

Dear Clients and Friends,

As we all know, information technology is the best path for connecting relevant data to care delivery. Today, this technology is being increasingly accessed via mobile devices. Given this behavioral shift, it should come as no surprise that the combination of contextual search + mobile is being viewed as one of the biggest developments in the healthcare industry.

Contextual search, as opposed to keyword-based search, was born because of the availability of metadata and advanced search algorithms which provide more relevant search results. While web-based contextual search has come a long way, contextual search within purpose-specific mobile apps is expected to move search results to a much higher level of precision and accuracy. This in turn will have broad and important implications for the healthcare industry. Consumers, and healthcare professionals alike can now use searchable wellness or disease specific apps to get better educated and make well informed decisions at speeds that were unimaginable even a few years ago.

On the provider side, these searchable mobile apps hold great promise for improving the effectiveness of care delivery with fewer errors and faster results. Imagine a mobile app for every specialty equipped with the latest knowledge base, discoveries and decision support tools. Even early apps such as "Rx" for drug reference, "Neuromind", a searchable neurosurgical app with clinical decision support or "REMM", a searchable mobile app for diagnosis and treatment of radiation injuries have already made material contributions to care delivery in a very short time.

These are early days for healthcare contextual search on mobile devices. That said, next time when you look at your smart phone and see a little doctor, nobody will call you crazy!

Sincerely,



Afsaneh Naimollah

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IMPORTANT INDUSTRY NEWS

Uncompensated care provided by U.S. hospitals rose 11.7% to \$49.5B in 2012

The latest available data by American Hospital Association shows that in 2012 U.S. hospitals lost a whopping \$45.9B in uncompensated care. That is 6.1% of total expenses and the highest since 1999. The amount covers both bad debt and charity care but did not include underpayment by Medicare and Medicaid. Rates normally trend between 5.4-6.0%. The refusal of about half of U.S. states to expand Medicaid eligibility will adversely affect hospital economics and will certainly bump up these costs even further. The situation is so acute that certain hospitals in New York and Indianapolis are reportedly considering paying premiums for patients who buy health insurance through exchanges but fall behind on payments; all to protect themselves against the cost of uncompensated care. Now that is a novel idea.

Healthcare fraud cases reach a record high

Thanks to better analytics and fraud prevention solutions, in 2013 the federal prosecutors filed a record number of healthcare fraud cases, up 7.7% from 2007. Prosecutors pursued 377 new fraud cases, demonstrating the greater emphasis by the authorities to curb fraud and abuse. It is estimated that the government stands to save between \$60-90 billions a year rooting out wrongdoings. Companies focused on the fraud prevention in healthcare will continue to see double-digit revenue growth for many years to come.

DNA "barcoding" enables simultaneous analysis of cancer-related proteins

Thus far pathologists could only look at a few protein markers at a time when analyzing the cause and progression of cancer through DNA. Now using DNA barcoding, they can look at hundreds of markers simultaneously from patient samples, gathered through minimally invasive methods. The DNA barcoding technology was developed by researchers at Massachusetts General Hospital which allows clinicians to gain more insight into how cancer progresses, and enables them to show why cancer therapies stop working or are ineffective. Implications of this type of technology are significant. By obtaining samples from patients before initiating therapy, and then exposing them to specific treatments, can materially improve the lives of cancer patients. In addition, this technology has important relevance for drug development where it can be used in the early-phase clinical trials.

M&A TRANSACTIONS / INVESTMENTS

API Healthcare to be acquired by GE

API Healthcare, the Hartford, WI provider of healthcare workforce management solutions, and backed by Francisco Partners, agreed to be acquired by GE Healthcare (NYSE: GE) for an undisclosed sum.

API Healthcare has received top KLAS ratings for its time/attendance and staffing/scheduling solutions. With labor costs representing ~50% of hospital operating budgets, GE appears to be making a bet that hospitals will pay for labor and time management solutions as they represent a critical component of resource optimization planning.

mVisium acquired by Vocera

mVisium, the Camden, NJ provider of alarm management technology solutions for health systems, was acquired by Vocera Communications (NYSE: VCRA), the mobile communications solution provider in healthcare and other sectors. Terms were not disclosed.

