

BERKERYNOYES

INVESTMENT BANKERS

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

White Paper

Introduction

A broad range of information, data and technology solutions are leading to end-to-end offerings in the healthcare marketplace. There is a high rate of new business formation occurring, with many of these companies supported by steadily growing venture capital and private equity investment. This includes a host of newer entrepreneurial companies driven by innovation and opportunity.

Healthcare providers are increasingly adopting software solutions to maximize efficiencies amidst a declining reimbursement rate environment and a more complex claims coding process. Buyers are also looking to acquire software vendors that effectively address increased regulatory scrutiny and structural changes brought on by reform.

Meanwhile, there is much interest in software solutions for the hospital and clinical laboratory markets. The opportunity to integrate data and workflow is a key strategic driver in the provider environment, and supports higher quality care, patient safety and lower costs. We expect to see ongoing robust new business formation in the pharma commercialization space, with an emphasis on proprietary intellectual property assets, new physician databases, software analytics, unique workflow and process solutions.

As for current deal activity, strategic players, many flush with cash, highly profitable and boasting strong balance sheets are actively looking for acquisition opportunities. We anticipate healthy transaction volume, especially among strategic buyers looking for tuck-in and bolt-on acquisitions that both deepen their market penetration and strengthen

their offerings. Moreover, the credit environment is highly favorable for attractive deals. Particularly where a high percentage of revenue is recurring, credit providers are being aggressive in valuation and terms.

Current M&A Market Landscape

Total transaction volume remained about constant on a year-to-year basis. Aggregate value gained 75 percent, from \$17.47 billion to \$30.51 billion. Excluding IMS Health’s merger with Quintiles Transnational Holdings, a provider of biopharmaceutical development and commercial outsourcing services, for \$8.75 billion, value rose 25 percent.

Strategic Buyers

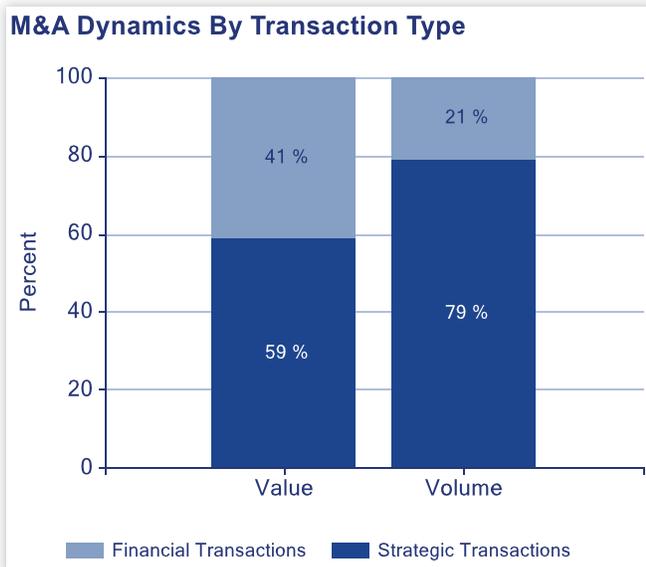
- Strategic acquisition volume improved four percent on an annual basis, from 351 to 365 deals. Strategic acquirers represented 79 percent of aggregate volume and 59 percent of value in 2016.
- IMS Health was a notable acquirer in 2016 with four industry transactions. In addition to the IMS-Quintiles Transnational merger, this consisted of Privacy Analytics, a data governance software company that helps protect patient privacy; Dimensions Healthcare, a developer of healthcare informatics solutions used by payers, providers, and regulators; and AlphaImpactRx, which offers research and analytics based insight for biopharmaceutical and consumer health companies.

Financial Sponsors

- Private equity backed volume fell 13 percent over the past year, from 101 to 88 deals.
- Three of the industry’s top five and six of the top ten highest value acquisitions in 2016 were completed by financial sponsors.
- The largest private equity backed deal during the year was Blackstone Group’s announced acquisition of TeamHealth, a provider of outsourced physician staffing solutions for hospitals in the U.S., for \$6.02 billion.

Industry Wide Valuations

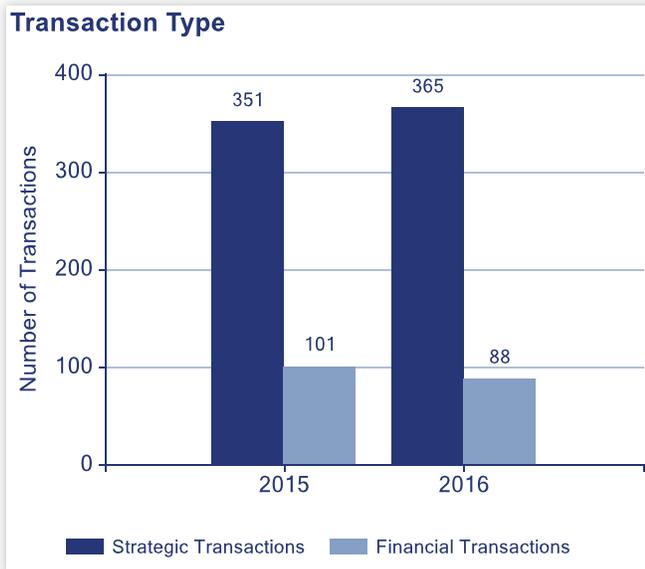
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.9x, while the median EBITDA multiple was 13.3x.



M&A Analysis of the Past Two Years

Berkery Noyes recorded 905 industry merger and acquisition (M&A) transactions from the beginning of 2015 through the end of 2016. Based on volume, the industry's most active market segment during the past two years was Healthcare IT with 202 deals.

