

BDO CAPITAL HEALTHCARE NEWSLETTER

Q1 2015 Healthcare RCM M&A Review and Outlook



HEALTHCARE RCM MAINTAINS STABILITY IN RECOVERING ECONOMY

With the broader M&A market approaching levels not seen in more than seven years, 2014 proved to be a busy year for the U.S. Healthcare Services industry. Regulatory and legislative changes have contributed to the type and volume of opportunities in the market, spurring interest in the Healthcare revenue cycle management (RCM) sector. Characterized by high growth, fragmented players and financial profiles of attractive service providers generating EBITDA margins of 20-30 percent or more, the industry has garnered the interest of many strategic buyers seeking expansion and financial buyers looking for an entry point.

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Healthcare providers are increasingly turning to outsourced RCM providers who can improve cash flow, increase practice productivity and efficiency, and ensure accurate reimbursement.

THE NEED FOR HEALTHCARE RCM PROVIDERS IS GROWING

Healthcare RCM plays a critical role in the U.S. healthcare system, characterized by increasing costs, administrative inefficiency and payment complexity. The increasing payment responsibility on individuals due to higher deductible health insurance plans and health savings accounts is negatively impacting collections for hospitals and healthcare providers. In addition, the highly intricate and frequently changing rules and regulations of healthcare payors have complicated the billing and collections processes.

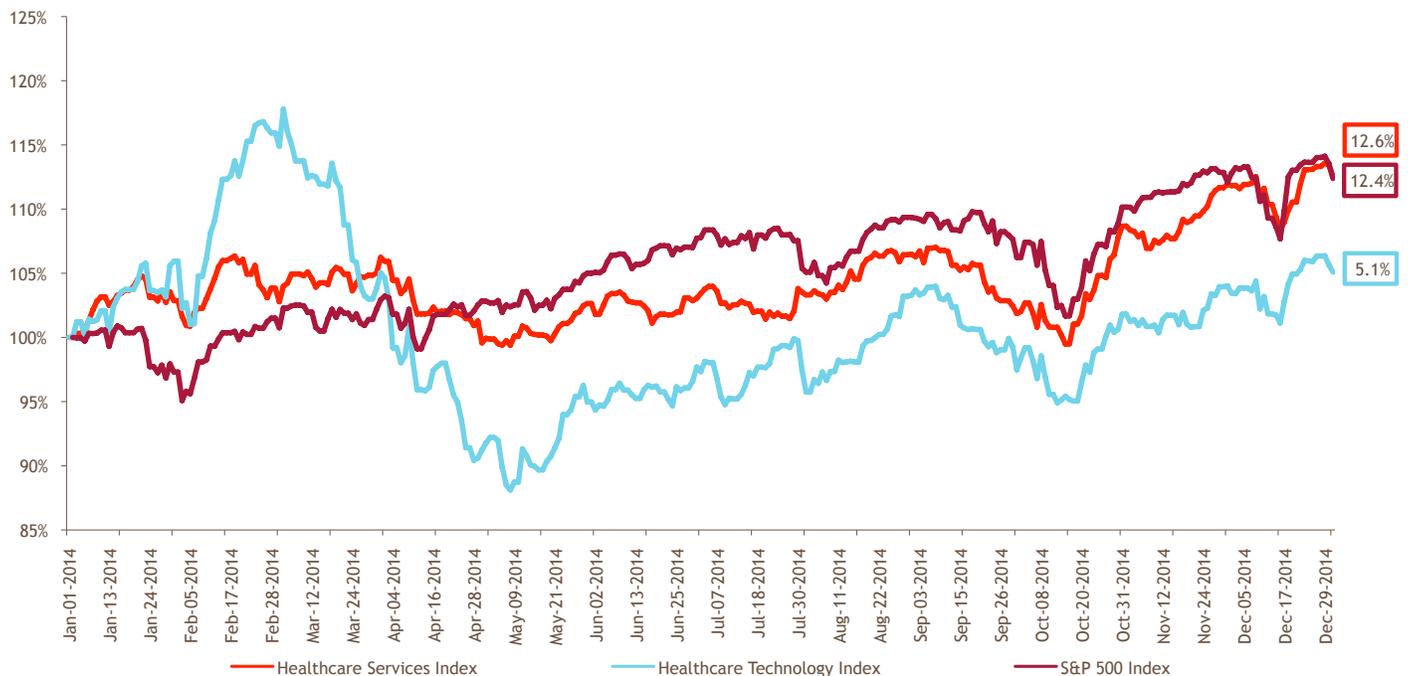
Healthcare providers are not well equipped to manage their revenue cycle internally, typically relying on laborious processes to code, bill and collect reimbursement for their

