



Q2 2016 M&A Update RCM, Healthcare IT and Data

Notable Transactions

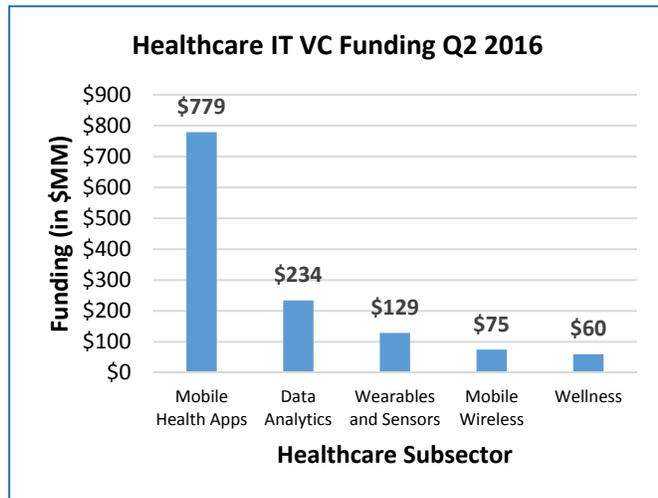
McKesson Corporation (NYSE: MCK) announced in June it will combine its IT unit with Blackstone-owned **Change Healthcare**, a provider of software and analytics, network solutions, and technology-enabled services, to create a new \$3.4 billion company. The new company will be able to offer managed care organizations technologies for financial and payment solutions as well as granting tools for administrative and clinical management. MCK will own 70% and they plan to file an IPO in 2016.

Electronics giant **Philips** (NYSE: PHG) acquired **Wellcentive**, a provider of cloud-based health IT solutions based in Atlanta, in a deal that will add to Philip’s health IT portfolio. The acquisition will allow Philips to better manage clinical, claims, and financial data to help providers deliver care that meets new quality requirements and reimbursement models. Terms not disclosed.

IMS Health Holdings (NYSE: IMS), a global provider of Healthcare IT solutions, and **Quintiles Transnational Holdings** (NYSE: Q), the world’s largest contract research organization, agreed to a \$12.8 billion all-stock merger deal in early May. This merger is anticipated to accelerate revenue growth and achieve annual run-rate cost savings of \$100 million by the end of year three.

Venture Capital Funding in Healthcare IT Q2 2016

Venture capital (VC) funding in the Health IT sector, including private equity and corporate venture capital, came in at \$1.6 billion in 140 deals in the second quarter of 2016 compared to \$1.4 billion in 146 deals in Q1 2016. VC Funding for U.S. companies fell by almost 37 percent quarter-over-quarter and Chinese companies for the first time emerged as the top Healthcare IT funding recipients. The top funded areas in Q2 were Mobile Health apps with \$779 million, Data Analytics companies with \$234 million, Wearables and Sensors with \$129 million, Mobile Wireless with \$75 million and Wellness with \$60 million.



CMS Moves Forward With Bundled Payments

By William M. Todd

One of the most dramatic, albeit unseen, current changes in the American health care system is the vigorous initiative by the Centers for Medicare and Medicaid Services (“CMS”) to revolutionize the payment system for health care services, through the use of “bundled payments.” As CMS leads the way with this initiative it is likely that the private sector will not be far behind.



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Historically, the American health care system has been based upon a “fee for service” system in which providers have been paid, an item at a time, for the goods and services that they provide to patients. This payment has been the foundation of our health care system for generations.

However, we are seeing the CMS make dramatic moves away from the fee for service model and towards a payment system that reimburses providers a set amount for all goods and services associated with an episode of care. The “bundled payment,” which is established in advance, requires all providers participating in a care episode to “share” the bundled payment, as reimbursement for their goods and/or services.

For example, as a follow up to a recent announcement developing a pilot program for bundled payments for various orthopedic services, such as hip and knee implants, the CMS announced early this week a **mandatory** new program targeted for 98 urban areas that would cover care episodes involving heart attacks and bypass surgery.

