



Q3 2016 M&A Update

Healthcare RCM, HCIT, Data and Analytics

Market and Economic Update

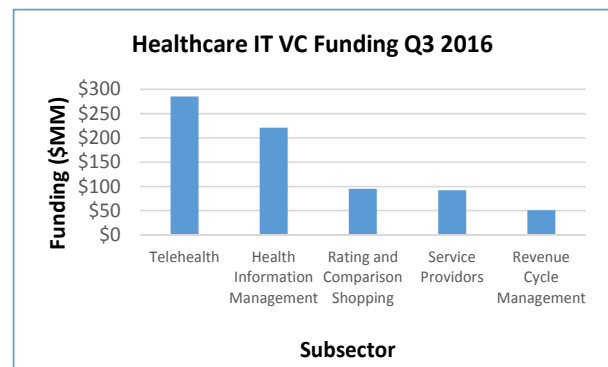
The third quarter of this year, October especially, have been some of the more uncertain times we have seen. This election is one of the most volatile and decisive ones to date, and we are unsure whether it will bring a trick or a treat. Even CMS has come out with an October Surprise of its own, releasing an October 14th final rule for implementing MACRA that expands exemptions, flexibility, and unfortunately, ambiguity.

Even though both candidates are by far the most disliked in history, one of them will win the office and have the power to shape the regulatory and legislative environment in healthcare for years to come. Obamacare, Medicaid, and Pharmaceutical Cost Controls are just a few of the many decisive and important issues at stake. Donald J. Trump believes that free market principles should govern the healthcare insurance market, and claims he will repeal Obamacare if elected. Hillary Clinton supports Obamacare and plans to legalize prescription drug imports from Canada.

But regardless of what happens on November 8th, future growth in the healthcare sector will be determined by long-term trends. We believe that developments in biotechnology, healthcare IT, health analytics, and personalized medicine (see our recent whitepaper) will most significantly shape the market in the coming decade and beyond.

Venture Capital Funding in Healthcare Q3 2016

Venture capital (VC) funding in the Health IT sector, including private equity and corporate venture capital, came in at \$1.3 billion in 177 deals in Q3 2016, compared to \$1.6 billion in 140 deals in Q2 2016. Year-over-year (YoY) funding this quarter was lower than Q3 2015, which had \$1.6 billion in 148 deals.



The top funded areas were Telehealth and Health Information Management, which raised \$285 million in 30 deals and \$221 million in 40 deals in Q3 2016. Rating and Comparison Shopping companies were next, weighing in at \$95 million in 17 deals. Revenue Cycle Management companies secured \$51 million in two deals. The average deal size this quarter was \$7.1 million, down from \$11.4 million in Q2 2016. International VC funding continued to be robust, totaling 59 deals in Q3 2016.

MACRA Final Rule: Does CMS Strike a Balance?

By Jackson Moss, Analyst

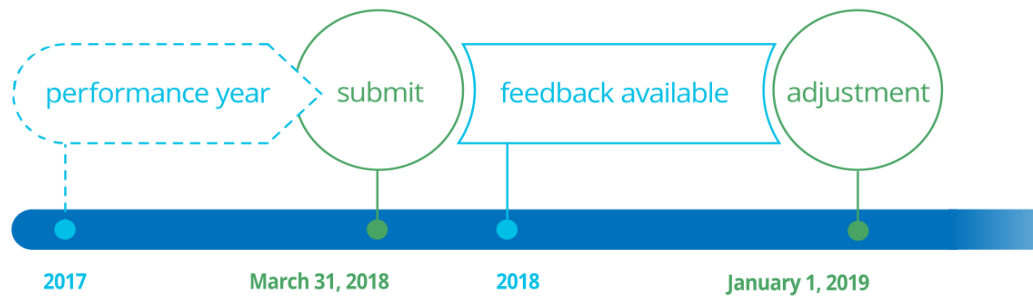
Weighing in at more than 2,000 pages, the Medical Access and CHIP Reauthorization Act (MACRA) is the product of a Centers for Medicare and Medicaid Services (CMS) initiative to shift physicians away from a fee-for-service payment model and to a value-based payment system. In short, MACRA repeals the Sustainable Growth Rate (SGR) Formula that has determined reimbursement rates for years, and replaces it with the Merit-based Incentive Payment System (MIPS).

