

Dear Clients and Friends,

This year's HIMSS was a great venue for us to talk to vendors, end users and even a few regulators. As usual, the conference was full of buzzwords, "patient engagement", "population health management (PHM)", "application aware networks", etc.. We tried to rise above the buzzwords and to see what is truly trending. These are the major signals we picked up:

1. "Encroachment" is one of our key takeaways. A handful of data warehousing *platform* companies have now introduced point solution *applications*. Since these companies have access to their clients' "core engine", i.e. mega data bases, we believe, over time, they will be successful in elbowing their way in and displacing some of the point solution vendors. The "edge" players, in turn, are looking for ways to increase their relevancy. Their strategies range from integration of clinical and administrative functions (EMR/PM/RCM solutions under one roof) to partnering with/buying adjacent vendors. Integrating patient engagement apps with secured messaging is a good example of this trend. The battle is certainly on.
2. EHRs remain as one the major transformative applications and a vital component of the "Big Data" play. Because of MU2 and MU3 requirements, next-gen EHRs must continue accumulating functionalities and capabilities ranging from decision support and "light" revenue cycle management (for feeding into new payment models) to tighter integration with PHM and care coordination apps, etc. We expect part of this will be accomplished through the acquisition of edge players by the more progressive EHR vendors.
3. Consumer plays are also big. The focus now is well beyond the wellness sites or wearable devices that are ad supported or paid for by the consumer. We are talking about consumer-oriented businesses that are partially or fully subsidized by providers, employers or payors. These can range from bed-side screens for patient education and engagement to e-visits, remote monitoring or concierge services.

Once again HIMSS showed us that there is never a dull moment in this industry. We will write more about our observations on HIMSS 2014 next month.

Sincerely,

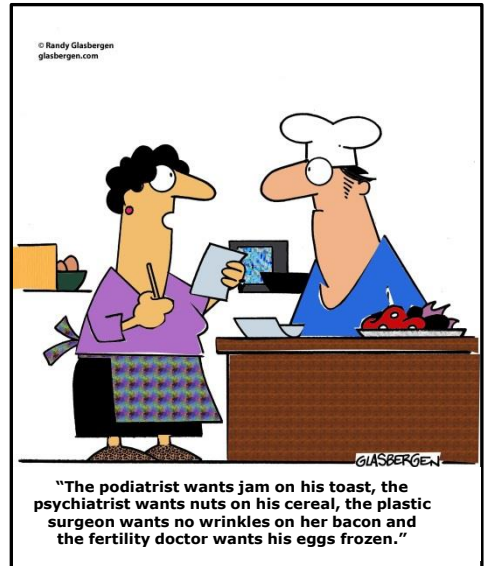
Afsaneh Naimollah

## MARLIN & ASSOCIATES Healthcare IT Review March 2014

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## IMPORTANT INDUSTRY NEWS

### No delays for ICD-10

Prior to HIMSS 2014 we did an informal survey of a number of end users and vendors on whether or not ICD-10 deadline will be extended. Over 80% responded affirmative. We guess that was more wishful thinking than a logically derived view. At HIMSS, Marilyn Tavenner, the CMS administrator announced that no more extensions are in the offing. We have written about the analogy between this transition and the Y2K problem. The world spent \$600 billion to ready itself for the Y2K transition. Undoubtedly many providers and vendors have to spent considerable sums of money to do the same for switching to ICD-10. The transition will be costly, painful and will result in a massive short term disruption to our industry. But it is time for the U.S. healthcare system to join the rest of the world and be part of this common standard. There is a lot of good that will come out of ICD-10.

### SGR repeal deal reached

The sustainable growth rate (SGR) formula, probably one of the most unpopular pieces of legislation, was once more amended. Under the new arrangements, physicians will see a yearly pay raise of 0.5 percent for the next five years. We believe as value-based reimbursements as well as bundled payments become more mainstream, the fight over the SGR formula becomes less relevant.

