H.I.T. Greatest *Hits*

MARLIN & ASSOCIATES
Healthcare IT Review
November 2013

For further information contact:
Afsaneh Naimollah
Afsaneh@marlinllc.com
+1 (212) 257-6055

Stephen Shankman
sshankman@marlinllc.com
+1 (212) 257-6044

Dear Clients and Friends,

In our October newsletter we promised to cover the highlights of the latest HBR article on the concept of value. The article is titled “THE STRATEGY THAT WILL FIX HEALTHCARE”. We broadly agree with the concepts discussed in the article and recommend it.

The authors, Michael Porter and Thomas H. Lee, observe that healthcare providers can achieve optimal value based on six strategic principles.

1. **Create Integrated Practice Units (IPUs) -** where a dedicated multi-disciplinary team is responsible for the full cycle of care for a given patient.
2. **Measure outcome and costs for every patient -** Challenges in measuring outcomes still remain as many practices today define outcomes as mortality or safety rates rather than health status measured after care is completed. We also face some difficulties in accurately measuring the cost of care. Over time these issues will become less important as deep analytics will streamline and systematize the collection of relevant data.
3. **Move to bundled payments -** We believe a fixed price for an “episode of care” will generate significant savings and will hold providers true to the principle of patient-centric healthcare.
4. **Integrate care delivery systems -** Multi-site hospitals must become more integrated around specific types of care at each location, rather than being a loose federation of stand-alone hospitals with fragmented and duplicate services.
5. **Expand geographic reach -** We have entered an era in which technology can be used to extend the geographical reach of every provider. Access to expert providers has a direct effect in enhancing the quality of care for patients.
6. **Build an enabling information technology platform**

Clearly the use of advanced technologies is no longer an option but a necessity. To have a truly patient-centric healthcare system, advanced technologies have to be pervasive, ubiquitous and all encompassing. Whether it is for building or accessing medical records or templates around medical conditions, one thing is clear: advanced technologies are the only path to big data which leads us to better measure costs and outcomes, and therefore value.

Sincerely,

Afsaneh Naimollah

“You’re suffering from a serious medical condition called ‘lousy insurance’.”

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

Mostashari joins Engelberg Center at Brookings
Dr. Farzad Mostashari, former head of the Office of the National Coordinator for Health Information Technology (ONC-HIT), joined the Engelberg Center for Health Care Reform, working in collaboration with the Brookings Initiative on Value and Innovation in Health Care. Dr. Mostashari is expected to work on various topics which include helping clinicians improve patient health through technology as well as developing payment models that better support small practices.

Given our view of Dr. Mostashari as more of an "academic entrepreneur", we are not surprised to see him take a lead role in a collaboration with the highly regarded Brookings Institute. We are confident that he will continue his crusade to bring more innovative ideas to our healthcare system.

Emdeon names new CEO Neil de Crescenzo
Emdeon, the Nashville, TN provider of revenue cycle management and business services to payers and providers, named Neil de Crescenzo CEO and President. Mr. de Crescenzo most recently served as SVP and GM of the Global Health Sciences division of Oracle and replaces George Lazenby, who joined Emdeon in 2003 and was named CEO in 2008. Emdeon was taken private in 2011 by The Blackstone Group and Hellman & Friedman.

Emdeon ($1.2 billion in revenue) is making an executive change after posting sluggish revenue growth and quarterly losses for most of the last two years. While Emdeon has historically boosted results through an inorganic acquisition strategy, its core business is still dependent on the number of transactions that go through its system, and that utilization remains well below its peaks.

Zaniest ICD-10 Codes:

V91.10XS	Crushed by a merchant ship
Z631	Problems in relationship with in-laws
Z621	Parental overprotection

M&A TRANSACTIONS / INVESTMENTS

Genomic Data Going Mainstream

One of the most dynamic areas in clinical diagnostics is the inclusion of patient's genomic profile at the point of care. The availability of this data point in the providers' hand will have enormous impact on the quality of care, and as a result, the associated cost.

CardioDx files for IPO
CardioDx, the Palo Alto, CA molecular diagnostics company specializing in cardiovascular genomics, filed a Form S-1 with the SEC related to an IPO of its common stock. The company is backed by a number of VC/PE firms. Kleiner, Perkins, Caufield & Byers, Intel Capital, GE Capital are among 14 investors.

CardioDx is one of the first major genomic firms focused on providers vs. pharmas. Using genome information in clinical decision support holds many promises for increasing quality of care.

