H.I.T. Greatest *Hits*

Happy New Year to our Clients and Friends,

It is that time of the year to look in our crystal ball and share our top predictions for 2014 -- here is what we see in the healthcare IT landscape.

1. Revenues for healthcare technology companies will grow 8-10%, with some sectors, such as data analytics, growing at a much faster rate.

2. We anticipate 3-5% growth in healthcare services expenditures. The confluence of ICD-10 adoption and value-based reimbursement coupled with continuing cutbacks in Medicare rates, all point to a challenging 2014 for the providers, even with the extended coverage under the ACA.

3. 2014 will be the year that consumer pressure for price transparency finally breaks through. The days that two different hospitals can charge $6,000 and $100,000 for the same appendectomy procedure are numbered. Secrecy over the healthcare prices negotiated in the private sector will slowly come undone aided by resources such as the Healthcare Blue Book.

4. Diagnostics apps using smartphones will go mainstream and their growth will accelerate. We believe Silicon Valley will lead innovations in this sector.

5. As patient responsibility increases and claims automation takes root, we will start to see the new generation of healthcare payment companies operating more like PayPal and Square.

6. There will be a much closer integration between the clinical and the administrative functions -- watch for more EMR companies building/buying RCM businesses and vice versa.

7. Consolidation activity will be robust and will exceed 2013 levels with the largest vendors being the most active acquirers.

Wishing you all a healthy and prosperous year.

Sincerely,

Afsaneh Naimollah

I have seen the future and its much like the present...only the valuations of HIT companies are going higher and their profits getting bigger

Marlin & Associates is one of the most active investment banking and strategic advisory firms providing strategic and financial advice to worldwide buyers and sellers of middle-market technology firms. Our firm is headquartered in New York, NY and has additional offices in San Francisco, CA; Washington, DC; Toronto, Canada; and Hong Kong, China serving companies that provide information and technology to a wide range of communities including those that serve the healthcare, banking, capital markets, insurance, and marketing industries.

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IMPORTANT INDUSTRY NEWS

Exchanges and interoperability meet in the middle

When we heard that Missouri Health Connection and Illinois Health Information Exchange signed a data sharing agreement, we had a vision that perhaps in the near future, we will have an "overnet" of all the exchanges sharing data across state borders.

In addition in December, CommonWell Health Alliance (CHA) announced that it will launch its initial services in early 2014 in four regions. CHA is an alliance of seven HIT companies (Allscripts, athenahealth, Cerner, CPSI, Greenway, McKesson and Sunquest) which was formed in early 2013 to cooperate on system inter-operability. The participating regions can now connect their disparate EHRs and exchange health information using CHA's patient identity matching process.

Both of these announcements, although from completely different constituents, point to a single vision of system and data interoperability. Although we have some ways to go to get the data resident in various HIEs into physicians' workflow, we are still encouraged by the collective efforts toward this common goal.

ONC and CMS extend Stage 2 and 3 of the EHR Meaningful Use program

ONC and CMS have extended the deadlines for both MU2 and MU3 certification. Stage 2 which was scheduled to go into effect in 2014 and 2015 now will continue in 2016 as well. Stage 3 is scheduled to begin in 2017 for providers who have at least two years of participation in Stage 2. Eligible professionals are expected to start in January 2017 with hospitals beginning in October 2017.

The final rules and details on MU3 guidelines will be available in the first half of 2015. Preliminary guidelines are expected to be released in fall 2015.

The MU2 extension should give providers the chance to coordinate both their ICD-10 migration and the MU2 incentives. For those providers who are unable to coordinate both programs, our bet is that they will chose ICD-10 given its bigger revenue impact.

First-ever clinical informatics graduates receive board certification from American Medical Informatics Association (AMIA)

A few months back we wrote about how the changing landscape of healthcare is creating the need for brand new specializations and skills. As horizontal technologies fuse with the needs in the healthcare vertical, we are now seeing software engineering expertise, for example, being as important as healthcare domain expertise. An early sign of this development was AMIA granting the first-ever diplomas in the sub-specialty of clinical informatics.

