



**Quarterly Review of the Healthcare IT Industry (HCIT)**

**Q1 2013**

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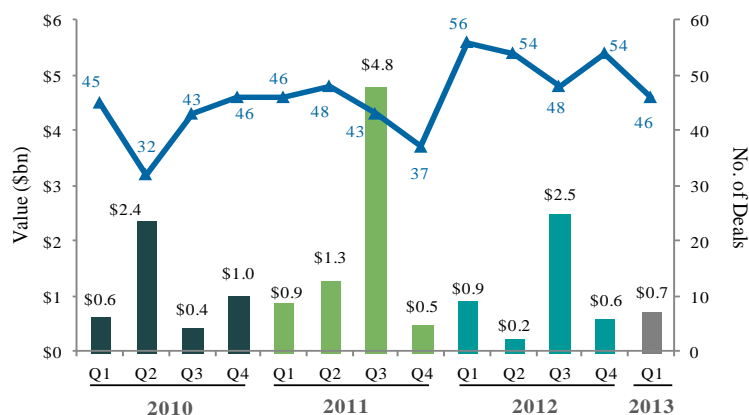
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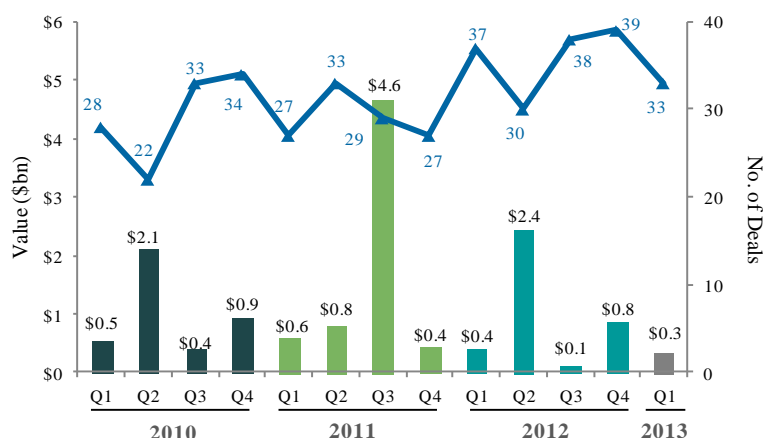
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# HCIT Sector M&A Review

## Global HCIT M&A Deals — Since 2010



## U.S. HCIT M&A Deals — Since 2010



## U.S. HCIT Deals by Size

\$ in millions except #	Q1 '2012		Q1 '2013		Q4 '2012	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
<\$50M	7	114	1	45	2	47
\$50M to \$100M	1	50	-	-	1	72
\$250M to \$500M	2	672	1	294	1	265
Undisclosed	29	-	31	-	33	-
<b>Grand Total</b>	<b>39</b>	<b>836</b>	<b>33</b>	<b>339</b>	<b>37</b>	<b>384</b>

## Commentary

- Transaction volume in the Global HCIT Industry decreased 18% in Q1 2013, from 56 to 46 deals. Deal value fell 22 percent, from \$0.9 billion to \$0.7 billion. There was one HCIT acquisition above the \$250 million threshold, compared to two such transactions in Q1 2012. The peak for transaction volume and value during the past 24 months occurred in Q3 2011
- U.S. transaction volume decline in Q1 was less severe than global transaction volume's decline. Transaction volume in the U.S. decreased 13% in Q1 2013, from 37 to 33 acquisitions. Deal value fell 24 percent, from \$0.4 billion to \$0.3 billion
  - The majority of transactions in Q1 2013 were small deals, with 31 of the 33 M&A transactions in the quarter not disclosing deal value
  - HCIT continues to receive the highest M&A valuations in the Healthcare industry, as strong interest from financial and strategic purchasers compete over relative scarcity in this space
  - Strategic investors are willing to accept low profit margins for the scalability of innovative technologies as they continue their competitor consolidation across all sections of HCIT
  - Private Equity acquirers continue to focus mainly on the North American and European HCIT providers as seen in deal volume and valuation trends

Source: CapitalIQ, Navidar Research and Industry Research.