NextBio to be acquired by Illumina
NextBio, the Santa Clara, CA provider of clinical and genomic informatics, signed a definitive agreement to be acquired by Illumina (NASDAQ: ILMN), a leading developer, manufacturer and marketer of life science tools and systems for analysis of genetic variation.

As the price of sequencing human genomes falls, the amount of data available to analyze continues to grow. NextBio's platform offers enterprise bioinformatics that speeds up the discovery of the relationship between genetics and disease. To date, NextBio's focus has primarily been on drug discovery. We believe companies that focus on providers in this market (i.e. genome information in EHR) will move this industry more towards healthcare IT and less towards the life sciences sector.

NextCODE Health raises $15M in funding
NextCODE Health, the Cambridge, MA sequence-based clinical diagnostics company, received $15M in series A investments from Arch Venture Partners and Polaris Partners.

A spin-off from deCODE genetics, NextCODE is another exciting company in genomic interpretation aiming to expedite providers' ability to render clinical diagnoses.

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M&A TRANSACTIONS / INVESTMENTS

WebMD acquires Avado

WebMD (NASDAQ: WBMD), a provider of health information services to consumers and physicians, acquired Avado, the Bellevue, WA developer of cloud-based patient relationship management solutions that enable better communication between consumers and health care professionals. Avado is a "StartUp Health Company" backed by The Partnership Fund for New York City. Terms were not disclosed.

This is WebMD's first acquisition since 2009. The patient engagement requirement is one of the cornerstones of MU-2 guidelines. As a result, a number of companies have been funded to develop technologies to better facilitate provider and patient communication. This acquisition makes a lot of sense to us as Avado's solutions are complimentary to WebMD's Medscape mobile application.

McKesson Automation acquired by Francisco Partners

McKesson Automation, the Pittsburgh, PA provider of integrated pharmacy automation solutions for hospitals and a former unit of McKesson Corporation (NYSE: MCK), was acquired by Francisco Partners, the San Francisco-based private equity firm. Purchase price was $52M.

In May 2013, McKesson publically announced its intention to divest this unit in an effort to realign its Technology Solutions segment and improve margins. Francisco Partners has renamed the business "Aesynt" but plans to keep its solutions close to its former parents' wide range of hospital software and service offerings. This is Francisco Partners' second healthcare investments in recent months. The firm invested in NexTech, an EHR company focused on the plastic surgery and dermatology markets.

PACSGEAR acquired by Perceptive Software

PACSGEAR, the Pleasanton, CA provider of connectivity solutions to capture, manage, share and integrate medical images with PACS and EMR systems, was acquired by Lexmark International's (NYSE: LXK) Perceptive Software division. Lexmark paid approximately $54M in cash.

We are very enthusiastic about how Lexmark is transforming itself from a printer manufacturer to a document management company. This deal is Lexmark's third healthcare acquisition since 2010. The company's goal is to be able to manage all the healthcare documentation that feed into EHR systems.

PMSI to merge with Progressive Medical

PMSI, the Tampa, FL provider of workers' compensation cost containment solutions, was sold by H.I.G. Capital to Kelso & Company / StoneRiver Group. Simultaneously, PMSI will be merged with Progressive Medical, the Westerville, OH pharmacy benefit management services provider.

This transaction completes the turnaround of PMSI, which was divested from AmerisourceBergen in 2008. The merger will create a workers' compensation suite of solutions that includes PBM, durable medical equipment, home health care and transportation offerings. HIT M&A transactions between private equity firms are on the rise. Strategics will continue to face competition from this class of investors.

Cylliance HIT business sold to MedTech

Cylliance, the Tacoma, WA provider of cloud-based billing and practice management (PM) to physician practices, was acquired by MedTech National, a Gig Harbor, WA provider of outsourced EHR and PM solutions. Terms were not disclosed.

This is another deal emphasizing the need to commingle both clinical and financial data, especially for physician practices, as outcome-based reimbursement models become more mainstream.

One Call Care Management and Align Networks to be acquired by Apax Partners

One Call Care Management, the Parsippany, NJ provider of cost containment services to the workers' compensation industry, backed by Odyssey Partners, and Align Networks, the Jacksonville, FL provider of workers' compensation physical medicine network, backed by General Atlantic and The Riverside Company, agreed to be acquired by Apax Partners. Terms were not disclosed.

