

**BERKERYNOYES**

INVESTMENT BANKERS

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

**White Paper**

## Introduction

Digital offerings are continuing to have a significant impact on M&A volume in the healthcare market. Cloud and SaaS enabled solutions in particular are seeing a robust amount of attention from acquirers.

Certain niches such as health information technology (HIT), Medicare solutions, healthcare compliance solutions, and workflow tools are attracting high interest from both strategic and financial buyers. Acquirers are looking for opportunities that increase reimbursement/revenue, ensure compliance, and lower costs.

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. Enabling technologies have also become necessary to address and succeed in a marketplace experiencing declining reimbursement rates, pay-for-performance, and coordinated care mandates.

Meanwhile, the medical claim errors market has seen consolidation as reimbursement models evolve. A growing number of healthcare payment integrity players have been actively involved in M&A, consolidating a highly fragmented market consisting of many smaller, niche players that typically focus on either pre-payment (more software-oriented) or post-payment (more services heavy) solutions. Private equity firms are attracted by the margins and growth characteristics of these companies, as their revenue models are typically a percentage of the overpayments collected.

Overall, strategic buyers are determined to accelerate their own growth by making acquisitions to provide fuller product suites. Private equity firms have capital available to help entrepreneurs accelerate their growth and achieve liquidity. Financial sponsors 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.

## Current M&A Market Landscape

Total transaction volume remained about constant on a year-to-year basis. Aggregate value gained 18 percent, from \$29.68 to \$35.07 billion.

### Strategic Buyers

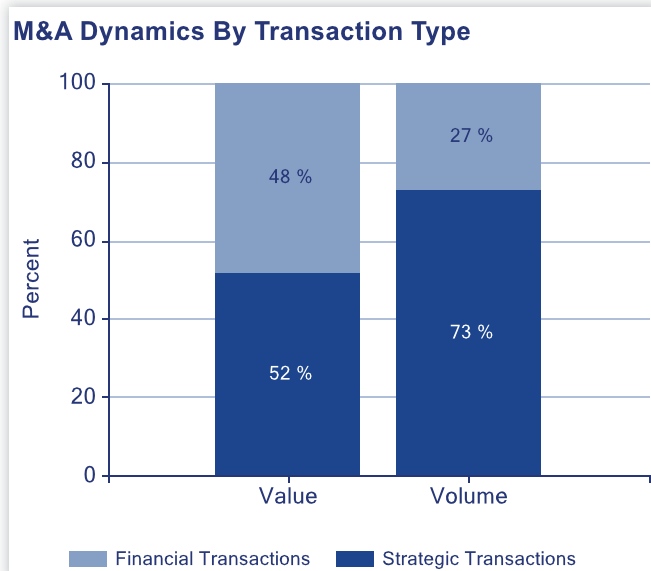
- Strategic volume declined two percent on an annual basis, from 339 to 332 deals. Strategic acquirers represented 73 percent of aggregate volume and 52 percent of value in 2018.

### Financial Sponsors

- Private equity backed volume increased ten percent year-over-year, from 120 to 132 deals.
- Four of the vertical's top ten largest deals in 2018 were backed by financial sponsors. These four transactions, with a combined disclosed value of \$13.23 billion, accounted for about one-third of the industry's total value during the year.
- The most active acquirer in 2018, either directly or through an affiliated business, was Arsenal Capital Partners with eight industry transactions: Pirana Software, Analytica Laser, Newport Credentialing Solutions, Equipment Management & Technology Solutions (EMTS), BaseCase, KMR Group, Metrics Champion Consortium (MCC), and ACI Clinical.

### 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 12.6x.

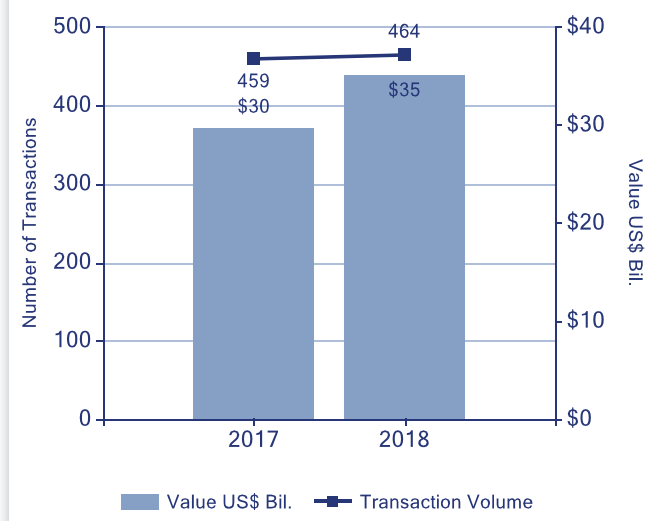


## M&A Analysis of the Past Two Years

Berkery Noyes recorded 923 industry merger and acquisition (M&A) transactions from the beginning of 2017 through the end of 2018. Based on volume, the most active market segment during the past two years was Healthcare IT with slightly less than half of the industry's aggregate activity.

