H.I.T. Greatest *Hits*

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Healthcare IT Review
December 2013

Dear Clients and Friends,

There are over 43,000 mobile healthcare applications currently in the market. As providers start "prescribing" healthcare applications, the mRx (m for mobile) industry is slowly becoming an integral part of medical treatment -- enabling patients to monitor and manage their health in ways never before imagined. This in turn has the potential to reduce hospital readmission rates, increase patient satisfaction and motivate patients to better adhere to their medication.

The U.S. FDA cites industry estimates that more than 500 million smartphone users worldwide will use some type of health app by 2015. In its September 2013 guidelines, FDA announced that the majority of health-related mobile applications pose negligible threat to consumers and as a result, it has no current plans to stop the proliferation of these applications. This is great news for developers and investors in the industry.

Most of these apps perform three broad functions: track, monitor and diagnose. FDA will continue to monitor apps that are used for diagnosis such as urine analysis or a recently released iPhone app that can be attached to an adaptor to perform endoscopy (using the phones' high resolution camera). The total cost of this app is under $200!

We are excited about the time when prescribing apps and medications will go side by side. That is not too far into the future. More significantly, we see a multi-billion dollar market in the making for small portable devices that connect to smart phones to perform a variety of diagnostic and monitoring functions inexpensively. The impact of better self-monitoring and cheaper diagnostic devices could revolutionize healthcare as we know it.

Sincerely,

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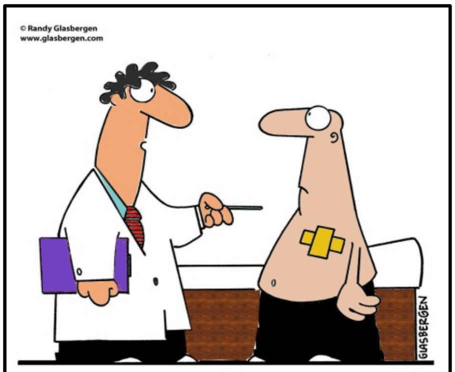

"It's a pacemaker for your heart, plus you can download apps for your liver, kidneys, lungs, and pancreas!"

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IMPORTANT INDUSTRY NEWS

More providers setting up insurance arms
When payers started buying provider networks a few years back, many industry observers were concerned about the inherent conflict of interest in such cross ownerships. Now insurers are seeing a different type of competitor, the providers themselves. In an era of outcome-based reimbursement and an emphasis on value over volume, many hospital systems are now becoming full-fledged insurers themselves. UPMC (University of Pittsburgh Medical Center) has had its own health plan for 15 years, largely to fend off competition from Highmark. MedStar Health, one of the largest providers in the Baltimore Washington DC area, has now setup its own insurance plan. The company reports that over 11% of its 30,000 employees have already signed up for the plan.

It is anticipated that up to 30% of hospitals plan to set up their own insurance plans within the next five years. Many want to follow the successful experience of UPMC where premium dollars are invested in ways to maintain the viability and excellence of the organization.

This movement is clearly a response to the reimbursement pressures by both private and public insurers. That said, health systems should not underestimate the enormous work involved with running their own insurance arm. The industry is heavily regulated and needs sophisticated infrastructure to adequately assess and price risk.

Even a moderate success in combining provider and insurer businesses under the same roof has enormous potential to change how healthcare is delivered in this country. We are cheering for this movement.

IBM opens Watson to outside app developers
We have heard a lot about Watson's super powers as a research and diagnostic tool for the healthcare industry. Thus far, only the most prestigious organizations such as Sloan Kettering Cancer Center, Cleveland Clinic and Wellpoint have been able to utilize Watson's capabilities. Now IBM is positioning Watson as a "platform" for outside developers.

The tools include a developer tool kit, access to Watson's application programming interface and educational material. Over 500 experts from IBM have been appointed to help the developers research and design the applications. Early takers are MD Buyline, a supply chain vendor, who is using the platform to develop clinical/financial decision support to aid in quality improvement initiatives and WellTok, a social health management vendor, who is developing apps to create personalized itineraries sponsored by insurers and providers.

