



Solganick & Co.

Technology and Digital Media
Investment Banking + M&A Advisory

Healthcare IT M&A Update

Yearly Overview

December 19, 2016

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Sources for our research and data include: PitchBook, MergerMarket, Wall Street Journal, Company Websites, SEC Filings, Bloomberg, TechCrunch, Rock Health and Mercom Capital

M&A Market Brief

Global, U.S. and Healthcare IT M&A Activity YTD 2016

Worldwide

Global M&A activity during the third quarter of 2016 improved 8.8% over that of the second quarter. Due to political uncertainty, increased regulation, and decreased confidence by boards, 2016 YTD activity is down 20.2% from last year.

Global deal value for Q3 2016 rose to \$812.9 billion from \$747.2 billion in Q2 2016. Global M&A deal value in YTD is down to 2.2 trillion compared to 2.8 trillion in 2015.

Industrial & Chemicals has been the most active sector this year with a 41.1% increase in deal value YTD. A record high 7 mega-deals worth \$183.6 billion has pushed M&A activity to a post crisis high, creating more M&A opportunities for PE buyers and sellers.

- **Although Brexit caused major economic uncertainty, the concurrent drop in sterling following the decision to leave the EU caused opportunistic dealmakers to engage in a bargain hunt for UK assets.** As a result of a few megal deals, Q3 M&A activity skyrocketed from 12.9 billion in Q2 to 49.3 billion in Q3.

United States

- **US M&A activity remained strong despite concerns over government anti-trust policies, the Presidential election, and the recent interest rate hike**

- In Q3 2016, deal value totaled \$384.8 billion, compared to \$327.9 billion in Q2 2016 (17.4% increase).

- YTD 2016, US M&A deal value dropped 29.6% from \$1.4 trillion 2015 Q1-Q3 to \$962.4 billion YTD.

- The US was home to three of the five largest global transactions, including the highest valued deal: Bayer's \$65.3 billion acquisition of Monsanto. Overall **the US captured 43.8% of the global market share, compared to 24.1% for Europe and 22% for Asia.**

- The US technology industry experienced a slight decrease in M&A activity. In Q1-Q3 2016, technology deal value dropped to \$141.1 billion compared to \$150.3 billion in 2015 YTD (8.8% decrease).

Healthcare IT

The Healthcare IT sector was active in venture capital (VC) funding, including private equity and corporate venture capital, totaled \$1.3 billion in 177 deals in Q3 2016.

So far this year, more than \$4.2 billion has been raised in 463 deals, well north of the \$3.6 billion raised during the same period in 2015.

There were 53 M&A transactions (16 disclosed) involving Healthcare IT companies this quarter, compared to the same number of transactions (7 disclosed), the previous quarter.

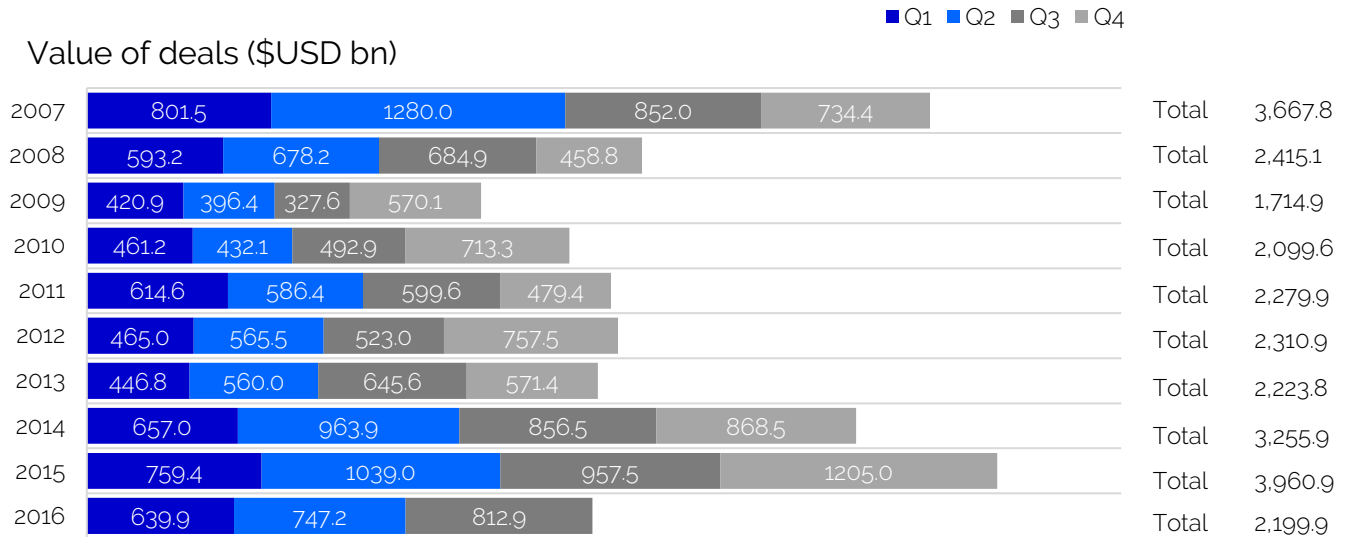
With healthcare IT industry revenue expected to grow at a compound annual rate of more than 5% through 2020, many healthcare IT companies have seen a surge of interest, driving increased competition and asset prices.

