DUFF & PHELPS

Protect, Restore and Maximize Value

Healthcare IT Insights

WINTER 2019

2018 – A Year of Continued Consolidation in the Wellness Sector

M&A activity in 2018 remained healthy in the $40 billion wellness sector.[1] Big players used M&A to get bigger, and private equity investors played both sides of the trade–selling assets to realize gains and buying platforms to effect consolidation. Consolidation has been driven, in no small part, by employers' desire to reduce the number of benefits vendors they use. Consolidators have acquired best-in-class point solutions to integrate into end-to-end solutions. Continued tightening in the U.S. labor market added to industry momentum. Unemployment ended the year at 3.9%,[2] real average weekly earnings grew by 1.2% in 2018.[3] Employers looked for benefit packages that included wellness offerings to recruit and retain employees.

For perspective, employers are the largest conduit for healthcare coverage in the U.S. According to the Kaiser Family Foundation, 56% of the non-elderly population in the U.S., more than 152 million people, received health insurance coverage from employers in 2016.[4] In addition, 60% of workers covered by employers are in self-funded plans,[5] meaning that the employer, not an insurance company, is responsible for the cost of healthcare not funded by employee-paid premiums, co-payments and deductibles. Self-funding skews heavily toward large employers – 91% of employers with 5,000 or more workers are self-funded, versus 23% of employers with 50 to 199 workers.[5]

Large employers also represent a larger share of the market for employee wellness programs – 62% of large employers (200 or more workers) offer health risk assessments and 50% of large employers offer biometric screening to employees, as compared to 37% and 21%, respectively, of small employers (50-199 employees).[4] Large employers with wellness programs have a significantly higher adoption rate, and 48% of them reported using a third-party wellness provider (as opposed to an insurance company, TPA or self-administration) as compared to 28% of small employers.[6]

The data above suggest that serving large employers could be lucrative is for wellness providers, which could at least partially explain vendor consolidation, as certain wellness program providers using M&A to increase their scale in order to add capabilities to better serve the needs of large employers.

1 Global Wellness Institute

2 Bureau of Labor Statistics press release dated January 18, 2019

3 Bureau of Labor Statistics press release dated January 11, 2019

4 http://files.kff.org/attachment/Supplemental-Tables-The-Uninsured-A-Primer-Key-Facts-about-Health-Insurance-and-the-Uninsured-Under-the-Affordable-Care-Act

5 2017 Annual Survey Employer Health Benefits – The Kaiser Family Foundation

6 2018 Annual Survey Employer Health Benefits – The Kaiser Family Foundation

Benefit plans are a valuable tool that employers use to recruit and retain talent. According to a 2016 survey by Glassdoor,[7] 57% of respondents reported benefits to be among the top considerations in accepting a job. As more wellness offerings have been incorporated into benefit plans in response to the progressive tightening of the labor market, wellness has become well-being. Health risk assessments, biometric screening and weight loss and smoking cessation programs have been joined by mental health, sleep management, mindfulness and financial wellness programs in many benefit plans, not only to recruit and retain, but to foster employee engagement and enhance productivity. In response, third-party vendors have added these and other capabilities organically and via acquisition.

Software has been an important enabler for vendors as they scale programs across large employer groups. This was one of the stated drivers of the November 2018 acquisition of SimplyWell, a portfolio company of Frontier Capital, by Marlin Equity Partners, which merged the business with its Virgin Pulse wellness portfolio company. In the press release announcing the deal, Marlin said, "The acquisition of SimplyWell allows us to add immediate scale and critical product features to the Virgin Pulse platform and accelerates the time to market of key clinical-focused capabilities for our customers in the near-term." Earlier in the year, when Marlin acquired and merged venture capital-backed RedBrick and Virgin Pulse, it cited similar dynamics: "Bringing RedBrick's live and digital coaching and benefits navigation together with Virgin Pulse's mobile-first, daily engagement platform allows us to deliver the industry's only global, one-stop-shop for employees and employers."

This is not to say that the large employer market is the only game in town. According to data published by the National Center for the middle market, employers with revenue between $10 million and $1 billion were responsible for one-third of all U.S. jobs. Midsized enterprises have similar human capital needs as large enterprises but may have less of a need to scale solutions due to the size of their employee populations. Hence - in the middle market - while software enablement is still important, wellness programs with high-touch customized services can play a bigger role. Employers also place a high priority on data security and a vendor's ability to provide a consistent, engaging experience across an enterprise that might consist of a multigenerational workforce. Millennials, GenXers, GenYers and baby boomers may work for the same company, but they have different wellness needs and respond differently to digital cues.

