DUFF & PHELPS

First Half 2015

Industry Insights:

Healthcare Information Technology

By the Numbers

$ 5% Increase in healthcare spending

20% Providers' revenues represented by patient responsibility

115 HCIT transactions in 2015 YTD

Highlights

A spending brief published by the Altarum Institute in February 2015 estimates that healthcare spending in the U.S. increased by 5% or more in 2014, more than 2x U.S. GDP growth.

Patient responsibility today represents in excess of 20% of providers' revenues versus 5% in 2000. Providers' business offices have to adapt to this new environment.

115 HCIT transactions have been announced in the first six months of 2015. Activity continues to be driven by the move to cloud computing, concerns over data security and data center consolidation.

Strategic buyers, including the portfolio companies of financial buyers, represented 94.8% of the announced transactions in the first six months of the year.

High-Deductible Health Plans

Deductive Reasoning – High-Deductible Health Plans Challenge the Revenue Cycle

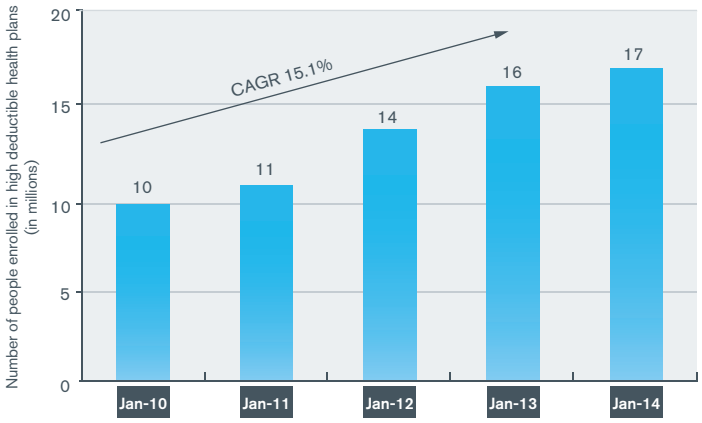
While official data has not yet been released, a recent spending brief published by the Altarum Institute in February 2015 estimated that healthcare spending in the U.S. increased by 5% or more in 2014. This marks a substantial pick up from the 2009 to 2013 period during which annual cost increases averaged 3.9% and is more than two times the rate of GDP growth in 2014.

To address the decades-long upward march of healthcare costs, many employers and other healthcare benefit plan sponsors have been redesigning their plans to include a high-deductible health plan ("HDHP") either as an alternative to, or as a replacement for, a traditional low deductible plan. HDHPs lower the cost to the plan sponsor by shifting costs to the plan member, subject to annual deductible and out-of-pocket maximums. Often HDHPs are combined with a Healthcare Savings Account, Healthcare Reimbursement Arrangement or Flexible Spending Account that essentially allows plan members to use pre-tax dollars to pay at least a portion of their qualified out-of-pocket medical expenses. For simplification, all of these type of plans are herein referred to as "HSAs." The combination of an HDHP with an HSA is often referred to as a Consumer Directed Health Plan ("CDHP"). In addition to lowering costs for the plan sponsor, in theory at least, CDHPs are meant to reduce overall healthcare spending by creating a financial incentive for consumers to shop for value in healthcare.

The State and Federal healthcare exchanges mandated by the ACA have also driven the growth of HDHPs. The exchanges offer individuals so-called Platinum, Gold, Silver and Bronze plans that cover from 90% (Platinum) to 60% (Bronze) of the actuarial value of the plan. The lower the actuarial value covered, the higher the potential out-of-pocket expenses of the plan. Exchange plans are heavily marketed on the basis of the cost of the monthly premium (after subsidies) and, in the open enrollment period for 2014, the Department of Health and Human Services reported that 85% of Federal and State exchange enrollees selected a Bronze or Silver plan, with generally lower premiums and higher deductibles.

As noted in the table below, according to America's Health Insurance Plans' ("AHIP") January 2014 census, 17.4 million people were enrolled in HDHPs, an increase of 12% over 2013 enrollment and a compound annual growth of almost 15% since 2010.

HSA-Qualified High-Deductible Health Plan Enrollment (millions), 2010 - 2014



Source: AHIP Center for Policy and Research, 2014 Census

> Many employers have been redesigning their plans to include a HDHP.