Most Promising Technology – Survey respondents say **big data** (46%) and **artificial intelligence** (35%) are the technical innovations that will have the greatest impact on healthcare IT in 2017.

Biggest Growth Sector – Healthcare delivery/IT is cited as most likely to experience growth in the coming year (45 percent), ahead of more consumer-focused products including mobile health apps (8 percent) and wearables (7 percent).

Source: Mercom Capital and SVB

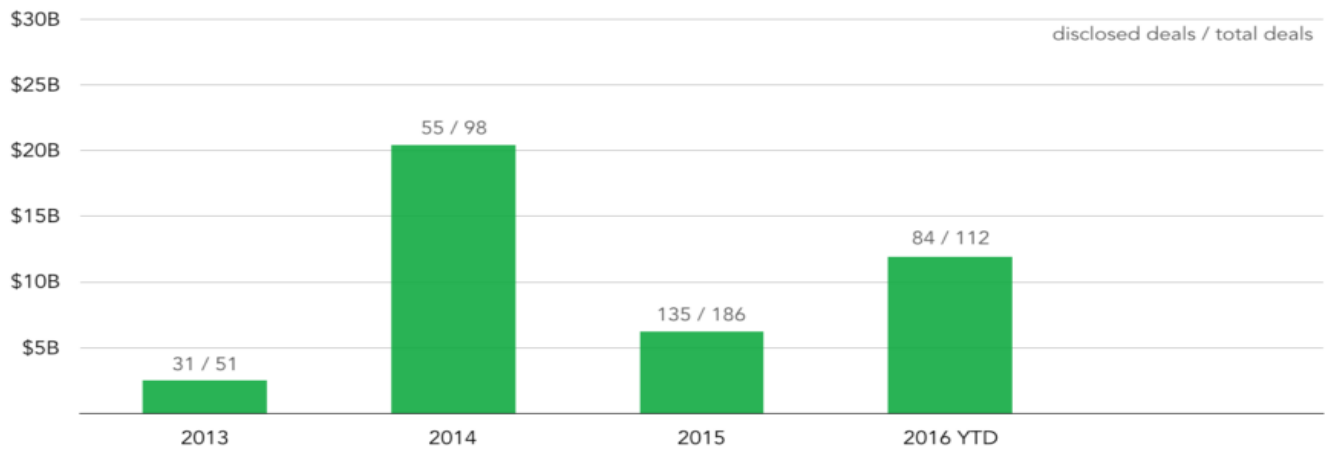
Global M&A Deal Value – Quarterly Comparison