This CMS initiative is part of a plan to replace the traditional fee for service model for at least half of all Medicare expenditures by 2018. This shift in the payment system will force providers to accelerate their plans to participate in various forms of care networks that are ultimately designed to provide comprehensive, longitudinal care for patients rather than care provided pursuant to the current fragmented, encounter-by-encounter, payment model.

Ready or not, providers need to begin adapting their practice patterns to facilitate participation in these new bundled payment schemes. This will include forging new networks between physicians, hospitals and sub-acute care providers designed to ensure that a patient receives appropriate, and cost-effective, health care during an entire care episode.

Will these changes in the reimbursement system provide patients a higher standard of care, or are they simply designed to save money? The answer to that question will not be known for at least a decade. In the interim, patients may be placed at risk of being deprived of necessary care due to the providers’ undeniable financial interest in “managing” the bundle.

HHS Announces Funding for Health Center Adoption of Health IT

Health and Human Services (HHS), announced more than \$36 million in funding for 50 Health Center Controlled Networks (HCCNs) in 41 states and Puerto Rico. This increase in health information technology support will impact more than 1,020 participating health center organizations in all 50 states and Puerto Rico. HCCNs improve access to care, enhance quality of care, and achieve cost efficiencies through the redesign of practices to integrate services, optimize patient outcomes, or negotiate managed care contracts on behalf of participating health centers. The networks support health center participation in the Federal Health Information Technology Strategic Plan to:

- Adopt and implement certified electronic health record technology
- Enhance comprehensive, integrated data collection, analysis and reporting
- Improve clinical and operational quality, reduce health disparities, and improve population health through health information technology



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Selected RCM and Health IT Transactions in Q2 2016

7/19/2016 – **md Strategies**, a full service coding company that offers coding, auditing, and education & training services for ambulatory surgery centers and surgical centers based in Cypress, TX, has acquired the medical coding account of **Ellis Medical Consulting** of Franklin, TN.

7/07/2016 – **Grady Health System**, a safety net health systems in the Atlanta, acquired **Synaptive Medical's BrightMatter** technology, designed to support efficient clinical decision making with advanced imaging, planning, navigation and robotic visualization.

7/05/2016 – San Diego, CA based **NuVasive** (NASDAQ: NUVA), a medical device company focused on transforming spine surgery, completed acquisition of Detroit based **Biotronic NeuroNetwork (Biotronic)**, a developer of Biosphere software, facilitates the constantly connected electronic environment for true, real-time interaction between the technologists and the interpreting physician, giving the surgeon the most up-to-date status of the patient's neurological functions.

7/05/2016 – **1mg** (previously HealthKartPlus), an India based online price shopping and drug delivery company that allows users to search for medicines and get information on dosage, common uses, and warnings, acquired **Medd**, a developer of a diagnostic test booking app.

7/04/2016 – **Xped** (ASX: XPE), an Australian developer of revolutionary and patent protected technology that allows any consumer, regardless of their technical capability, to connect, monitor and control devices and appliances, completed the Sale and Purchase agreement of **Jackson Care Technologies (JCT) Healthcare**, provider of communication solutions to the Healthcare sector with products that are tailored for Hospitals, Aged Care, Independent Living and Disability Care.

6/30/2016 – **Teladoc** (NYSE: TDOC), a provider of telehealth services, acquired Phoenix based **HealthiestYou**, a developer of a telehealth app for researching doctors, diagnosis and treatment options, prices and prescriptions, for \$125 million in a mix of cash and stock. Under the terms of the agreement, the purchase price consists of \$45 million cash and 6.96 million shares of Teladoc's common stock.

6/30/2016 – **iDAvatars (IDA)**, a developer of Avatar apps for healthcare, powered by IBM Watson, announced the strategic merger with **CodeBaby**, a provider of virtual assistant tools for insurance and financial sectors based in Colorado Springs. Both companies bring complementary technologies and strategic capabilities to the merger, addressing the growing need for global enterprises to more efficiently and effectively interact with their customer and patient audiences online and via mobile devices.

6/30/2016 – **HealthRight**, a provider of comprehensive ehealth services near Philadelphia, agreed to acquire **HealthNEXT**, a provider of evidence-based employer roadmaps for benchmarking population health goals.