This is one of the largest combinations in the workers' compensation sector, bringing together a top specialist in cost containment with a leading network of physical therapists.

LOGICARE acquired by The Wellness Network

LOGICARE, the Eau Claire, WI provider of software and services to emergency departments, was acquired by The Wellness Network, the New York, NY media company which provides interactive and personalized content to consumers through TV, online and mobile devices.

Personalized medical content is believed to be an important element to help consumers make educated treatment decisions, as well as plan their care post discharge.

Reclaim Group acquired by Health Systems Int'l

The Reclaim Group, the Bethesda, MD provider of medical post-payment recovery services, was acquired by Health Systems International, the Great Point Partners backed and Indianapolis-based provider of payment effectiveness solutions.

Given the continuing cost pressures in our industry, the role of auditors is gaining more importance. The revenue integrity services provided by The Reclaim Group are a nice complement to HSI's existing business in the same sector.

PDS acquired by iVantage Health Analytics

Professional Data Services (PDS), the Olathe, KS provider of SaaS-based managed care analytics and payment benchmarking solutions, was acquired by iVantage Health Analytics, the Portland, ME provider of health analytic solutions, backed by Great Point Partners. Terms were not disclosed.

'Benchmarking' solutions are gaining a prominent place in the new healthcare reimbursement models which emphasize better outcomes and lower costs.

ApeniMED acquired by IOD

ApeniMED, the Minneapolis, MN provider of health data platforms for information exchange, was acquired by OD Incorporated (IOD), the Green Bay, WI provider of health information management services to hospitals. Terms were not disclosed.

This deal appears to better position IOD to ride the wave of clinical and financial data exchange, which is being catalyzed by MU-2, ACOs and emerging healthcare delivery models.

NexTech receives strategic investment

NexTech, the Tampa, FL provider of fully integrated EHRs for specialty physician practices, sold a stake in the company to Francisco Partners, the San Francisco-based private equity firm. Terms were not disclosed.

With the end of the federal stimulus from the HITECH Act in sight, many investors seem to be turning their attention to specialty EHRs as complex and unique areas of healthcare do not lend themselves to the one-size-fits-all EHRs from larger vendors.

Healthways raises $20M from CareFirst

Healthways (NASDAQ: HWAY), a provider of solutions to help people stay physically, emotionally and socially healthy, received a $20M private placement from CareFirst, the Owings Mills, MD health insurance and managed care company.

Interest in technologies that help people stay fit and healthy has attracted not only investor interest, but also strategic investments as providers and payers seek new avenues to maintain their margins in light of reimbursement pressures.

Cureatr raises $5.8M in funding

Cureatr, the New York, NY provider of mobile and web group messaging applications for healthcare providers, raised $5.8M in equity funding from Cardinal Partners, JMI Services, Milestone Venture Partners and the New York City Investment Fund.

Founded in 2011, Cureatr is a HIPAA-secure, encrypted cloud-based group messaging system for healthcare providers (i.e. group texts for relaying consult, referral or discharge information). Given the regulatory challenges around mobile healthcare communications, the sector has lagged other industries in transitioning to web and mobile communications. That said, we are starting to see momentum accelerate behind this space which is coinciding with increased investors interest and improving technology.

PARTNERSHIPS & COMPANY NEWS

Duet Health receives funding
Duet Health, the Columbus, OH provider of mobile healthcare communications for children's hospitals, health systems and pharmacies, received an undisclosed investment from Baird Capital.

Duet Health's technology platform allows for the delivery of personalized healthcare information to patients and perhaps more importantly, presents an opportunity for health organization to engage and interact with patients. One of the unique aspects of the company is their focus on children's hospitals.

Claiming the $1 Trillion Prize

Although the US health-care industry has in the past decade undertaken many useful experiments with outcomes-based payment, it has largely failed to make the transition at a significant scale. The challenges have been substantial, including the industry's sheer size and complexity, the comfort incumbents have with the existing payment models, technical barriers that have made it difficult to ensure fairness, and the risk of unfavorable unintended consequences.

That said, the preconditions for transformative change are much better now than at any point in recent history. With stronger leadership, bolder initiatives, and more collaboration between public and private payers, the US health-care industry could aggressively transition to outcomes-based payment over the next three to five years. We estimate that such a move could save consumers, employers, and taxpayers more than $1 trillion over the next decade while improving the delivery of care.