Looking to 2019, we anticipate wellness sector M&A activity will likely continue. The market is still highly fragmented, and not all small vendors will be able to make the investments required to keep their programs competitive with larger vendors as downward pricing pressure persists. Smaller vendors will seek M&A at an increasing rate in 2019, taking advantage of a still-strong employment

7 https://www.glassdoor.com/blog/glassdoors-5-job-trends-watch-2016/

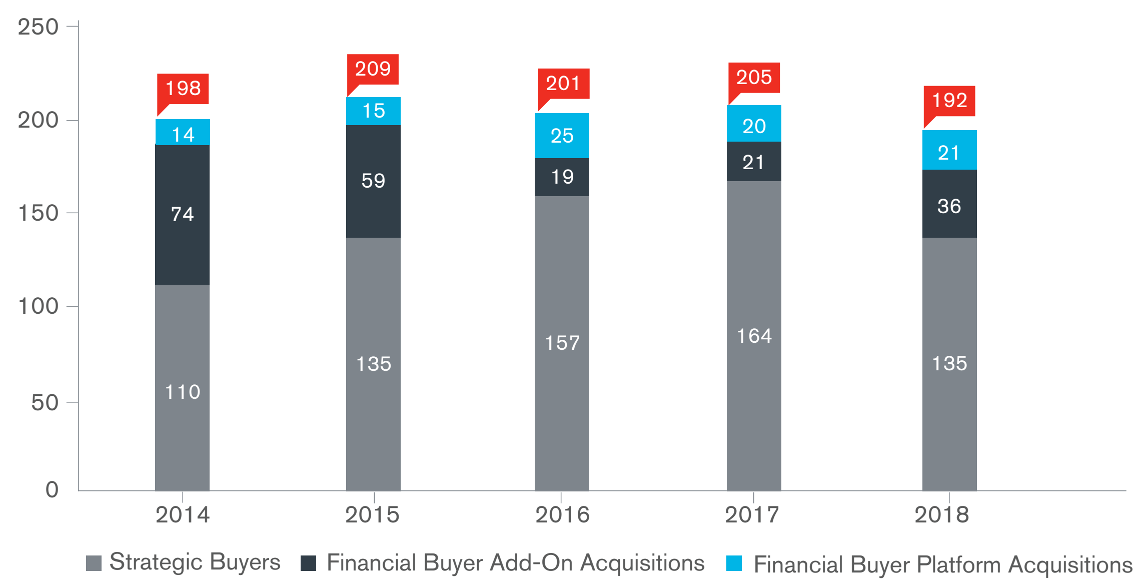
market and with the knowledge that economic expansions do not last forever. The current expansion, which began in June 2009, is the second longest recorded by the National Bureau of Economic Research. It is only logical that it will come to an end at some point, be it later in 2019 or in 2020. Declining employment would hurt wellness vendors in several ways. Fewer employees means fewer Per Member Per Month dollars and employers will push even harder for lower rates. Finally, in a less competitive labor market, employers may view wellness benefits as a luxury rather than a necessity.

Nonetheless, the long-term outlook for well-being benefits is strong. Recessions tend to be 12- to 18-month events and important industry trends will survive through the economic cycle. Top talent is always in short supply, a healthy and engaged workforce can enhance productivity, the healthcare cost curve has not been bent downward and wellness is an important cost-containment tool. Finally, the expectations of the rising generation of labor force participants are significantly different than those of the retirees they are replacing, and well-being benefits will be an increasingly key factor in selecting an employment opportunity.

2018 HCIT M&A Overview

In the last year, 192 HCIT transactions were announced, a 6% decline from the 205 transactions announced in 2017. Strategic buyers (including private equity portfolio companies) represented approximately 89% of activity, with new platform acquisitions by financial buyers representing the remaining 11% of announced transactions. Deal volume in the sector was largely driven by continued buyer interest in companies that improve patient care and regulatory compliance while creating operating efficiencies and reducing costs. Additionally, innovation in areas such as wellness, data storage and cloud technology, analytics and population health management, EHR interoperability, cybersecurity, HIPAA compliance, blockchain and artificial intelligence will likely continue to be an important investment themes as acquirers seek to remain ahead of HCIT trends.