6/29/2016 – **Global Healthcare Exchange (GHX)**, a Denver based provider of cloud-based healthcare supply chain management solutions, acquired **Healthcare's Automated Payment Exchange (Hap-X)** of Omaha, NE, an automated payment management solutions. The acquisition, GHX's second in 19 months, expands the company's financial products portfolio to deliver even greater payment choice and value. Hap-X will operate as a wholly owned subsidiary.

6/29/2016 – Atlanta based **Fulcrum Equity Partners** announced its investment in **iHealth Solutions**, a provider of mobile and software services that assist healthcare providers navigate evolving payment models. The investment will allow iHealth to expand its customer base, and provide a broader array of products and services.



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6/28/2016 – **Medisphere Systems**, a provider of electronic health record solutions located in Carlsbad, CA, and Salt Lake City, UT based **ChartLogic**, an ambulatory EHR suite including electronic medical record, practice management, revenue cycle management, e-prescribing, patient portal and more, have executed a definitive agreement to merge the two companies.

6/26/2016 – Louisville, KY based **Bolder Healthcare Solutions**, a provider of healthcare revenue cycle management services, acquired **Healthcare Receivable Professionals**, a provider of third party liability accounts for regional health systems, for-profit and not-for-profit health systems and hospitals out of Marietta, GA.

6/21/2016 – Electronics company **Philips** acquired UK based **PathXL**, a provider of digital pathology image analysis, workflow software and educational tools, to expand their digital pathology solutions portfolio within their healthcare business.

6/20/2016 – Israel based **Magic Software Enterprises** (NASDAQ: MGIC), a provider of software platforms for enterprise mobility, cloud applications, and business integration, entered into a definitive agreement to acquire a 60% equity interest in **Roshtov Software Industries**, a provider of primary healthcare information management applications. The aggregate purchase price for the 60% interest is approximately \$21M in cash and the Company will have the option to acquire 100% of the equity in Roshtov.

6/15/2016 – **Ontario Systems**, a provider of reliability centered maintenance and accounts receivable management software and solutions to the healthcare, government and ARM industry, acquired Vancouver, WA based **Columbia Ultimate Business Systems** provider of software and solutions to outsourced revenue cycle management (RCM) and ARM firms as well as government clients.

6/15/2016 – **WIRB-Copernicus Group**, a provider of solutions that measurably improve the quality and efficiency of clinical research located in Princeton, NJ, acquired **karmadata**, a provider of clinical trial database and decision support applications located in Hingham, MA.

6/13/2016 – Walnut Creek, CA based **Inspira Financial (Inspira)**, a provider of revolving lines of credit to the highly fragmented U.S. healthcare market of physician groups and healthcare service providers, to acquire **RBP Healthcare Technologies (RBP)**, a provider of technology platform for specific to the mental health and addiction services industry that includes Electronic Health Records, care coordination, automated admissions, and Revenue Cycle Management. Inspira will acquire RBP for a total consideration valued at \$8,500,000.

6/13/2016 – **MedData**, a national provider of revenue cycle management, analytics, billing and coding services, completed its acquisition of **Cardon Outreach**, a provider of third-party eligibility and other revenue cycle management services for hospitals located in The Woodlands, TX.

6/10/2016 – **DocPlanner**, a provider of an online medical and dental appointment service, merged with **Doctoralia**, a provider of online platform that allows users to search, read ratings, and book appointments with healthcare professionals. DocPlanner operates both a consumer-facing marketplace, and cloud software for private healthcare providers, including individual doctors, dentists and other healthcare professionals (such as dietitians and psychologists), as well as small and large clinics.

6/8/2016 – **Capita**, a provider of technology-enabled business process management and outsourcing solutions out of London, acquired Cambridge based **Health Analytics**, a developer of health analytics' software for valuable insights into National Health Service (NHS) Patient Care. This will allow NHS staff can improve the efficiency of the NHS and social services, delivering better care for less money.



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6/6/2016 – **AMN Healthcare** (NYSE: AHS), a provider of opportunities for nurses, physicians and therapists out of San Diego, acquired **Peak Health Solutions**, a provider of HIM services, remote medical coding and consulting solutions to hospitals and physician medical groups located in Franklin, TN.