The median revenue multiple declined from 3.0x to 2.6x, while the median EBITDA multiple decreased from 13.9x to 13.2x. Transactions in the \$10-\$20 million range received a median revenue multiple of 2.0x. Deals above \$160 million in enterprise value had a median revenue multiple of 4.6x.

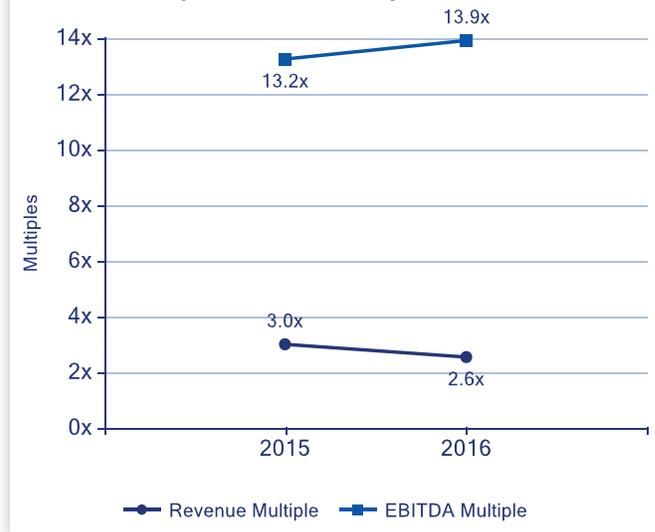


M&A Activity Per Industry Segment

- Healthcare IT.** Deal volume in the Healthcare IT segment decreased five percent on a year-to-year basis. This followed a 20 percent increase in 2015. Healthcare IT transactions during 2016 accounted for 45 percent of the industry's aggregate volume. Also of note, strategic acquirers comprised 86 percent of the segment's volume. The segment was also responsible for five of the overall industry's top ten highest value deals in 2016.

High profile Healthcare IT segment transactions last year included IBM Watson Health's acquisition of Truven Health Analytics, a provider of healthcare data, analytics and insights, for \$3.58 billion; GI Partners' acquisition of Netsmart Technologies, a provider of electronic health records, patient management, billing and other solutions, which was acquired in a joint venture with Allscripts, for

Median Enterprise Value Multiples



\$950 million; Veritas Capital Partners' announced acquisition of Verisk Health, a data services and analytics company, for \$820 million; ResMed's announced acquisition of Brightree, a cloud-based software company that serves the post-acute care sector, for \$800 million; Wipro's acquisition of HealthPlan Services, a technology and Business Process as a Service (BPaaS) provider that serves the U.S. health insurance sector, for \$460 million; and Wolters Kluwer Health's announced acquisition of Emmi Solutions, a patient engagement software company primarily used by value-based payers and providers, for \$170 million.

- Healthcare Business Services.** The Healthcare Business Services segment, after rising 25 percent in 2015, decreased 10 percent in 2016. In addition to the previously mentioned TeamHealth acquisition for \$6.02 billion, notable sponsored segment transactions in 2016 included EQT's acquisition of Press Ganey Associates, a healthcare performance improvement company that offers patient experience measurement, performance analytics and strategic advisory solutions, for \$2.4 billion; and Bain Capital's announced acquisition of Epic Health Services, a provider of pediatric skilled nursing, therapy, developmental services, and home adult home healthcare services.

- Pharma IT, Information, and Business Services.** Transaction volume in the Pharma segments saw a 76 percent increase, from 45 to 79 deals. The segment with the aggregate industry's largest yearly rise in volume was Pharma IT, which nearly doubled, from 25 to 47 transactions.

Conclusion

Throughout the industry, there is strong interest from both strategic and private equity buyers looking to penetrate the healthcare market. However, strategic buyers continue to dominate deal flow. Strategic buyer's ability to leverage existing customer bases, industry knowledge and relationships often enable them to accelerate the growth trajectory of the companies they acquire thereby letting them pay a very competitive price.

Among many areas, acquirers are showing demand for workflow tools that make practicing medicine, performing a clinical trial or smoothing the operations of healthcare entities as areas with lots of entrepreneurs developing unique solutions. In addition, there is a high level of interest in solutions that help move hospitals and other healthcare organizations off client server, on premise solutions to SaaS opportunities. This entails lower upfront cost, less IT hassles and a better environment for updates.

In the pharma space, the convergence of advanced knowledge management technologies with new data analytics and visualization applications, drug/compound

databases, and scientific content is enabling pharma suppliers to reduce both risk and time-to-market, while improving the safety and effectiveness of new drugs. As a result, the active pace of M&A activity in the pharma sector is expected to continue.

Overall, healthcare information and technology companies of scale are enjoying rapid revenue growth, high cash flow margins, low capital expenditures and defensible positions in the marketplace. These characteristics make them attractive acquisition targets.

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

SPECTRUM EQUITY AND Cressey & Company HAVE ACQUIRED VERISYS

CORE INFORMATICS HAS BEEN ACQUIRED BY ThermoFisher SCIENTIFIC

CareerStep ONLINE EDUCATION & TRAINING SOLUTIONS HAS ACQUIRED THE REVENUE CAPTURE AND CODING AND DOCUMENTATION DIVISIONS OF PANACEA Consulting, Publishing, Software, Results.

RENOVUS CAPITAL HAS INVESTED IN red nucleus

Extension HEALTHCARE HAS BEEN ACQUIRED BY vocera

CONNEXIONPOINT HAS RECEIVED A GROWTH EQUITY INVESTMENT FROM VSS