# HCIT Sector M&A Review (Cont.)

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## Select HCIT Industry Trends Driving Sector M&A Activity

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- HCIT spending has steadily increased to match the continuation of the multi-decade trend of growth of healthcare expenditures exceeding that of GDP, due to the increasing pressures of an aging baby boomer generation, and further increases in costs of care.
  - The continuing adoption of low-costs sensors and EHR's are providing unprecedented amounts of information to the Health Information Exchange. The increasing data set being compiled has created a massive opportunity in analytics and data mining, incentivizing healthcare CIO's to integrate predictive Big Data management systems with existing platforms, as providers work to increase personalization and effectiveness of treatment plans for patients.
  - As the effects of the Federal EHR incentive program start to recede, providers are beginning to shift spending away from EHR systems to address other needs of their IT systems, namely financial management software, due to changes in reimbursement and pay-for-performance plans.
  - Telemedicine, Telehealth, and mHealth capabilities include lower costs of service and increasing ease of access, and are becoming increasingly important as compensation for healthcare services moves to a result-based versus volume-based revenue model.
  - Increasing adoption and effectiveness of mHealth solutions, as combinations with social media gamification continue to take place, will further engage users and encourage their active participation in healthcare treatments.
  - More than 50,000 HCIT jobs have been created so far due to recent legislation. HCIT professionals are expected to be the fastest growing occupation in the US, with 20% annual growth until at least 2018.
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## Select HCIT M&A Transaction in Q1 2013

**Allscripts Healthcare acquisition of dbMotion for \$226M EV.** The consideration is comprised of ~65% cash, 20% Allscripts stock and ~15% in a seller's note that is due in a year and a half from closing. dbMotion provides a strategic platform that coordinates care and population health management, combining information from many IT sources into a single patient record. Its technology is used in 370 hospitals and 2,800 clinics. Allscripts has worked with dbMotion since 2009 and made an investment in the company in 2011. The acquisition of dbMotion will mean a tighter integration between Sunrise, Enterprise EHR, and the dbMotion community solution.

**Perceptive Software (Parent: Lexmark) acquisition of Acuo Technologies for \$45M EV.** Acuo Technologies creates software that lets Healthcare providers store and track medical images. The company serves as an intermediary between multiple, non-compatible computer systems. The acquisition extends Perceptive into the clinical records management industry, including X-rays, CT scans and other photos and images of patient injuries. According to InMedica Research, the vendor neutral archive market is expected to grow to \$1.5 billion by 2016, with a five-year compound annual growth rate of 56%.

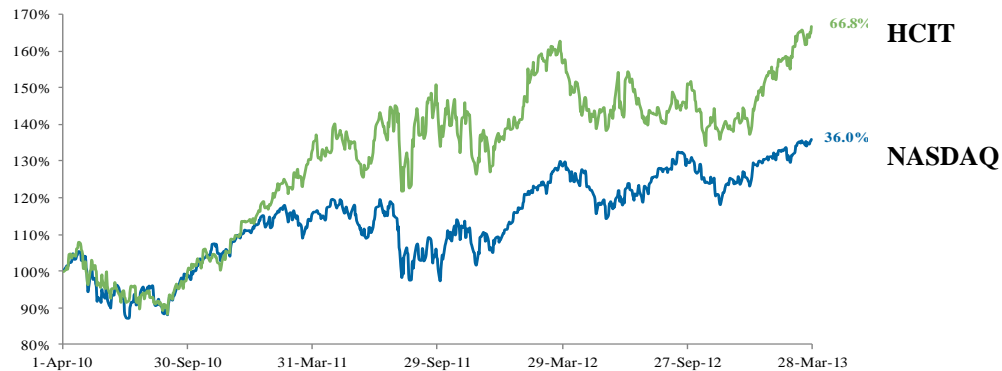
**Athenahealth acquisition of Epocrates for \$294M EV, implying 1.9x NTM revenue and 17.2x NTM EBITDA.** Epocrates provides clinical information to doctors on a mobile device at the point of care and has one of the strongest networks of doctors, serving half of physicians in the U.S. Athenahealth plans to embed Epocrates into Athenahealth's EHR, and add features to Epocrates, such as prescribing, as well as Athenahealth's practice management services, in an effort to strengthen Athenahealth's brand amongst physicians.