services. As a result, healthcare providers have experienced deteriorating profitability due to decreasing collections and increasing costs from the significant resources needed to manage these complex processes internally. These market factors coupled with a dynamic regulatory environment continue to reshape the healthcare RCM industry. Healthcare providers are increasingly turning to outsourced RCM providers who can improve cash flow, increase practice productivity and efficiency, and ensure accurate reimbursement.

Payments for healthcare services are becoming increasingly complex due to the Health Insurance Portability and Accountability Act (HIPAA) Version 5010 and the revision of the International Classification of Diseases (ICD) code set. HIPAA 5010 was enacted in July 2012, mandating significant

changes to the standards for electronic submission of healthcare transactions. The act involves numerous data-field adjustments and changes in how claims are submitted and processed by clearinghouses and payors. ICD-10 is expected to go into effect in late 2015, expanding the 17,000 codes available in ICD-9 to 155,000. The new coding standards require detailed specificity in describing a patient's condition in efforts to improve public health reporting and help facilitate care coordination across settings. The additional complexities introduced by the constantly changing regulatory environment create a substantial knowledge gap, encouraging providers to engage third-party experts to manage the RCM process on their behalf. The impact is clearly visible in the stock prices afforded these businesses as shown in Figure I below:

Figure I
Public Company Index
12 Month Chart – January 1, 2014 through December 31, 2014



Source: S&P Capital IQ

Throughout 2014, Healthcare RCM M&A activity was driven by strategic acquirers continuing to amass scale and scope and financial sponsors investing in new and existing platforms.

HEALTHCARE RCM MERGERS & ACQUISITIONS (M&A) ACTIVITY

Throughout 2014, Healthcare RCM M&A activity was driven by strategic acquirers continuing to amass scale and scope and financial sponsors investing in new and existing platforms. Given these attributes, along with an optimistic outlook toward healthcare, the RCM segment of the lower middle market saw activity across varying transaction levels and buyers.

ACQUIRING SPECIALIZED EXPERTISE IS A KEY CONSOLIDATION DRIVER

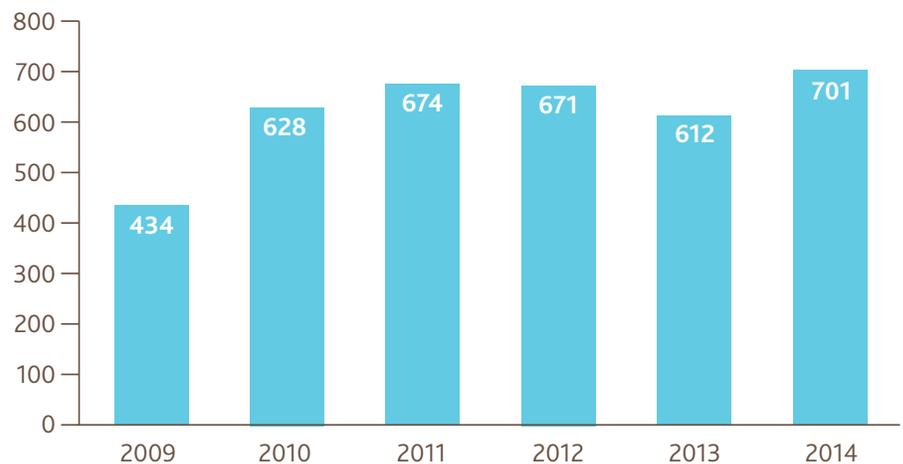
Leading Healthcare RCM service providers are making strategic acquisitions to gain scale, broaden or enhance their service offering in a niche market and increase revenue, while financial sponsors are seeking an opportunity to enter high growth markets through RCM plays.

Acquisitions in Niche Services Enable Large Players to Strengthen their Offerings

Large providers are targeting niche services to gain access and strengthen their offering in high-growth verticals and higher margin support areas. Well-established RCM firms have continued to gain scale by acquiring smaller firms with complementary services, thereby creating end-to-end solutions with integrated product suites.

