

**BERKERYNOYES**

INVESTMENT BANKERS

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

**White Paper**

**Introduction**

The healthcare market remains highly fragmented, with lots of opportunities for entrepreneurs with unique ideas looking to start companies that solve important pain points along the healthcare continuum. Healthcare deal flow continues to be strong for companies developing proprietary technology/content, of scale in their markets, double digit revenue growth, a high percentage of recurring revenue, and large total addressable market opportunity.

Large strategic buyers are also looking to acquire unique content/software solutions that are solving challenges in the healthcare market and are growing rapidly, offering exit opportunities for entrepreneurs at attractive prices.

Healthcare IT vendors that enable health insurers to improve clinical outcomes while reducing expenditures are increasingly becoming attractive acquisition candidates. In addition, with the ongoing implementation of the Affordable Care Act, there is more of an emphasis on value based reimbursement models. The medical loss ratio (MLR) mandates imposed on health insurers continue to act as a catalyst to outsource non-core competencies as well.

In the Pharma IT segment, the need to streamline data collection, facilitate communication during the clinical trial process, and help lab researchers in their recruiting efforts to find prospective subjects is helping to drive demand. Tech oriented companies with one or more of these capabilities are likely to continue drawing interest from potential acquirers. Large vendors are taking steps to stay ahead of the technology curve. Some of the most popular

tools being sought by acquirers include software focused on analytics, as well as mobile based platforms. There is potential in the market for consolidation as acquirers look for solutions to help update their information delivery methods.

**Current M&A Market Landscape**

Total transaction volume decreased sixteen percent on a yearly basis. However, when compared to 2011, volume saw a three percent uptick.

Aggregate deal value rose two percent throughout the last 12 months, from \$11.63 billion in 2012 to \$11.81 billion in 2013. BC Partners' acquisition of Springer Science & Business Media for \$4.42 billion, a scientific, technical, and medical (STM) publisher, accounted for more than one-third of the industry's aggregate value over the past year.

Strategic Buyers

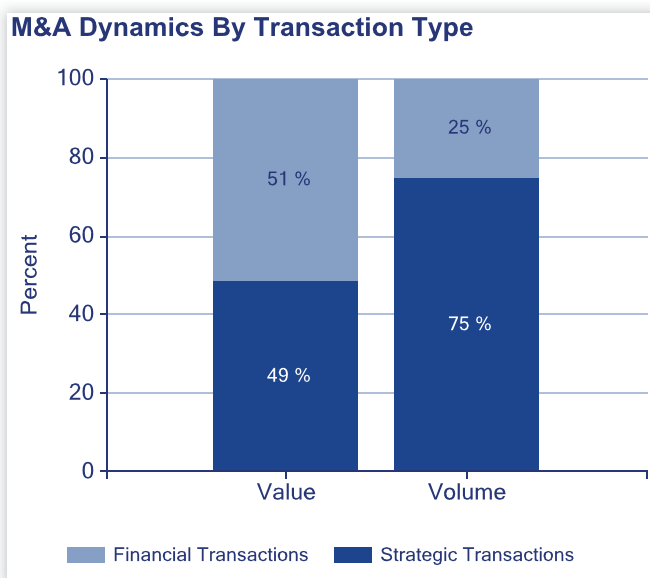
- Strategic buyers accounted for 75 percent of volume and 49 percent of value in 2013, which was about the same relative to 2012.
- Roper Industries was responsible for the largest strategic transaction in 2013 with the acquisition of Managed Healthcare Associates for \$1 billion. Managed Healthcare Associates offers software and data analytics to pharmacies and long-term healthcare providers, amongst many other services. Roper Industries also completed the largest deal in 2012 with the acquisition of Sunquest Information Systems for \$1.39 billion.

Financial Sponsors

- Private equity acquirers accounted for 25 percent of volume and 51 percent of value in 2013. This included four of the industry's top ten largest deals.
- TPG Capital was the industry's most active financial sponsor in 2013 with eight transactions.

Industry Wide Valuations

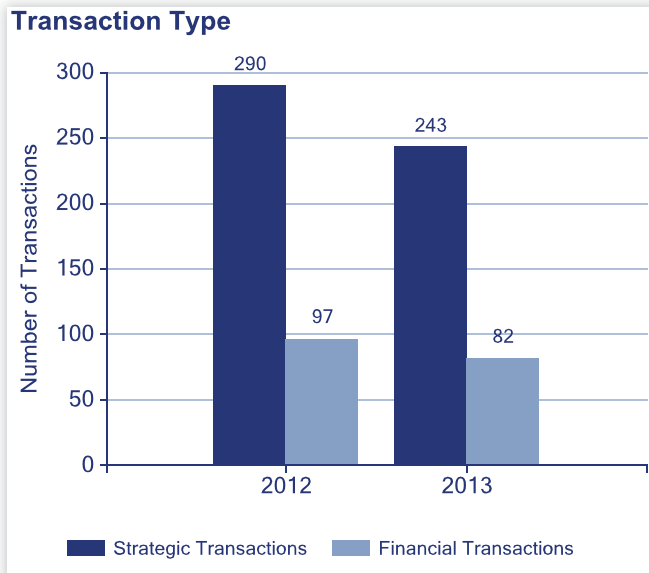
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.3x, while the median EBITDA multiple was 10.2x.