*Source: Capital IQ, Navidar Research, Industry Research and Online Publications.*  
Note: NTM = Next Twelve Months and EV = Enterprise Value.

# HCIT Public Company Q1 Equity Market Performance

## Review of Q1 2013

### HCIT Relative Share Price Performance for the Last 3-Years



### HCIT Constituents Public Equity Market Performance

- Medidata Solutions **44.1%**
  - Q4 revenue growth surged 22% YoY on a strong performance from the application services business, which was up 32% YoY
- Allscripts Healthcare Solutions **43.0%**
  - Q4 bookings of \$181M was well ahead of consensus estimates of \$158M. MDRX was able to close a number of deals as the conclusion of the strategic alternative process provided clarity to clients
- Athenahealth **30.1%**
  - Q4 results were largely in-line, and ATHN announced the acquisition of Epocrates, making it better positioned to introduce mobile workflows to clinicians
- Omnicell **24.1%**
  - Solid Q4 performance was driven by an accelerating backlog due to sales force expansion, product investments, and traction gained in international markets
- Cerner **21.6%**
  - CERN's impressive Q4 was led by a surge in bookings, up 13% YoY and 32% sequentially, beating consensus estimates
- Merge Healthcare **21.5%**
  - Total Q4 subscription backlog increased significantly (13% QoQ, 82% YoY) due to a growth in the order pipeline

Source: CapitalIQ, Navidar Research and Equity Research.