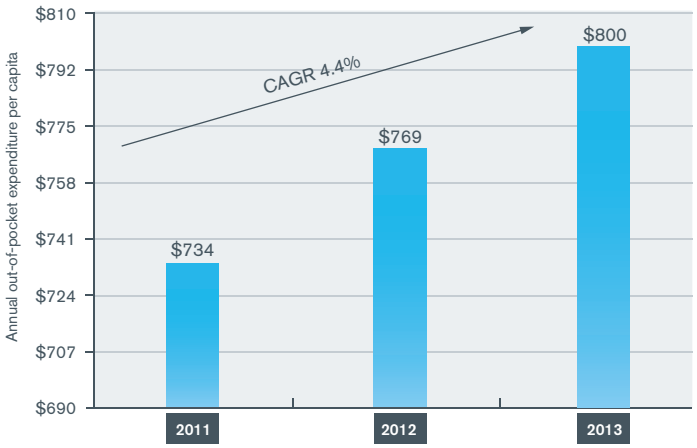
High-Deductible Health Plans - Continued

The growth in CDHP enrollment is expected to continue, perhaps at an accelerating rate as employers continue to grapple with increasing costs and the looming imposition of the "Cadillac Tax." This ACA creation scheduled to go into effect in 2018 is a non-deductible 40% excise tax assessed on the value of healthcare benefits (including the value of HSAs) that exceed $10,200 for individuals and $27,500 for families. With open enrollment for 2018 just over two years away, employers offering plans that would be subject to this tax are now examining the redesign of their plans to avoid the tax penalty and CDHPs are an effective way to do so.

The increase in CDHPs has created financial stress on both patients and providers. Out-of-pocket patient expenditures have increased steadily over the past five years, and these costs for plan members can be significant. Plans with the lowest monthly premiums can have annual deductibles exceeding $5,000 for individuals and $10,000 for families. With exchange plan out-of-pocket maximums currently capped at $6,600 for individuals and $13,200 for families, it is easy to see how an unforeseen medical procedure could put a middle to low income household into financial distress. According to the Consumer Financial Protection Bureau, 43 million Americans have overdue medical bills on their credit reports and several academic reports cite medical debt as a significant factor contributing toward personal bankruptcies.

While CDHPs give the consumer more control over their healthcare spending, plan complexity combined with the woefully inadequate availability of cost and quality information make it a challenge for the average consumer to make informed, value-based spending decisions. Determining what is covered by a plan, what is covered by an HSA, what is in network, what is out of network, what is subject to the deductible, etc. is all difficult enough. Trying to get the cost of a procedure from a provider, not to mention information on quality, can be even more difficult. As a result, many consumers covered by CDHPs who have budget constraints chose to spend less on healthcare by forgoing care rather than purchasing better valued healthcare.

Increasing Out-of-Pocket Patient Expenditures



Source: Health Care Cost Institute, Issue Brief #9, October 2014

> Employers continue to grapple with increasing costs and the looming imposition of the "Cadillac Tax"

High-Deductible Health Plans - Continued

All of this creates a new set of challenges for providers' revenue cycle. Patient responsibility today represents in excess of 20% of providers' revenues versus 5% in 2000 and, according to a forecast by Citibank, providers' level of self-pay will increase by 50% by 2019. In 2000, at 5% of revenue, past due self-pay accounts, which were then largely originated by patients without insurance, were hardly worth the cost of collecting and could just be written off. At 20% of revenue, and with more self-pay patients underinsured rather than uninsured, the collection of self-pay accounts is essential to the financial viability of a provider.

Providers' business offices have to adapt to this new environment. Collections in general are not the core competency of a healthcare provider, but most providers have developed the necessary skill to collect from insurance companies. This is a rules-based process focused on the contractual arrangements between the provider and the payer. It starts with the determination of eligibility, continues with the submission of a properly coded "clean claim" and works through denials management for final adjudication and payment. Both provider and payor understand the rules of engagement and abide by them or argue over them every day. Collecting self-pay accounts from individuals is very different.

Most non-medical consumer debt arises from transactions that are either foreseeable (e.g., mortgage payments) or are at the consumer's discretion (e.g., credit card charges) and have price transparency, straightforward billing and no third party involved in reimbursement. Hence, non-medical debt is generally well understood by the consumer. By contrast, medical debt often arises from accidents or illnesses that are unplanned and cannot be budgeted for and the treatment for which can involve complex procedures with little or no price transparency. The costs of these procedures, and the amount of patient responsibility, are often communicated by complicated, if not confusing, billing processes.