MIPS includes four performance categories: 1) Quality, 2) Resource use, 3) Clinical practice improvement, and 4) Advancing care information. Each year, CMS will score health care providers on a 100 point scale based on the four MIPS categories. The number of points received determine the



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Performance:

The first performance period opens January 1, 2017 and closes December 31, 2017. During 2017, record quality data and how you used technology to support your practice. If an Advanced APM fits your practice, then you can provide care during the year through that model.

Send in performance data:

To potentially earn a positive payment adjustment under MIPS, send in data about the care you provided and how your practice used technology in 2017 to MIPS by the deadline, March 31, 2018. In order to earn the 5% incentive payment for participating in an Advanced APM, just send quality data through your Advanced APM.

Feedback:

Medicare gives you feedback about your performance after you send your data.

Payment:

You may earn a positive MIPS payment adjustment beginning January 1, 2019 if you submit 2017 data by March 31, 2018. If you participate in an Advanced APM in 2017, then you may earn a 5% incentive payment in 2019.

bonus size physicians can collect, which range from plus or minus 4% of reimbursement in 2019. Providers have lucrative incentives for performance, as top scorers could earn up to a 9% bonus in 2022. Physicians also have the option to participate in Alternative Payment Models (APM), the most advanced of which can result in a 5% annual lump sum bonus from 2019 through 2024. However, APM’s require a hefty amount of risk, and about 90% of physicians are expected to take the MIPS path.

MACRA ensures that a growing percentage of physician payment will be based on value, not on volume, like the current fee-for-service system. However, on October 14th, the CMS issued a final rule for implementing MACRA that expands exemptions and flexibility*. Physician practices with less than \$30,000 in Medicare charges or fewer than 100 unique Medicare patients per year are exempt from the legislation. One study reported that this final rule will exclude 30% of MIPS eligible physicians.

With this new addendum, the CMS is conceding to calls for more flexibility in MACRA. Rather than the “all or nothing” approach previously used in incentive programs, the new provision allows less advanced providers time to transition into the MACRA model, while also rewarding advanced providers with bonuses under the MIPS scoring model.

Some experts believe flexibilities provided in the final rule may continue to 2018. For example, the final rule allows providers in the MIPS pathway to opt out in 2017. While this is associated with an automatic 4% bonus penalty, providers can negate the penalty by simply submitting data for just one quality measure or improvement activity.

With that being said, it is undoubtedly in health care providers’ best interest to participate in MIPS as much as possible in 2017 and do more than the bare minimum required by the relatively lax final rule. MIPS is scored on a 100 point scale, and incentives start to accelerate past a score of about 70 points. Providers who take this legislation seriously from the start are much more likely to receive these lucrative bonuses and stay out of regulatory trouble over the next decade. *See: <https://qpp.cms.gov>



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Notable Transactions

| Acquirer | Target | Date | Sub-Sector |
|---|----------------------------------|------------|------------------------------------|
| VSS (Private Equity) - New York City | Connexion Point - Salt Lake City | 10/18/2016 | Lifecycle; cloud and analytics |
| TransUnion (NYSE: TRU) - Chicago | Rtech - New York City | 9/21/2016 | Healthcare IT, Health Analytics |
| EQT (Private Equity) - Sweden | Press Ganey - Indiana | 8/9/2016 | Healthcare performance improvement |
| HealthStream (NASDAQ: HTSM) - Tennessee | Morrisey Associates - Chicago | 8/9/2016 | Medical Staff Credentialing |

Selected RCM and Health IT Transactions

10/18/2016 – **Veronis Suhler Stevenson (VSS)**, a New York City based private equity firm focused on information technology, announced its investment in **Connexion Point, LLC**, a Salt Lake City based provider of technology enabled healthcare services. While Connexion Point specializes in communication lifecycle services, it also offers cloud and analytics solutions to some of the largest payers in the country. Connexion Point is hoping it can leverage its newfound capital to expand its client base and improve its proprietary software solutions.