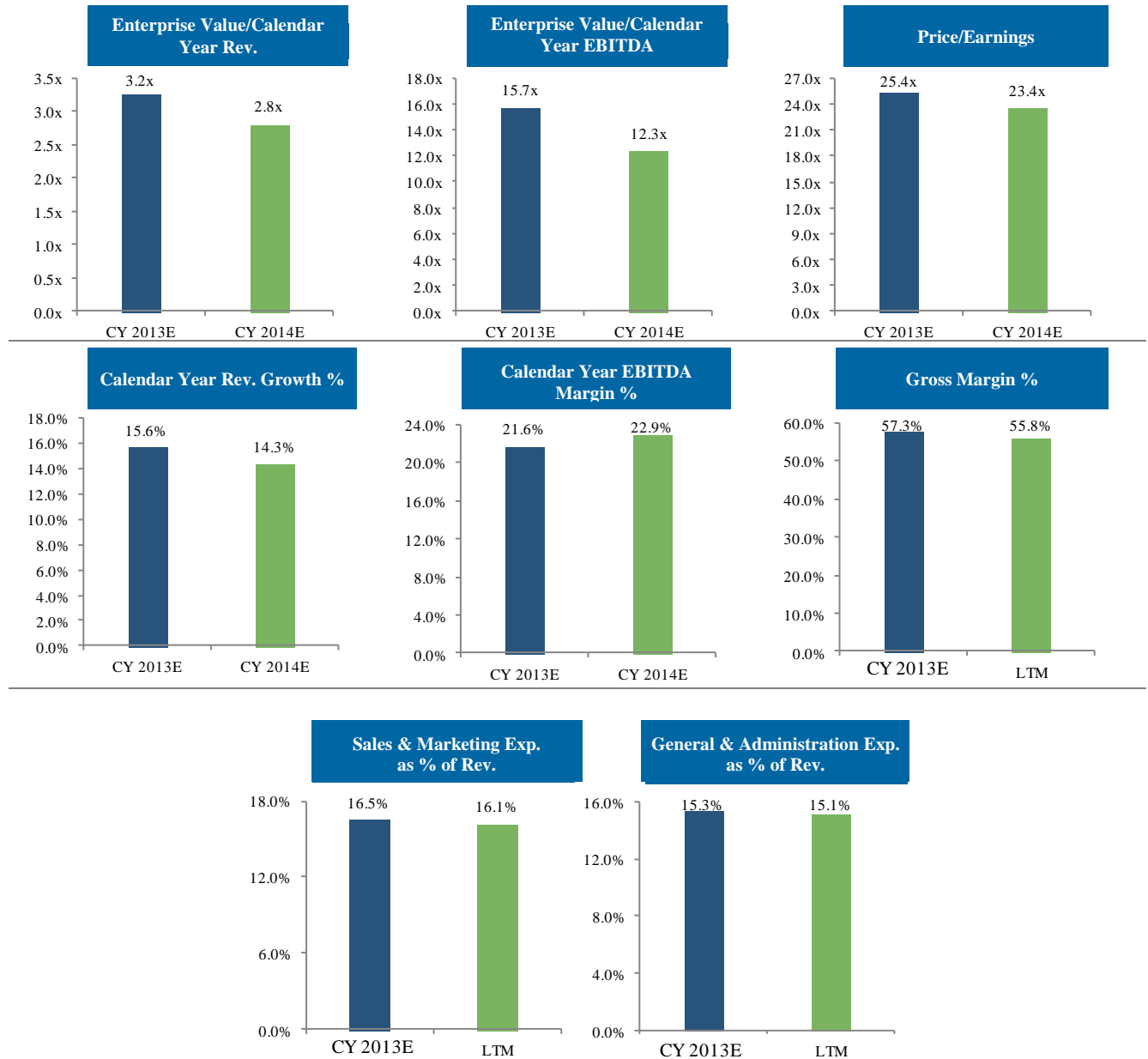
# HCIT Public Company Q1 Equity Market Performance (Cont.)

## HCIT Constituents Public Equity Market Performance

- MedAssets **13.9%**
  - RCM and SCM divisions led the company to a successful Q4, beating consensus estimates on adjusted EBITDA. In addition, management set forth strong revenue guidance for FY13
- The Advisory Board **11.1%**
  - Solid Q4 performance was led by explosive contract order value (up 18.2% YoY) as sales execution remains strong
- HMS Holdings **6.0%**
  - Growth in the HDI commercial segment dramatically accelerated, leading to an overall successful Q4
- Quality Systems **5.8%**
  - Management is confident that the ongoing restructuring efforts will lead to improved performance on both top and bottom lines in FY13
- Computer Programs & Systems **5.3%**
  - Increased cash dividend by 10.8% to \$2.04
- Greenway Medical Technologies, Inc. **4.9%**
  - Q4 revenues were up 12% YoY driven by a record increase in the order backlog, strong bookings, and a promising deal pipeline
- Healthstream **(5.8%)**
  - Increased cost of sales in Q4 resulting from a shift toward courseware consumption, requiring the payment of increased licensing fees to partners
- Vocera Communications **(6.5%)**
  - Q4 revenue growth missed estimates, driven by limited success in the government vertical. FY13 revenue guidance also disappointed
- Accretive Health **(11.5%)**
  - Heavy uncertainty surrounding the way AH recognizes revenue, possibly requiring the restatement of prior-period results, has been weighing on shares

Source: CapitalIQ, Navidar Research and Equity Research.