Successful consumer collections often require the collections agent to have strong communications skills in order to explain the intricacies of a medical account to the consumer with empathy and in compliance with consumer protection laws and regulations. Other enablers of enhanced collections include simplification of the bill so that it is presented clearly and, where possible, inclusive of all charges for a procedure – the physician's fee, the anesthesiologist's fee, the facilities fee, etc. Enhanced transparency enables patients who want to and are able to pay their bills to go ahead and do so. These willing and able payors should then be able to pay by traditional means (check or credit card), via mail or web portal, or by e-commerce methods (PayPal, Apple Pay, etc.). Those who want to pay their bill but are unable to do so should be presented with a payment plan, discounts for prompt payment, financing alternatives or financial assistance. Today, private equity backed companies such as Simplee, CarePayment and Clear Balance are providing many of these services to consumers on behalf of hospitals and physician groups.

> As patients gain more visibiliy....they can begin to see the value in care that is less expensive but equally effective.

Providers' care delivery models are evolving in response to changes in reimbursement. Increased patient responsibility is now a major and growing part of the revenue mix and providers must continue to change behavior accordingly by offering more cost and value transparency. In addition to enhancing collections, price and value transparency brings an added benefit. As patients gain more visibility into cost and quality they can begin to see the value in care that is less expensive but equally effective such as performance of certain procedures by nurse practitioners rather than physicians, treatment in the walk in clinic at the local pharmacy rather than at the physician's office and treatment at home via telemedicine. With the adoption of value based purchasing by consumers comes the ultimate goal of consumer directed healthcare – lower costs and better outcomes.

M&A Activity 2015

115 healthcare IT (HCIT) transactions were announced in the first six months of 2015 putting the sector on track to outpace the prior two years with 217 and 198 total transactions announced in 2013 and 2014, respectively. Activity continues to be driven by the move to cloud computing, concerns over data security and data center consolidation. Strategic buyers, including the portfolio companies of financial buyers, represented 94.8% of the announced transactions in the first six months of the year.

HCIT M&A Acvitity Remains Strong

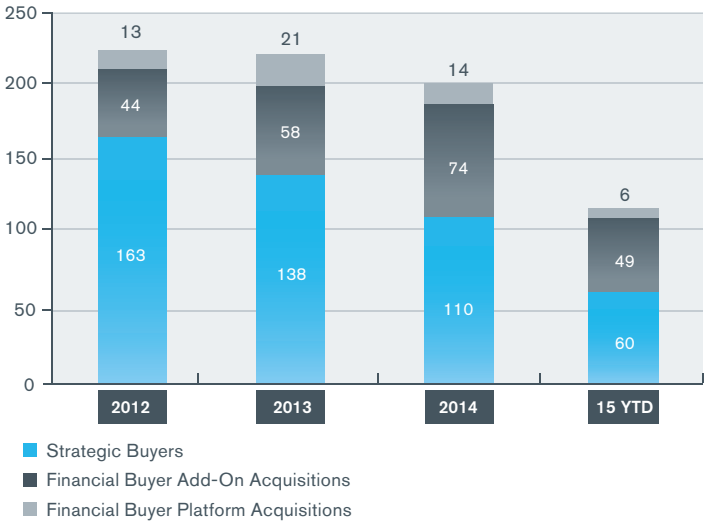
The effects of the ACA continue to ripple through the markets. With the Supreme Court's ruling in King v. Burwell, which preserved the ACA, M&A activity may continue to be driven by the structural shifts created by the ACA.

Cloud computing, data storage and data security have been highly active sectors of the market over the last quarter, during which a number of tuck-in acquisitions were announced by strategic buyers. There has also been a focus on data driven analytics over the first half of the year with 12% of the deals YTD being in this sector.

Revenue Cycle Management activity continues as evolving changes in reimbursement, including the increase in patient responsibility, drive the need for new collections solutions.