IBM is opening its platform to a variety of industries. We believe healthcare will be a big beneficiary, both on the administrative and clinical fronts. Precision diagnostics, personalized medicine, genetic interpretation, population health management, cost containment efforts are just a few areas that will greatly benefit from the computational power of the Watson platform.

Government bans direct-to-consumer genetic testing
FDA issued a scathing letter to 23andMe, the leading direct-to-consumer genetic testing company, effectively prohibiting the company from doing business. FDA is concerned about the public health consequences of inaccurate results from the 23andMe Personal Genetic Service (PGS).

The case against 23andMe has a long history with FDA, which is not central to our view that our industry has taken a step backwards. 23andMe uses CLIA-certified labs and has never stated that they are providing medical advice. The PGS is meant to be an interesting piece of knowledge about our genetic disposition; a tool that we can use to identify ways of living healthier and better lives.

In our opinion, this latest move by FDA takes away the consumers' right to personal information. We hope that the Agency recognizes that a new world order is coming to our industry where consumers want more empowerment in managing their care and hence more information about themselves.

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M&A TRANSACTIONS / INVESTMENTS

Passport Health acquired by Experian plc for $850M
Passport Health Communications, the Franklin, TN revenue cycle management provider to hospitals, was acquired by Experian (LSE: EXPN). Passport was backed by Great Hill Partners, Primus Capital, Spectrum Equity and other investors. Experian will fund the $850M purchase price through its existing committed bank facilities.

This is a very significant transaction in the healthcare technology sector. Passport's high recurring revenue model serving over 2,500 hospitals and strong revenue growth (+23%) drove a 7x LTM revenue valuation. Passport will approximately double the scale and scope of Experian Health which entered the healthcare payment market in 2008 with its acquisition of SearchAmerica, followed by the 2011 purchase of Medical Present Value. We expect Experian to continue on an active acquisition path in the healthcare sector.

Liazon acquired by Towers Watson for $215M
Liazon Corporation, the Buffalo, NY provider of private benefit exchanges services, and backed by Bain Capital Ventures, was acquired by Towers Watson (NYSE: TW) for $215M cash consideration.

Towers Watson, along with Aon Hewitt and Mercer have posted early market share gains in the private exchange sector. As the concept of Consumer Directed Healthcare (CDHC) gains ground, we expect further consolidation in the space and higher valuations.

Care Team Connect to be acquired by The Advisory Board Company
Care Team, the Evanston, IL provider of technology platforms to coordinate care between hospitals, patients and providers, agreed to be acquired by the Advisory Board (NASDAQ: ABCO) for an undisclosed amount.

Care Team's platform extensibility enables providers to better manage their Patient Centered Medical Home (PCMH) initiatives and their ACO collaboration. In addition, the Company offers post-discharge care and readmission prevention programs. This sounds like a lot of data to us, which is the heart of Advisory Board's principal business.

onTargetJobs acquired by Dice Holdings
onTargetJobs, the Centennial, CO provider of online job boards for healthcare and hospitality industries in North America and the United Kingdom, and backed by Warburg Pincus, was acquired by Dice Holdings (NYSE: DHX) for $52.7M.

The Healthcare sector has demonstrated the highest job growth as compared to other sectors in the economy. It is therefore logical that Dice is expanding their presence in this important vertical. Dice has demonstrated great proficiency in integrating past acquisitions. The consideration represents 1.4x LTM revenue as compared to Dice's current revenue multiple of 2.0x.

HCPro and HealthLeaders acquired by BLR
HCPro, the Danvers, MA provider of information, education and training for healthcare regulation and compliance, and its subsidiary HealthLeaders Media, were acquired by Business & Legal Resources (BLR), the Brentwood, TN provider of compliance information for HR, Environmental, Safety and Employee Training professionals. HCPro was backed by Halyard Capital. Terms were not disclosed; acquisition financing included participation from NewStar Financial, NorthCreek Mezzanine and Tenth Street Capital.