This is an important step which acknowledges the ubiquitous need for professionals who understand how informatics can enhance the value and quality of care. We expect many more new sub-specialties receiving the same recognition. Healthcare Data Scientists, bio engineers and Translational Medicine specialists are our top choices.

KLAS survey suggests challenges for computer-assisted coding vendors

KLAS Enterprises surveyed customers regarding five computer-assisted coding (CAC) vendors and found that many clients have not observed significantly improved coder productivity and almost half of those surveyed found CAC software from the two industry leaders (3M and OptumInsight) has not yet had a positive impact. Nearly 60% believe they will be more satisfied within a year with an operational CAC and that it will have an overall positive impact on their ICD-10 readiness.

With the flip of the calendar, the October 2014 ICD-10 transition and its challenges are clearly within view by payers, providers and vendors. While CAC holds the promise to help coders efficiently and effectively navigate the over six-fold increase in ICD codes, it appears the technology is still immature. While we remain concerned about the major delays that this conversion could cause in billings and collections in the short term, we believe the change will bring our healthcare into the modern era. U.S. is the only country within the developed world that still uses ICD-9 codes.

M&A TRANSACTIONS / INVESTMENTS

Homecare Homebase sells 85% stake to Hearst

Homecare Homebase, the Dallas, TX provider of healthcare software solutions to the homecare and hospice industry, and backed by Cressey & Company and SV Life Sciences Advisers, agreed to sell an 85% stake to Hearst Corporation, the New York, NY diversified media and information company.

This is the third, and likely largest, healthcare-related acquisition by the Hearst Corporation in just over the past year. Hearst is apparently not shy about paying nine figure prices to grow its healthcare business on the heels of its acquisition of Milliman Care Guidelines in December 2012. Looks like Hearst is a name to watch as a serious player in the healthcare market.

Health Guru Media acquired by Kitara Media

Health Guru Media, the New York, NY provider of online health videos, and backed by Castile Ventures, Village Ventures and others, was acquired by Kitara Media Corp (OTCBB: KITM) for $16.7 million.

Health Guru had raised over $12 million to date. Videos and other health-related content seem to be in greater demand as physicians try to reinforce important health habits and pro-actively educate patients about their conditions outside the office, with the longer term goal of minimizing expensive treatment in an acute setting.

SentiCare acquired by RxAdvance

SentiCare, the Hopkinton, MA developer of medication adherence systems for self-administration of prescriptions, was acquired by RxAdvance Corporation, the Southborough, MA pharmacy benefit management company. Terms were not disclosed.

RxAdvance is a PBM which not only provides traditional administrative services but also facilitates information sharing for medication therapy and adherence management. Adding SentiCare's complex medication management capabilities in areas such as heart disease, high blood pressure, COPD and other chronic conditions seems to be highly synergistic with RxAdvance's business focus.

QUMAS acquired by Accelrys

QUMAS Limited, the healthcare and finance electronic regulatory document and compliance management software company based in Ireland, and backed by Fidelity, General Catalyst and others, was acquired by Accelrys Software, the San Diego, CA provider of research and development software solutions; total consideration was $47.8 million or 2.5x LTM revenue.

QUMAS is Accelrys' largest acquisition to date and fits in nicely with the company's existing enterprise scientific and business solutions. Qumas critical role in biopharma regulatory filings and the overlap of clients seem to be major motivators for this acquisition.

Zoomedia acquired by Harris D. McKinney

Zoomedia, the San Francisco, CA provider of corporate communication and investor relations services to the life science industry, was acquired by Harris D. McKinney, the Chicago, IL B2B advertising agency. Terms were not disclosed

The life sciences sector is enjoying tremendous growth and service providers to this sector expect to ride the wave. This combination brings the functions of PR / IR / Advertising under one roof, a smart strategy indeed.