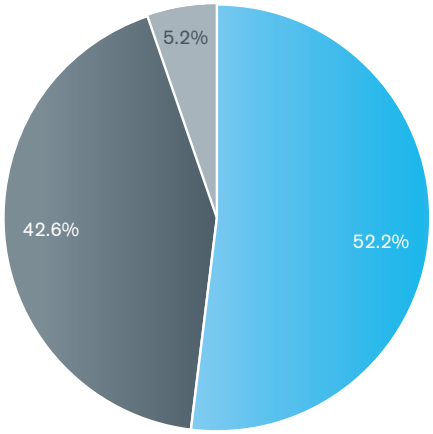
The continued adoption of digital technology within the healthcare and wellness sectors is expected to generate additional growth in the coming quarters. As Sir John Chisolm, Executive Chairman of Genomics England, the UK government-backed organization building one of the world's largest genetic databases, said in a recent interview with the Financial Times: "The digital revolution has already swept through other industries and now it is starting in healthcare…The magic moment will come when data are connected across the system."

2012- 2015 Healthcare IT M&A Activity



Source: S&P Capital IQ

2015 Transactions by Acquirer Type



Source: S&P Capital IQ

M&A Activity - Trends

Data Analytics

On April 13, IBM (NYSE:IBM) announced two relatively small but strategically significant transactions - the acquisitions of Explorys, a spin-off from the Cleveland Clinic, and Phytel, a portfolio company of Polaris Partners. Both companies bolster IBM's Watson Health business by expanding its data analytics and population health management initiatives. In announcing these transactions, Mike Ronin, Senior Vice President of IBM Watson stated: "As healthcare providers, health plans and life sciences companies face a deluge of data, they need a secure, reliable and dynamic way to share that data for new insight to deliver quality, effective healthcare for the individual."

Data Security

On May 15, two private equity-backed portfolio companies HealthPort (New Mountain Capital) and IOD (LLR Partners) announced a merger to create a $450mm revenue entity focused on release of information and other forms of secure transfer of and access to clinical data. "Bringing together IOD and HealthPort will create the scale and resources to improve what we do today and help us accelerate innovation and serve customers in new ways," said George Abatjoglou, CEO of IOD.

Revenue Cycle Management

On February 23 Navigant (NYSE:NCI), a specialist consulting firm, announced its acquisition of RevenueMed, an Atlanta-based provider of coding, revenue cycle management and business process management services for the healthcare sector. In announcing the transaction, David Zito, Managing Director and Navigant Healthcare segment leader stated: "The Healthcare sector is facing unprecedented pressure as it navigates growing complexities while delivering better outcomes and value to patients." With regard to the acquisition, Julie Howard, Navigant Chairman and Chief Executive Officer said: "Our continued investment in business process management services builds on and complements our deep consulting expertise. The addition of RevenueMed provides greater scalability in a fast growing sector to support our revenue and profitability growth goals".

> "As healthcare providers, health plans and life sciences companies face a deluge of data, they need a secure, reliable and dynamic way to share that data.

IPO Activity

While there was a sharp decline in the overall number of IPOs completed in the first quarter of 2015 as compared to 2014's record setting year, many analysts attribute this to a normalization of activity, with 2014 activity representing a clearing of the pipeline as markets returned to strength. There was a pick-up in IPO activity in the second quarter. Two notable HCIT IPOs occurred in the second quarter: Evolent (NYSE: EVH) and Press Ganey Holdings Inc. (NYSE: PGND). In addition, AppointMed and Teladoc (NYSE:TDOC) filed S-1s for IPOs later in the year, with Teladoc prcing its deal on July 1.

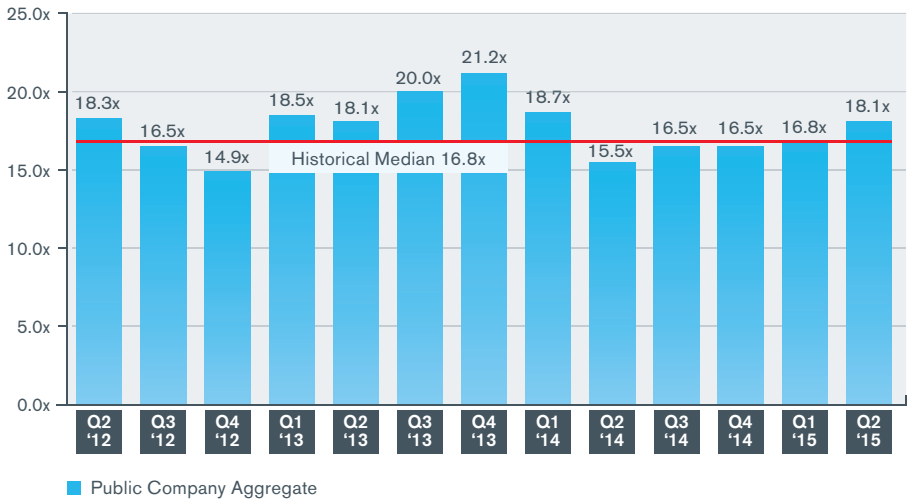
Evolent (NYSE: EVH)