### Special glasses help surgeons "see" cancer cells

One of the most exciting parts of healthcare is witnessing how horizontal technologies are fueling innovation in the healthcare IT and devices market. Washington University School of Medicine in St. Louis has invented a way to help surgeons visualize cancer cells, which glow blue when viewed through the eyewear. The implications of this technology are vast. Presently surgeons are required to remove the tumor in a breast cancer patient and the neighboring tissues which may or may not include cancer cells. Often time if cancer cells are found in neighboring tissue, a second surgery is performed. The glasses could reduce or totally eliminate the need for second surgery, which in breast cancer patients, could be up to 25% of the time. The glasses use a derivative of indocyanine green, a commonly used contrast agent approved by FDA. The technology has great potential to achieve the goal of "no cancer left behind".

## M&A TRANSACTIONS / INVESTMENTS

### Treo Solutions to be acquired by 3M

Treo Solutions, the Troy, NY provider of analytics solutions for remodeling payment structures, agreed to be acquired by 3M (NYSE: MMM). Terms were not disclosed.

*Treo Solutions plays in the VBR (Value-based Reimbursement) sandbox and can become a serious player in this space. The company generates a healthy chunk of its revenue from consulting services but it has valuable templates for care quality assessment (providers) as well as costs assessment from the point-of-view of payors, both under population defined parameters. The company has 25 commercial payor clients at the present time.*

### Mednet acquired by BioTelemetry

Mednet Healthcare Technologies, the Ewing, NJ provider of cardiac monitoring products and surveillance systems, was acquired by BioTelemetry (Nasdaq: BEAT), the Malvern, PA provider of wireless medical technology and devices for cardiac monitoring, for \$15.9 million.

*This deal is somewhat unusual as it was announced at the same time as that BioTelemetry won a patent infringement case against Mednet. BioTelemetry proved to be opportunistic in acquiring one of its key competitors for less than 1x revenue while adding \$4.0 - \$5.0 million of EBITDA post integration. Remote cardiac monitoring is an area that many industry experts believe has potential to produce meaningful cost savings by keeping patients out of acute venues of care.*

### GRASP Systems to be acquired by Infor

GRASP Systems International, the Fort Collins, CO provider of automated patient acuity, workload management and patient assignment systems, agreed to have substantially all of its assets acquired by Infor, the New York, NY provider of business application software. Terms were not disclosed.

*GRASP's solutions help personalize care and optimize a healthcare organization's staffing resources. Infor seems to be expanding into the healthcare technology sector with a focus on workforce planning and forecasting. This is already Infor's second deal of 2014 after just two in all of 2013. Perhaps Infor's M&A (healthcare) strategy bears watching.*



### **GHX to be acquired by Thoma Bravo**

Global Healthcare Exchange (GHX), the Louisville, CO provider of connected, intelligent healthcare supply chain solutions, and backed by Premier Healthcare Alliance and Siemens, agreed to be acquired by Thoma Bravo, the Chicago, IL private equity firm. Terms were not disclosed.

*An industry leader in supply chain solutions for med-surg, the company recently introduced new solutions for the implantable device industry. GHX is well positioned in an industry where providers are increasingly looking at their own cost base and procurement processes to generate savings.*

### **Sound Management and Billing to be acquired by MediGain**

Sound Management and Billing Service, the Seattle, WA provider of revenue cycle and practice management solutions, agreed to be acquired by MediGain, the Plano, TX provider of medical billing and business services. Terms were not disclosed.

*This is the fourth billing / revenue cycle management transaction executed by MediGain over the past 2 years as the company tries to achieve the scale necessary to drive synergies. MediGain will continue to seek out inorganic growth opportunities which makes sense to us given momentum behind the consolidation trend within the RCM sector.*

### **Business Computer Applications acquired by Acentia**

Business Computer Applications, the Atlanta, GA provider of healthcare IT solutions to the Centers for Disease Control and Prevention (CDC) and other federal agencies, was acquired by Acentia, the Falls Church, VA provider of technology and management solutions to the federal government and commercial markets.

*Although M&A among vendors serving government agencies can sometimes be tricky and require lengthy approvals, this is Acentia's third deals over the past two years for technology vendors that serve public / government agencies. Acentia acquired Business Computer Applications, an 37 year old company, primarily for its CIMS contract vehicle, which allows it to compete for work with the CDC. The company also acquired Information Systems Consulting Group in November 2013 and 2020 Company in March 2012.*

### **Specialists on Call raises \$32M in funding**

Specialists On Call, the Reston, VA provider of telemedicine specialty physician services raised \$32.0 million in a round of financing from Warburg Pincus.