In September 2014, Conifer Health Solutions, a provider of technology-enabled healthcare performance improvement services, acquired SPi Healthcare, a provider of RCM health information management (HIM) and software solutions for independent and provider-owned physician practices. The transaction, valued at \$235 million, enhances Conifer's value proposition for physicians in a variety of care settings including integrated delivery networks, while securing Conifer's

Figure II
Transaction Volumes – Healthcare Services & Technology
2009A-2014A



Source: S&P Capital IQ

position as a sole-source provider of RCM to healthcare providers.

Another example of acquisitions serving to extend capabilities is Emdeon's June acquisition of Capario for \$120 million. Capario, a provider of healthcare technology solutions, will add cloud-based RCM capabilities to Emdeon's suite of services, allowing customers to manage their revenue cycle to check eligibility, submit and track claims, and manage rejections and denials.

Also, in May 2014, Navigant (NYSE: NCI) announced the \$75 million acquisition of

Cymetrix Corporation, a privately held RCM firm that specializes in providing outsourcing services to hospital and healthcare networks. The acquisition, which will add approximately 600 business process outsourcing employees, enhances Navigant Healthcare's existing outsourcing capabilities while extending its offering beyond consulting services to incorporate technology-enabled solutions.

Exhibit III shows the most active strategic acquirers in the RCM space for 2014 through March 10, 2015.

Figure III
Select Active Strategic Buyers by Number of Healthcare RCM Transactions

Transactions occurring between 1/1/14 and 3/10/15

Company Name	# Deals
The Consult, Inc.	2
MediGain, LLC	2
Navigant Consulting Inc. (NYSE:NCI)	2

Source: S&P Capital IQ

Private Equity is Facilitating Buy and Build Strategies

PE firms are increasingly active in the sector. Typical RCM business models, which offer long-term customer relationships and high levels of recurring revenues operating in a fragmented sector that facilitates a buy and build strategy, are very attractive to PE firms looking for platform acquisition opportunities.

In February 2015, St. Louis-based Thompson Street Capital Partners (TSCP) acquired Infinity Behavioral Health Services (Infinity). Infinity, based in Fort Lauderdale, Fla., is an RCM provider focused on the fast growing behavioral healthcare market. Infinity's solutions span the entire revenue cycle

continuum including utilization review, dispute resolution and claims submission. BDO Capital served as the exclusive financial advisor to Infinity.

In late December 2014, Meridian Medical Management, a portfolio company of The Gores Group and a provider of RCM and system integration services, announced the acquisition of Origin Healthcare Solutions. The acquisition of Origin augments Meridian's RCM, electronic health record (EHR) and integration solutions with a broader range of supported technology platforms and added depth around business intelligence and analytics for healthcare providers. The acquisition diversifies Meridian's base of customers to include physician groups,

small physician practices, academic multi-specialty groups, accountable care organizations, specialty groups and integrated delivery networks.

In June 2014, Intermedix, a RCM provider focused on emergency healthcare, expanded its presence through the acquisition of T-System Inc., a medical billing business that specializes in serving emergency and hospitalist physicians with a focus on clinical and coding initiatives.

