

**BERKERYNOYES**

INVESTMENT BANKERS

**An Overview of M&A  
in the Healthcare/  
Pharma Information  
and Technology  
Industry**

**White Paper**

**Introduction**

The healthcare technology industry is undergoing a rapid transformation and structural shifts due to reform, cost pressures, and shifting responsibilities between payers and providers. Private, best-of-breed technology-enabled healthcare IT companies that effectively address market niches and have some level of scale are in high demand by both financial and strategic buyers.

The breadth of acquirers for healthcare information and technology companies continues to expand as buyers look to capitalize on the size, rapidly evolving dynamics and growth characteristics of the healthcare market. Acquirers are aggressively looking to broaden product suites, leverage distribution channels, and realize revenue and cost synergies.

M&A driven expansion of strategic healthcare technology platforms has been a dominant trend. Independently owned companies that provide software, information, data, communications and services solutions are experiencing an active market with competitive sales processes and excellent valuation opportunities.

Among several areas, the telehealth market is growing significantly as integrated services gain in popularity. Virtual doctor visits are becoming more widespread with email, video conferencing, phone, and other forms of communication offering an alternative option for non-emergencies. Healthcare institutions are investing in various areas of information technology such as electronic health portals, consumer focused applications, remote

monitoring of test results, and digital image transmission. When examined in totality, telehealth offers substantial promise and technology companies in this space should continue to garner strong interest from acquirers.

We also expect to see continued robust new business formation in the life sciences commercialization space, with an emphasis on proprietary intellectual property assets, new software analytics, regulated content solutions, patient engagement, mobile, and global platforms.

**Current M&A Market Landscape**

Total transaction volume remained about constant on a year-to-year basis. Aggregate value also stayed nearly the same, at \$30.72 billion.

Strategic Buyers

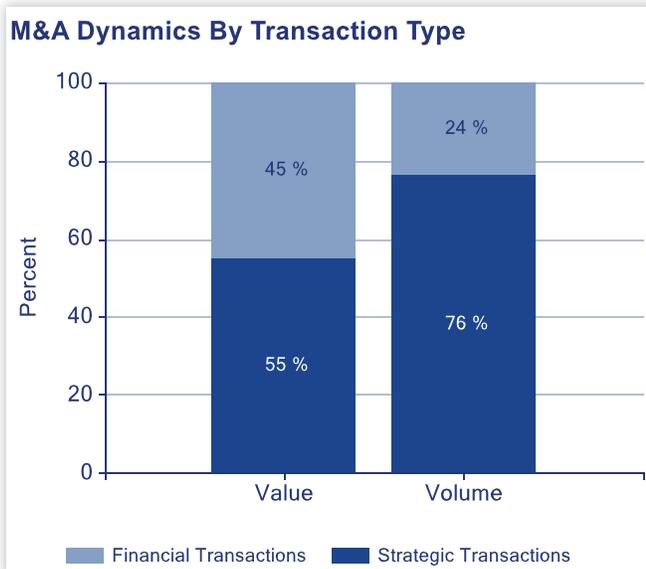
- Strategic volume declined six percent on an annual basis, from 362 to 341 deals. Strategic acquirers represented 76 percent of aggregate volume and 24 percent of value in 2017.
- Bertelsmann SE & Co. KGaA was a notable acquirer in 2017 with four industry transactions, each of which were completed through Relias Learning: WhiteCloud Analytics, a healthcare performance management technology company; Care Management Technologies, which offers evidence-based behavioral health analytics and decision support tools to payers and providers; Advanced Practice Strategies, an assessment, education, and analytics company that serves physicians and doctors; and Spm GmbH, which offers more than 300 courses for the acute and post-acute care sectors.

Financial Sponsors

- Private equity backed volume increased 24 percent year-over-year, from 96 to 119 deals.
- Three of the industry’s top five highest value acquisitions in 2017 were completed by financial sponsors. These three transactions, with a combined total disclosed value of \$9.72 billion, accounted for nearly one-third of the industry’s total value during the year.

Industry Wide Valuations

Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.1x, while the median EBITDA multiple was 12.9x.

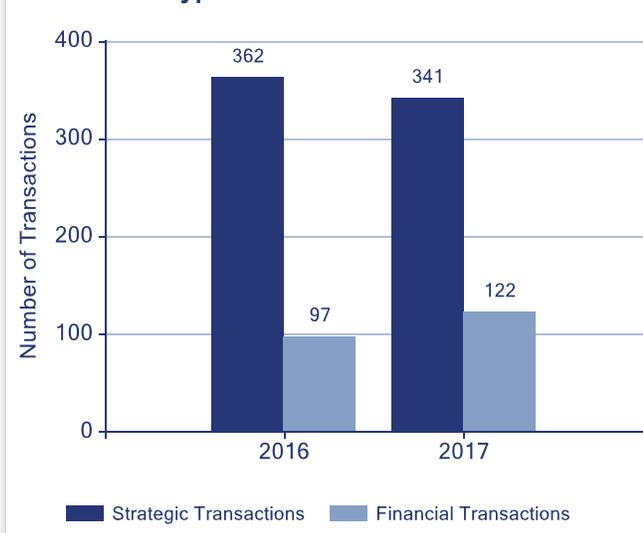


### M&A Analysis of the Past Two Years

Berkery Noyes recorded 922 industry merger and acquisition (M&A) transactions from the beginning of 2016 through the end of 2017. Based on volume, the most active market segment during the past two years was Healthcare IT with about one-fifth of the industry's aggregate volume.