# Comparable Company Metrics – HCIT Sector



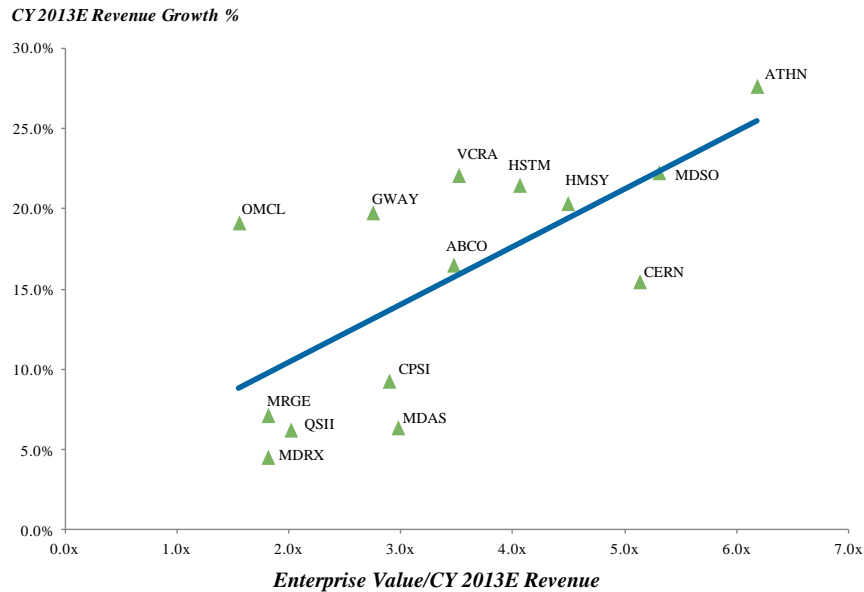
Source: CapitalIQ.

Note: Estimates Based on Consensus of Equity Research Analyst Estimates.

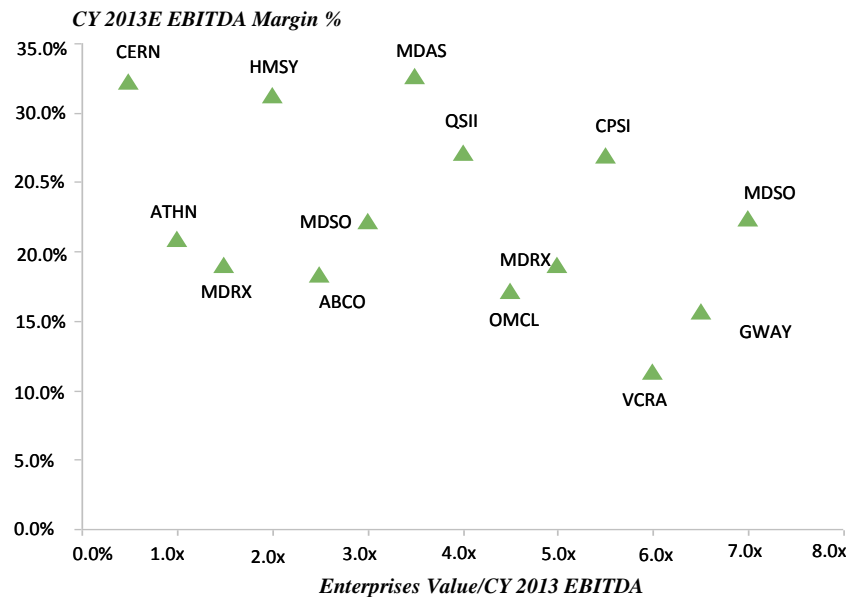
Note: LTM = Last Twelve Months and CY = Calendar Year.

# Valuation and Growth & Margin Correlation

## HCIT Revenue Growth and Valuation Trends



## HCIT EBITDA Margin and Valuation Trends



Source: CapitalIQ.

Note: Estimates Based on Consensus of Equity Research Analyst Estimates.