Source: MergerMarket

HealthCare IT M&A Activity – Yearly Comparison

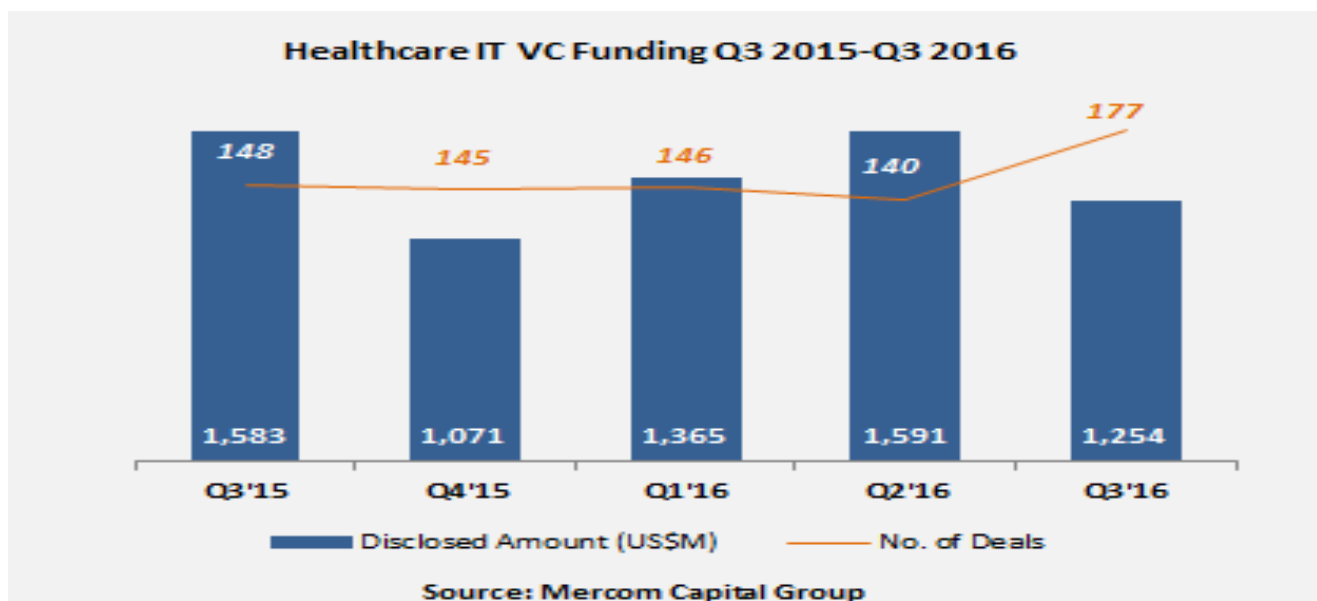
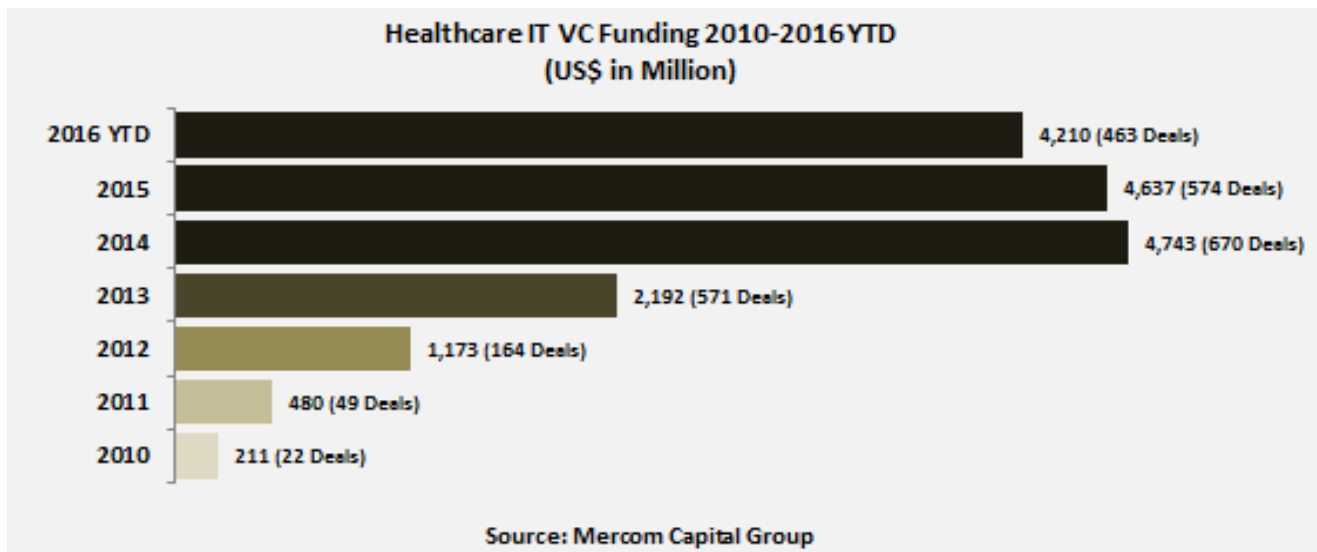
ACQUISITIONS BY YEAR