*The company is in the teleneurology, telepsychiatry and teleradiology space. Specialists On Call has made major contributions to the productivity of several ED departments particularly as it relates to their stroke patients. Through its sophisticated infrastructure, the company is able to perform on-call coverage via videoconferencing and computers.*

*We are very excited about the remote patient care industry. The telecommunication industry is finally ready to help this model go mainstream. This is just the start of a massive movement to help the industry meet its manpower challenges. With the addressable market of \$3.0B, there will be room for many more viable players in this space.*

### **GNS Healthcare raises \$10M in Series B funding**

GNS Healthcare, the Cambridge, MA provider of big data analytics that build predictive models to understand health interventions for patients, raised \$10 million in a round of financing from returning investor Cambia Health Solutions and two additional strategic investors – Heritage Provider Network and Mitsui & Co.

*Using Reverse Engineering and Forward Simulation Technology on top of massively parallel processing super computers, GNS generates new knowledge bases for assessing real-world outcomes solutions using data from EHRs, claims, diagnostics and a variety of other sources. Clients range from pharmas to payors/providers and biotech companies. The solutions of the company are used in multiple settings such as long-term outcome assessment, product development and gene identification.*

### **Tonic Health raises \$2.5M from Hearst**

Tonic Health, the Palo Alto, CA provider of a medical data collection platform, raised \$2.5 million in venture financing from Hearst Health Ventures.

*This is a young company in the heart of Silicon Valley established in 2010. The company's technology is used in many survey applications from patient intake forms to screening and risk assessments, clinical trial screening, and patient satisfaction. The visuals are 100% customizable.*

## PARTNERSHIPS & COMPANY NEWS

### Carequality launches with focus on interoperability between HIE networks

Healthway announced the formation of Carequality, a new initiative launched at HIMSS 2014. Carequality is an open and transparent effort to accelerate progress in health data exchanges among multi-platform networks, providers, vendors and HIEs. The goal is to facilitate agreement on a common national set of requirements that will enable providers to access patient data from other groups, in an easy and secure fashion, such as the network offered by ATMs. Open to all industry stakeholders, Carequality has 26 founding organizations that include software vendors (such as Epic, Greenway, Mirth, Optum and SureScripts) providers (Intermountain Healthcare and CVS Minute Clinic, etc), payers (Kaiser Permanente, etc.) and consumer groups.

*Carequality seems to be primarily Epic's response to the CommonWell Alliance formed by vendors including Cerner, McKesson and athenahealth. Despite interoperability becoming more commoditized, we applaud various stakeholders getting together to drive standards.*

### Intel-GE Care Innovations and Caradigm partner for patient engagement

This new partnership plans to leverage Care Innovations remote patient monitoring and smart sensor technologies for senior living with the cloud-based and analytical Caradigm Intelligence Platform, in an effort to produce new insights for tailored care plans. The goal of this new initiative is to incorporate home health monitoring into the workflow of care managers with an emphasis on improved patient engagement and better adherence to health plans.

*Care Innovations is a global joint venture between GE and Intel that includes capabilities that connect patients with healthcare professionals, monitor motion sensors and can transform printed text to spoken word. Caradigm will try to capitalize on these capabilities to drive its population health strategy.*

### Cigna launches its own Private Exchange

For now the offering is available to small employers in select cities but Cigna will be aggressively pushing to expand this service nationwide. For now Cigna's products will be the only type offered on this exchange. The exchange offers employees a user friendly healthcare benefit plan decision support tools. For employers, the exchange offers a benefits administration platform that allows them to provide their employees with a broader choice of plan options.