Owned by a syndicate of investors including TPG Growth, The Advisory Board Company (NasdaqGS:ABCO) and UPMC Health Plan, Evolent provides healthcare delivery and payment solutions. The company's services include providing customers with a robust population management platform, integrated data and analytics capabilities, pharmacy benefit management services and comprehensive health plan administration services. According to Thomson Reuters and S&P Capital IQ, Evolent raised $210 million in a deal priced on June 4th at $17.00 per share, slightly above its $14.00 to $16.00 filing range. Its shares have traded in a range of $17.56 and $19.64 since the offering.

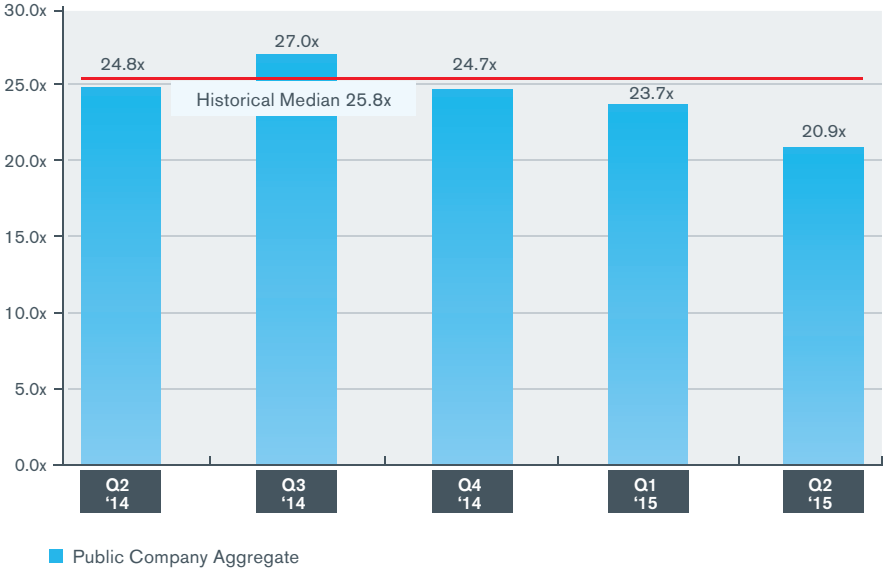
Press Ganey Holdings (NYSE: PGND)

A portfolio company of Vestar Capital is a leading provider patient experience measurement, performance analytics, and strategic advisory solutions for healthcare organizations across the continuum of care. According to Thomson Reuters and S&P Capital IQ, Press Ganey raised $222 million in a deal priced on May 20th at $25.00 per share, slightly above its $22.00 to $24.00 filing range. Its shares have traded in a range of $26.28 to $28.98 since the offering.

HCIT Quarterly LTM EBITDA Multiples
Q2 2012 – Q2 2015*



Consumer Driven Health and Wellness Quarterly LTM EBITDA Multiples
Q2 2014 – Q2 2015*



*EBITDA multiples greater than 100.0x are deemed not meaningful.
Multiples calculated based on the average daily LTM EBITDA multiple for the preceding fiscal quarter. As such, the multiples presented herein differ from the multiples presented elsewhere in this report.
Source: S&P Capital IQ