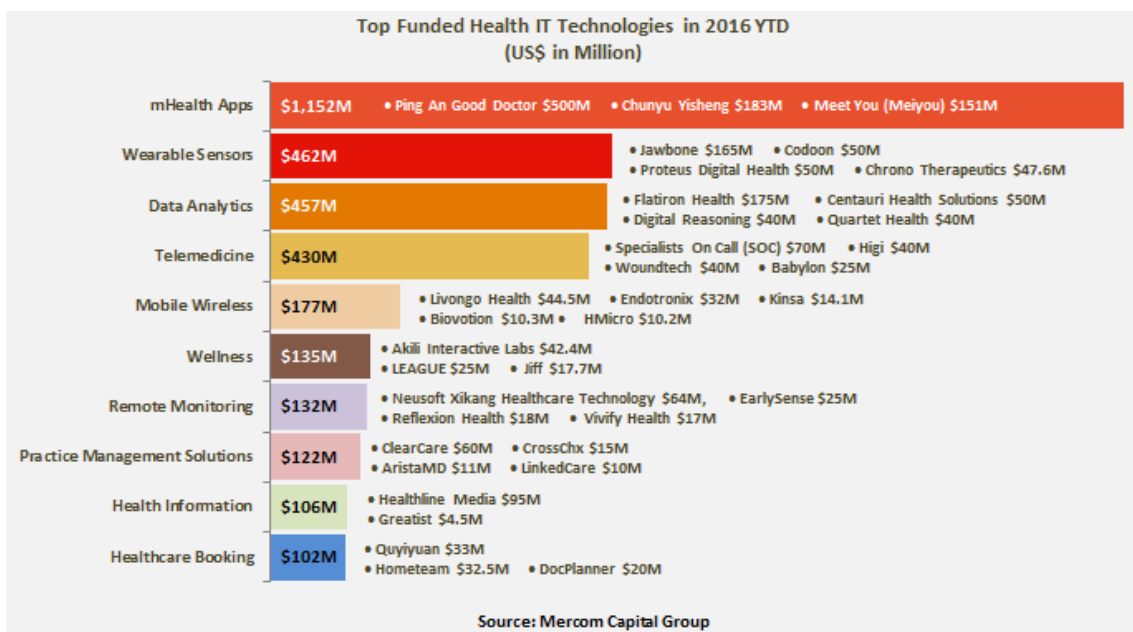
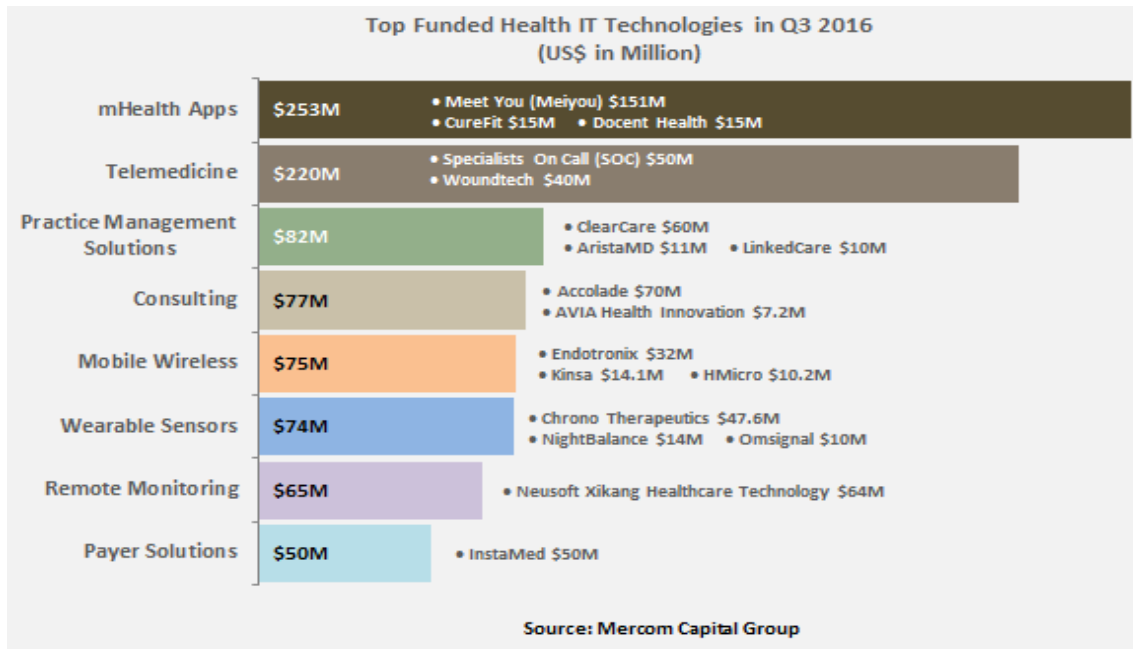
Source: Rock Health

Healthcare IT VC Funding Reaches \$1.25B in Q3 2016

Venture capital (VC) funding in the Healthcare IT sector, including private equity and corporate venture capital, totaled \$1.3 billion in 177 deals in Q3 2016 compared to \$1.6 billion in 140 deals in Q2 2016. So far this year, more than \$4.2 billion has been raised in 463 deals, well north of the \$3.6 billion raised during the same period in 2015.
















The top funded areas were mobile health (mHealth) apps with \$253 million, telemedicine companies with \$220 million, practice management solutions companies with \$82 million, consulting companies with \$77 million, mobile wireless with \$75 million, wearables and sensors with \$74 million, remote monitoring with \$65 million and payer solutions companies with \$50 million.



There were 53 M&A transactions (16 disclosed) involving Healthcare IT companies this quarter, compared to the same number of transactions (7 disclosed), the previous quarter. Merger and acquisition activity was led by Mobile Health Apps with eight transactions, Practice Management Solutions companies tallied five, and Data Analytics, Population Health Management, and Remote Monitoring companies had four transactions apiece.

The top disclosed M&A transaction was the \$2.35 billion acquisition of Press Ganey Associates by EQT Equity fund EQT VII. Other large transactions included: Thoma Bravo which acquired Imprivata for approximately \$544 million and took the company private; Atos acquired Anthelio Healthcare Solutions from its shareholders Actis and McLaren Health Care Corporation for an enterprise value of \$275 million; Evolent Health's acquisition of Valence Health for \$145 million; Loblaw Companies acquired QHR Corporation for \$132 million; and iHealth Labs' acquisition of eDevice for \$106 million. mHealth Apps and Data Analytics companies have been involved in the most M&A transactions so far in 2016 with 19 and 15 transactions respectively.