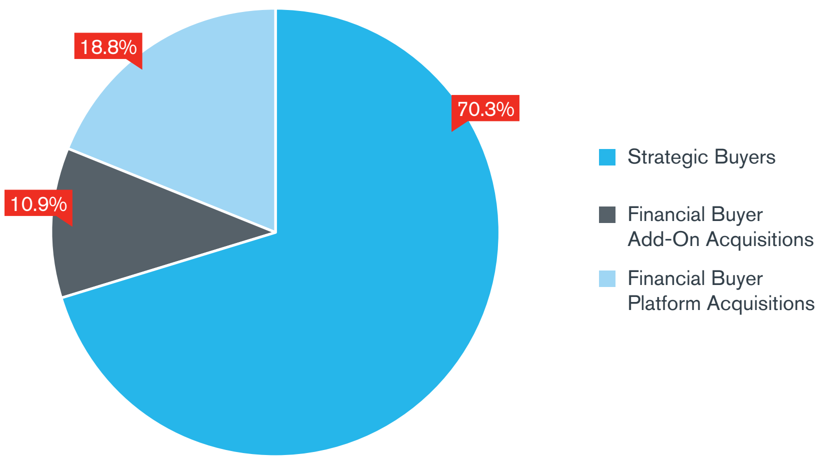
2014-2018 Healthcare IT M&A Activity



Sources: Healthcare IT News, S&P Global Market Intelligence, Mergermarket, company press releases and other news sources.

Large healthcare corporations and financial sponsors continue to display interest in specialized HCIT assets. There is a growing appetite among investors for specialty and sector-specific EHR and patient communication and engagement solutions, as providers demonstrate a preference for purpose-built technology to support value-based care. Healthcare providers continue to extend their focus beyond cost and quality of care, with a growing focus on patient engagement and communication to improve the patient experience. Continued growth in complex reimbursement schemes and operational challenges will likely further support the demand for such HCIT solutions.

YTD 2018 Transactions by Acquirer Type



Sources: Healthcare IT News, S&P Global Market Intelligence, Mergermarket, company press releases and other news sources.

The largest HCIT transaction announced in the second half of 2018 was the bid by Elliott Management and Veritas Capital for athenahealth Inc. (NASDAQ: ATHN) for $5.7 billion in cash. Other notable transactions in the second half of 2018 include the acquisition of Cotiviti Holdings Inc. (NYSE: COTV) by Veritas Capital portfolio company Verscend Technologies Inc., the acquisition of OMERS portfolio company MatrixCare Inc. by ResMed Inc. (NYSE: RMD) and the acquisition of Marlin Equity Partners portfolio company AdvancedMD Inc. by Global Payments Inc. (NYSE: GPN).

Sources: S&P Capital IQ , Healthcare IT News, S&P Global Market Intelligence, MergerMarket, company press releases and other news sources

M&A Activity – HCIT Trends

On November 12, 2018, Elliott Management and Veritas Capital announced an agreement to acquire athenahealth for $135 per share, or approximately $5.7 billion, representing a premium of 12% to the stock price on the date of the announcement. Upon completion of the deal, which is expected to close in the first quarter of 2019, athenahealth will merge with Virence Health, the former GE Healthcare unit that was acquired by Veritas Capital earlier in 2018. The new company will be led by Virence Chairman and CEO Bob Segert, who said, “We are excited by the opportunity to partner with athenahealth, one of the largest and most connected provider networks in the nation, to drive outcomes that matter the most to our customers.” Segert added, “athenahealth and Virence have complementary portfolios and highly talented people, and this combination expands our depth and reach across the continuum of care.”

On August 27, 2018, Verscend Technologies Inc., a portfolio company of Veritas Capital and a leader in data-driven healthcare solutions, announced that it had completed the acquisition of Cotiviti Holdings Inc. (NYSE: COTV). Cotiviti is a leading provider of payment accuracy and analytics-driven solutions focused primarily on the healthcare industry. Cotiviti shareholders received $44.75 per share, or approximately $4.9 billion, representing a premium of 32% to Cotiviti’s share price as of June 4, 2018 and a 136% premium to the initial public offering price of Cotiviti’s common stock. The combined business will operate as a private healthcare information technology company that will increase affordability, reduce waste and improve outcomes and quality, as well as offer new opportunities to create substantial value for clients, including providing complementary solutions across multiple intervention points in the payment process. “We are thrilled to partner with Cotiviti, which has become an important player in the growing and increasingly important and complex healthcare payment accuracy space,” said Emad Rizk, M.D., president and CEO of Verscend. “Together, Verscend and Cotiviti will offer our clients a comprehensive, integrated end-to-end solution to address the estimated $900 billion in healthcare waste and abuse across the claims payment and care continuum. Financial data coupled with clinical data from our Risk Adjustment, Quality and Population Health lines of business offer increased value to commercial payers, government entities and providers.”