6/3/2016 – **QHR Technology**, a provider of technologies and services which enable secure medical records management for clinical environments, empowering health for virtual care, acquired **PatientPrep Technology**, a provider of digital health that focuses on optimizing the doctor- patient visit in hospitals.

6/1/2016 – **MedAssets-Precyse** near Philadelphia, a provider of end-to-end revenue cycle services, technology and education solutions, acquired Layton, UT based **Equation**, a provider of analytic tools and expertise to gain insights to improve healthcare delivery and patient satisfaction while strengthening financial and budgetary performance for healthcare organization.

5/31/2016 – Tampa, FL based **DAS Health**, a provider of patient-centric health IT and management services, acquired **Falcon Healthcare Systems** of Las Vegas, a provider of managed IT services, revenue cycle management, Practice Management, and EHR technologies, will strengthen DAS Health's portfolio of offerings to physician practices.

5/25/2016 – **iHealth Solutions**, a Louisville provider of comprehensive revenue cycle management services through a robust, innovative technology, acquired **DNA Healthcare**, a provider of value-driven revenue-cycle management solutions based in Piscataway Township, NJ. **Fulcrum Equity Partners** invested into iHealth for future growth.

5/25/2016 – **IMS Health** (NYSE: IMS), a provider of information services and technology for the healthcare industry, acquired **Privacy Analytics**, a Canada-based provider of data

anonymization solutions for the healthcare industry

5/24/2016 – **Equian**, a provider of technology-enabled, data-driven solutions that ensure payment integrity across the healthcare and property and casualty industries out of Indianapolis, acquired **Nurse Audit**, a provider of end-to-end payment integrity services platform for the healthcare, workers compensation, and property & casualty industries located in Portsmouth, NH.

5/19/2016 – **UDG Healthcare**, a provider of sales and marketing services, drug wholesaling, medical equipment, packaging and specialist healthcare delivery services, acquired **Pegasus Public Relations**, a provider of health communications consultancy. The initial purchase price sits at \$11.32 million with an additional \$7.51 million payable based upon agreed profit targets over the next three years.

5/18/2016 – Jersey City, NJ based **ITelagen**, a provider of electronic health records to organize medical records as part of an entire back-office solution that includes unlimited onsite & remote technical support and secure hosting of patient data, acquired **Planet Logic** out of Princeton, NJ, a provider of innovative managed healthcare cloud and data center services that use methods and technology.

5/18/2016 – **MediSolutions**, a provider of Enterprise Resource Planning software solutions and services to healthcare and service sector customers, acquired **Emerald Health Information Systems**, a health informatics company specializing in business intelligence, infection control and surveillance, patient flow and workload software solutions.

4/25/2016 – **Veritas Capital**, a private equity fund out of NYC, announced it will acquire **Verisk Health**, a subsidiary of Verisk Analytics (NASDAQ: VRSK) and provider of data and analytics healthcare services, for \$820 million with \$720 million in cash and \$100 million in long-term subordinated debt.



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Selected Publicly Traded RCM and Healthcare IT