Top Healthcare IT M&A Transactions in Q3 2016 By Disclosed Amount

Company	Terms/Amount (\$M)	Acquirer	Country
 PRESS GANEY*	2,350		Sweden
 imprivata*	544		USA
 anthelio an atos business	275	 Atos  Worldwide IT Partner	France
 Valence Health	145	 evolent HEALTH	USA
 QHR TECHNOLOGIES	132	 Loblaw COMPANIES LIMITED	Canada
 edevice Connectivity That Cares	106	 iHealth*	USA
Source: Mercom Capital Group			

Source: Mercom Capital Group

Healthcare IT M&A Drivers for 2016-2020

The entire healthcare ecosystem is in the midst a sea change transition from consumption and volume-based paradigms to ones instead driven by quality, value, and efficiency. Critical to navigating and thriving in this new world of healthcare is the ability to put the power of data and its analysis to work, gaining greater insight and driving greater impact in the understanding and improvement of care, quality, and financial performance. This shift is occurring throughout the healthcare ecosystem – including payors, providers, pharmaceutical/life sciences, and the associated pieces of the care delivery matrix – where the alignment of payment, penalties, regulations, and incentives to clinical and quality outcomes is resulting in healthcare becoming holistically performance based. This creates new opportunities for technology providers to create further efficiency in the healthcare marketplace.

Access to Multiple Markets

Traditionally, healthcare IT companies have focused on servicing narrow segments of the overall market (only hospitals, only physician groups, etc.). Recently, however, companies have found success selling into multiple constituencies across the healthcare continuum, including hospitals, physician groups, insurance companies, self-insured employers, or post-acute-care facilities. Having access to multiple distribution channels increases the size of the total addressable market and reduces risk through diversification.

ROI Story

While some value drivers have varying levels of importance depending on whether the buyer is a strategic or financial sponsor, every buyer today wants to see a strong ROI story. Regardless of what type of software or services a company sells, if it cannot show a hard-dollar measure of the return it generates for clients, it will be at a relative disadvantage in today's marketplace. In addition, most acquirers want to see that a target's solutions can be effective in generating positive ROI both now and in the future as the healthcare industry moves from a fee-for-service environment toward a value-based environment.

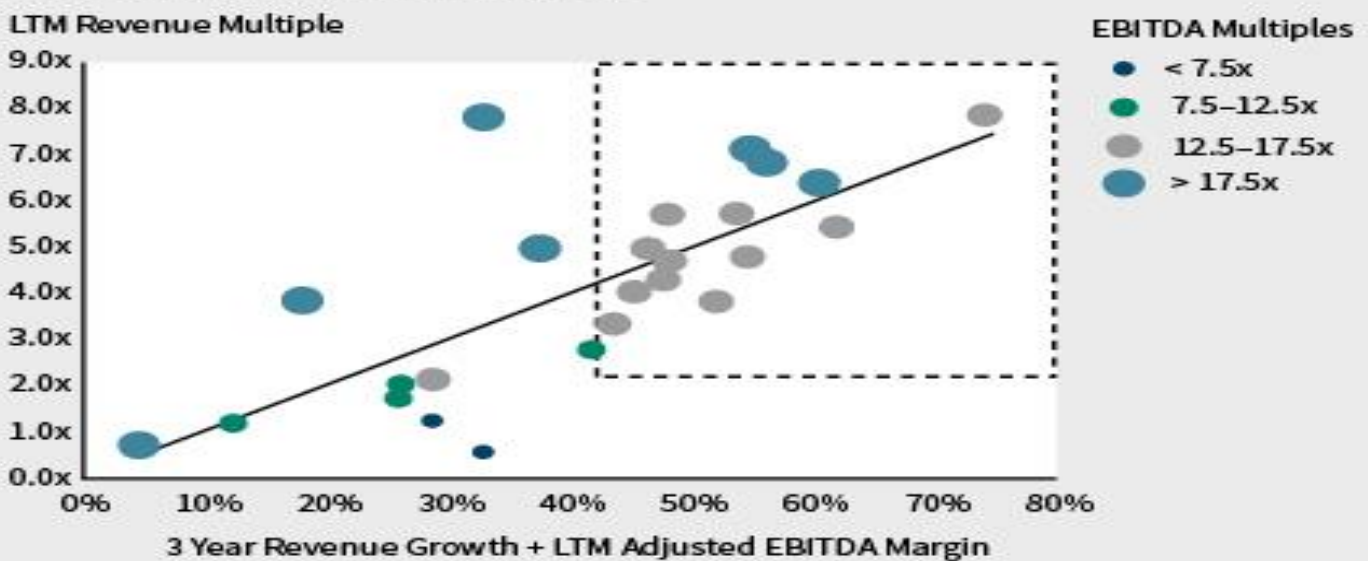
Increased Focus on Profitability

In recent years, revenue growth drove the conversation for buyers, overshadowing concerns about current and future profitability. Today, buyers are much more focused on profitability; most of the companies that are receiving premium valuations in today's M&A market either are currently profitable or have a clear path to substantive profitability in the next year or so. All else equal, companies that can show both revenue growth and profitability can make themselves attractive acquisition targets.

“Rule of 50” Becomes “Rule of 40”

Historically, it was generally accepted that a company's past three-year revenue growth plus its current EBITDA margin needed to exceed 50 for the company to attract maximum buyer interest and drive the most attractive valuation. Recently, however, this threshold seems to have shifted closer to 40. Further, it used to be the case that this figure was driven primarily by revenue growth. Now, profit margin has become a more important contributor in how a company reaches that benchmark.