BLR provides a range of compliance and information management solutions to the human resources, legal, and government sectors. HCPro appears to be a natural expansion of its capabilities further into the healthcare sector, where ensuring compliance with an increasing number of regulations has proved challenging.

Catalina Health Resources acquired by Adheris, a division of inVentiv
CHR, the St. Louis, MO operator of a personalized health media network, was acquired by Adheris, a Burlington, MA provider of patient educational material and direct-to-patient medication adherence programs. inVentiv Communications acquired Adheris in 2006 from Catalina Marketing Corporation, the parent of CHR.

Better patient education is a key component in helping patients to participate more actively in their own care. We are also seeing a number of business models for medication adherence from automatic reminders to "gamification" and rewards. We like this combination.

SymphonyCare acquired by MEDSEEK

SymphonyCare, the Madison, WI provider of population health and care management solutions, was acquired by MEDSEEK, the Birmingham, AL provider of portals for healthcare organization to engage patients, consumer and physicians. MEDSEEK is backed by Essex Woodlands Health Ventures and Silver Lake. Terms were not disclosed.

This acquisition comes on the heels of a new partnership between Vitals.com (to book appointments and view enhanced physician profiles) and MEDSEEK. We believe many new and established patient engagement companies such as MEDSEEK will continue to focus on building or buying solutions for the post-acute care market.

CareFusion to acquire Vital Signs from GE Healthcare

Vital Signs, the Totowa, NJ provider of medical products and services predominately for the anesthesiology market, agreed to be acquired by CareFusion (NYSE: CFN) for $500M, or approximately 2x revenue.

Vital Signs was acquired by GE Healthcare in July 2008 for just over $1 billion and subsequently GE Healthcare divested a few of Vital Signs' businesses. Vital Signs will bolster CareFusion's Specialty Disposables business through its global presence in both the United States and China, which appears to be one of the goals of this transaction.

ShiftWise acquired by AMN Healthcare

ShiftWise, the Portland, OR provider of SaaS healthcare workforce optimization and staffing vendor management solutions, was acquired by AMN Healthcare Services (NYSE: AHS), a healthcare staffing company. Terms were not disclosed.

Workforce optimization solutions are now an integral part of human capital management. For a staffing company to be able to offer this competency to its provider clients is a significant competitive edge. We like this deal.

"Our research tells us the consumer is taking a growing and more meaningful interest in the details of his or her care, and that trend is expected to intensify. Generally, the more information we can put at an individual's disposal such as condition, treatment, history, cost, options and prognosis—the more effective the patient relationship could be." Richard Bracken, Chairman and CEO- HCA

MapMyFitness to be acquired by Under Armour

MapMyFitness, the Austin, TX developer of smartphone fitness applications which promote brand awareness through user engagement, agreed to be acquired by Under Armour (NYSE: UA) for $150M. MapMyFitness was backed by Milestone Venture Partners, among others. The transaction is expected to close by the end of 2013.

Since 2009, Under Armour's stock price has increased over eight fold and now commands an over $8 billion market cap. In our view, MapMyFitness is a smart acquisition for UA's first M&A deal as the high performance sports apparel maker tries to extend its brand into new areas.