Source: Company press releases.

M&A Activity – HCIT Trends

On November 14, 2018, ResMed Inc. (NYSE: RMD), a leader in cloud-connected medical devices and out-of-hospital software-as-a-service (SaaS) business solutions, announced that it had acquired MatrixCare Inc. from OMERS Private Equity and other investors for $750 million. MatrixCare is a leader in software solutions for more than 15,000 providers across skilled nursing, life plan communities, senior living and private duty. MatrixCare's care settings compliment ResMed's SaaS offerings in home medical equipment, home health and hospice, delivered through Brightree and HEALTHCAREfirst, which ResMed acquired in April 2016 and July 2018, respectively. "We're all excited to have quickly closed this important deal and can officially welcome MatrixCare to the ResMed family," said ResMed CEO Mick Farrell. "ResMed is the world's top tech-driven medical device company, and we are well on our way to being the top provider of out-of-hospital software. It all fits into our mission of changing millions of people's lives, whether it's by treating and preventing the advance of chronic disease or helping someone easily navigate out-of-hospital healthcare settings so they and their loved ones can live their best life." MatrixCare will continue to operate as a stand-alone business within ResMed's SaaS portfolio, with targeted commercial, technical and operating links to ResMed and Brightree.

On September 5, 2018, Global Payments Inc. (NYSE: GPN), a provider of payment technology and software solutions, announced that it had acquired AdvancedMD from Marlin Equity Partners in an all-cash transaction valued at $700 million. AdvancedMD provides cloud-based SaaS to small-to-midsize ambulatory physician practices in the United States. "We are delighted to expand our owned software portfolio with the addition of AdvancedMD, a leader in the large and fragmented healthcare vertical market," said Jeff Sloan, CEO of Global Payments Inc.. "This acquisition aligns perfectly with our software-driven strategy and will add significant SaaS revenue in a new, attractive market with strong payment fundamentals, further accelerating our business mix toward technology enablement."

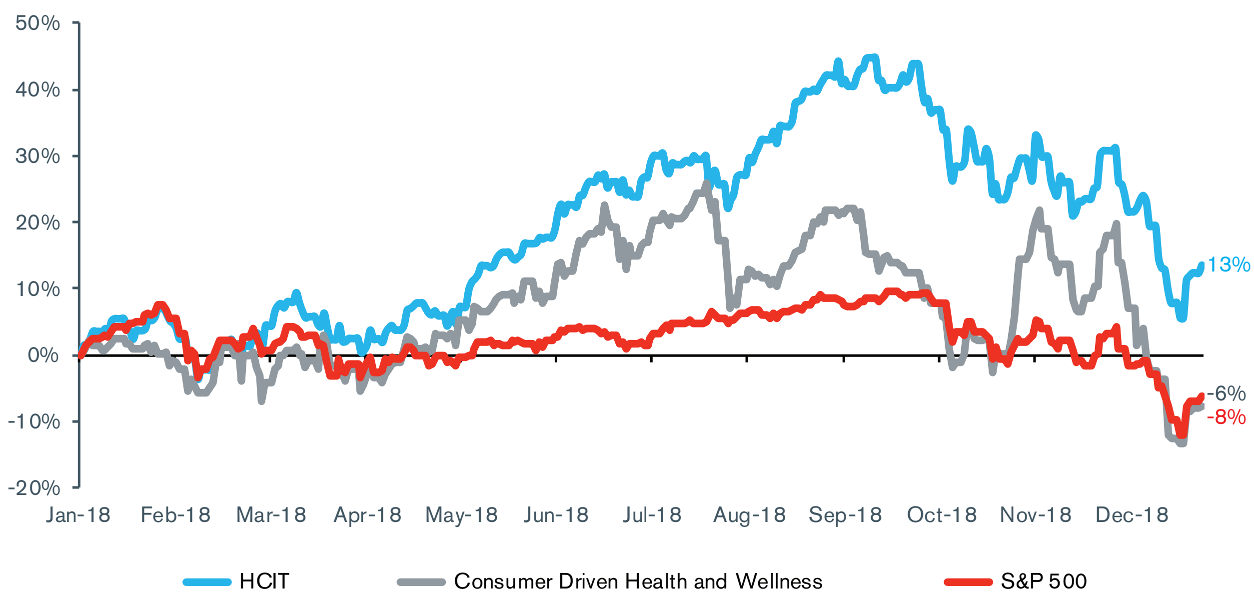
Source: Company press releases.