Pygargus acquired by IMS Health

Pygargus, the life sciences advisory and analytics company based in Sweden, was acquired by IMS Health, the Danbury, CT provider of information, services and technology to the healthcare industry. Terms were not disclosed.

Pygargus, with its technology-enabled Real World Evidence (RWE) solutions, can extract and integrate patient information from electronic medical records, health registries and claims databases. The solution is geared toward outcome data and comparative effectiveness studies. With its pending IPO, we expect IMS to accelerate its pace of acquisitions.

Trinity Pharma raises $15M in Series A round

Trinity Pharma, the Waltham, MA provider of data warehousing and data management to the life sciences industry, raised $15 million in Series A financing led by Health Enterprise Partners.

Since the company helps support the commercialization of drugs and other medical products, it greatly expedites time to market for many pharma companies. We like this BPO model.

PARTNERSHIPS & COMPANY NEWS

Practice Fusion raises additional $15M

Practice Fusion, the San Francisco, CA provider of free EMR software, raised $15 million led by Qualcomm Ventures in an extension to its Series D funding, bringing the total round to $85 million. Since its 2005 launch, Practice Fusion has raised $150 million.

Practice Fusion's high cash burn and strong investor interest has led to nearly $85 million raised in 2013, including participation from new investor OrbiMed Advisors. The additional funds are earmarked for a new set of consumer-oriented tools that aid patient engagement, with new product launches expected in 1Q14.

eMids Technologies raises $13.3M in funding

eMids Technologies, the Nashville, TN provider of information technology and business process outsourcing solutions to payers and providers, raised $13.3 million in a round of financing led by Council Capital and Baird Capital Partners.

eMids, with an Emedon-like traditional business, is receiving its first institutional investment. eMids has a strategic partnership with ZeOmega, recently backed by Bregal Sagemount, and appears to be stressing its analytics, HIE and diseases management capabilities going forward.

HealthLoop raises $10M in Series A round

HealthLoop, the Moffett Field, CA provider of SaaS-based solutions that enable medical practices to remotely monitor and communicate with patients, raised $10 million in Series A financing led by Canvas Venture Fund, a unit of Morgenthaler Technology Investments.

HealthLoop is another solution that seeks to monitor patients remotely. The ability for two-way communication (i.e. collect patient feedback & send alerts to physicians), is a differentiating factor of the HealthLoop platform.

Station-X raises $20M in Series B round

Station-X, the San Francisco, CA developer of software for scientists and clinicians who work with large-scale human genome information, raised $20 million in Series B financing from unnamed investors.

Founded in 2010, Station X has raised over $25 million to date. Translating DNA sequence data into verified biomarkers is still a new science, but its clear that the healthcare industry is moving toward incorporating DNA into clinical and research workflow.

aṭhenahealth and Merge partner

athenahealth, (Nasdaq: ATHN) and Merge Healthcare (Nasdaq: MRGE) announced an interoperability partnership that will integrate Merge's iConnect Network with athenahealth's cloud-based platform, to allow its EHR users to receive and view exam results and other high resolution images.
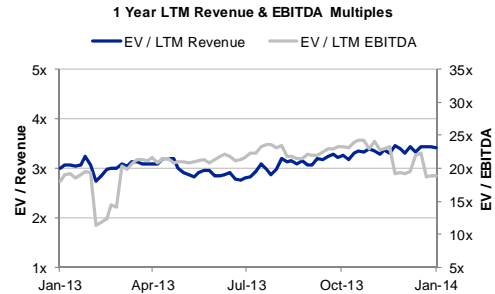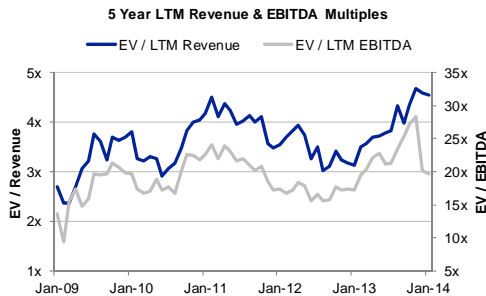
We have long believed that the EHR system will eventually become the defacto hub for all clinical and financial information, so integrating images within athena's system makes sense to us. As PACS systems become commoditized, vendors need to shift their focus to integrating their imaging data with the top EMR vendors.