Select 2015–2016 YTD William Blair Software (HCIT and Non-HCIT) M&A Transactions



Source: William Blair analysis

Vendors as Strategic Partners Offering Technology and Services

Across the healthcare continuum, providers and payers are looking for strategic partners, not just product vendors. The challenges related to value-based care and consumerism are so complex that simply providing a technology solution or a service alone makes it difficult for the user to realize the ROI. This has caused healthcare IT executives and investors to rethink their approach to expanding the total addressable market and generating recurring revenue. Companies such as Evolent Health, Brightree, and Netsmart have had tremendous success in recent years by offering bundled solutions that combine technology with managed service offerings.

Notable (Selected) M&A Transactions, YTD (Jan-Nov) 2016

Deal Date	Company Name	Buyer	Description	Deal Size (million, USD)	EV/ Revenue	EV/ EBITDA
1/1/2016	Gliimpse	Apple	Developer of a health record management platform			
1/4/2016	HealthFusion	Quality Systems	Developer of web-based, cloud computing software for physicians and hospitals.	190		
1/8/2016	Healthland	Computer Programs & Systems	Provider of healthcare information systems services.	250		
1/12/2016	Healarium	Apollo Care Connect	Provider of health technology platform			
1/20/2016	CliniSys Group	Roper Technologies	Provider of laboratory information management services	245		
2/4/2016	CenTrak	Halma	Developer of real-time locating systems (RTLS) for healthcare facilities	140	3.2x	
4/1/2016	eResearch Technology	Nordic Capital, Novo	Provider of intelligence services to collect, interpret and distribute cardiac safety and clinical data	1,800	6.0x	24.0x
4/15/2016	Netsmart Technologies	Allscripts Healthcare, GI Partners	Provider of healthcare enterprise software and software as a service (SaaS) services	950		
4/8/2016	Truven Health Analytics	IBM	Operator of a healthcare analytics company, providing data analytics and performance benchmarking services.	2,600		
4/5/2016	Brightree	Resmed	Provider of cloud-based business management and software services, to post-acute care industry.	800		
6/28/2016	Change Healthcare	McKesson	Provider of healthcare software and analytics to organize, and authenticate patient data	4,450	4.0x	18.4x
7/29/2016	Entra Health	CRF Vitruvian Partners	Operator of mobile health IT company, focusing on cloud-based remote patient monitoring			
7/12/2016	HealthQx	Mckesson	Developer of data analytics and software services in value-based repayments for healthcare			
7/20/2016	WellCentive	Koninklijke Philips Electronics	Provider of population health management and data analytics services with a national footprint		7.2x	
7/5/2016	Cardon Outreach	MedData	Provider of third party eligibility and patient account management services for hospitals	400		

Deal Date	Company Name	Buyer	Description	Deal Size (million, USD)	EV/ Revenue	EV/ EBITDA
7/27/2016	ExamWorks Group	Leonard Green & Partners	Provider of medical claim management services,	2,200	2.57x	18.13x
8/8/2016	Morrissey Associates	HealthStream	Provider of credentialing solutions and technology services	48	3.8x	10.67x
8/19/2016	AssureRX Health	Myriad Genetics	Operator of a personalized medicine company, focus in pharmacogenomics	225	3.75x	
8/16/2016	QHR Technologies	Loblaw	Developer of medical records technology software. The company offers medical record and healthcare technology software in Canada.	126.8	5.57x	54.19x
8/9/2016	Press Ganey	EQT Equity Fund	Patient experience measurement and performance analytics solutions	2,350	6.6x	21.8x
9/16/2016	Imprivata	Thoma Bravo	Provider of single sign-on and access-management software services for the healthcare sector.	544		
10/3/2016	Valence Health	Evolent Health	Provider of clinical integration and data management software	219	2.66x	
10/1/2016	Creehan & Company	Inovalon Holdings	Developer of pharmacy software and medication management software	130	4.8x	
11/15/2016	Emmi Solutions	Wolters Kluwer	Provider of patient engagement and empowerment technology services to increase health literacy	170	5.86x	

Source: Solganick & Co. Analysis, Pitchbook

IPO Trends 2016

Although the IPO market started slowly in 2016, the second half of the year is showing signs of life: 13 of this year's 19 technology IPO's have priced since late July. In healthcare IT, performance in the public markets over the last few years has been solid. There have been 14 IPO's in healthcare IT since 2013, and returns of these IPO's have beaten the market in each year except 2015. The companies that went public over that time frame are Benefitfocus, Premier, IMS Health, Castlight Health, Imprivata, Connecture, HealthEquity, Inovalon, Evolent Health, Press Ganey, Teladoc, Cotiviti, NantHealth, and Tabula Rasa Healthcare. William Blair and its current equity capital markets team have been an underwriter on 12 of these 14 IPO's.

Profile of Healthcare IT IPOs: 2013–2016

A look at the median financial characteristics of these 14 transactions provides a glimpse into the typical profile of companies that have been able to go public.