The median revenue multiple moved upward from 2.2x to 2.4x, while the median EBITDA multiple declined from 13.7x to 11.9x. Transactions in the \$10-\$20 million range received a median revenue multiple of 1.6x. Deals above \$20 million in enterprise value garnered a median revenue multiple of 3.1x.

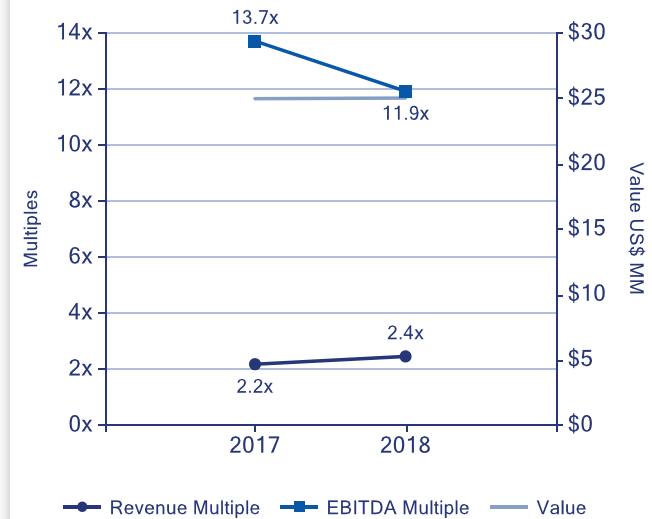
## M&A Market Dynamics



## M&A Activity Per Industry Segment

- **Healthcare IT.** Deal volume in the Healthcare IT segment increased 19 percent on a year-to-year basis. High profile Healthcare IT transactions during the year above the \$1 billion threshold included Veritas Capital and Evergreen Coast Capital's acquisition of athenahealth, a provider of network-enabled services for hospital and ambulatory customers, for \$5.6 billion; Inovalon's announced acquisition of ABILITY Network, a developer of SaaS tools designed to simplify administrative and clinical complexities in the healthcare sector, for \$1.2 billion; and Veritas Capital Partners' acquisition of the Value-Based Care Division from GE Healthcare for \$1.05 billion.

## Median Enterprise Value Multiples



- **Healthcare Business Services.** The Healthcare Business Services segment underwent a nine percent decline in volume. The segment's largest transaction in 2018 was Veritas Capital-backed Verscend's acquisition of Cotiviti, a provider of payment accuracy and analytics driven solutions, for \$4.82 billion.
- **Consumer Health.** The Consumer Health segment experienced a 15 percent rise in deal activity, from 33 to 38 acquisitions. Notable Consumer deals in 2018 included Ipsos' announced acquisition of four global divisions of GfK Research – health, customer experience, experience innovation, and public affairs – for \$123 million; and WebMD's acquisition of Vitals Consumer Division, which offers online tools that help consumers find the right healthcare providers and connect with other patients.
- **Pharma IT, Information, and Business Services.** Transaction volume in the combined Pharma segments saw an 48 percent decrease, from 60 to 31 deals. This followed a 25 percent improvement in 2017. Notable Pharma related transactions during 2018 included Amazon's announced acquisition of PillPack, an online pharmacy, for \$753 million; ResMed's acquisition of Propeller Health, a digital therapeutics company that supports respiratory health management, for \$225 million; and Medidata's announced acquisition of SHYFT Analytics, a cloud-based data analytics platform used by the pharma and biotech sectors, for \$195 million.

## Conclusion

Private vendors of tech-enabled healthcare solutions continue to be sought after by both strategic and financial buyers. There is a supply and demand imbalance where buyers seeking to broaden their exposure to the healthcare space with very favorable underlying growth drivers exceed the number of sellers, and as a result the multiples being paid are seller friendly.

There is also a high rate of new business formation occurring, often supported by steadily growing venture capital and private equity investment. Companies of scale with rapid revenue growth are perfect bolt-ons for strategic buyers, and quite a few of the large private equity groups have come down market looking for new platforms to buy and build.

At the same time, many Healthcare IT companies are experiencing operating momentum as healthcare providers, payors, and life science competitors increasingly rely on them to structure and analyze data. In the pharma sector,

acquirers are demonstrating strong demand in a multitude of areas including patient engagement, population health and related data analytics, treatment plan adherence, mobile solutions, and regulatory compliance. Given all of these factors, M&A remains an attractive exit option in the healthcare industry as the buyer universe has never been larger.

## 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

