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**An Overview of M&A
in the Healthcare IT
Sector**

White Paper

Introduction

The current M&A climate in the Healthcare Information and Technology (“HIT”) market remains very favorable to sellers with unique solutions of scale. This is due in part to a massive shift to electronic solutions, regulatory changes, and pent-up demand by both strategic and financial buyers.

Most innovation in the HIT sector is occurring at smaller and medium size privately held companies. Many of them have spent years developing unique offerings, achieving some scale, and building recurring revenue models in attractive niches. They now have the opportunity to capitalize on the attention that strategic and financial buyers are showing to HIT solutions companies.

Current M&A Market Landscape

The majority of transactions in HIT are occurring in the lower middle-market (i.e. less than \$200 million in enterprise value). The most attractive acquisition targets are companies that are growing very fast (30%-40% percent revenue growth rate), have recurring revenue models, and offer solutions that solve a pain point along the healthcare continuum.

In addition, many transaction closings were pushed forward into 2012 because of the changes in U.S. capital gains tax rates. As a result, there were relatively few HIT assets of scale on the market in the first quarter of 2013, which is fostering pent-up demand. Given the factors mentioned above, the M&A environment should stay attractive for HIT sellers who are considering a liquidity event in 2013 or

2014. Likewise, high quality assets of scale will continue to command healthy valuations in the near-term.

Strategic Buyers

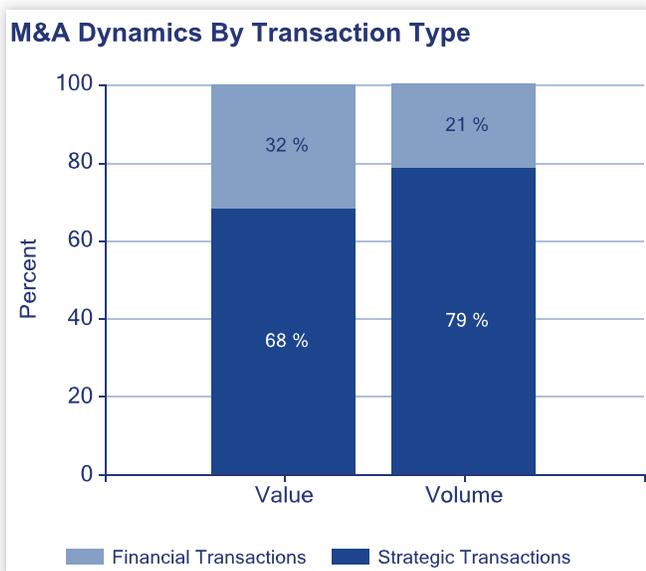
- Strategic buyers want to buoy anemic revenue growth by acquiring fast growing, recurring revenue niche solution providers. They are also determined to accelerate their own growth by making acquisitions in order to provider fuller product suites, which they can up-sell and cross-sell to their client base.
- U.S. strategic corporations have about \$2 trillion of cash sitting idle. Strategic buyers continue to dominate M&A in the HIT market, accounting for nearly 80% of the sector’s deal flow since 2011.

Financial Sponsors

- Private equity firms are interested in the large macro opportunities in healthcare. The rapidly evolving HIT sector offers them the ability to benefit from the disruption taking place. Private equity can help entrepreneurs in several ways: by accelerating growth through capital infusions, providing broader experience as they scale the business, leveraging additional relationships, and bringing other skill sets to the table.
- Financial sponsors have an estimated \$350 billion of cash to invest. Like strategic buyers, they are drawn to niche solution providers of scale with recurring revenue.
- There is tremendous liquidity in the market for opportunities of scale. Investors are searching for returns, and the credit markets are offering favorable terms to those looking for debt to make investments. We are starting to see the return of covenant-lite deals and staple financing as well.

Sector Wide Valuations

Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.0x, while the median EBITDA multiple was 10.0x. Both strategic and financial firms are paying premium prices for HIT companies, and many recent deals are trading at robust revenue multiples and double digit EBITDA multiples.

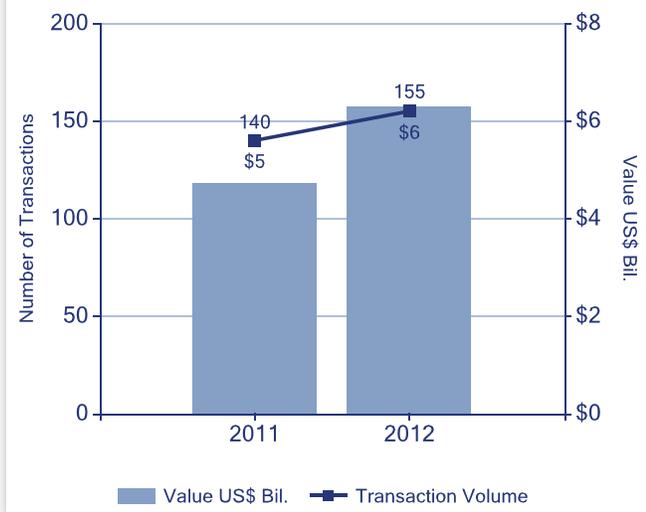


M&A Analysis of the Past Two Years

Berkery, Noyes & Co. LLC recorded 295 HIT merger and acquisition (M&A) transactions from the beginning of 2011 through the end of 2012. M&A volume improved 11% on a year-to-year basis, while deal value increased 30%, totaling approximately \$6.29 billion in 2012. Private equity buyers represented 21% of transaction volume but were responsible for 32% of value between 2011 and 2012.