Due to an increasing number of technology solutions now used within a hospital, 'alert fatigue' is a growing concern. This is Vocera's first acquisition since going public in March 2012, yet appears in-line with smaller tuck-in deals the company closed in 2010. We wonder if this new technology can help reinvigorate growth.

Medigistics acquired by Etransmedia

Medigistics, the Columbus, OH provider of medical billing and revenue cycle management solutions, was acquired Etransmedia Technology, the Troy, NY provider of revenue cycle management, EHR and practice management solutions. Terms were not disclosed.

This acquisition is a geographic tuck-in as it strengthens Etransmedia's reach in the Midwest market. Etransmedia seems to be a roll-up of smaller billing companies and similar to many other RCM vendors, the Company is offering both an EHR product as well as the classic RCM services to its clients.

VIA Health acquired by Cardon Outreach

VIA Health, the Colorado Springs, CO provider of non recourse financing and revenue cycle management services to hospitals, was acquired by Cardon Outreach, the Woodlands, TX provider of technology solutions to healthcare facilities which assist in avoiding costs, recovering revenue and increasing productivity. Terms were not disclosed.

Despite the automated solutions provided by the more advanced RCM vendors, account receivable recovery is still a big business. Through this acquisition, Cardon Outreach has expanded its geographic reach to a number of new states.

PeopleAnswers acquired by INFOR

PeopleAnswers, the Dallas, TX provider of a cloud-based talent science platform for hiring assessments, was acquired by INFOR, the New York, NY global provider of business application software and services solutions, for \$200 million.

PeopleAnswers is one of the promising new companies that has managed to systematize behavioral profiling into 39 traits for job candidates to produce "fit" ratings. The company relies on massive historical data for creating these "DNA" profiles. Since over 46% of new hires are 'bad' hires and close to 90% fail because of attitudinal reasons, skills alone are not the only predictive metric for performance. Audi, Foot Locker, Hertz are some of the customers using PeopleAnswers' solutions to enhance their recruiting.

Strategic AR Solutions acquired by Brightree

Strategic AR Solutions, the Overland Park, KS provider of web-based patient-pay and collection services for home and durable medical equipment, was acquired by Brightree, the Lawrenceville, GA provider of cloud-based clinical, revenue cycle and practice management solutions for the post-acute, home infusion and home health/hospice segments. Brightree is backed by Battery Ventures and C&B Capital. Terms were not disclosed.

With greater adoption of high deductible plans, patient collection must become a critical component to every HME provider. In the past, many home care providers had chosen not pursue the patient portion given the labor intensive nature of the business. This combination will certainly help automate and integrate the payment supply chain for many of Brightree's clients.

CaerVision's Asthma & Allergy network acquired by AccentHealth

CaerVision, the Frederick, MD provider of digital media and content services for healthcare facilities, sold its Asthma and Allergy waiting room television network to AccentHealth, the Tampa, FL provider of patient education media services at the point-of-care. AccentHealth is backed by M/C Partners, North Cove Partners and others.

This combination makes perfect sense to us as waiting rooms are now used to educate patients on a variety of illnesses. Since asthma and allergy are steadily becoming major health problems, a network that is dedicated to the subject can be valuable to AccentHealth, which is one of the larger owners of TV networks for waiting rooms.

AmkaiSolutions acquired by Surgical Information Systems

AmkaiSolutions, the Waterbury, CA provider of EHR and business management software to ambulatory surgery centers (ASC), was acquired by Surgical Information Systems, the Alpharetta, GA provider of perioperative information software solutions, and backed by Norwest Equity Partners. Terms were not disclosed

The ASC sector has been relatively underpenetrated in terms of healthcare technology but is now attracting a lot of vendor and investor attention alike. This deal is yet another example of healthcare software vendors aspiring to become a one-stop shop for their clients.

