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INVESTMENT BANKERS

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

White Paper

Introduction

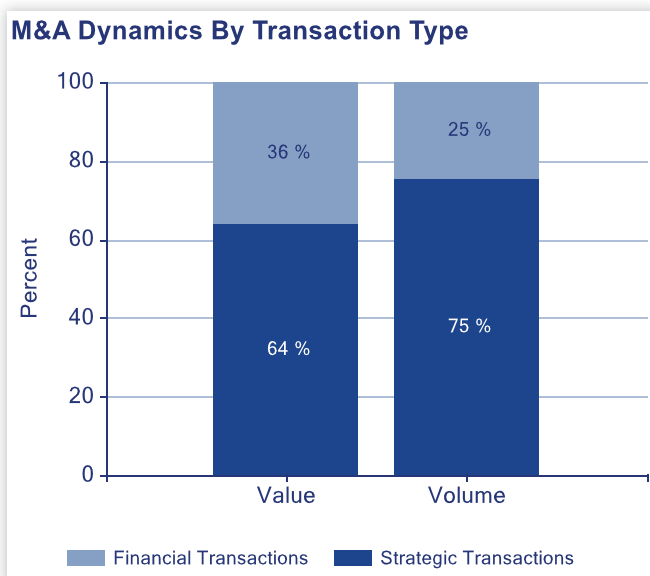
In the rapidly changing Healthcare Information and Technology marketplace, both strategic and financial buyers are on the hunt for acquisitions of scale. Companies with recurring revenue, high growth rates, and a large addressable market opportunity are in demand. Moreover the industry is undergoing a rapid transformation and structural shifts due to reform, cost pressures, shifting responsibilities between payors and providers, and an increased regulatory environment.

The buyer universe for Healthcare IT solution providers has expanded due to the fierce battle underway from all firms along the technology curve. Many acquirers are looking for opportunities that increase reimbursement, ensure compliance, and lower costs. Certain niches such as Medicare, earning solutions, and workflow tools are attracting particularly strong interest. Furthermore, a growing number of healthcare payment integrity players have been actively involved in M&A, consolidating a fragmented market consisting of many smaller, niche players that typically focus on either pre-payment, post-payment, or data analytics.

As for the Pharma IT sector, demand remains robust for companies with intellectual property assets, patient engagement tools, and mobile platforms.

Current M&A Market Landscape

Total transaction volume increased 15 percent on a year-to-year basis. Aggregate value gained four percent, from \$16.44 billion to \$17.08 billion.



Strategic Buyers

- Strategic acquisition volume improved 24 percent from 2014 to 2015.
- Eight of the industry’s top ten largest deals in 2015 were completed by strategic acquirers.
- The most active acquirer in 2015, either directly or through an affiliated business, was electronic health company CompuGroup Medical AG with seven deals.
- The most active strategic U.S. based acquirer in 2015 was Roper Technologies with five transactions. Of Roper’s deals, the largest was the announced acquisition of CliniSys Group, a supplier of laboratory information management systems, through Sunquest Information Systems for \$261 million.

Financial Sponsors

- The industry’s most active financial sponsor in 2015, either directly or through an affiliated business, was New Mountain Capital with five transactions. Of these deals, the largest was the acquisition of Equian, a provider of health care payment integrity solutions to payors of medical claims, for \$225 million.
- Pamplona Capital Management was responsible for the industry’s largest private equity deal in 2015 with the acquisition of MedAssets, a healthcare performance improvement company, for \$2.77 billion. Pamplona is combining MedAssets’ revenue cycle management business with Precyse, a health information management company that it acquired earlier in the year. In addition, Pamplona is divesting MedAssets’ spend and clinical resource management business to VHA-UHC Alliance NewCo.
- The other financially sponsored deal that made the top ten list was Emdeon’s acquisition of Altegra Health, which offers technology-enabled payment solutions for health plans and healthcare providers, for \$910 million. Emdeon is a portfolio company of Blackstone and Hellman & Friedman.

Industry Wide Valuations

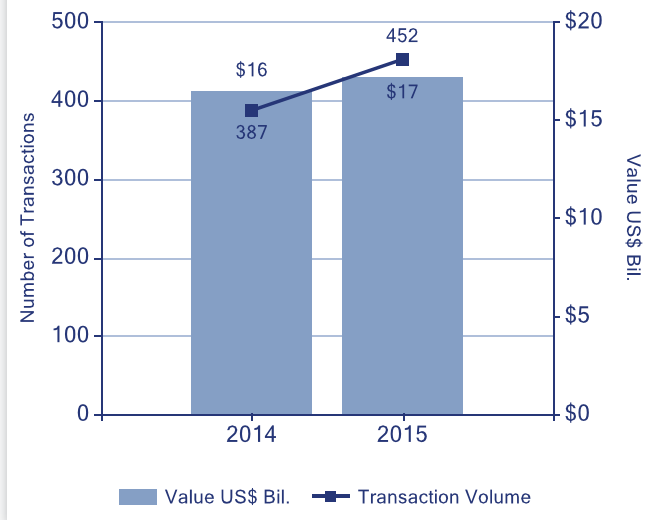
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.8x, while the median EBITDA multiple was 14.1x.

M&A Analysis of the Past Two Years

Berkery Noyes recorded 839 industry merger and acquisition (M&A) transactions from the beginning of 2014 through the end of 2015. Based on volume, the industry’s most active market segment during the past two years was Healthcare IT with 391 deals.

The median revenue multiple increased from 2.4x to 2.7x, while the median EBITDA multiple stayed nearly the same at 13.8x. Mid-market transactions in the \$10-\$20 million range received a median revenue multiple of 2.6x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.4x.