Figure IV
Select Active Healthcare RCM Financial Sponsors

Financial Sponsor	Inv. Date	Platform Investment(s)	Select Corporate Acquisitions
Audax Group, Inc.	Dec-08	United Recovery Systems, LP	<ul style="list-style-type: none"> • Array Services Group, Inc. (Apr-14) • Financial Health Strategies, Inc. (Jan-14) • Enterprise Recovery Systems, Inc. (Mar-12) • Aid Associates, Inc. (Nov-11)
Bolder Capital, LLC	Sep-12	Bolder Healthcare Solutions LLC	<ul style="list-style-type: none"> • PPM Information Solutions, Inc. (Nov-14) • MedFin Billing Services, Inc. (Apr-14)
Praesidian Capital	Jan-13	Etransmedia Technology, Inc.	<ul style="list-style-type: none"> • DoctorsXL LLC (Jan-15) • Medigistics, Inc. (Jan-14)
Serent Capital	Jun-11	Cardon Outreach	<ul style="list-style-type: none"> • VIA Health, LLC (Jan-14) • Outreach Services Inc. (Jan-12)
The Blackstone Group L.P.	Aug-11	Emdeon Inc.	<ul style="list-style-type: none"> • AdminiSource Communications, Inc. (Dec-14) • Change Healthcare Corporation (Nov-14) • Capario, Inc. (Jun-14) • Goold Health Systems, Inc. (Jun-13) • TC3 Health, Inc. (May-12)
The Gores Group	Mar-13	Meridian Medical Management	<ul style="list-style-type: none"> • Origin Healthcare Solutions LLC (Dec-14)
Thomas H. Lee Partners, L.P.	Jul-10	Intermedix Corp.	<ul style="list-style-type: none"> • T-System, Inc., Medical Billing Business (Jun-14) • Anesthesia Revenue Management Inc. (Dec-12) • Practice Support Resources, LLC (Dec-12) • Comprehensive Medical Billing Solutions, Inc. (Aug-11)
Thompson Street Capital Partners	Jan-15 Jul-12	Infinity Behavioral Health Services, Inc. Receivables Management Partners, LLC	<ul style="list-style-type: none"> • <i>Seeking add-on acquisitions</i>
Vista Equity Partners	Sep-13	Greenway Medical Technologies, Inc.	<ul style="list-style-type: none"> • PeopleLYNK (Feb-14)
Waud Capital Partners, LLC	Sep-08	Adreima, Inc.	<ul style="list-style-type: none"> • HealthCPA, LLC (Jan-15) • M. Leco & Associates, Inc. (Mar-14) • Optimum Outcomes, Inc. (Aug-13) • National Healthcare Review, Inc. (Jan-13) • Accounts Receivable Management and Data Services, Inc. (Jan-12) • Hospital Inpatient Services, LLC (Sep-10)

Source: S&P Capital IQ

SECTOR VALUATIONS REMAIN HEALTHY

High buyer demand and attractive growth opportunities continue to support pricing for M&A transactions. EBITDA multiples for controlling-interest investments in high quality RCM businesses remain in the double digits, while revenue multiples exceed 2.0x. However, we believe that multiples may peak in the next 12-18 months, as incumbent firms buy or build solutions to satisfy their current product offering needs.

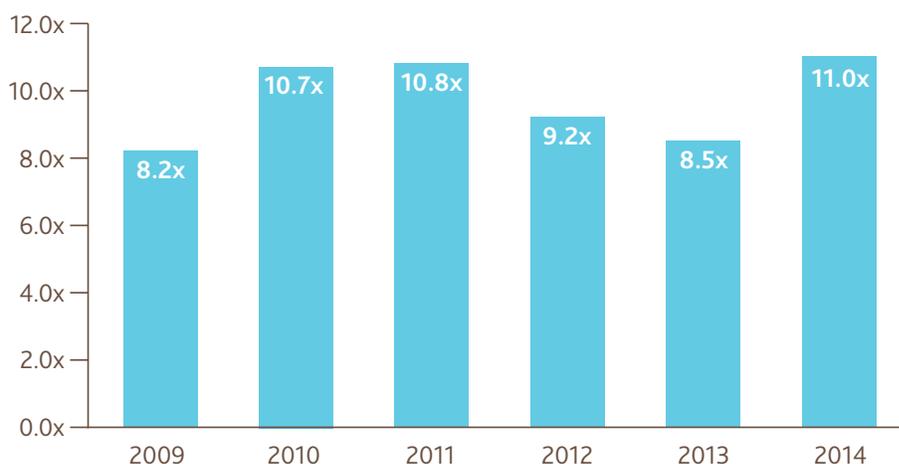
PROSPECTS FOR M&A IN THE RCM INDUSTRY

We expect that M&A activity will continue at its current level for the next 12-18 months:

Deal Capacity: Leverage multiples are at all-time highs providing for low cost of capital. Strategic buyers have cash stores at all-time highs – nearly \$2 trillion. Additionally, PE firms have \$535 billion-plus of finite-lived capital reserves available to put to work.

M&A is a Growth Accelerator: RCM represents a highly fragmented sector with economies of scale, and revenue and cost synergies. Favorable demographics make the industry ripe for consolidation.

Figure V
Average EV/EBITDA Multiples – Healthcare Services & Technology
2009A-2014A



Source: S&P Capital IQ; Note: Excludes multiples <3.0x and >20.0x

Bid-Ask in Equilibrium: Valuation multiples are at five-year highs. PE firms are competing with strategic buyers driving prices higher. Additionally, rising stock prices afford accretive deals at higher multiples.