Public Market Valuation Multiples

The HCIT index outperformed the S&P 500 by 10.7%, while the Consumer Driven Health and Wellness (CDHW) index underperformed the S&P 500 by 10.3% in 2018. In the HCIT index, Tabula Rasa HealthCare Inc., was the top performer, gaining 127.3%, followed by R1 RCM Inc. with a gain of 80.3% and HMS Holdings Corp. with a gain of 66.0%. In the CDHW index, Benefitfocus Inc., was up 69.3% for the year, followed by HealthEquity Inc., at 27.8%. NantHealth Inc. was the poorest performer in the HCIT index, declining by 82.2%, while WageWorks Inc., was the poorest performer in the CDHW index, declining by 56.2%. Overall, 2018 proved to be a strong year in the HCIT equity market, with a majority of companies showing positive share performance.

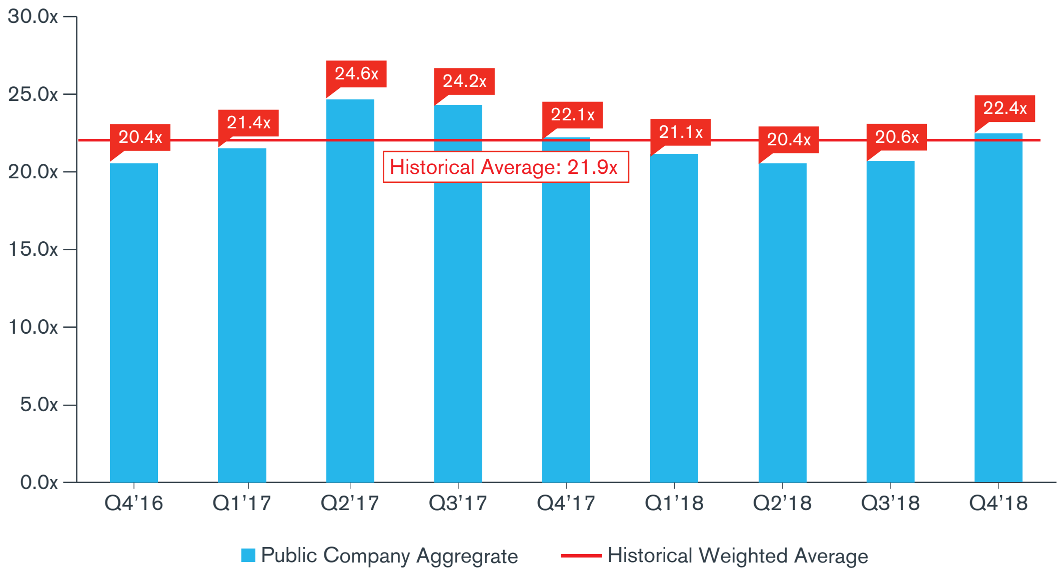
HCIT company valuation multiples rose slightly in the same period while CDHW valuation multiples declined.[8] The average LTM EV/EBITDA multiple for HCIT companies rose from 22.1x to 22.4x in 2018. The average LTM EV/EBITDA multiple for CDHW companies declined from 18.8x to 17.8x during the same period.