M&A Market Dynamics

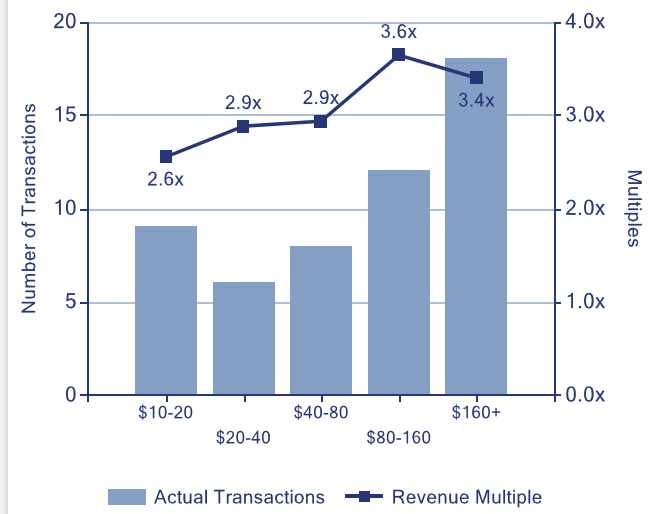


M&A Activity Per Industry Segment

- Healthcare IT. Deal volume in the Healthcare IT segment improved 21 percent on a year-to-year basis, from 177 to 214. 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.

High profile Healthcare IT transactions over the past year included IBM Watson Health’s acquisition of Merge Healthcare Incorporated, a provider of medical image handling and processing, interoperability and clinical systems, for \$1.03 billion; Cardinal Health’s acquisition of Navihealth, a post-acute care software company that helps physicians manage bundled payments, for \$290 million; Computer Programs and Systems’ acquisition of Healthland, a provider of integrated technology solutions to rural community and critical access hospitals, for \$250

Median EV/Revenue Multiples By Size



million; Quality Systems’ acquisition of HealthFusion, a developer of web-based, cloud computing software for physicians, hospitals and medical billing services, for \$165 million; and Roper Industries’ acquisition of Strata Decision Technology, a cloud-based financial analytics and performance platform that is used by healthcare providers, for \$140 million.

- Pharma IT, Information, and Business Services. Transaction volume in the Pharma segments, after rising 12 percent in 2014, decreased 17 percent in 2015, from 52 to 43. Notable Pharma related deals in 2015 included ICON’s acquisition of MediMedia Pharma Solutions, a provider of scientific analysis, assessment, research and insights for the biopharmaceutical and medical device industries, for \$120 million; Inovalon’s acquisition of Avalere Health, a data-driven advisory services company that offers analysis, insight, strategy, and other tools, for \$140 million; and Veeva Systems’ acquisition of Zinc Ahead, a provider of content and marketing compliance solutions, for \$117 million.

Other Segments. Upon examination of other industry markets, the segment with the largest yearly rise in volume was Medical Education, which more than doubled from 18 to 39 transactions. The Healthcare Business Services segment experienced a 19 percent increase, from 81 to 96 deals.

The Consumer Health segment remained about constant with 32 acquisitions. Clothing manufacturer Under Armour

was a notable Consumer Health acquirer with three mobile-based acquisitions in 2015 relating to digital health data, nutrition information, and fitness tracking. Along these lines, Under Armour acquired MyFitnessPal for \$475, Endomondo for \$85 million, and Gritness.

One new high profile acquirer in the space was Adidas with the acquisition of Runtastic, a fitness tracking application, for \$239 million.

Conclusion

Strategics are acquiring businesses to build out their product portfolio and broaden their customer footprint. Healthcare constituents continue to seek niche software vendors that promote interoperability, structure clinical data, improve outcomes, and reduce costs.

Despite all of the recent discussion about increased deal flow, there remains a lack of high-quality opportunities of scale in the market today. As a result, once they appear there is no lack of buyers at robust prices. The credit environment is quite favorable for these deals. Companies with rapid revenue growth are often perfect bolt-ons for

strategic buyers, and many of the large private equity groups have come down market looking for new platforms to buy and build.

Interestingly, strategic buyers are dominating the deal flow and high multiples. However, financial buyers remain active, are focused on high growth assets, and have over \$500 billion of dry powder which they can leverage 4x-8x. With all the dynamics noted above there remains pent-up demand, so any quality assets of scale available are commanding high valuations and multiple buyers.

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

m2s
A PORTFOLIO COMPANY OF
ALTARIS
HAS BEEN ACQUIRED BY
Medstreaming
The Practice of Innovation

The Wellness Network
A SUBSIDIARY OF
MagRack
TV FOR WHATEVER TURNS YOU ON
HAS BEEN ACQUIRED BY
WAFRA
PARTNERS

HMP COMMUNICATIONS HOLDINGS, LLC
HAS COMPLETED A RECAPITALIZATION OF ITS BUSINESS
SGE
SUSQUEHANNA GROWTH EQUITY, LLC
HAS ACQUIRED MAJORITY OWNERSHIP FROM ITS OTHER CURRENT INVESTORS
Alta Equity Partners
AntaresCapital

APTEAN
A PORTFOLIO COMPANY OF
Vista Equity Partners
HAS ACQUIRED
medworxx

EBIX
HAS ACQUIRED
Oakstone
A BUSINESS OF
bv
INVESTMENT PARTNERS
SINCE 1983

HEARTBEAT EXPERTS
HAS BEEN ACQUIRED BY
TRUVEN
HEALTH ANALYTICS
A PORTFOLIO COMPANY OF
VERITAS
CAPITAL