10/15/2016 – **Aris Radiology**, an Ohio based provider of professional radiology services, acquired **US Teleradiology (UST)**, a provider of teleradiology services to hospitals and medical facilities.

10/6/2016 – **New Mountain Capital**, a New York City based private equity firm, completed its acquisition of **Convey Health Solutions**, a provider of healthcare technology and business process outsourcing, from **Comvest Partners**, a Florida based private equity firm.

10/4/16 – **Medical Transcription Billing Corp (NASDAQ: MTBD)**, a New Jersey based provider of proprietary, web-based

electronic health records, practice management and Health solutions, completed its acquisition of **MediGain**, a Texas based provider of revenue cycle management and analytics solutions for the healthcare industry. MediGain's assets, including customer accounts, intellectual property, and offshore operations in India and Sri Lanka, were acquired by MTBC.

10/4/2016 – **BillingTree**, an Arizona based provider of integrated payments solutions to the healthcare industry, announced a majority recapitalization of the company by **Parthenon Capital Partners**, a Boston based growth-oriented private equity firm. BillingTree believes it can leverage Parthenon's expertise in the payments space and grow revenue by expanding its product offering and penetrating new markets.

10/4/2016 – **Avaap**, a New Jersey based provider of IT services and technology solutions for organizations that rely on Infor and Epic enterprise software solutions for clinical, financial, supply chain and human resources management, acquired **Falcon Consulting**, a Chicago based healthcare provider consultancy that focuses on driving value in electronic health records space.



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10/3/16 – **Eli Health Solutions**, a North Carolina based private equity fund, has acquired **Lekhisoft Software Solutions**, an Indian software development company specialized in hospital management systems. The acquisition is a strategic move by Eli for its debut in the healthcare sector, especially after the success of Lekhisoft's ophthalmology hospital management software in recent months.

9/27/2016 - **Go-Jek**, an Indonesian mobile technology company with a social mission to unleash social impact through technology, acquired **Pianta**, an Indian provider of home health care with consumers and create a compelling experience for consumers.

9/27/2016 - **SALUS** Telehealth of Waycross, GA, a telehealth provider e-clinical resource manager, merged with **VideoMedicine**, a Chicago based free-market doctor network.

9/27/2016 – **PeriGen**, the leading developer of fetal surveillance systems based out of Princeton, NJ, acquired the **WatchChild** Fetal Monitoring System from **Hill-Rom Holdings, Inc.**, based in Chicago.

9/26/2016 – **Medical Channel**, an Australian Point of Care digital communication media provider, acquired **The Community Network**, a provider of digital health advertising platform.

9/22/2016 – **Parallax Health Sciences**, a Los Angeles bio-medical company focused on personalized patient healthcare, acquired **QOLPOM**, (Quality of Life Peace of Mind), a Santa Monica based provider of personal

medication dispensing and remote monitoring solution for seniors and chronic care patients.

9/21/2016 – **TransUnion** (NYSE: TRU), a leading global information solutions provider out of Chicago, has acquired New York City based **RTech** (Healthcare Revenue Technologies, Inc), a technology-driven healthcare services company that offers post-service eligibility solutions designed to maximize reimbursements and reduce uncompensated care costs for healthcare systems. TransUnion hopes to take advantage of the enormous opportunity to leverage data, technology, and analytics to help healthcare providers maximize reimbursement.