Wolters Kluwer Partners with Emmi Solutions for patient education
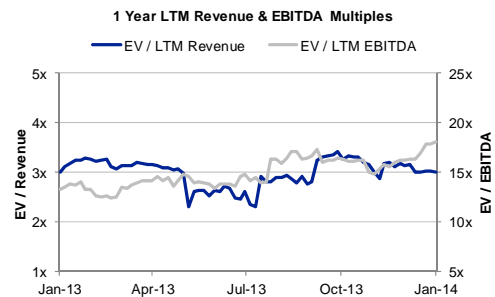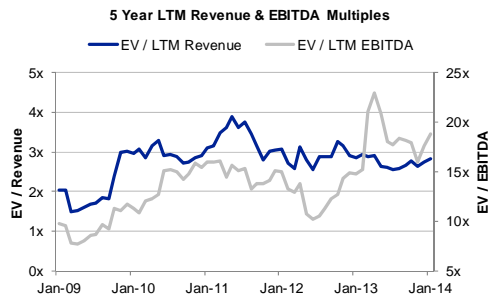
Wolters Kluwer, the global information services provider headquartered in the Netherlands, announced its Lexicomp Patient Education solution was integrated into EmmiEngage, a patient engagement platform offered by Emmi Solutions. Lexicomp Integrated Patient Education allows clinicians to provide reliable information regarding medications, conditions and procedures to patients outside the point of care.

This is a good partnership between a sophisticated patient education content provider and a technology player in the patient engagement market. With this combination, physicians can direct their patients to relevant educational content regarding their medication, condition and procedures post discharge. This partnership is yet another good example of trying to improve clinical outcomes and reduce hospital readmissions through enhanced patient education.
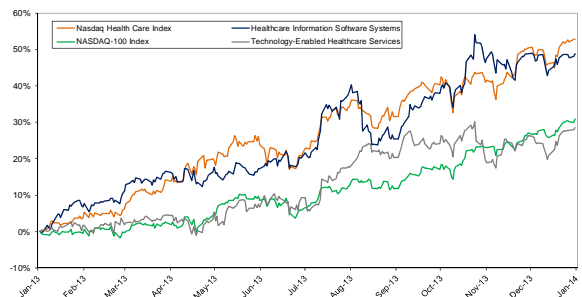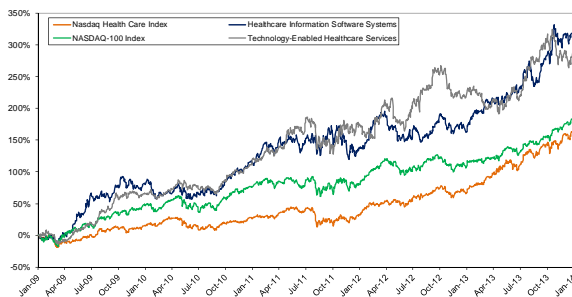
HEALTHCARE INFORMATION SOFTWARE SYSTEMS