Relay Technology Management acquired by Decision Resources

Relay Technology Management, the Cambridge, MA provider of software analytics to the life sciences sector, and backed by Nature America, was acquired by Decision Resources Group, the Burlington, MA healthcare research, analytics and advisory firm, and a subsidiary of Piramal Enterprises. Terms were not disclosed.

Relay Technology is the second acquisition for Decision Resources under the leadership of Piramal. The life sciences sector appears to be an ideal candidate for analytics, given the vast amount of both structured and unstructured data, not to mention the large financial implications of identifying the most promising molecules early in their R&D lifecycle.

Alverix acquired by BD

Alverix, the San Jose, CA provider of instrument and connectivity platforms for diagnostic testing applications, and backed by New Venture Partners and Safeguard Scientific, was acquired by Becton, Dickinson and Company (BD) (NYSE: BDX) for \$40M.

This was an anticipated move since the two companies had been collaborating on the design and development of the BD Veritor™ System, which is point-of-care rapid diagnostic testing company for clinical and hospital labs. Thus far, the system can be used for Flu A+B and RSV assays but BD is planning to add more assays as they undergo clinical evaluation. We are huge fans of point-of-care testing which can be increasingly used at doctors offices without the need of going to outside labs.

Health Catalyst raises \$41M in funding

Health Catalyst, the Salt Lake City, UT provider of healthcare data warehousing capabilities and analytics raised \$41.0 million in a round of financing from returning investors including CHV Capital, Kaiser Permanente, Norwest Venture Partners and Sequoia Capital among others.

We are very fond of this company and believe their work will eventually have a serious impact on the cost curve of larger hospitals. By using Health Catalyst reporting templates, hospitals can more effectively manage their operational, financial, clinical, and research data and make informed decisions for enhancing their performance metrics. The company raised its first \$41M in December 2012; this new raise will help fund the massive growth that the company is experiencing.

Complexcare Solutions raises \$40M in funding

Complexcare Solutions, the New York, NY provider of in-home health risk assessments and care management services, raised \$40.0 million in a round of financing led by an affiliate of Warbrug Pincus.

Caring for the elderly whether at home, long term or hospice facilities is a big business both on the staffing as well as the technology end. ComplexCare is a unique blend of both. They specialize in face-to-face services for complex, frail, elderly, special needs, and dually-eligible individuals. In addition to their staffing services, they provide biometric monitoring, medication monitoring (installation and monthly follow-up), personal emergency response system, respite care, transition coordination, and transportation. To us, this blended model makes the most sense.

ikaSystems raises \$15M in funding

ikaSystems, the Southborough, MA provider of BPO and intelligence management technology solutions for private and government health insurers, raised \$15.0 million in financing from existing investors including Essex Woodland Health Ventures and Providence Equity Partners.

This funding appears to be necessary for further product launches and growth. Like its competitor, Trizetto, ikaSystems has been in the hands of financial investors for some time -- perhaps in 2014 we will see at least one exit amongst these two players.

PlanSource raises \$12M in Series B funding

PlanSource Holdings, the Orlando, FL provider of SaaS-based benefits administration and human resource management solutions, raised \$12 million in Series B funding from existing investors Lemhi Ventures and Timucuan Asset Management.

With consumer directed health on the rise, we will continue to see companies that aim to streamline and simplify healthcare benefits administration. PlanSource does this through their network which brings employees, employers, brokers and payors together. In addition to its exchange solution, the company offers payroll services. This type of end-to-end platform is the future of benefit administration for the small-to-mid market employers.

Kareo raises \$29.5M in Series G funding

Kareo, the Irvine, CA provider of cloud-based medical office software and services to physician offices, raised \$29.5 million in Series G financing led by Greenspring Associates with participation from Open View Ventures and Silicon Valley Bank.

Between debt and equity, Kareo has raised close to \$70 million. The company started as an EMR/practice management provider and now has quickly moved into billing; emulating the athena's full service model.

