

**BERKERYNOYES**

INVESTMENT BANKERS

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

**White Paper**

**Introduction**

Many strategic acquirers want to increase their exposure to the healthcare sector and have significant cash positions they're looking to put to work. The debt markets, which have fueled M&A activity and valuation multiples in the recent past, remain strong and liquid. Financial buyers have approximately \$1.2 trillion of dry powder to put to work and are taking advantage of the liquidity in the debt markets to compete with strategics on valuation. Life science companies are also increasingly outsourcing non-core competencies such as data analytics, clinical trial functions and CRM to software vendors to maximize operating efficiencies and comply with regulatory mandates.

Enabling technologies are becoming necessary to address and succeed in a marketplace experiencing declining reimbursement rates, increased regulatory and compliance requirements, pay-for-performance and coordinated care mandates. Buyers continue to look to capitalize on the size, growth attributes and underlying secular trends that will fuel acquisitions of software vendors that effectively address the reimbursement pressures, evolving reimbursement models, increased regulatory scrutiny, and structural changes brought on by reform.

In addition, acquirers see the positive macro trends that are benefiting healthcare information and technology companies (HCIT). This includes the aging of America, the nearly 20% of GDP related to healthcare, the increased concern about medical errors, the need for unbiased physician education, the changing of the reimbursement models of government and private payers, the print to

digital transition, increased regulatory and compliance requirements and ever-increasing specialization due to the huge amount of information available.

**Current M&A Market Landscape**

Total transaction volume increased 17 percent on a yearly basis. This marked a return to its 2012 level. Aggregate deal value rose 26 percent, from \$11.88 billion in 2013 to \$15.02 billion in 2014.

Strategic Buyers

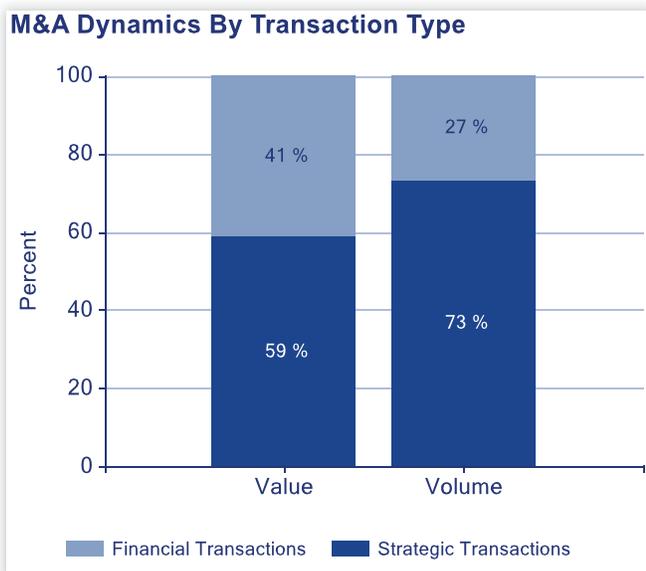
- Strategic buyers accounted for 72 percent of volume and 68 percent of value in 2014, compared to 75 percent of volume and 49 percent of value in 2013.
- The largest strategic transaction in 2014 was Cognizant Technology Solutions' acquisition of TriZetto, which offers software and solutions to Healthcare payers and providers, for \$2.7 billion. Cognizant completed another healthcare deal in 2014 with the acquisition of Cadient Group, a digital marketing agency that serves life sciences companies throughout the healthcare and pharma markets.

Financial Sponsors

- As for financial sponsors, the number of deals increased 26 percent, from 84 to 106 transactions.
- Blackstone Group and Thoma Bravo were the industry's most active financial sponsors in 2014 with four deals each.
- Vista Equity Partners was responsible for the industry's largest private equity deal in 2014 with the acquisition of Advanced Computer Software Group for \$1.11 billion. Advanced Computer Software Group offers patient management software to healthcare providers, back-office systems for businesses, and outsourced information technology services.

Industry Wide Valuations

Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.5x, while the median EBITDA multiple was 11.2x.

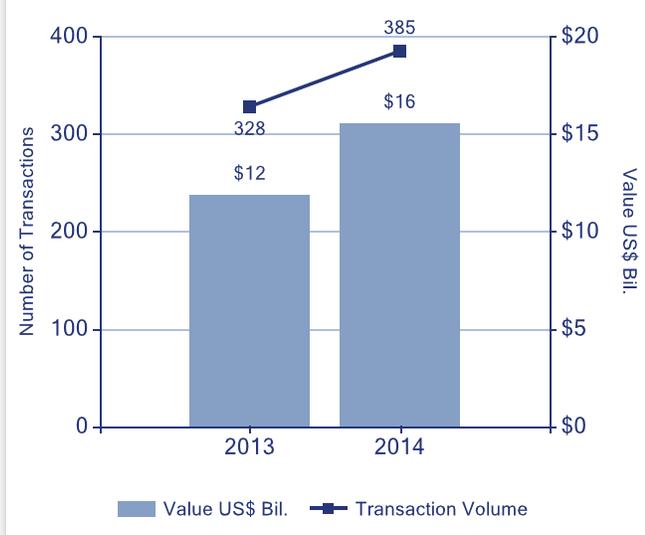


### M&A Analysis of the Past Two Years

Berkery Noyes recorded 713 industry merger and acquisition (M&A) transactions from the beginning of 2013 through the end of 2014. Based on volume, the industry's most active market segment during the past two years was Healthcare IT with 310 transactions.