9/20/2016 – **Primaris**, a Missouri based healthcare IT communications, consulting and services firm, merged with **Digital Collaboration Solutions** (DCS), a Boston based consulting and services company that helps healthcare organizations and providers improve patient and provider engagement

9/15/2016 – **Streamline Health Solutions**, and Atlanta based provider of the Looking Glass platform of integrated RCM solutions and analytics services, acquired **Opportune IT Healthcare Solutions**, a Dallas based provider of coding audits for healthcare providers.

9/16/2016 – **Harris' Healthcare group**, a Dallas based provider of feature-rich and robust turnkey solutions to public sector, schools, utility, and healthcare agencies, acquired **OrMed**, a Virginia based provider of financial solutions for small to medium sized healthcare facilities.



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9/16/2016 – **GI Partners**, a San Francisco private equity firm, completed its acquisition of **Daxko**, an Alabama based provider of SaaS solutions to health and wellness organizations. Daxko's proprietary software solutions help customers achieve high levels of operational efficiency and engage the community to expand their mission.

9/16/2016 – **Picis Clinical Solutions**, a Massachusetts based provider of innovative information solutions that enable rapid and sustained delivery of clinical documentation in emergency departments, surgical suites and intensive care units, acquired **EnvisionHealth**, an Austin, Texas based provider of healthcare analytics.

Sept 15 – **Health Data Specialists (HDS)**, a Louisiana based provider of healthcare information services, acquired **Realistic Resources**, a provider of healthcare IT staffing and consulting.

9/13/2016 – **iCarbonx**, a Chinese provider of healthcare artificial intelligence and data analysis solutions, acquired **Imagu Vision Technologies**, a developer of medical imaging understanding technology.

9/13/2016 – **Glooko**, a Bay Area provider of an FDA-cleared mobile diabetes management application, merged with **Diasend**, a provider of diabetes management and analytics platforms that facilitate data driven care for patients and clinicians.

9/13/2016 – **The Huntzinger Management Group** (Huntzinger), a Pennsylvania based healthcare consultant, acquired **Next Wave Advisors**, a provider of HIT leadership, management, technology, information security, and business intelligence.

8/31/2016 – **Cardinal Health (NYSE: CAH)**, a Columbus, Ohio based provider of integrated healthcare services, products, and customized solutions for hospital systems, pharmacies, and laboratories worldwide, acquired **TelePharm**, an Iowa provider of cloud-based telepharmacy solutions that provides efficient pharmacy care by allowing pharmacists and patients to connect online.

8/22/2016 – **Loblaw**, a Canadian provider of food and pharmacy, acquired **QHR**, a Canadian provider of electronic medical records (EMR) for healthcare providers and their patients.

8/9/2016 – **EQT**, a global private equity group based in Sweden, acquired **Press Ganey (NYSE: PGND)**, an Indiana based healthcare performance improvement company that helps hospital and doctors measure patient satisfaction and the quality of care they provide, for \$2.35 billion. Before the transaction, Press Ganey was majority-owned by private equity firm Vestar Capital Partners.

8/9/2016 – **HealthStream, Inc. (NASDAQ: HSTM)**, a Tennessee based healthcare workforce solutions provider, acquired **Morrisey Associates, Inc.**, a Chicago based provider of medical staff credentialing. The acquisition provides healthy growth to HealthStream's Provider Solutions platform and supports its innovative approach to talent management.

8/1/2016 – **The Carlyle Group**, a Washington D.C. based asset management company, acquired **WellDyneRx**, a Florida based developer of innovative and integrated health care solutions that enhance value for employers, health plans, and members.