Stock Price Index[9]
(January 1, 2018 to December 31, 2018)



8. See historic multiple charts on page 7.
9. S&P Market Intelligence: Indices based on companies included on page 8.

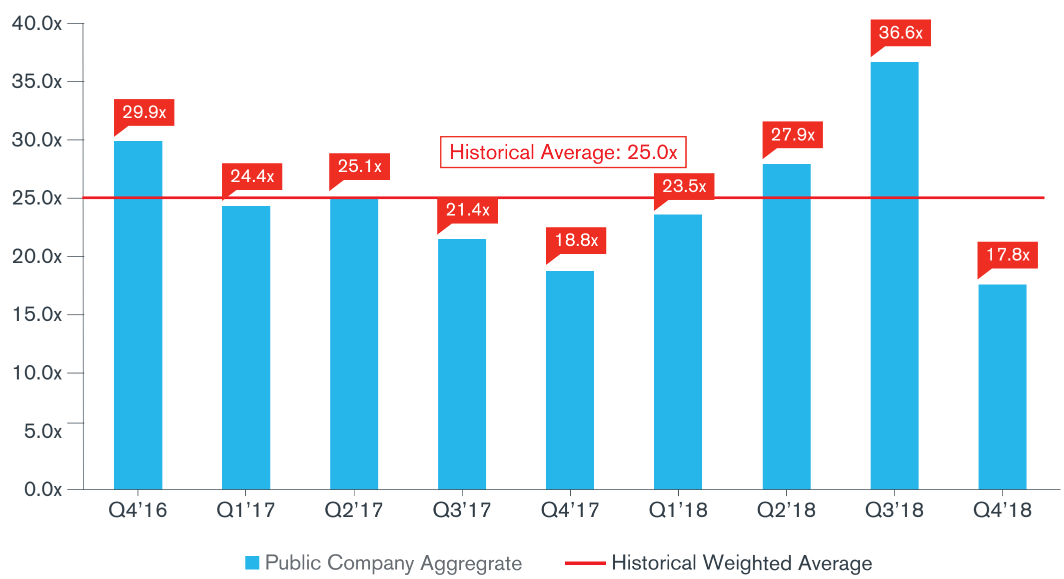
HCIT Index Quarterly LTM EBITDA Multiples Q4 2016 to Q4 2018



1. EBITDA multiples greater than 100x are deemed not meaningful.
2. Multiples calculated based on the average daily LTM EBITDA multiple for the preceding fiscal quarter. The multiples presented in the above chart may differ from those presented elsewhere in this report.
3. Indices based on companies included on page 7, excluding Premier, Inc

Source: S&P Global Market Intelligence

Consumer Driven Health and Wellness Index Quarterly LTM EBITDA Multiples Q4 2016 to Q4 2018