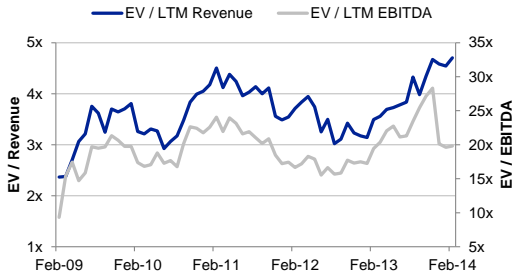
Zephyr Health raises \$15M in funding

Zephyr Health, the San Francisco, CA provider of software analytics for drug developers and researchers, raised \$15 million in funding led by Kleiner Perkins Caufield & Byers and JAFCO Ventures.

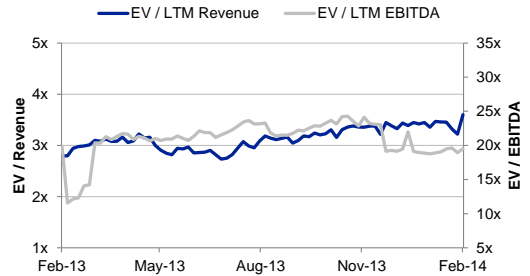
This round is the first institutional round for the company. The company seems to have successfully integrated schema-less data structures with machine learning and artificial intelligence pulling data from various sources to form applications such as non obvious data connections, data classification, and configurable data driven models on the fly. Zephyr is definitely one of the more exciting companies in the field of data analytics.

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

5 Year LTM Revenue & EBITDA Multiples

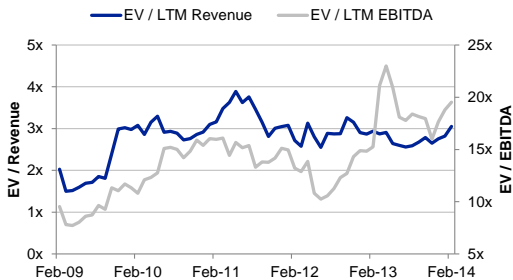


1 Year LTM Revenue & EBITDA Multiples

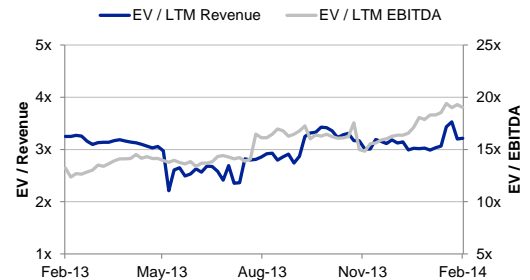


TECHNOLOGY-ENABLED HEALTHCARE SERVICES

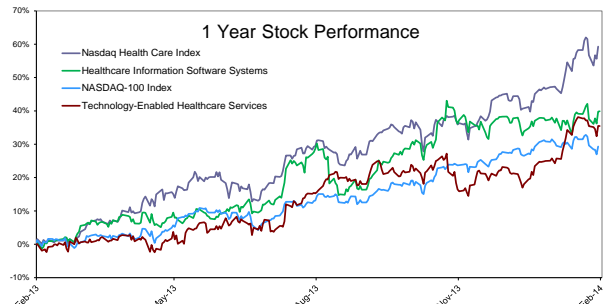
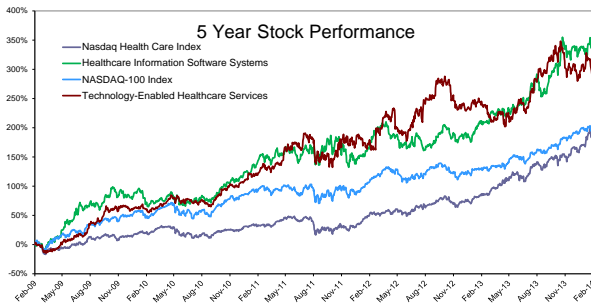
5 Year LTM Revenue & EBITDA Multiples