Note: Advisory Board (ABCO), Allscripts (MDRX), Athenahealth (ATHN), Cerner (CERN), Computer Programs & Systems (CPSI), Greenway Medical Technologies (GWAY), Healthstream (HSTM), HMS Holdings (HMSY), MedAssets (MDAS), Medidata Solutions (MDSO), Merge Healthcare (MGRE), Omnicell (OMCL), Quality Systems (QSI), Vocera Communications (VCRA).



# HCIT Comparable Company Analysis

## Valuation Metrics

(\$Millions, except per share values)

	Stock Price	% of 52-Week High	Current Stock Price as a Multiple of 52-Wk low	Equity Value	Net Debt	Ent. Value	Valuation Metrics							
							EV/CY Revenue		EV/CY EBITDA		P/E		PEG Ratio	
							2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
<b>Healthcare IT</b>														
Cerner	\$94.74	100%	1.40x	\$16,315.0	(\$840.6)	\$15,474.3	5.1x	4.6x	16.0x	13.8x	34.0x	28.8x	1.86x	1.58x
Athenahealth	\$97.04	97%	1.72x	\$3,525.7	(\$193.1)	\$3,332.6	6.2x	4.9x	29.6x	22.7x	NM	NM	NM	NM
Allscripts Healthcare Solutions	\$13.59	80%	1.54x	\$2,399.2	\$340.3	\$2,739.5	1.8x	1.7x	9.5x	8.5x	19.3x	15.6x	1.29x	1.04x
HMS Holdings Corp.	\$27.15	73%	1.47x	\$2,363.3	\$197.3	\$2,560.6	4.5x	3.7x	14.3x	11.5x	28.0x	21.2x	1.19x	0.90x
The Advisory Board Co.	\$52.52	95%	1.32x	\$1,843.9	(\$98.5)	\$1,745.4	3.5x	3.0x	19.0x	15.8x	42.2x	36.1x	2.11x	1.80x
Medidata Solutions	\$57.98	100%	2.37x	\$1,539.0	(\$122.4)	\$1,416.6	5.3x	4.4x	23.9x	18.6x	NM	NM	40.1x	2.06x
MedAssets	\$19.25	96%	1.79x	\$1,144.6	\$880.5	\$2,025.2	3.0x	2.8x	9.1x	8.4x	15.1x	13.1x	1.18x	1.02x
Quality Systems	\$18.27	41%	1.21x	\$1,087.7	(\$106.7)	\$981.0	2.0x	1.9x	7.4x	6.8x	15.7x	14.4x	1.41x	1.30x
Accretive Health	\$10.16	50%	1.31x	\$988.2	(\$196.4)	\$791.9	0.7x	0.7x	8.9x	6.6x	22.1x	16.9x	0.86x	0.66x
Omnice	\$18.88	94%	1.53x	\$643.8	(\$62.3)	\$581.5	1.6x	1.4x	9.0x	7.5x	18.3x	16.3x	1.16x	1.03x
Healthstream	\$22.94	75%	1.14x	\$605.0	(\$95.6)	\$511.7	4.1x	3.3x	21.4x	17.1x	NM	NM	NM	NM
Computer Programs & Systems	\$54.11	87%	1.20x	\$599.5	(\$19.6)	\$580.0	2.9x	2.8x	10.8x	10.6x	18.7x	17.9x	1.41x	1.35x
Vocera Communications	\$23.00	70%	1.14x	\$561.0	(\$127.5)	\$433.5	3.5x	2.8x	31.2x	16.9x	NM	35.4x	NM	1.05x
Greenway Medical Technologies	\$15.90	81%	1.30x	\$471.0	(\$27.4)	\$443.7	2.7x	2.4x	17.5x	13.3x	48.9x	34.6x	1.63x	1.15x
Merge Healthcare Incorporated	\$2.89	49%	1.31x	\$270.1	\$213.1	\$483.6	1.8x	1.7x	8.1x	7.1x	17.0x	14.5x	1.17x	1.00x
<b>Average</b>							<b>3.2x</b>	<b>2.8x</b>	<b>15.7x</b>	<b>12.3x</b>	<b>25.4x</b>	<b>23.4x</b>	<b>1.39x</b>	<b>1.23x</b>
<b>Median</b>							<b>3.0x</b>	<b>2.8x</b>	<b>14.3x</b>	<b>11.5x</b>	<b>19.3x</b>	<b>17.9x</b>	<b>1.29x</b>	<b>1.05x</b>

