



# Signal Hill

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## Healthcare IT: Q3 2012 M&A Review

Healthcare IT (HCIT) M&A activity continued at a healthy pace in Q3 2012. Consistent with prior quarters in 2012, the total number of HCIT deals and average deal size continued their upward clip. Because of the volatility in quarter-to-quarter comparisons, we prefer to compare the most recent LTM periods. Figure 1 shows that the total number of HCIT deals for the 12 months ending September 30, 2012 is up significantly over the same period from 2011, which positions HCIT in stark contrast to many other IT sectors that have seen reduced M&A activity in 2012. However, average deal sizes and valuations are down somewhat compared to last year (even excluding 2011's Medco/Express Scripts mega deal), which suggests that HCIT is not immune to the uncertainty permeating the overall M&A environment. We expect valuations and perhaps deal sizes to bounce back by early 2013, once the market can see beyond the twin uncertainties of the elections and "fiscal cliff."

**Figure 1:** Quarterly Healthcare IT M&A Deal Analysis, Q3 2011 – Q3 2012

Source: Signal Hill						LTM Q3 2010	LTM Q3 2011	LTM Q3 2012
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012			
Total Number of Deals	36	35	52	43	41	69	98	171
% Change from prior period	-	-2.8%	48.6%	-17.3%	-4.7%	-	42.0%	74.5%
Total Announced Enterprise Value (\$M)	\$5,003 <sup>(1)</sup>	\$690	\$1,060	\$4,785	\$3,235	\$12,341.4	\$8,815.5	\$9,769.4
% Change from prior period	-	-86.2%	53.6%	351.6%	-32.4%	-	-28.6%	10.8%
Median Announced Deal Size (\$M)	\$83.0	\$33.1	\$40.0	\$382.0	\$19.2	\$62.6	\$61.2	\$35.0
% Change from prior period	-	-60.1%	20.8%	855.1%	-95.0%	-	-2.2%	-42.8%
Median EV/TTM Revenue Multiple	2.5x	0.9x	2.5x	1.5x	2.2x	2.7x	2.4x	2.0x
% Change from prior period	-	-62.4%	174.6%	-41.2%	48.9%	-	-8.4%	-16.6%

(1) Q3 2011 data excludes Express Scripts' \$34B acquisition of Medco Health Solutions

**Figure 2:** Healthcare IT Public Company Valuation Metrics Q3 2012

Source: Signal Hill		Financial Data				Valuation Data						Price/Earnings		
Pricing Date: 9/28/2012	% of 52	Q/Q Rev Growth		LTM Margins		EV/Revenues			EV/EBITDA			Multiples		
Median Metrics	Week Hi	YoY	Seq.	Gross	EBITDA	LTM	CY12E	CY13E	LTM	CY12E	CY13E	LTM	CY12E	CY13E
Hospital IT	88.1%	7.5%	2.4%	57.7%	25.6%	2.7x	2.6x	2.4x	12.7x	9.4x	8.3x	31.2x	19.1x	16.0x
Imaging IT	72.2%	2.1%	(1.7%)	66.5%	14.8%	1.8x	1.7x	1.6x	11.5x	10.8x	9.1x	29.0x	29.1x	19.8x
Payor IT	91.6%	37.4%	5.5%	27.0%	17.3%	4.6x	3.7x	3.0x	34.5x	22.9x	15.2x	61.2x	50.7x	34.3x
Pharma IT	97.3%	1.7%	5.8%	56.8%	10.4%	2.0x	2.0x	1.9x	27.4x	14.0x	11.4x	37.2x	49.8x	37.3x
Physician IT	70.6%	18.4%	0.9%	49.5%	17.8%	2.2x	2.1x	1.9x	12.4x	11.1x	9.3x	31.5x	16.4x	13.9x
Services IT	92.5%	25.2%	9.0%	47.3%	16.2%	5.9x	5.4x	4.5x	36.0x	26.9x	22.0x	85.0x	63.7x	52.9x
<b>All HCIT Companies</b>	<b>90.2%</b>	<b>13.5%</b>	<b>4.2%</b>	<b>54.6%</b>	<b>16.8%</b>	<b>2.2x</b>	<b>2.1x</b>	<b>2.0x</b>	<b>15.0x</b>	<b>11.9x</b>	<b>9.9x</b>	<b>39.1x</b>	<b>29.1x</b>	<b>22.2x</b>



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Figure 3: Healthcare IT 1-Year Relative Stock Price Performance, Q3 2012