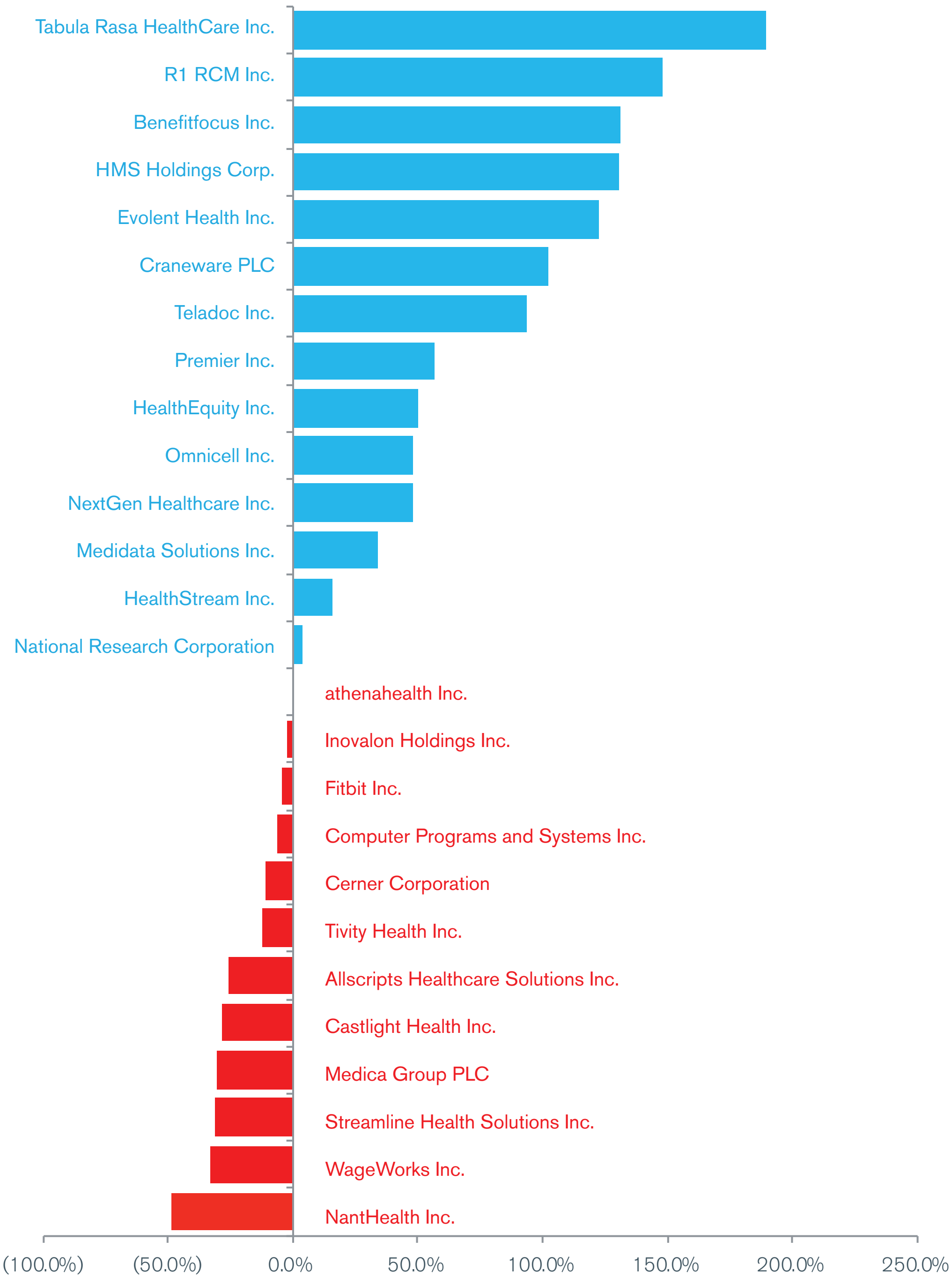


1. EBITDA multiples greater than 100x are deemed not meaningful.
2. Multiples calculated based on the average daily LTM EBITDA multiple for the preceding fiscal quarter. The multiples presented in the above chart may differ from those presented elsewhere in this report.
3. Indices based on companies included on page 7.

Source: S&P Global Market Intelligence

Selected Publicly Traded Companies

Stock Price Change (December 31, 2017 to December 31, 2018)