Source: McKinsey & Company September 2013

Dignity Health and Optum form Optum360
Optum, the HIT division of United Healthcare (NYSE: UNH) and Dignity Health, the San Francisco-based health care system comprising nearly 10,000 physicians in a variety of care settings, including hospitals and urgent care clinics, came together to form a new revenue cycle management (RCM) company called Optum360. Optum360 will feature a workforce of over 3,000 employees (~1,700 from Dignity Health, ~1,300 from Optum) and be the exclusive RCM provider to Dignity Health.

The RCM space continues to be very active as providers confront new regulations (such as ICD-10) and payers demand more financial information. Close alignments between payers and large health systems or groups is one strategy being employed to overcome these industry and regulatory challenges.

MEDSEEK and Vitals to partner
MEDSEEK, the Birmingham, AL provider of portals for healthcare organization to engage patients, consumer and physicians and Vitals, the Newtown, PA provider of online tools for healthcare consumers to connect with providers announced a partnership. Vitals is backed by Health Evolution Partners, while MEDSEEK has received investments from Essex Woodlands Health Ventures and Silver Lake.

As mobile and web capabilities increase, healthcare's touch points with consumers have the potential to multiply exponentailly. This partnership seems to provide a nice alignment given MEDSEEK's ability to give hospitals the power to influence decisions related to patient care and revenue and Vitals.com, which logs over 13 million visits each month and allows patients to book appointments and get enhanced hospital physician profiles and bios.

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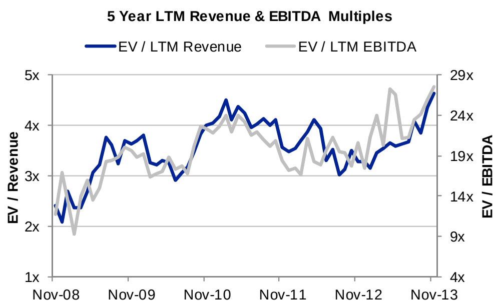
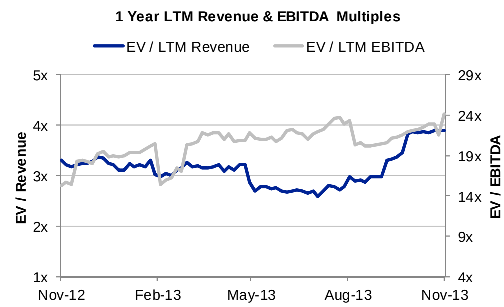
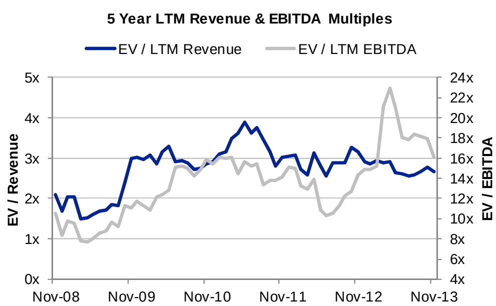
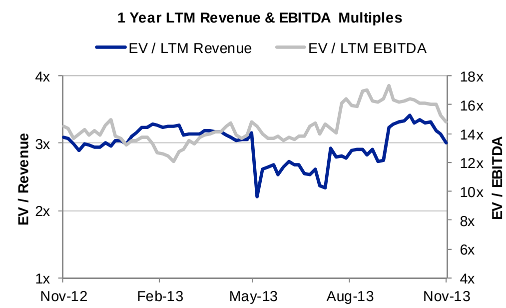
Healthcare Information Software Systems