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Selected Publicly Traded RCM and Healthcare IT

| Company Name | Ticker | Price (9/30/16) | % Change Prior Quarter | % Change Prior Year | 52 Week High | 52 Week Low | Market Cap (\$M) | EPS | P/E | Revenue (\$M) | EV (\$M) | EBITDA (\$M) | EV/Revenue | EV/EBITDA |
|---------------------------------------|--------|-----------------|------------------------|---------------------|--------------|-------------|------------------|--------|----------|---------------|-----------|--------------|------------|-----------|
| Accretive Health, Inc. | ACHI | 2.44 | 22.0% | 10.4% | 3.43 | 1.47 | 256.04 | 0.17 | 13.90 | 445.05 | 19.92 | 198.86 | 0.04x | 0.10x |
| Allscripts Healthcare Solutions, Inc. | MDRX | 13.17 | 3.7% | 7.1% | 15.78 | 11.47 | 2,390.00 | 0.02 | 778.12 | 1,430.00 | 3,510.00 | 133.57 | 2.45x | 26.28x |
| Athenahealth, Inc. | ATHN | 126.12 | (8.6%) | (5.2%) | 170.42 | 114.59 | 4,700.00 | 0.27 | 439.15 | 1,010.00 | 4,940.00 | 85.44 | 4.89x | 57.82x |
| Cerner Corporation | CERN | 61.75 | 7.4% | (5.6%) | 68.31 | 49.59 | 20,600.00 | 1.82 | 33.50 | 4,580.00 | 20,610.00 | 1,270.00 | 4.50x | 16.23x |
| Computer Programs & Systems, Inc. | CPSI | 26.06 | (34.7%) | (41.6%) | 59.16 | 24.18 | 353.08 | 0.59 | 44.22 | 353.08 | 501.35 | 34.53 | 1.42x | 14.52x |
| eHealth, Inc. | EHTH | 11.21 | (20.0%) | (13.1%) | 15.14 | 8.14 | 208.38 | 0.50 | 22.60 | 199.48 | 134.70 | 18.28 | 0.68x | 7.37x |
| HealthStream, Inc. | HSTM | 27.60 | 4.1% | 18.8% | 28.84 | 17.80 | 859.81 | 0.22 | 122.58 | 218.57 | 713.38 | 24.51 | 3.26x | 29.11x |
| HMS Holdings Corporation | HMSY | 21.95 | 26.5% | 107.3% | 24.50 | 9.51 | 1,840.00 | 0.33 | 65.95 | 490.00 | 1,830.00 | 93.00 | 3.73x | 19.68x |
| McKesson Corporation | MCK | 166.75 | (10.7%) | (15.5%) | 202.20 | 148.29 | 36,380.00 | 9.63 | 16.74 | 19,088.00 | 39,800.00 | 4,600.00 | 2.09x | 8.65x |
| Medidata Solutions Inc. | MDSO | 55.76 | 19.0% | 13.1% | 57.21 | 30.22 | 2,800.00 | 0.39 | 125.32 | 420.83 | 2,710.00 | 51.18 | 6.44x | 52.95x |
| Quality Systems Inc. | QSII | 11.32 | (5.0%) | (29.8%) | 17.50 | 10.61 | 733.91 | (0.02) | (542.38) | 492.52 | 816.34 | 56.45 | 1.66x | 14.46x |
| Streamline Health Solutions Inc. | STRM | 1.84 | 53.3% | 30.5% | 2.28 | 1.08 | 37.04 | (0.03) | (6.41) | 27.50 | 37.96 | (1.23) | 1.38x | (30.86x) |
| The Advisory Board Company | ABCO | 44.74 | 26.4% | (9.8%) | 54.84 | 18.87 | 1,730.00 | (2.09) | (20.51) | 804.56 | 2,290.00 | 121.28 | 2.85x | 18.88x |
| Medical Transcription Billing, Corp. | MTBC | 0.94 | 6.8% | (21.7%) | 1.78 | 0.68 | 8.71 | (0.59) | (1.44) | 21.30 | 11.58 | (1.14) | 0.54x | (10.16x) |
| Average | | | 6.4% | 3.2% | | | | | | | | | 2.57x | 16.07x |

Markets have mostly recovered from initial shock of Brexit, with stocks steadily rising throughout the quarter and rates beginning to recover from record lows. As of 9/30/2016, the S&P 500 index was at 2,168, compared to a 2,001 low shortly following Brexit. As of 10/25/2016, a U.S. 10 Year Treasury Note was at 1.75%, compared to 1.43% in late June.