## Operating Metrics

(\$Millions, except per share values)

	Stock Price	% of 52-Week High	Current Stock Price as a Multiple of 52-Wk low	Equity Value	Net Debt	Ent. Value	Operating Metrics								
							CY Rev. Growth		CY EBITDA Margin		5-Yr NI	GM	S&M Mgn	R&D Mgn	G&A Mgn
							2013E	2014E	2013E	2014E	Growth %	LTM	LTM	LTM	LTM
<b>Healthcare IT</b>															
Cerner	\$94.74	100%	1.40x	\$16,315.0	(\$840.6)	\$15,474.3	15.5%	12.3%	32.2%	33.1%	18.3%	78.8%	39.1%	11.5%	6.3%
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HMS Holdings Corp.	\$27.15	73%	1.47x	\$2,363.3	\$197.3	\$2,560.6	20.3%	21.1%	31.3%	32.4%	23.6%	39.1%	NM	NM	NM
The Advisory Board Co.	\$52.52	95%	1.32x	\$1,843.9	(\$98.5)	\$1,745.4	16.5%	16.5%	18.3%	18.9%	20.0%	46.4%	18.9%	NM	13.4%
Medidata Solutions	\$57.98	100%	2.37x	\$1,539.0	(\$122.4)	\$1,416.6	22.3%	19.4%	22.2%	23.9%	19.5%	71.3%	21.9%	19.4%	17.2%
MedAssets	\$19.25	96%	1.79x	\$1,144.6	\$880.5	\$2,025.2	6.4%	7.0%	32.6%	33.2%	12.8%	78.3%	9.4%	4.4%	34.1%
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Computer Programs & Systems	\$54.11	87%	1.20x	\$599.5	(\$19.6)	\$580.0	9.3%	3.3%	26.9%	26.5%	13.3%	44.0%	7.8%	NM	13.7%
Vocera Communications	\$23.00	70%	1.14x	\$561.0	(\$127.5)	\$433.5	22.1%	25.2%	11.3%	16.6%	33.7%	63.7%	33.1%	11.5%	14.3%
Greenway Medical Technologies	\$15.90	81%	1.30x	\$471.0	(\$27.4)	\$443.7	19.8%	15.5%	15.7%	17.8%	30.0%	55.7%	1.6%	13.3%	NM
Merge Healthcare Incorporated	\$2.89	49%	1.31x	\$270.1	\$213.1	\$483.6	7.1%	7.4%	22.4%	23.9%	14.5%	60.2%	17.6%	13.0%	17.0%
<b>Average</b>							<b>15.6%</b>	<b>14.3%</b>	<b>21.6%</b>	<b>22.9%</b>	<b>20.1%</b>	<b>55.8%</b>	<b>16.1%</b>	<b>10.5%</b>	<b>15.1%</b>
<b>Median</b>							<b>17.8%</b>	<b>14.2%</b>	<b>20.9%</b>	<b>21.5%</b>	<b>19.5%</b>	<b>60.0%</b>	<b>17.7%</b>	<b>11.2%</b>	<b>14.0%</b>

Source: CapitalIQ. Estimates Based on Consensus of Equity Research Analyst Estimates.

Note: Market Data as of Q1 End.

Note: Multiples Excludes Outlier for EV/CYRev. > 15x, EV/CYEBITDA > 35x, P/E > 50x, and PEG > 3x.

Note: EV = Enterprise Value, LTM = Last Twelve Months, CY = Calendar Year, PE = Price/Earnings Ratio and PEG = Price-to-Earnings Growth Ratio.