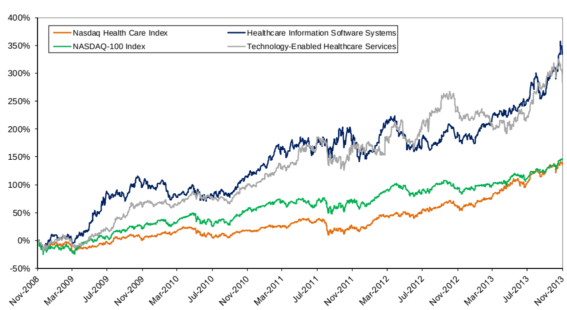


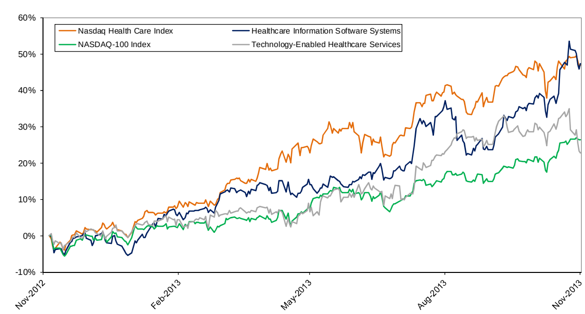
Technology-Enabled Healthcare Services





HIT Stock Price Performance versus Nasdaq Healthcare Index





PUBLIC MARKET TRENDS

As a group, the Healthcare Information Software Systems 2014 revenue multiple (trim mean) is nearly 60% greater than the Technology-Enabled Healthcare Services sector, and this gap grew by ~10% over the past month. EV/EBITDA multiples expanded over the past 12 months with the Healthcare Information Software Systems group now enjoying a 41% premium valuation versus its Technology-Enabled Healthcare peers (17.7x EV/EBITDA 2014E vs. 12.6x); this difference increased by almost 8% during October 2013.

In the past 12 months the NASDAQ Health Care Index (+47%) performed in-line with the Healthcare Information Software Systems while the Technology-Enabled Healthcare Services group lagged (+23%). Over the past month, the Healthcare Information Software Systems group performed the best (+4%), the Nasdaq Health Care Index was flat and the Technology-Enabled Healthcare Services group declined (-5%). For company names in each index, please refer to the following page.

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	19,692	18,953	6.5x	5.7x	19.4x	16.6x	12%	14%	33%	34%
athenahealth, Inc.	5,119	5,300	9.0x	6.9x	48.0x	36.3x	40%	29%	19%	19%
Medidata Solutions, Inc.	2,978	2,847	10.0x	8.1x	40.1x	31.9x	31%	23%	25%	26%
The Advisory Board Company	2,512	2,472	4.9x	4.2x	27.4x	23.0x	17%	16%	18%	18%
Allscripts Healthcare Solutions, Inc.	2,457	2,930	2.1x	2.0x	14.5x	10.9x	(2%)	5%	14%	18%
Quality Systems Inc.	1,364	1,279	2.9x	2.6x	12.6x	10.2x	(2%)	11%	23%	25%
CompuGroup Medical AG	1,275	1,606	2.6x	2.4x	12.1x	10.2x	1%	6%	21%	24%
Computer Programs & Systems Inc.	632	619	3.1x	2.9x	11.9x	11.3x	10%	5%	26%	26%
Greenway Medical Technologies, Inc.	605	594	4.3x	3.7x	nm	27.2x	3%	15%	6%	14%
Merge Healthcare Incorporated	238	465	2.0x	1.9x	12.3x	9.1x	(5%)	5%	16%	20%
Trim Mean	**2,118**	**2,206**	**4.4x**	**3.8x**	**19.8x**	**17.7x**	**9%**	**12%**	**20%**	**22%**
Median	**1,910**	**2,039**	**3.7x**	**3.3x**	**14.5x**	**14.0x**	**6%**	**12%**	**20%**	**22%**

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	36,427	38,341	0.3x	0.3x	11.0x	9.3x	5%	14%	3%	3%
WebMD Health Corp.	1,782	1,706	3.3x	3.1x	14.2x	11.9x	9%	9%	23%	26%
MedAssets, Inc.	1,416	2,218	3.3x	3.1x	10.1x	9.4x	6%	6%	32%	33%
Healthstream Inc.	991	886	6.8x	5.6x	37.0x	29.2x	26%	22%	18%	19%
Accretive Health, Inc.	833	637	0.6x	0.5x	7.2x	5.6x	11%	15%	8%	9%
EMIS Group PLC	581	559	3.5x	3.0x	10.7x	9.0x	18%	16%	32%	33%
Vocera Communications, Inc.	413	288	2.8x	2.4x	nm	34.1x	2%	15%	2%	7%
Healthways Inc.	345	603	0.9x	0.8x	9.4x	6.7x	(1%)	11%	10%	12%
Craneware plc	201	171	4.0x	3.7x	13.5x	12.6x	1%	8%	29%	29%
Trim Mean	**909**	**985**	**2.6x**	**2.4x**	**11.5x**	**12.6x**	**7%**	**13%**	**18%**	**19%**
Median	**833**	**637**	**3.3x**	**3.0x**	**10.8x**	**9.4x**	**6%**	**14%**	**18%**	**19%**

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