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

Berkery Noyes recorded 712 industry merger and acquisition (M&A) transactions from the beginning of 2012 through the end of 2013. Based on volume, the industry's most active market segment during the past two years was Healthcare IT with 280 transactions.

In terms of overall valuations, the median revenue multiple moved slightly from 2.3x to 2.5x, while the median EBITDA multiple improved from 9.9x to 10.7x. Mid-market transactions in the \$10-\$160 million range received a median revenue multiple of 2.0x. Deals above \$160 million in enterprise value had a median revenue multiple of 2.8x.

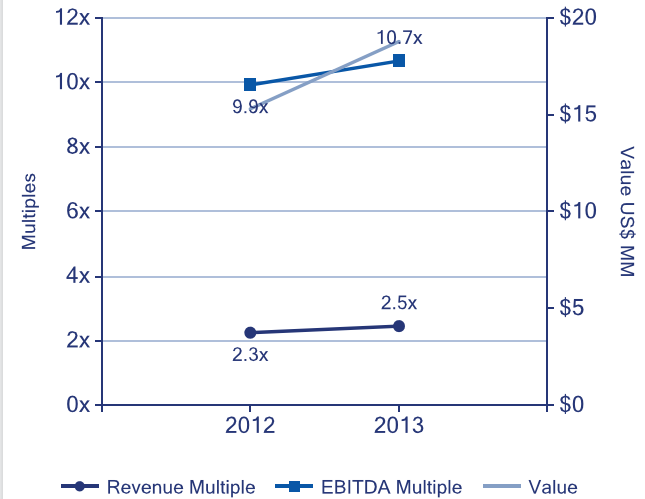


### M&A Activity Per Industry Segment

- **Healthcare IT.** Healthcare IT as a percentage of the industry's total deal volume stayed the same at almost 40 percent. As for deal activity in the space, Constellation Software was the segment's most active acquirer with five transactions in 2013. Meanwhile, the largest Healthcare IT transaction was Experian's acquisition of Passport Health Communications for \$850 million, which occurred in the revenue cycle management subsector.

Providers, payors and life science competitors are increasingly relying on Healthcare IT companies to structure and analyze data as well as engage patients. Acquirers are also showing strong interest in companies that facilitate healthcare information sharing and interoperability.

### Median Enterprise Value Multiples



Many Healthcare IT companies are also experiencing operating momentum as the industry adopts technologies at unprecedented rates. Software is becoming increasingly necessary to achieve operating efficiencies when dealing with a \$3 trillion complex, rapidly evolving landscape with respect to regulatory requirements (ICD-10, MU2), new payment and delivery models (P4P and ACOs), and declining reimbursement rates.

Private, middle-market, tech-enabled companies are at the forefront of developing these emerging, niche technologies and are in high demand by strategic and financial acquirers.

In addition to the Passport Health Communications deal, other notable transactions in the Healthcare IT segment during 2013 included:

- Vitera Healthcare Solutions' acquisition of Greenway Medical Technologies, a provider of software solutions and services to ambulatory healthcare providers, for \$632 million.
- Zotec Partners' acquisition of Medical Management Professionals, a medical billing and business management services company, for \$202 million.
- Medtronic's acquisition of CardioCom, a clinical telehealth services business, for \$200 million.
- Allscript's acquisition of dbMotion, a medical software provider, for \$188 million.

- Pharma IT. The segment with the largest year-to-year rise in volume was Pharma IT. The number of deals in the Pharma IT segment increased 45 percent, from 22 to 32 transactions.

Attractive intellectual property (IP)-centric companies have been a primary focus for M&A activity. This includes solutions for drug discovery and development; clinical trials; regulatory compliance; CRM; population health; provider clinical, financial and operational data analytics; and new payment models.

Moreover, the convergence of advanced knowledge management technologies with new data analytics is enabling pharmaceutical suppliers to reduce both the risk and time to market of developing new drugs while improving their safety and effectiveness.

**Conclusion**

The breadth of acquirers 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.

In particular, we expect to see smaller, software-as-a-service (SaaS) enabled solutions in specific niches such as revenue cycle management and point-of-care information solutions come to market and attract robust prices. Given all of the factors discussed above, the M&A environment for information and technology companies serving the healthcare market should remain robust over the next 12 to 24 months.

**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**