Company Name	Ticker	Price 12/31/2018	% Change 12/31/2017	LTM Multiples (as of 12/31/2018) Rev	EBITDA	LTM Multiples (as of 12/31/2017) Rev	EBITDA	Change in Multiples Rev	EBITDA
HCIT									
Allscripts Healthcare Solutions, Inc.	MDRX	$9.64	(33.7%)	1.9x	42.8x	2.6x	25.2x	(27.0%)	69.5%
athenahealth, Inc.	ATHN	131.93	(0.8%)	4.1x	20.3x	4.6x	42.1x	(11.6%)	(51.7%)
Cerner Corporation	CERN	52.44	(22.2%)	3.2x	13.5x	4.4x	15.9x	(26.8%)	(15.5%)
Computer Programs and Systems, Inc.	CPSI	25.10	(16.5%)	1.7x	13.7x	2.1x	19.9x	(20.4%)	(31.0%)
Craneware plc	CRW	31.70	67.2%	12.1x	41.6x	7.9x	26.3x	53.4%	58.0%
Evolent Health, Inc.	EVH	19.95	62.2%	2.7x	NM	1.9x	NM	39.6%	NA
HealthStream, Inc.	HSTM	24.15	4.3%	2.3x	19.6x	2.5x	22.6x	(7.6%)	(13.3%)
HMS Holdings Corp.	HMSY	28.13	66.0%	4.2x	20.2x	3.2x	16.7x	31.7%	21.2%
Inovalon Holdings, Inc.	INOV	14.18	(5.5%)	6.0x	29.6x	4.4x	23.7x	34.7%	24.9%
Medica Group PLC	LSE:MGP	1.58	(40.7%)	3.8x	13.1x	7.7x	26.0x	(50.9%)	(49.4%)
Medidata Solutions, Inc.	MDSO	67.42	6.4%	6.4x	43.5x	6.8x	43.6x	(6.1%)	(0.3%)
NantHealth, Inc.	NH	0.54	(82.2%)	2.7x	NM	4.4x	NM	(39.3%)	NA
National Research Corporation	NRC	38.14	2.3%	8.2x	24.6x	8.2x	24.3x	0.7%	0.9%
Omnicell, Inc.	OMCL	61.24	26.3%	3.3x	33.3x	2.9x	49.4x	12.9%	(32.5%)
Premier, Inc.	PINC	37.35	28.0%	3.0x	6.9x	2.8x	9.3x	4.4%	(26.7%)
NextGen Healthcare Inc.	NXGN	15.15	11.6%	1.9x	26.4x	1.7x	15.1x	9.4%	75.2%
R1 RCM Inc.	RCM	7.95	80.3%	1.9x	73.4x	1.2x	25.7x	53.7%	185.3%
Streamline Health Solutions, Inc.	STRM	0.81	(52.1%)	1.2x	54.7x	1.8x	NM	(33.3%)	NA
Tabula Rasa HealthCare, Inc.	TRHC	63.76	127.3%	6.9x	72.7x	4.8x	NM	42.8%	NA
Teladoc, Inc.	TDOC	49.57	42.2%	9.2x	NM	12.0x	NM	(23.9%)	NA
Mean			13.5%	4.3x	32.3x	4.4x	25.7x	(1.8%)	25.7%
Median			5.3%	3.3x	26.4x	3.8x	24.3x	(13.3%)	6.6%
Market Capitalization Weighted			(2.7%)	4.4x	21.7x	4.7x	22.0	(6.4%)	(1.3%)
Consumer Driven Health and Wellness									
Benefitfocus, Inc.	BNFT	$45.72	69.3%	5.7x	NM	3.6x	NM	57.4%	NA
Castlight Health, Inc.	CSLT	2.17	(42.1%)	1.6x	NM	3.4x	NM	(52.9%)	NA
Fitbit, Inc.	FIT	4.97	(13.0%)	0.4x	NM	0.4x	NM	(5.4%)	NA
HealthEquity, Inc.	HQY	59.65	27.8%	12.5x	38.6x	12.1x	38.9x	3.3%	(0.8%)
Tivity Health, Inc.	TVTY	24.81	(32.1%)	1.8x	7.9x	2.9x	12.7x	(38.7%)	(37.8%)
WageWorks, Inc.	WAGE	27.16	(56.2%)	0.9x	4.7x	3.9x	19.7x	(76.3%)	(76.3%)
Mean			(7.7%)	3.8x	17.1x	4.4x	23.8x	(13.2%)	(28.3%)
Median			(22.5%)	1.7x	7.9x	3.5x	19.7x	(51.4%)	(59.8%)
Market Capitalization Weighted			(9.1%)	6.6x	17.8x	5.7x	18.8x	17.4%	(5.3%)

Source: S&P Global Market Intelligence

Note: Revenue multiples greater than 15.0x and EBITDA multiples greater than 100.0x are deemed not meaningful (NM)

Duff & Phelps 2018 HCIT Transactions

SELL SIDE ADVISOR

AHM Advanced Health Media

A portfolio company of

ACP ARLINGTON CAPITAL PARTNERS

was acquired by

IQVIA

SELL SIDE ADVISOR

alorica

has sold its RCM business to

GETIXHEALTH

a portfolio company of

TRIVEST

SELL SIDE ADVISOR

APEX Apex Revenue Technologies

has been acquired by

RevSpring

a portfolio company of

GTCR

SELL SIDE ADVISOR

CHMB California Healthcare Medical Billing

has been acquired by

Allscripts

Duff & Phelps

Protect, Restore and Maximize Value

CONTACTS

Brooks Dexter
Managing Director, Head of Healthcare M&A
Los Angeles
+1 424 249 1646
brooks.dexter@duffandphelps.com

Phil Smith
Managing Director
Minneapolis
+1 612 225 2043
philip.smith@duffandphelps.com

Jordan Lampos
Director
Los Angeles
+1 424 249 1668
jordan.lampos@duffandphelps.com

Eric Coburn
Managing Director
New York
+1 212 450 2839
eric.coburn@duffandphelps.com

Adam Stormoen
Managing Director
Minneapolis
+1 612 225 2044
adam.stormoen@duffandphelps.com

About Duff & Phelps

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. We work with clients across diverse sectors, mitigating risk to assets, operations and people. With Kroll, a division of Duff & Phelps since 2018, our firm has nearly 3,500 professionals in 28 countries around the world. For more information, visit www.duffandphelps.com.