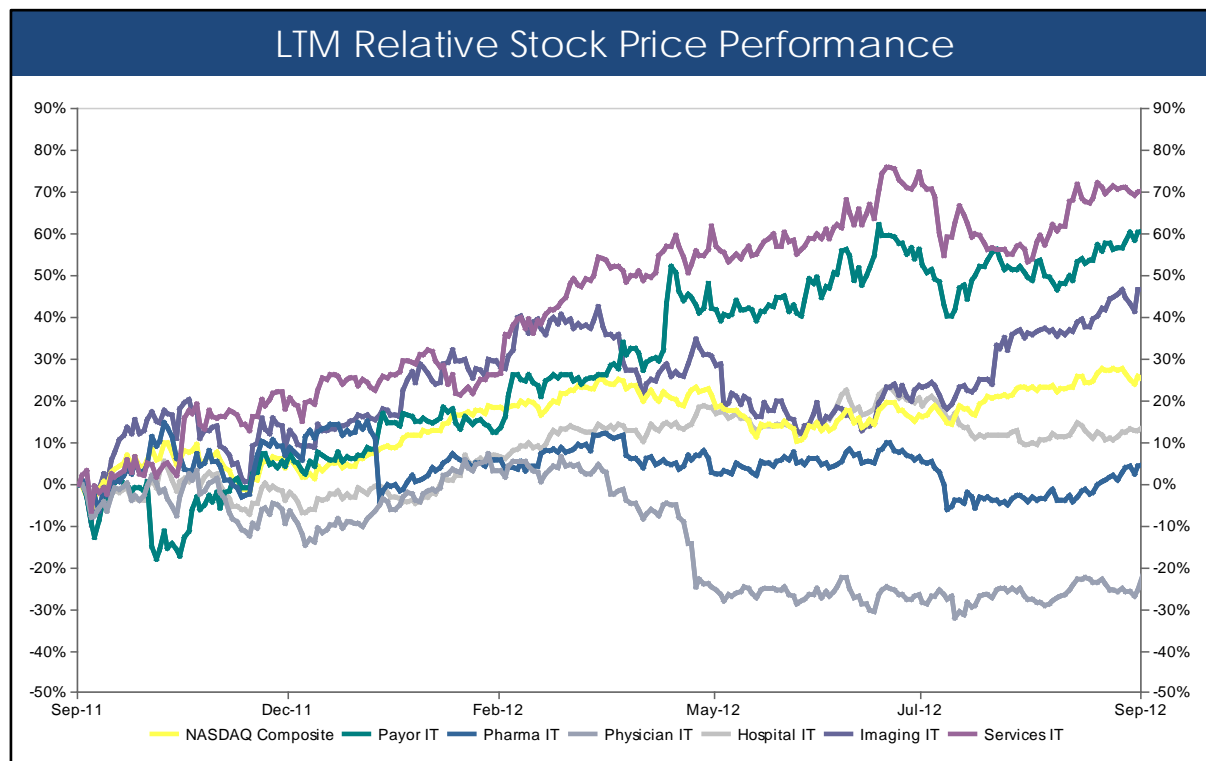


Figure 4: Largest Healthcare IT Revenue Multiples Q3 2012

Target	Buyer	Enterprise Value	Revenue Multiple
Mediware Information Systems	Thoma Bravo	\$194.6M	3.0x
M*Modal	One Equity Partners	\$1,100.0M	2.4x
maxIT Healthcare LLC	Science Applications International Corp.	\$473.0M	1.7x



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### Selected Healthcare IT Transactions Q3 2012

<p><b>Sunquest Information Systems acquired by Roper Industries</b></p> <p>EV: \$1,415.0M</p>	<p>Sunquest Information Systems, a leading provider of diagnostic and laboratory information systems for healthcare providers, was acquired by Roper Industries, a diversified growth company that delivers engineered products and solutions for global niche markets, including water, energy, transportation, medical, education and SaaS-based information networks. Sunquest will be integrated into Roper's Medical &amp; Scientific Imaging segment and marks increasing consolidation in the medical diagnostics industry.</p>
<p><b>M*Modal acquired by One Equity Partners</b></p> <p>EV: \$1,100.0M Revenue Multiple: 2.4x</p>	<p>M*Modal, a leading provider of clinical transcription services, clinical documentation workflow solutions, advanced cloud-based speech technology and advanced unstructured data analytics, has been taken private by One Equity Partners, a private equity firm with a \$10B portfolio. M*Modal will continue to operate out of its Franklin, Tennessee headquarters and expects to maintain all of its other offices.</p>
<p><b>maxIT Healthcare LLC acquired by Science Applications International Corporation</b></p> <p>EV: \$473.0M Revenue Multiple: 1.7x</p>	<p>maxIT Healthcare, the largest private independent healthcare IT consulting group in North America, was acquired by Science Applications International Corporate (SAIC), a scientific, engineering and technology applications company. The acquisition is expected to strengthen SAIC's electronic health record (EHR) implementation and integration services for its federal healthcare customers as they move toward the use of commercial off-the-shelf EHR applications.</p>
<p><b>Octagon Research Solutions acquired by Accenture</b></p> <p>EV: Undisclosed</p>	<p>Octagon Research Solutions, a provider of clinical and regulatory information management solutions and software for the pharmaceutical industry, was acquired by Accenture, the global management consulting, technology services and outsourcing company. The acquisition will help Accenture's pharmaceutical clients, improving the efficiency and effectiveness of their drug development business through implementation of proven clinical and regulatory services.</p>