Median	
Offering size	\$192 million
Market capitalization at pricing	\$1.2 billion
Projected revenue at IPO + one year	\$175 million
Projected revenue growth at IPO + one year	26%
Forward revenue multiple at pricing	4.9x
Forward EBITDA multiple at pricing	11.3x

Sources: SEC filings and Renaissance Capital research

The median offering size of these IPO's was \$192 million, with a median market cap of \$1.2 billion. The median pricing multiples achieved by these companies were 11.3x forward EBITDA and 4.9x forward revenue; the latter figure holds up well against the pricing revenue multiples for all tech IPOs, which have been in the 4x-5x range in recent years. The median projected revenue at one year after IPO for these healthcare IT companies was \$175 million, with only one company (Castlight) landing below \$100 million. The median projected growth rate one year after IPO was 26%, with only five companies projecting revenue growth of more than 30%. Overall, investors have been primarily interested in healthcare IT companies that showed strong growth and business models that are laser-focused on one area of the healthcare market.

Source: William Blair & Company

Publicly Traded Healthcare IT Firms Valuation Table (as of 12/7/16)

Healthcare IT	Ticker	Stock Price	Market Cap (mm)	EV/ Revenue	EV/ EBITDA
Allscripts Healthcare	MDRX	\$10.80	\$1,998	2.5x	18.8x
McKesson	MCK	\$141.62	\$32,112	0.2x	9.8x
Cerner	CERN	\$48.00	\$16,030	1.8x	51.4x
athenahealth	ATHN	\$93.05	\$3,671	4.9x	32.8x
Omnicelell	OMCL	\$32.20	\$1,180	2.4x	22.4x
WebMD	WBMD	\$53.54	\$2,079	4.0x	14.5x
Vocera Communications	VCRA	\$17.76	\$485	2.7x	N.A.
NantHealth	NH	\$9.92	\$1,200	14.6x	N.A.
Everyday Health	EVDY	\$10.50	\$355	1.3x	45.7x
Castlight Health	CSLT	\$4.60	\$477	3.1x	N.A.
Tabula Rasa HealthCare	TRHC	\$11.65	\$187	1.8x	14.0x
Teladoc	TDOC	\$19.00	\$874	6.5x	N.A.
Inovalon	INOV	\$14.90	\$939	3.9x	17.1x
Mindbody	MB	\$20.95	\$848	5.5x	N.A.
Care.com Inc	CRCM	\$8.60	\$248	1.6x	77.9x
Quintiles IMS	Q	\$77.54	\$19,090	11.4x	52.3x
Medidata Solutions	MDSO	\$53.04	\$3,060	7.1x	52.1x
Benefit Focus	BNFT	\$30.10	\$895	5.3x	N.A.
Evolent Health	EVH	\$17.40	\$1,180	5.6x	N.A.
Fitbit	FIT	\$7.98	\$1,790	1.3x	13.6x
Veeva Systems	VEEV	\$43.14	\$5,875	12.3x	64.6 x

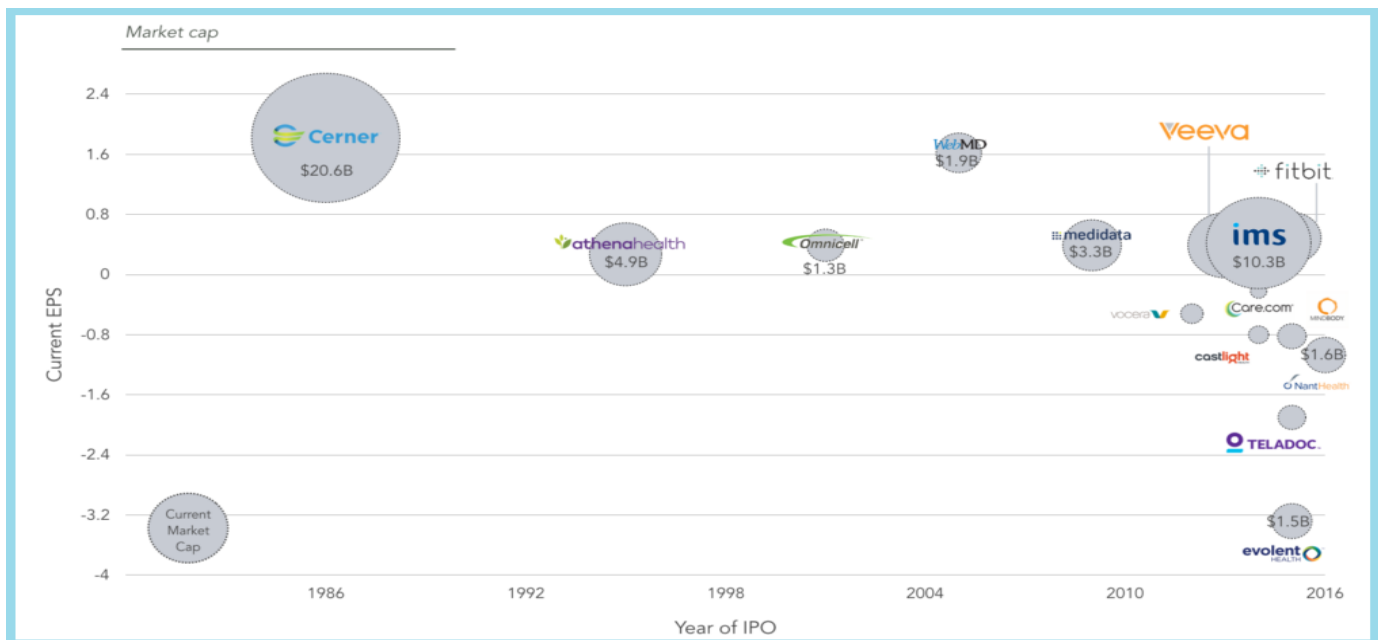
Average	4.7x	23.2x
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Publicly Traded HealthCare IT Companies Index