Selected Publicly Traded Companies

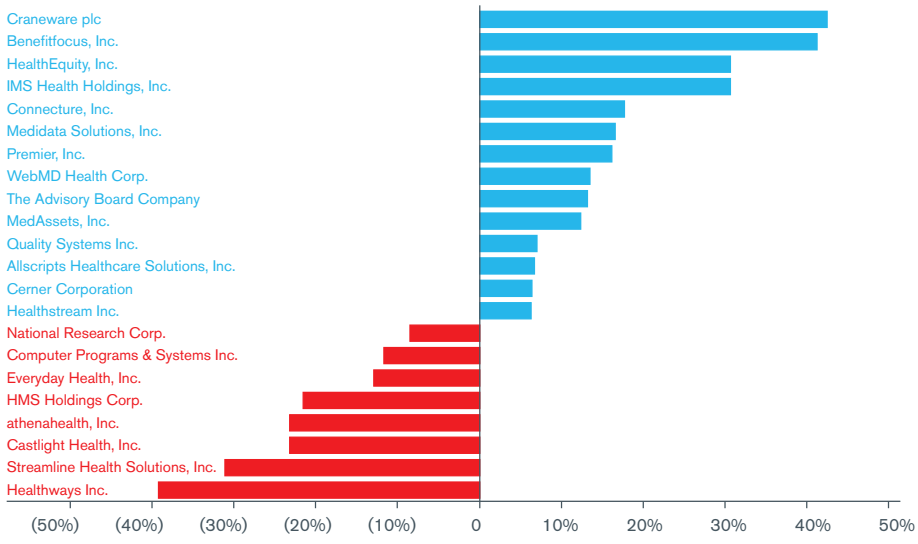
In the first half of 2015, both the Healthcare IT and Consumer Driven Health and Wellness indices have underperformed the S&P 500 index. The HCIT index underperformed the S&P 500 by 15.7%, while the CDHW index underperformed the S&P 500 by 13%. Craneware plc (AIM:CRW) was the leading performer in the HCIT index, in the first half of 2015, gaining 38.9%, and Benefitfocus, Inc. (NasdaqGM:BNFT) was the leading performer in the CDHW index, gaining 24.6%. Healthways (NasdaqGM:HWAY), which had announced the retention of an investment banker to explore strategic alternatives in January, terminated that process without a transaction on March 30. Its shares declined by 39.7% in the first half.

Valuation multiples remain healthy. The median LTM EV/EBITDA multiple for the HCIT companies in the index increased 3.8% from 19.5x at the end of Q1 2015 to 20.2x at the end of Q2 2015. The median LTM EV/EBITDA multiple for CDHW companies decreased 8.8% from 20.3x at the end of Q1 2015 to 18.5x at the end of Q2 2015.

Stock Price Index (December 31, 2014 – June 30, 2015)

Source: S&P Capital IQ

Stock Price Change (January 2, 2015 – June 30, 2015)



Source: S&P Capital IQ
Note: Does not include the two companies (EVH and PGND) that IPO'd during the first half of 2015