Confidence Begets Activity: Shareholder support for deal making is high. Focus is on

top-line growth versus cost-cutting. CEO confidence in the market and company performance is spurring acquisition interest and deal volume is accelerating. The market is rewarding growth through acquisition.

RECENT NOTABLE HEALTHCARE RCM TRANSACTIONS

Announced Date	Acquirer(s)	Target	Target Description	Enterprise Value (\$M)
3/17/15	Constellation Healthcare Technologies, Inc. (AIM:CHT)	Physicians Practice Plus Inc.	Provides revenue cycle management services for healthcare providers, serving more than 100 clients across the U.S.	–
2/23/15	Navigant Healthcare Cymetrix Corporation	RevenueMed, Inc.	Provides coding, revenue cycle management and business process management services for the healthcare sector	\$26.0
1/26/15	Thompson Street Capital Partners	Infinity Behavioral Health Services, Inc.	Provides billing and claims follow-up, utilization management and consulting services for behavioral health facilities	–
1/23/15	The Consult, Inc	Scroggins Information Services, LLC	Provides medical billing and accounts receivable (A/R) management services to medical practices in Ohio, Kentucky and Indiana	–
1/12/15	Adreima, Inc.	HealthCPA, LLC	Provides personal medical expense management services, including billing and claims review	–
1/8/15	Etransmedia Technology, Inc.	DoctorsXL LLC	Healthcare practice management company that provides administration, coding and billing	–
1/6/15	The Corridor Group, Inc.	Healthcare Management Solutions, Inc.	Provides financial management, billing, consulting, regulatory and compliance and strategic planning services for healthcare facilities	–
12/30/14	Modernizing Medicine, Inc.	Aesyntix Health, Inc.	Provides healthcare services, including RCM services and inventory management, for dermatology and cosmetic surgery markets	–
12/30/14	The Consult, Inc	Physician Management Information Services, Inc.	Provides medical billing and coding services, practice management consulting and software and technology to healthcare providers	–
12/11/14	Meridian Medical Management	Origin Healthcare Solutions LLC	Provides revenue cycle management, healthcare analytics and transcription solutions to physicians and healthcare providers	\$3.8

RECENT NOTABLE HEALTHCARE RCM TRANSACTIONS (continued)