Half of the 30 public companies in HealthCare IT sector, compiled as an Index by Rock Health, are profitable on a shareholder basis, with a positive EPS. Those that are profitable tend to be older firms, which have been public since before the year 2000.

The digital health stocks with the biggest returns YTD are **Evolent Health (up 114%)** and **Vocera (up 54%)**. The biggest losses YTD are **FitBit (down 53%)** and **Computer Programs and Systems (down 47%)**. Thirteen of the stocks in our index are down, while 17 are up from the start of the year.

While IPOs only brought in \$142M in value, acquisitions brought in at least 80x that amount. We counted 112 digital health acquisitions YTD, of which only 28 had disclosed amounts of funding (\$12B), which is already almost twice that of all of 2015.



Source: Rock Health

M&A Spotlight



Apple has acquired Gliimpse, a patient-facing health data aggregator

August 22, 2016 – Apple Inc. (NASDAQ: AAPL), Apple acquired a health data-focused startup called Gliimpse earlier this year. Apple's ambitions in the health sector continue to expand, with its digital health team making its first known acquisition—personal health data startup Gliimpse. The amount of the acquisition was undisclosed.

Silicon Valley-based Gliimpse has built a personal health data platform that enables any American to collect, personalize, and share a picture of their health data. The company was started in 2013 by Anil Sethi and Karthik Hariharan. Sethi is a serial entrepreneur who has spent the past decade working with health startups, after taking his company Sequoia Software public in 2000. He got his start as a system engineer at Apple in the late 1980s. Gliimpse—like many startups—was born of a personal need. Sethi says that he's followed his sister through her battle with breast cancer and discovered firsthand how challenging it is to acquire and manage your personal health data.

The acquisition will bolster Apple's efforts in digital health. In recent years, Apple has delved into the sector with a range of services (HealthKit, CareKit, and ResearchKit) that allow patients, clinicians, and researchers to access important health and wellness data via a range of mobile devices. That's in line with Gliimpse's mission of uniting disparate streams of health information.

What stands out about the deal is that Gliimpse is intended for patients with diseases like cancer and diabetes. Apple recently hired a top pediatric endocrinologist who developed a HealthKit app for teens with Type 1 diabetes, signaling an increased interest in applications for chronically ill users.

Source: <https://www.fastcompany.com/3062865/tim-cooks-apple/apple-acquires-personal-health-data-startup-gliimpse>



M·O·R·R·I·S·E·Y®

HealthStream Acquires Morrisey Associates

August 8, 2016 – HealthStream, Inc. (NASDAQ: HSTM), a leading provider of workforce development, patient experience, and provider solutions for the healthcare industry, today announced that it has acquired Morrisey Associates, Inc., a Chicago-based subsidiary of Morrisey Holdings, Inc. Through this transaction, HealthStream's Provider Solutions segment gains a wide array of market leading products for credentialing and privileging healthcare professionals, adding to its Echo line of solutions. HealthStream's innovative approach to talent management supports healthcare organizations' needs to manage their workforce along multiple dimensions, including the management of their qualifications and competencies. The acquisition of Morrisey Associates further enables HealthStream to provide an expanded solution set for both of these needs.

Hospitals are responsible for ensuring the highest quality of care possible for patients and, therefore, credentialing is mandatory. Credentialing is the process by which hospitals evaluate and verify the qualifications of their healthcare providers to ensure that each practitioner possesses the necessary qualifications to provide medical services to patients. Once a practitioner is credentialed, the hospital will assess his/her competencies in a specific area of patient care through a process known as privileging. The Joint Commission requires ongoing, periodic assessments of practitioners' competencies and performance for maintaining accreditation. The acquisition of Morrisey Associates adds to our products that support every step in these processes.

For the year ended December 31, 2015, Morrisey Associates reported \$12.8 million in revenues. Operating income for the same period was approximately \$4.4 million and the 2015 operating results included approximately \$180,000 in depreciation and amortization expense.

Terms of the Transaction: HealthStream, through its wholly-owned subsidiary, Echo, Inc., acquired Morrisey Associates, Inc. for approximately \$48.0 million in cash. **EV/Rev (2015): 3.8x**

Source: <http://www.businesswire.com/news/home/20160808006018/en/HealthStream-Acquires-Morrisey-Associates>

About Solganick & Co.

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global technology and digital media industry sectors, including an active practice within healthcare IT. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

Please contact us for information regarding this report or to inquire about an M&A transaction.



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