Company Name	Ticker Symbol	Price (6/30/2016)	% Change Prior Qtr	% Change Prior Yr	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	2.00	(21.6%)	(63.6%)	3.43	1.72	188	0.31	6.13	458	(96)	211.5	(0.2x)	(0.5x)
Allscripts Healthcare Solutions, Inc.	MDRX	12.70	(3.9%)	(7.2%)	15.78	11.47	2,610	0.05	263.58	1,400	3,140	124.7	2.2x	25.2x
athenahealth, Inc.	ATHN	138.01	(0.6%)	(0.2%)	170.42	113.86	5,460	0.55	253.00	974	5,650	75.6	5.8x	74.8x
Cerner Corporation	CERN	58.60	10.6%	(15.1%)	75.00	49.59	2,051	1.65	36.78	4,490	2,065	1,250.0	0.5x	1.7x
Computer Programs & Systems Inc.	CPSI	39.92	(23.4%)	(25.3%)	59.16	36.04	554	0.94	43.74	206	686	36.1	3.3x	19.0x
eHealth, Inc.	EHTH	14.02	49.3%	(9.5%)	16.81	8.14	246	0.85	15.90	202	178	26.3	0.9x	6.8x
HealthStream, Inc.	HSTM	26.52	20.1%	(12.8%)	32.20	17.80	850	0.23	114.98	216	721	23.9	3.3x	30.1x
HMS Holdings Corporation	HMSY	17.61	22.7%	0.4%	20.00	8.11	1,590	0.29	65.09	484	1,660	90.6	3.4x	18.3x
McKesson Corporation	MCK	186.65	18.7%	(16.8%)	235.68	148.29	45	9.70	20.32	191	49	4,620.0	0.3x	0.0x
Medidata Solutions Inc.	MDSO	46.87	21.1%	(13.7%)	30.22	61.31	2,710	0.33	145.31	404	2,570	43.9	6.4x	58.6x
Quality Systems, Inc.	QSII	11.91	(21.9%)	(28.1%)	11.10	17.50	775	0.09	140.00	492	831	57.4	1.7x	14.5x
Streamline Health Solutions Inc.	STRM	1.20	(14.9%)	(57.1%)	1.08	3.50	27	(0.28)	(4.96)	29	28	(0.8)	1.0x	(35.3x)
The Advisory Board Company	ABCO	35.39	10.8%	(35.3%)	60.38	18.87	1,610	(2.06)	(19.06)	790	2,130	113.1	2.7x	18.8x
Medical Transcription Billing, Corp.	MTBC	0.88	(13.7%)	(53.2%)	0.68	2.50	9	(0.60)	(1.53)	22	12	(1.3)	0.5x	(9.2x)
Average			3.8%	(24.1%)									2.3x	13.4x*

Excluding outliers*

The United Kingdom's announcement to leave the European Union ("Brexit") has dominated storylines and turned markets upside down across the United States and Europe. However, U.S. markets have mostly recovered, but there is sure to be added volatility in the coming weeks from increased speculation of Italy being the next member state to exit the politico-economic union. Consequently, a possible 2016 rate hike from the Federal Reserve may be back on the table after announcing the possibility of cutting rates due to the instability overseas. Since the end of the first quarter to end of the first half of 2016, the DJIA has risen 1.4%, the S&P 500 has increased 1.9%, while the NASDAQ has only risen 0.6% due to poor growth in technology sector. Despite the market recovery from "Brexit", 52-week returns in most Healthcare subsectors have remained negative with the exceptions of Health Care REIT's and Medical Technology, posting sector returns of 9.0% and 5.0% respectively. However, look for even more volatility across the Healthcare industry as November approaches with one of the wildest elections in United States history.

The RCM and Healthcare IT index is supported by robust quarterly returns posted by **eHealth Inc.**, **HMS Holdings Corporation**, and **McKesson Corporation**, with increases of 49.3%, 22.7%, and 18.7% respectively.

eHealth Inc. saw a spike in its stock after crushing its Q1 earnings expectations of \$0.70 per share with actual earnings of \$0.99 per share. An increase of 20.4% in revenue can be attributed to a dramatic increase in insurance sales thanks to enhanced sentiment of a rate hike at the end of the first quarter. Share price has leveled off since the end of the quarter, and a rate hike appears unlikely for the rest of the year, so it will be interesting to see how management can increase sales amidst the upcoming election.

HMS Holdings Corporation had a steady increase in share price after beating earnings expectations to start the second quarter. Their commercial health plan business show year-over-year revenue growth of 30% serving as the main catalyst for HMS Holdings growth. Many analysts are giving HMS either an "outperform" or "buy" rating due to its staggering growth projections for the rest of 2016. Another major driver of revenue growth came from their Payment Integrity products which grew in revenue by 15.5% from the first quarter in 2015.

McKesson Corporation had a shaky second quarter until they announced a merger with **Change Healthcare** to form a new healthcare information technology company. The newly formed entity will deliver a broad portfolio of healthcare solutions helping lower healthcare costs, improve patient access and outcomes, and make it simpler for payers, providers, and consumers switching to different care plans. The merger is expected to generate over \$150 million in annual synergies in the second year after the transaction.



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</p> <p><i>Strategic Options Analysis</i></p> <p> Acted as advisor</p>

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