5 Year LTM Revenue & EBITDA Multiples

EV / LTM Revenue — EV / LTM EBITDA

1 Year LTM Revenue & EBITDA Multiples

EV / LTM Revenue — EV / LTM EBITDA

TECHNOLOGY-ENABLED HEALTHCARE SERVICES

5 Year LTM Revenue & EBITDA Multiples

EV / LTM Revenue — EV / LTM EBITDA

1 Year LTM Revenue & EBITDA Multiples

EV / LTM Revenue — EV / LTM EBITDA

HIT STOCK PERFORMANCE VERSUS NASDAQ

PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue multiple (trim mean) is ~50% higher than the Technology-Enabled Healthcare Services sector, and this valuation gap narrowed slightly over the past month. The Healthcare Information Software Systems group enjoys a nearly 30% premium EV/EBITDA valuation versus its Technology-Enabled Healthcare peers (16.9x EV/EBITDA 2014E vs. 13.2x); this difference declined almost 10% during December 2013. The high trading multiples of Cerner, athenahealth and Medidata are largely responsible for these valuation gaps.

In the past 12 months the NASDAQ Health Care Index (+53%) performed slightly better than the Healthcare Information Software Systems sector (+49%) and the Technology-Enabled Healthcare Services group (+31%). The strong returns of Medidata (+200%), athenahealth (+85%) and Cerner (+46%) over the past year have supported the higher returns from the Healthcare Information Software Systems sector. WebMD (+174%) and McKesson (+68%) 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	Market	Enterprise	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
USD millions	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	19,597	18,858	6.5x	5.7x	19.4x	16.6x	12%	14%	33%	34%
athenahealth, Inc.	5,111	5,292	8.9x	7.1x	48.0x	39.9x	40%	26%	19%	18%
Medidata Solutions, Inc.	3,234	3,102	11.2x	8.9x	44.2x	34.8x	27%	26%	25%	26%
Allscripts Healthcare Solutions, Inc.	2,740	3,224	2.4x	2.2x	19.2x	13.3x	(5%)	5%	12%	17%
The Advisory Board Company	2,305	2,207	4.4x	3.8x	24.5x	21.0x	17%	16%	18%	18%
CompuGroup Medical AG	1,302	1,680	2.7x	2.5x	12.4x	10.8x	1%	7%	21%	23%
Quality Systems Inc.	1,264	1,180	2.6x	2.4x	12.2x	9.5x	(2%)	10%	22%	25%
Computer Programs & Systems Inc.	688	674	3.3x	3.2x	13.1x	12.5x	10%	4%	25%	26%
Merge Healthcare Incorporated	219	446	1.9x	1.8x	11.5x	8.8x	(5%)	3%	16%	21%
Trim Mean	**2,378**	**2,480**	**4.4x**	**3.8x**	**20.7x**	**16.9x**	**8%**	**12%**	**21%**	**22%**
Median	**2,305**	**2,207**	**3.3x**	**3.2x**	**19.2x**	**13.3x**	**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	37,441	39,355	0.3x	0.3x	11.3x	9.2x	5%	17%	3%	3%
WebMD Health Corp.	1,970	1,894	3.7x	3.4x	15.8x	12.9x	9%	9%	23%	26%
MedAssets, Inc.	1,222	2,025	3.0x	2.8x	9.3x	8.6x	6%	5%	32%	33%
Healthstream Inc.	922	817	6.3x	5.1x	34.1x	26.9x	26%	22%	18%	19%
Accretive Health, Inc.	908	711	0.7x	0.7x	10.8x	10.3x	8%	7%	6%	6%
EMIS Group PLC	610	587	3.4x	2.9x	10.4x	8.6x	19%	19%	33%	33%
Healthways Inc.	541	800	1.2x	1.1x	12.5x	9.0x	(1%)	10%	10%	12%
Vocera Communications, Inc.	395	270	2.6x	2.3x	nm	40.9x	1%	14%	0%	6%
Craneware plc	235	205	4.8x	4.4x	16.1x	15.1x	1%	8%	30%	29%
Trim Mean	**938**	**1,015**	**2.8x**	**2.5x**	**12.8x**	**13.2x**	**7%**	**12%**	**17%**	**19%**
Median	**908**	**800**	**3.0x**	**2.8x**	**11.9x**	**10.3x**	**6%**	**10%**	**18%**	**19%**

United States

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