*Cigna has a strong administrative and customer support culture. We believe that proficiency will set the company apart from other carrier-backed exchanges. Cigna will continue its participation in other multi-carrier private healthcare exchanges.*

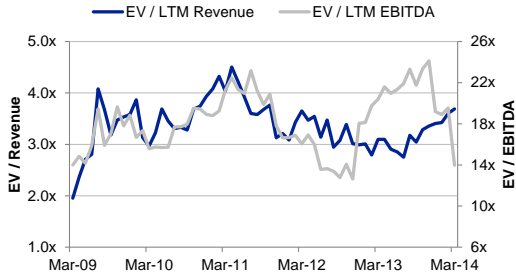
**"I've seen the health care system from every possible angle – I was an EMT early in my career, a patient after breaking my neck in a skiing accident, an advocate for my son who survived a rare and deadly form of cancer, and a health care executive. These experiences have taught me that we need to move from a medical system to an integrated healthcare system that is focused on patient-centered care.**

**My focus – both short- and long-term – is doing everything I can to help transform the system. This includes the work that we are doing at Aetna to align economic incentives between payers and providers, create a simpler, more transparent consumer experience, and advance technologies that seamlessly connect our healthcare system. I believe that if we get this right, we can create a system that holds healthcare costs flat and dramatically improves the health and wellness of the people we serve."**

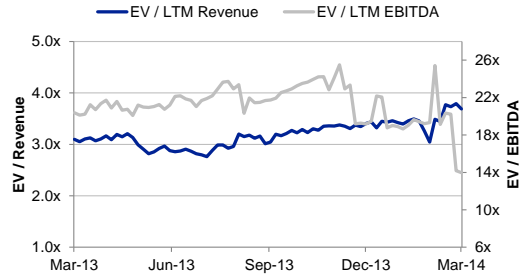
**Mark Bertolini - Chairman, CEO & President of Aetna, HIMSS 2014**

## HEALTHCARE INFORMATION SOFTWARE SYSTEMS

5 Year LTM Revenue & EBITDA Multiples

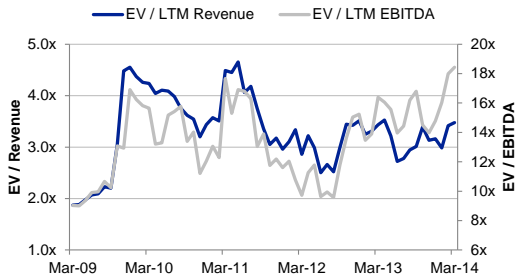


1 Year LTM Revenue & EBITDA Multiples

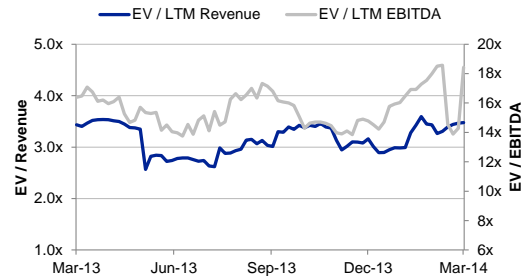


## TECHNOLOGY-ENABLED HEALTHCARE SERVICES

5 Year LTM Revenue & EBITDA Multiples

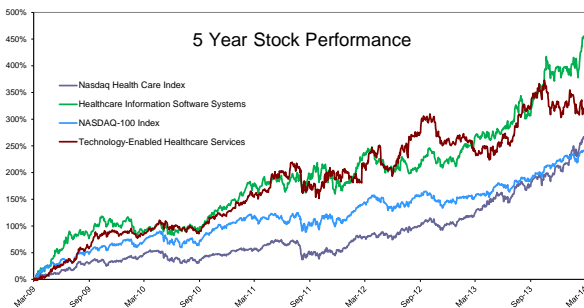


1 Year LTM Revenue & EBITDA Multiples

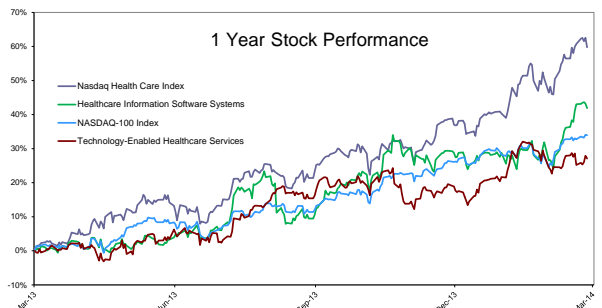


## HIT STOCK PERFORMANCE VERSUS NASDAQ

5 Year Stock Performance



1 Year Stock Performance



## PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue and EBITDA multiples (trim mean) are ~60% higher than the Technology-Enabled Healthcare Services sector, and this valuation gap widened by 15% over the past month for both metrics. The premium multiples of Medidata, athenahealth, and Cerner as well as the continued turnaround at Allscripts, are primarily responsible for these valuation differences.