1 Year LTM Revenue & EBITDA Multiples



HIT STOCK PERFORMANCE VERSUS NASDAQ



PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue multiple (trim mean) is ~45% higher than the Technology-Enabled Healthcare Services sector, and this valuation gap continues to narrow over the past few months. The Healthcare Information Software Systems group commands a nearly 35% premium EV/EBITDA valuation versus its Technology-Enabled Healthcare peers (17.5x EV/EBITDA 2014E vs. 13.1x); this difference increased 5% during January 2014. The high trading multiples of Medidata, athenahealth and Cerner drive these differences.

In the past 12 months the NASDAQ Health Care Index (+59%) performed better than the Healthcare Information Software Systems sector (+40%) and the Technology-Enabled Healthcare Services group (+35%). The strong returns of Medidata (+170%), athenahealth (+71%) and Cerner (+38%) over the past year have supported the higher returns from the Healthcare Information Software Systems sector. WebMD (+190%) and McKesson (+66%) were the best performers over the past year in the Technology-Enabled Healthcare Services sector.

Marlin & Associates' Healthcare IT Indices include the following companies

HEALTHCARE INFORMATION SOFTWARE SYSTEMS

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	19,776	19,037	6.5x	5.7x	19.8x	17.0x	12%	14%	33%	34%
athenahealth, Inc.	5,571	5,751	9.7x	7.7x	52.2x	44.0x	40%	26%	19%	18%
Medidata Solutions, Inc.	3,465	3,333	12.1x	9.5x	47.0x	37.5x	27%	26%	26%	25%
Allscripts Healthcare Solutions, Inc.	2,970	3,454	2.5x	2.4x	19.0x	14.5x	(5%)	5%	13%	17%
The Advisory Board Company	2,390	2,292	4.5x	3.9x	25.5x	21.9x	17%	15%	18%	18%
CompuGroup Medical AG	1,360	1,731	2.8x	2.6x	13.1x	11.3x	1%	9%	21%	23%
Quality Systems Inc.	1,122	1,028	2.3x	2.2x	14.1x	9.9x	(4%)	6%	16%	22%
Computer Programs & Systems Inc.	634	612	3.0x	2.9x	11.4x	10.7x	10%	4%	27%	27%
Merge Healthcare Incorporated	198	425	1.8x	1.8x	11.0x	8.4x	(5%)	3%	16%	21%
Trim Mean	2,502	2,600	4.5x	3.9x	21.4x	17.5x	8%	11%	20%	22%
Median	2,390	2,292	3.0x	2.9x	19.0x	14.5x	10%	9%	19%	22%

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
McKesson Corporation	40,812	43,255	0.3x	0.3x	13.5x	9.9x	6%	17%	2%	3%
WebMD Health Corp.	2,423	2,347	4.6x	4.2x	19.6x	15.5x	9%	10%	23%	27%
MedAssets, Inc.	1,355	2,157	3.2x	3.0x	9.9x	9.2x	6%	5%	32%	33%
Accretive Health, Inc.	929	732	0.7x	0.7x	10.8x	8.4x	8%	7%	7%	8%
Healthstream Inc.	805	700	5.4x	4.4x	29.2x	23.0x	26%	22%	18%	19%
EMIS Group PLC	576	553	3.2x	2.6x	9.9x	8.2x	20%	22%	33%	32%
Healthways Inc.	549	807	1.2x	1.1x	12.6x	9.1x	(1%)	10%	10%	12%
Vocera Communications, Inc.	432	308	3.0x	2.6x	nm	46.5x	1%	14%	0%	6%
Craneware plc	258	228	5.3x	4.9x	18.0x	16.7x	1%	8%	30%	29%
Trim Mean	1,010	1,086	3.0x	2.7x	14.0x	13.1x	7%	13%	17%	19%
Median	805	732	3.2x	2.6x	13.0x	9.9x	6%	10%	18%	19%

United States

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International

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