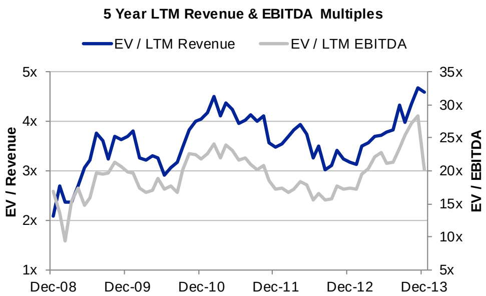
PARTNERSHIPS & COMPANY NEWS

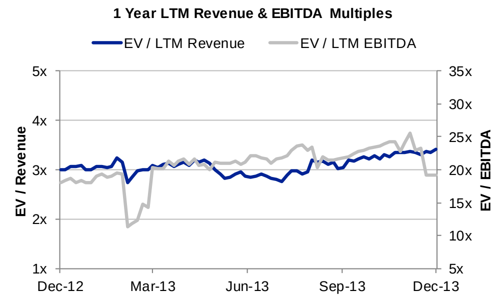
Cigna and Samsung to co-develop health and wellness features for 'S Health' platform

Cigna (NYSE: CI), the global health insurer and Samsung (KOSE: A005930), the global electronics company, signed a multi-year agreement to bring health and wellness related features and information into Samsung's S Health Application for mobile devices. Cigna's content is now incorporated into Samsung Galaxy Note 3. The initial focus of this partnership is to provide health tips and articles to mobile devices with the ultimate goal of connecting care givers, doctors and hospitals to improve overall health and wellness.

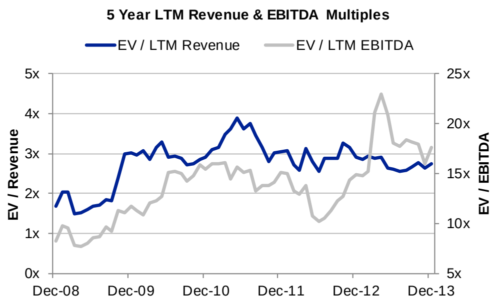
Given the state of the mobility industry, the delivery of patient educational material can now span multiple platforms. This is a classic partnership between a content provider and a distribution network. We admire Samsung as a technology company. It will be interesting to see how their foray into building their own native applications will pan out.

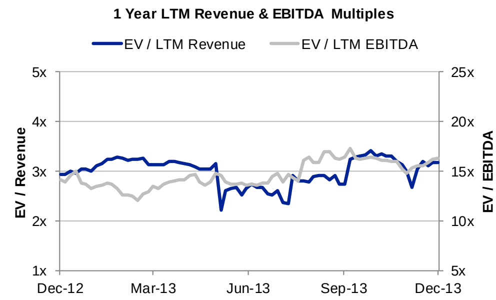
Healthcare Information Software Systems



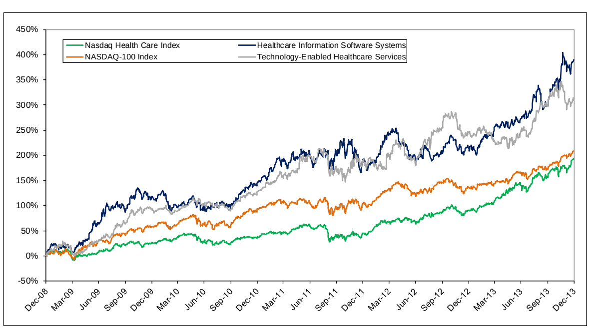


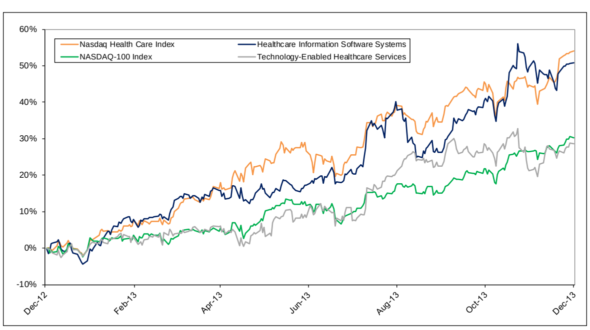
Technology-Enabled Healthcare Services





HIT Stock Price Performance versus Nasdaq Healthcare Index





PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue multiple (trim mean) remained about 60% higher than the Technology-Enabled Healthcare Services sector, and this valuation gap was consistent with the past month. The Healthcare Information Software Systems group now enjoys a 38% premium EV/EBITDA valuation versus its Technology-Enabled Healthcare peers (17.1x EV/EBITDA 2014E vs. 12.6x); this difference declined 5% during November 2013. The high trading multiples of Cerner, athenahealth and Medidata are largely responsible for these valuation differences.