In the past 12 months the NASDAQ Health Care Index (+60%) performed better than the Healthcare Information Software Systems sector (+42%) and the Technology-Enabled Healthcare Services group (+34%). The strong returns of Medidata (+160%), athenahealth (+128%) and Cerner (+41%) over the past year have supported the higher returns from the Healthcare Information Software Systems sector. WebMD (+117%) and McKesson (+72%) 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 Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
Cerner	21,610	20,897	7.4x	6.3x	28.1x	18.2x	9%	17%	26%	34%
athenahealth	7,492	7,651	12.9x	10.2x	nm	58.6x	41%	26%	9%	17%
Medidata	3,514	3,503	12.7x	10.2x	nm	42.8x	27%	24%	12%	24%
Allscripts	3,315	3,813	2.8x	2.7x	nm	16.6x	(5%)	4%	2%	16%
The Advisory Board	2,378	2,307	4.6x	4.0x	38.0x	22.2x	16%	15%	12%	18%
CompuGroup Medical	1,286	1,697	2.7x	2.4x	13.0x	11.1x	1%	11%	21%	22%
Quality Systems	1,051	957	2.2x	2.1x	13.1x	9.6x	(4%)	5%	17%	21%
Computer Programs & Systems	764	741	3.7x	3.5x	13.8x	12.3x	10%	5%	27%	29%
Merge	237	454	2.0x	2.1x	14.2x	10.9x	(7%)	(6%)	14%	19%
<b>Trim Mean</b>	<b>2,829</b>	<b>2,953</b>	<b>5.1x</b>	<b>4.4x</b>	<b>17.3x</b>	<b>19.2x</b>	<b>8%</b>	<b>12%</b>	<b>16%</b>	<b>21%</b>
<b>Median</b>	<b>2,378</b>	<b>2,307</b>	<b>3.7x</b>	<b>3.5x</b>	<b>14.0x</b>	<b>16.6x</b>	<b>9%</b>	<b>11%</b>	<b>14%</b>	<b>21%</b>

### TECHNOLOGY-ENABLED HEALTHCARE SERVICES

Company <i>USD millions</i>	Market Cap	Enterprise Value	EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
			CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E	CY2013A	CY2014E
McKesson	41,430	43,873	0.3x	0.3x	13.2x	10.1x	6%	21%	3%	3%
WebMD	1,993	2,120	4.1x	3.7x	25.1x	13.8x	10%	11%	16%	27%
HMS Holdings	1,808	1,947	4.0x	4.2x	18.8x	16.2x	4%	(7%)	21%	26%
MedAssets	1,502	2,273	3.3x	3.2x	11.0x	9.6x	6%	4%	30%	33%
Accretive Health	835	639	0.6x	0.6x	9.4x	7.4x	8%	7%	7%	8%
HealthStream	803	695	5.3x	4.2x	30.8x	25.7x	28%	24%	17%	16%
Emis	584	561	3.2x	2.6x	9.8x	8.2x	20%	22%	33%	32%
Healthways	525	774	1.2x	1.0x	14.2x	9.5x	(2%)	11%	8%	11%
Vocera Communication	424	296	2.9x	2.6x	nm	n/a	2%	9%	na	n/a
Craneware	268	238	5.5x	5.1x	18.8x	17.5x	1%	8%	30%	29%
<b>Trim Mean</b>	<b>1,059</b>	<b>1,163</b>	<b>3.1x</b>	<b>2.8x</b>	<b>15.8x</b>	<b>12.1x</b>	<b>7%</b>	<b>12%</b>	<b>18%</b>	<b>21%</b>
<b>Median</b>	<b>819</b>	<b>734</b>	<b>3.3x</b>	<b>2.9x</b>	<b>14.2x</b>	<b>10.1x</b>	<b>6%</b>	<b>10%</b>	<b>17%</b>	<b>26%</b>

#### United States

New York, NY  
San Francisco, CA  
Washington, DC



#### International

Toronto, Canada  
Hong Kong, China