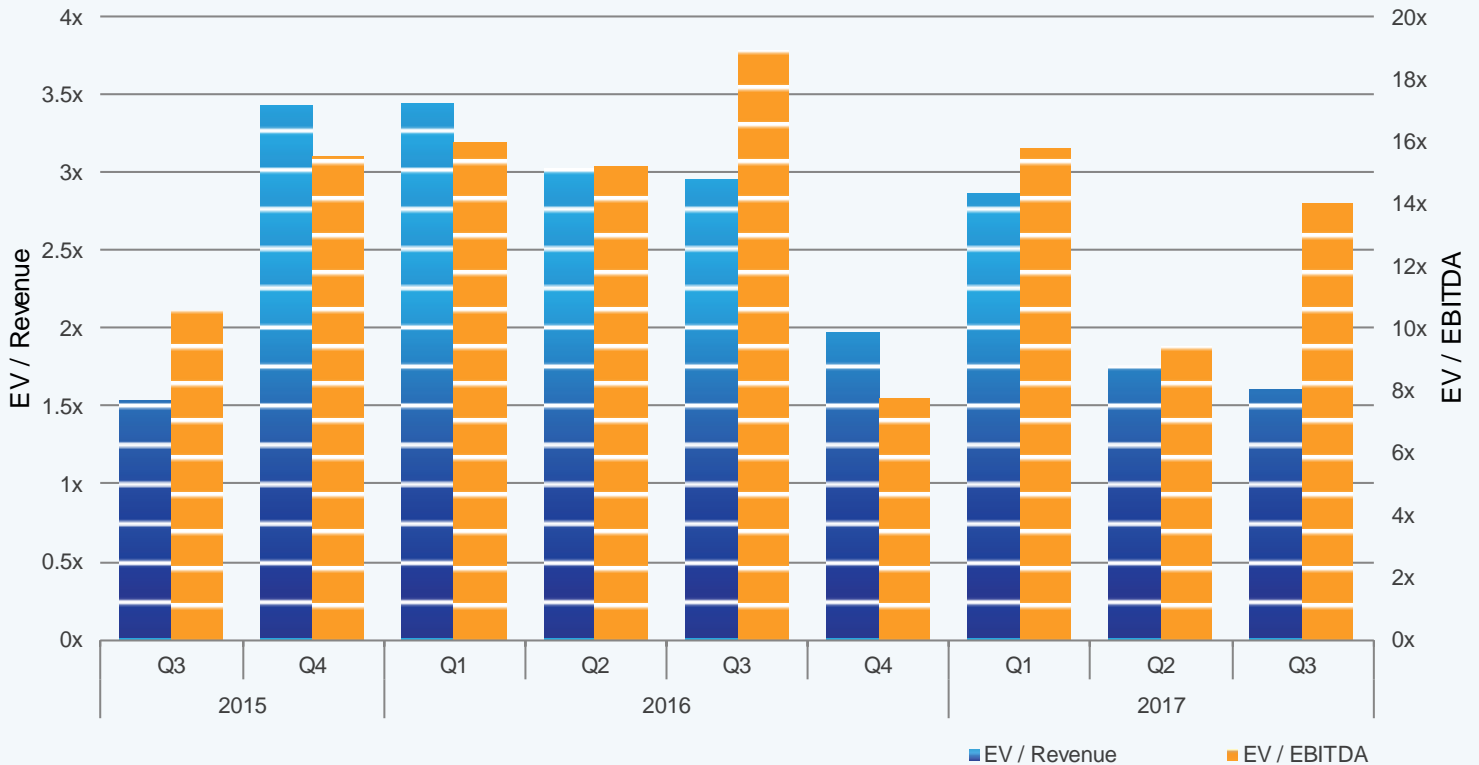
MERGER & ACQUISITION TRENDS AND MULTIPLES

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**

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- Boutique Investment Banking Firm of the Year (2014, 2015, 2016)*
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- 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
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(Acquisition Finance
Magazine)**



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- Corporate M&A Deal of the Year (2010)
- Technologies Deal of the Year (2010)

* Firm-wide Awards





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