In the past 12 months the NASDAQ Health Care Index (+54%) performed slightly better than the Healthcare Information Software Systems sector (+51%) while the Technology-Enabled Healthcare Services group (+29%) performed in-line with the Nasdaq (+30%). The strong returns of Medidata (+197%), athenahealth (+106%) and Cerner (+49%) over the past year have supported the higher returns from the Healthcare Information Software Systems sector. WebMD (+148%) and McKesson (+65%) were the best performers in the Technology-Enabled Healthcare Services sector in the past 12 months.

Marlin & Associates' Healthcare IT Indices include the following companies

Healthcare Information Software Systems

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	20,198	19,459	6.7x	5.8x	20.0x	17.1x	12%	14%	33%	34%
athenahealth, Inc.	5,029	5,210	8.8x	6.8x	47.2x	35.7x	40%	29%	19%	19%
Medidata Solutions, Inc.	3,211	3,079	10.8x	8.8x	43.9x	34.5x	30%	23%	25%	26%
Allscripts Healthcare Solutions, Inc.	2,662	3,146	2.3x	2.2x	19.0x	12.8x	(5%)	5%	12%	17%
The Advisory Board Company	2,388	2,290	4.5x	3.9x	25.5x	21.8x	17%	16%	18%	18%
Quality Systems Inc.	1,396	1,311	2.9x	2.7x	13.5x	10.5x	(2%)	10%	22%	25%
CompuGroup Medical AG	1,262	1,634	2.6x	2.5x	12.3x	10.7x	1%	6%	21%	23%
Computer Programs & Systems Inc.	682	668	3.3x	3.2x	13.1x	12.4x	10%	4%	25%	26%
Merge Healthcare Incorporated	219	446	1.9x	1.8x	11.5x	8.8x	(5%)	3%	16%	21%
Trim Mean	**2,376**	**2,477**	**4.5x**	**3.9x**	**21.0x**	**17.1x**	**9%**	**11%**	**21%**	**23%**
Median	**2,388**	**2,290**	**3.3x**	**3.2x**	**19.0x**	**12.8x**	**10%**	**10%**	**21%**	**23%**

Technology-Enabled Healthcare Services

Company	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
McKesson Corporation	38,652	40,566	0.3x	0.3x	11.6x	9.5x	5%	17%	3%	3%
WebMD Health Corp.	1,956	1,880	3.7x	3.4x	15.7x	12.8x	9%	9%	23%	26%
MedAssets, Inc.	1,324	2,127	3.1x	3.0x	9.8x	9.1x	6%	5%	32%	33%
Healthstream Inc.	933	828	6.3x	5.2x	34.6x	27.3x	26%	22%	18%	19%
Accretive Health, Inc.	855	659	0.6x	0.6x	8.9x	7.6x	8%	7%	7%	8%
EMIS Group PLC	574	552	3.3x	2.8x	9.6x	8.0x	19%	18%	34%	35%
Healthw ays Inc.	502	761	1.1x	1.0x	11.8x	8.6x	(1%)	10%	10%	12%
Vocera Communications, Inc.	440	315	3.1x	2.7x	nm	46.0x	1%	14%	0%	6%
Cranew are plc	205	175	4.1x	3.8x	13.8x	12.9x	1%	8%	30%	29%
Trim Mean	**941**	**1,017**	**2.7x**	**2.5x**	**12.1x**	**12.6x**	**7%**	**12%**	**18%**	**19%**
Median	**855**	**761**	**3.1x**	**2.8x**	**11.7x**	**9.5x**	**6%**	**10%**	**18%**	**19%**

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