The median revenue multiple was consistent at 2.1x, while the median EBITDA multiple shifted slightly from 12.5x to 13.2x. Transactions in the \$10-\$40 million range received a median revenue multiple of 1.9x. Deals above \$40 million in enterprise value garnered a median revenue multiple of 3.5x.

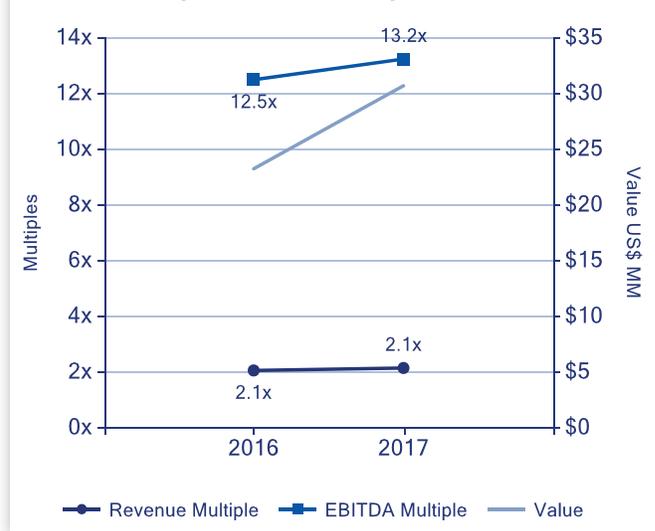
### Transaction Type



### M&A Activity Per Industry Segment

- **Healthcare IT.** Deal volume in the Healthcare IT segment decreased six percent on a year-to-year basis. High profile Healthcare IT transactions during the year included Fidelity National Financial's acquisition of T System, which offers clinical documentation as well as coding software and outsourced solutions, for \$200 million; and Allscripts' acquisitions of McKesson's hospital and health system IT business for \$185 million.
- **Healthcare Business Services.** The Healthcare Business Services segment underwent a 12 percent decline in volume. The segment's largest transaction in 2017 was Express Scripts' announced acquisition of eviCore healthcare, a medical benefit management services company, for \$3.6 billion.

### Median Enterprise Value Multiples



- **Consumer Health.** The Consumer Health segment experienced a 32 percent increase in deal activity, from 25 to 33 acquisitions. The segment's largest transaction in 2017 was KKR's Internet Brands' announced acquisition of WebMD Corporation, an online health information provider, for \$2.8 billion. Internet Brands also completed a similar deal during the year with DentalPlans.com, a dental and health savings online marketplace.

- **Pharma IT, Information, and Business Services.** Transaction volume in the combined Pharma segments saw a 16 percent increase, from 80 to 93 deals. Two of the industry's top three largest transactions in 2017 occurred in the Pharma Business Services segment. Along these lines were Pamplona Capital Management's announced acquisition of PAREXEL International Corporation, a global biopharmaceutical services provider, for \$4.92 billion; and INC Research's announced merger with inVentiv Health for \$4.55 billion, which will lead to the creation of the world's second largest biopharmaceutical outsourcing provider.

Other notable Pharma related deals during the year included McKesson Corporation's acquisition of CoverMyMeds, which offers electronic prior authorization solutions to pharmacies, providers, payers and pharmaceutical manufacturers, for \$1.4 billion (which includes a \$300 million earnout); and PRA Health Sciences' announced acquisition of Symphony Health Solutions, which offers data, analytics, and technology solutions for biopharmaceutical manufacturers, healthcare providers, and payers, for \$530 million.

**Conclusion**

There are many Healthcare IT companies experiencing operating momentum as healthcare providers, payers and life science competitors increasingly rely on them to structure and analyze data as well as engage patients. The M&A markets are currently an attractive exit option as the buyer universe has never been larger and the debt markets are contributing to high valuation multiples.

Due to large macro/regulatory changes in healthcare and a massive shift to electronic solutions, there is a very favorable climate for sellers with unique offerings, scale, recurring revenue models and rapid growth in attractive niches that are looking to capitalize on the high level of interest in healthcare information and technology solutions. This includes patient engagement, population health and related data analytics, treatment plan adherence, mobile solutions, and regulatory compliance.

Meanwhile, telehealth has become an integral part of a patient centered and value oriented healthcare delivery system. Telemedicine is having a positive impact on mental healthcare as behavioral health professionals connect with

patients in real-time, which is particularly important given that treatment for mental illness has long been underserved.

There are several factors that could further spur the adoption of telehealth services. For example, requiring private insurers to reimburse telemedicine at the same cost as in-person service would go a long way in promoting telehealth. The different regulations and guidelines between states has made delivery challenging in certain instances. In terms of access to telehealth, it's also imperative that convenience does not supersede quality.

**About Berkery Noyes**

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries.

The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

**SELECTED HEALTHCARE TRANSACTIONS COMPLETED BY BERKERY NOYES**



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