In terms of overall valuations, the median revenue multiple remained nearly constant at 2.6x, while the median EBITDA multiple improved slightly from 10.9x to 11.5x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.2x and a median EBITDA multiple of 13.0x. Meanwhile, nearly one-third of the industry's companies sold from 2013 to 2014 received transaction values between \$4-\$33 million.

### M&A Market Dynamics

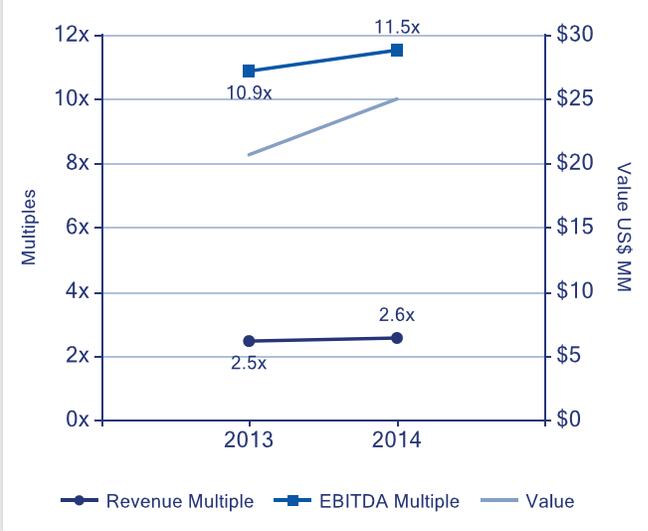


### M&A Activity Per Industry Segment

- **Healthcare IT.** Deal volume in the Healthcare IT segment improved 33 percent on a year-to-year basis. The Healthcare IT segment accounted for almost half of the industry's aggregate deal volume, and strategic acquirers comprised 70 percent of the segment's volume.

Hospital IT providers are also looking to engage ambulatory providers and care settings to coordinate care and reduce expenditures. Healthcare providers are increasingly adopting software solutions (i.e. EHRs, RCM, PM, Billing) to maximize efficiencies amidst a declining reimbursement rate environment, increased consumer financial responsibilities (High Deductible Health Plans), and a more complex claims coding process (ICD-10).

### Median Enterprise Value Multiples



In addition to the TriZetto deal, other notable transactions in the Healthcare IT segment during 2014 included:

- Cerner Corporations' acquisition of Siemens Health Services, which is Siemens AG's health information technology business, for \$1.3 billion.
- Summit Partners' acquisition of Ability Network, a web-based technology provider that links healthcare providers to Medicare, for \$550 million.
- Conifer Health Solutions' acquisition of SPi Healthcare, a provider of revenue cycle management solutions, for \$235 million.
- MedImmune's acquisition of Definiens, a provider of image analysis and data analysis technology, for \$150 million (note that MedImmune is the global biologics research and development arm of biopharmaceutical company AstraZeneca).
- Emdeon's acquisition of Change Healthcare, which offers tools for employers and healthcare plans to reduce healthcare spending, for \$135 million.
- Premier's acquisition of TheraDoc, a provider of electronic clinical surveillance software, for \$117 million.
- **Pharma IT.** Transaction volume in the Pharma IT segment saw a slight uptick with a total of 37 deals in 2014. The largest Pharma IT deal in 2014 was Dassault Systemes SA's acquisition of Accelrys, a provider of scientific lifecycle

management software for chemistry, biology, and materials research, for \$652 million.

As for trends in the segment, greater attention is being placed on encouraging patient adherence to treatment plans through the use of mobile applications. Mobile healthcare may also assist in improving the results of patient reported outcomes (PROs) and promoting health and wellness. At the same time, pharmaceutical companies are looking for the ability to better analyze and leverage their data, with the aim of incentivizing patient adherence and increasing revenue. As the marketplace becomes more competitive, a key challenge for software and technology companies serving the pharmaceutical industry will be to develop and effectively monetize their mobile solutions to stay ahead of the curve.

**Conclusion**

Healthcare IT companies continue to develop unique software solutions to solve pain points along the health continuum. Many enjoy high growth rates and cash flow margins, low capital expenditures and defensible positions

in their marketplace. Strategic buyers are flush with cash and looking to jump start revenue growth or move into adjacent markets. Private equity has huge amounts of capital and leverage levels available and is looking to acquire or back unique opportunities with high growth rate and large market opportunity. With banks and hedge funds willing to lend at five to seven times cash flow in many instances, there's no wonder that equity funds are pursuing available and unavailable assets with such vigor that double-digit multiples are not uncommon.

**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**