Announced Date	Acquirer(s)	Target	Target Description	Enterprise Value (\$M)
12/11/14	Emdeon Inc.	AdminiSource Communications, Inc.	Develops healthcare payment distribution solutions for insurance carriers and healthcare organizations	\$35.0
11/25/14	Bolder Healthcare Solutions LLC	PPM Information Solutions, Inc.	Provides medical billing software and services to healthcare providers, managers and billing specialists	–
11/24/14	MediGain, LLC	Millennium Practice Management Associates, Inc.	Provides medical management services, including billing, coding and collections, for physicians, hospitals and medical groups in the Northeast	–
11/19/14	Emdeon Inc.	Change Healthcare Corporation	Provides healthcare cost transparency and consumer engagement solutions for health plans, employers and strategic partners	\$135.0
10/22/14	Team Health Holdings, Inc. (NYSE:TMH)	Premier Physician Services, Inc.	Provides emergency department management and staffing services, offering billing, coding and reimbursement services	–
9/30/14	Optum, Inc.	MedSynergies, Inc.	Provides revenue cycle management and physician practice management, consulting, business process analysis and software integration solutions for healthcare providers	–
9/23/14	Conifer Health Solutions, LLC	SPi Healthcare	Provides revenue cycle management, health information management, and software solutions to physician practices and independent practice associations	\$235.0
9/10/14	PracticeMax, Inc.	OptiMED Management, LLC	Provides practice management consulting services, medical billing and insurance eligibility services for physicians	–
8/18/14	MEDNAX, Inc. (NYSE:MD)	MedData, Inc.	Provides medical billing , coding and collections; patient pay solutions; and practice intelligence to physicians operating in various specialties	–
6/23/14	Emdeon Inc.	Capario, Inc.	Provides revenue cycle management solutions that connect healthcare providers and payers	\$120.0
6/10/14	Intermedix Corp.	T-System, Inc., Medical Billing Business	Offers emergency physician billing and practice management solutions and services	–
5/20/14	Account Control Technology, Inc.	Convergent Resources Holdings, LLC	Operates as a business process outsourcing, revenue cycle and receivables management company in North America	–
5/14/14	Navigant Consulting Inc. (NYSE:NCI)	Cymetrix Corporation	Provides revenue cycle management solutions, consulting services and proprietary business intelligence to hospitals, healthcare networks and physician practices	\$100.0
4/3/14	edgeMED Healthcare Solutions, Inc.	Physician's Billing Alternative, Inc.	Provides medical billing and revenue cycle management services to medical practices	–
4/2/14	Bolder Healthcare Solutions LLC	MedFin Billing Services, Inc.	Provides billing, practice management and outsourcing services for physician groups and ambulatory surgery centers	–
4/1/14	United Recovery Systems, LP	Array Services Group, Inc.	Provides professional services in call, account receivables and revenue cycle management for healthcare organizations, hospitals, clinics and specialty groups	–
3/5/14	Certive Solutions, Inc. (OTCPK:VSVL.F)	Titan Health Management Solutions, Inc.	Partners with hospitals to enhance their revenue cycle management	–
3/5/14	Adreima, Inc.	M. Leco & Associates, Inc.	Provides healthcare revenue cycle solutions for hospitals and health systems	–
3/3/14	TELUS Health Solutions Inc.	Med Access, Inc.	Designs, builds and supports electronic medical record system software and billing software	–
2/28/14	MediGain, LLC	Sound Management & Billing Services, Inc.	Provides billing and medical claim processing services	–
2/24/14	Greenway Medical Technologies, Inc.	PeopleLYNK	Develops software that manages patient relationships	–
1/21/14	Etransmedia Technology, Inc.	Medigistics, Inc.	Provides revenue cycle management solutions and practice management systems	–
1/14/14	Surgical Information Systems, LLC	Amkai LLC	Develops information management solutions for the healthcare industry including financials, inventory, clinical and electronic medical records	–
1/13/14	United Recovery Systems, LP	Financial Health Strategies, Inc.	Provides patient centric self pay and Medicaid services, including billing and benefits verification	–
1/10/14	Cardon Outreach, LLC	VIA Health, LLC	Provides revenue cycle management services to the healthcare industry	–

Source: S&P Capital IQ

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RECENT HEALTHCARE SERVICES ACQUISITION

Boston, MA – BDO Capital Advisors, LLC, is pleased to announce that Thompson Street Capital Partners (TSCP) has partnered with management to acquire Infinity Behavioral Health Services, Inc. (Infinity or the Company). As the exclusive financial advisor to Infinity, BDO Capital contacted a targeted group of potential investors with significant healthcare experience to partner with management. Together with management, BDO Capital facilitated management presentations with a select group of interested parties. The Company selected TSCP as the preferred buyer of the business. BDO Capital assisted management in structuring and negotiating the transaction which provides for a retained equity ownership for management. Infinity, founded in 2011 and located in Fort Lauderdale, Florida, is a revenue cycle management company servicing the behavioral health industry. Infinity's solutions span the entire revenue cycle continuum including utilization review, dispute resolution and claims submission. The Company's bundled solution and highly consultative approach provides the strongest value proposition in the behavioral health space.



ABOUT VALENTINA MIDURA

Ms. Midura is a Co-Founder and Managing Director at BDO Capital Advisors with more than 15 years of investment banking experience. Ms. Midura advises privately held and family-owned businesses with transaction structures including leveraged recapitalizations, shareholder transitions, management buyouts, exclusive sales, corporate divestitures and private placements. Ms. Midura has closed transactions in a variety of Industry segments including Manufacturing, Distribution, Healthcare and Business Services.

Prior to joining BDO Capital, Ms. Midura served as a Director at Andersen Global Corporate Finance, LLP, a middle market investment banking firm. While at Andersen, Ms. Midura was responsible for developing the firm's investment banking Products Group where she had a particular focus on clients within the Manufacturing and Distribution sectors.

Ms. Midura received her B.S. from the Whittemore School of Business at the University of New Hampshire. She is qualified as a General Securities Representative and is a Certified Public Accountant. Ms. Midura is also a member of the American Institute of Certified Public Accountants (AICPA), The Commonwealth Institute and ACG.

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