Selected Publicly Traded Companies - Continued

Company Name	Ticker	Price 6/30/15	% Change 1/2/15	LTM Multiples as of 6/30/2015 Rev	LTM Multiples as of 6/30/2015 EBITDA	LTM Multiples as of 1/2/2015 Rev	LTM Multiples as of 1/2/2015 EBITDA	Change in Multiples Rev	Change in Multiples EBITDA
Healthcare IT [1]									
Allscripts Healthcare Solutions, Inc.	MDRX	$13.68	6.5%	2.2x	48.1x	2.1x	58.4x	8.0%	(17.7%)
athenahealth, Inc.	ATHN	114.58	(22.6%)	5.8x	74.4x	8.1x	96.7x	(28.1%)	(23.1%)
Cerner Corporation	CERN	69.06	6.2%	6.7x	23.7x	6.6x	25.0x	1.7%	(5.3%)
Computer Programs & Systems Inc.	CPSI	53.42	(11.4%)	2.8x	11.5x	3.1x	10.8x	(8.2%)	6.1%
Craneware plc	CRW	10.34	41.3%	5.5x	18.7x	4.4x	15.3x	27.1%	22.6%
Evolent Health, Inc.	EVH	19.50	NA	10.4x	NM	0.0x	0.0x	NA	NA
Healthstream Inc.	HSTM	30.42	6.1%	5.1x	29.4x	4.2x	25.6x	22.1%	14.9%
HMS Holdings Corp.	HMSY	17.17	(21.0%)	3.5x	18.0x	4.4x	19.2x	(19.5%)	(6.3%)
MedAssets, Inc.	MDAS	22.06	12.0%	3.0x	10.2x	NA	NA	NA	NA
Medidata Solutions, Inc.	MDSO	54.32	16.1%	8.4x	74.7x	7.9x	99.8x	6.9%	(25.2%)
National Research Corp.	NRCI.B	33.00	(8.3%)	3.9x	12.9x	4.0x	12.2x	(2.8%)	6.4%
Premier, Inc.	PINC	38.46	15.7%	1.1x	3.3x	1.1x	3.1x	3.4%	6.3%
Press Ganey Holdings, Inc.	PGND	28.67	NA	6.5x	20.3x	0.0x	0.0x	NA	NA
Quality Systems Inc.	QSII	16.57	6.8%	1.8x	17.1x	1.8x	19.6x	0.9%	(12.9%)
Streamline Health Solutions, Inc.	STRM	2.80	(30.9%)	2.4x	NM	3.0x	NM	(20.5%)	NA
The Advisory Board Company	ABCO	54.67	12.8%	4.8x	68.3x	3.1x	32.0x	55.6%	113.5%
	Mean		2.1%	4.6x	30.7x	3.6x	29.8x	29.5%	3.1%
	Median		6.3%	4.4x	19.5x	3.1x	19.4x	40.1%	0.6%
	Market Cap Weighted		1.7%	5.9x	33.2x	6.0x	40.3x	(1.4%)	(17.7%)
Consumer Driven Health and Wellness									
Benefitfocus, Inc.	BNFT	$43.85	40.1%	8.0x	NM	6.1x	NM	30.2%	NA
Castlight Health, Inc.	CSLT	8.14	(30.2%)	10.9x	NM	NM	NM	NA	NA
Connecture, Inc.	CNXR	10.56	17.2%	2.9x	NM	NA	NA	NA	NA
Everyday Health, Inc.	EVDY	12.78	(12.6%)	2.5x	28.6x	2.5x	28.1x	0.4%	1.7%
HealthEquity, Inc.	HQY	32.05	29.8%	NM	NM	NA	NA	NA	NA
Healthways Inc.	HWAY	11.98	(38.2%)	0.9x	14.1x	1.3x	27.6x	(31.1%)	(48.9%)
IMS Health Holdings, Inc.	IMS	30.65	19.6%	5.1x	21.3x	4.8x	20.8x	5.1%	2.4%
WebMD Health Corp.	WBMD	44.28	13.2%	3.1x	15.4x	3.0x	15.6x	5.5%	(1.1%)
	Mean		4.8%	4.8x	19.8x	3.5x	23.0x	34.4%	(13.8%)
	Median		15.2%	3.1x	18.4x	3.0x	24.2x	5.5%	(24.1%)
	Market Cap Weighted		13.6%	4.6x	15.5x	3.6x	16.0x	27.7%	(2.9%)

Source: S&P Capital IQ
Note: Revenue multiples greater than 11.0x and EBITDA multiples greater than 100.0x are deemed not meaningful
(1) Two of the HCIT companies (EVH & PGND) IPO'ed during the first half of 2015.

Definitions

PEG Ratio: Price Earnings to Growth
EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization
EPS: Earnings Per Share
Enterprise Value: Market Capitalization + Total Debt + Preferred Equity + Minority Interest – Cash and Short-Term Investments
LTM: Last Twelve Months

DUFF & PHELPS

Contacts:

Jim Hesburgh
Managing Director, New York
+1 212 871 5970
jim.hesburgh@duffandphelps.com

Brooks Dexter
Managing Director, Los Angeles
+1 424 249 1646
brooks.dexter@duffandphelps.com

Paul Kacik
Managing Director, Los Angeles
+1 424 249 1652
paul.kacik@duffandphelps.com

Laca Wong-Hammond
Managing Director, New York
+1 212 871 3915
laca.wong-hammond@duffandphelps.com

For more information please visit:
www.duffandphelps.com

About Duff & Phelps

Duff & Phelps is the premier global valuation and corporate finance advisor with expertise in complex valuation, dispute and legal management consulting, M&A, restructuring, and compliance and regulatory consulting. The firm's more than 2,000 employees serve a diverse range of clients from offices around the world.

M&A advisory and capital raising services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities, LLC. M&A advisory and capital raising services in the United Kingdom and Germany are provided by Duff & Phelps Securities Ltd., which is authorized and regulated by the Financial Conduct Authority.