However, there are still concerns of additional monetary accommodation around the globe and some Economists believe the true cost of Brexit will not rear its head until 2017. In fact, the United States is the only advanced economy that has begun to normalize its monetary policy. With that being said, growth here at home remains tepid. In the second quarter of 2016, GDP growth weighed in at a lackluster 1.4%. Markets have remained fairly quiet and many investors seem to be waiting until after Election Day to participate.

The RCM and Healthcare IT index is supported by robust quarterly returns posted by **Accretive Health**, **HMS Holdings Corporation**, and **Streamline Health Solutions**, with quarterly gains of 22.0%, 26.5%, and 53.3%, respectively. However, hits to behemoths like **McKesson** and **Athenahealth** question the direction of the market.

Publicly Traded RCM and Healthcare IT News

McKesson Corporation (NYSE: MCK) reported worse than expected third quarter earnings on October 28th. The resulting selloff caused shares to hit a 52 week low at \$114. While the stock has begun to recover from the 23% drop, investors are concerned about drug distribution company's ability to generate profits. Many analysts attributed the earnings drop to the ending of pricing power for its drug Enbrel, which accounted for 80% of the company's income growth over the past six months. Concerns also loom regarding the outcome of Proposition 61, the "California Drug Price Relief Act".

Computer Programs & Systems, Inc. (NASDAQ: CPSI) reported earnings last quarter with disappointing results. Earnings per share were \$0.31 less than expected at \$0.48. Revenue also missed expectations, coming in at \$68.42 million, or \$5.93 million less than expected. Shortly after these earnings were released, SunTrust RH downgraded the Healthcare IT giant to neutral. The stock has dropped 34.7% in the past quarter. However, some analysts remain bullish despite a troubling downward trend in the most important financial measures.



Lawrence, Evans & Co., LLC provides investment banking, finance, and consulting services for small and middle market healthcare providers and services companies. We are very active on the buy-side and the sell-side of Revenue Cycle Management and related transactions.

SERVICES

| | |
|---|---|
| <p>▪ Investment Banking & Corporate Finance</p> | <ul style="list-style-type: none"> -Private Company Sales -Division/Subsidiary Divestitures -Distressed Transaction Advisory -Acquisition Advisory Services - Private Market Financings - LBO's and Recapitalizations |
| <p>▪ Turnaround & Restructuring</p> | <ul style="list-style-type: none"> -Turnaround Management -Debt Restructuring/Refinancing -Orderly Liquidations - Chief Restructuring Officer (CRO) - Bankruptcy Planning/ 363 Sales - Receivership/Trustee |
| <p>▪ Consulting</p> | <ul style="list-style-type: none"> -Strategic Options Analysis -Valuations & Financial Assessments -Interim CEO/CFO - Strategic Planning - Organizational Reviews - Expert Testimony & Opinions |

REPRESENTED TRANSACTIONS

| | | |
|---|---|--|
| <p>Multi Specialty Medical Billing Company Midwest 2013</p> <p><i>Sale to a Strategic Buyer</i></p> <p> Acted as advisor</p> | <p>Healthcare Data Analytics and Audit Compliance Company 2013</p> <p><i>Strategic Options Analysis Capital Raise</i></p> <p> Acted as advisor</p> | <p>Medical Billing and Technology Company 2014</p> <p>\$8,000,000 <i>Sale to a Strategic Buyer</i></p> <p> Acted as advisor</p> |
| <p> 2012</p> <p><i>Sale to a Strategic Buyer</i></p> <p> Acted as advisor</p> | <p> 2015</p> <p><i>Sale to a Strategic Buyer</i></p> <p> Acted as advisor</p> | <p>Revenue Cycle Management Company <i>Strategic Options Analysis</i></p> <p> Acted as advisor</p> |

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