Mid-market transactions in both the \$20-\$40 and \$80-\$160 million ranges received a median revenue multiple of 2.4x. Transactions above \$160 million had a median revenue multiple of 3.6x and EBITDA multiple of 11.3x.

M&A Market Dynamics



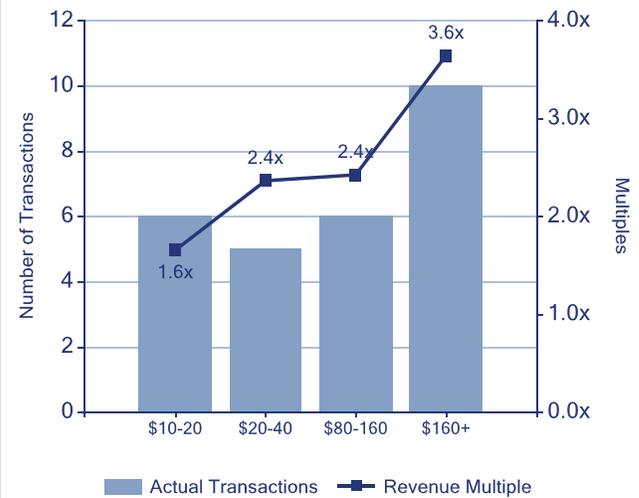
Other Key Healthcare IT Trends

There are several additional factors with the potential to drive demand in the HIT M&A market. These include:

- Integrating data into workflow. The largest HIT deal during the past two years involved information solutions for the hospital and clinical laboratory markets. Along these lines, Roper Industries acquired Sunquest Information Systems for \$1.4 billion.

The opportunity to integrate data into healthcare providers' workflow is a key strategic driver in the provider environment. Doing so has the potential to support higher quality care, patient safety, and lower costs.

Median EV/Revenue Multiples By Size



- Legislative incentives. The enactment of the HITECH Act has catalyzed the adoption of IT by both payors and providers, resulting in a favorable M&A market for private companies that wish to pursue liquidity events.

Meanwhile, HIT vendors that enable health insurers to improve clinical outcomes while reducing expenditures are increasingly becoming desirable acquisition candidates. This is especially important with the ongoing implementation of the Affordable Care Act, which is contributing to a greater emphasis on value based reimbursement models.

- Acquirer interest in electronic solutions. Digital offerings are continuing to have a significant impact on M&A volume, especially given the focus on data management. Cloud and SaaS enabled solutions in particular are attracting a robust amount of attention from acquirers in the HIT market.

Companies offering medical transcription and speech recognition services have also spurred some notable deals. Pertinent high value transactions in 2012 were completed by One Equity Partners and Nuance Communications. One Equity Partners acquired M*Modal, a provider of clinical documentation and speech editing solutions, for \$1.1 billion. This acquisition represented a 2.3x revenue multiple and 9.6x EBITDA multiple.

On a related note, Nuance Communications acquired Transcend Services, a medical transcription and speech editing company, for \$318 million.

- Ongoing innovation. Large vendors are taking steps to stay ahead of the technology curve. Some of the most popular tools at the moment include software focused on analytics, as well as mobile based platforms. All of this bodes well for market consolidation as acquirers look for unique solutions to update their information delivery methods.

Conclusion

Healthcare Information and Technology remains a bright spot in the overall M&A market. Strategic buyers are determined to accelerate their own growth by making acquisitions, in order to provide fuller product suites. In addition, private equity has capital available to help entrepreneurs accelerate their growth and achieve liquidity. We expect to see an increase in deal flow and attractive prices for sellers from both strategic and financial acquirers; but strategic buyers, like in 2012, will likely dominate the buyer universe.

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.

About Tom O'Connor

Tom O'Connor is a Managing Director and leads the Healthcare Group at Berkery Noyes. He has over 20 years of investment banking experience, recently representing notable companies such as ExitCare in its sale to Elsevier, Therapeutic Research in its sale to Francisco Partners, H.W. Wilson in its sale to EBSCO, and UpToDate in its sale to Wolters Kluwer. Tom holds a BS in accounting from State University of New York at Binghamton and MBA from Fordham University.

SELECTED HEALTHCARE TRANSACTIONS COMPLETED BY BERKERY NOYES

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INSIGHT VENTURE PARTNERS
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CENGAGE Learning

ELSEVIER
HAS ACQUIRED
EXIT Care
Patient Education Solutions

F|P
FRANCISCO PARTNERS
HAS ACQUIRED
Therapeutic Research Center
Therapeutic Research Faculty

Healthx
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LIBERTY PARTNERS
HAS BEEN ACQUIRED
IN A MAJORITY
RECAPITALIZATION BY
FrontierCapital

RELSYS
HAS BEEN ACQUIRED BY
ORACLE

Wolters Kluwer
Health
HAS ACQUIRED
UpToDate