

M&A UPDATE

Full Spectrum of M&A Activity in 2Q 2014

M&A activity in the second quarter of 2014 involved sellers with a diverse set of ARM and RCM services and revenue from \$3 million to \$160 million. Deals included both fast-growing targets as well as distressed targets. Among the sellers were RCM firms (offering services from coding to billing, and beyond), as well as niche law firms, debt purchasers and contingency collection agencies.

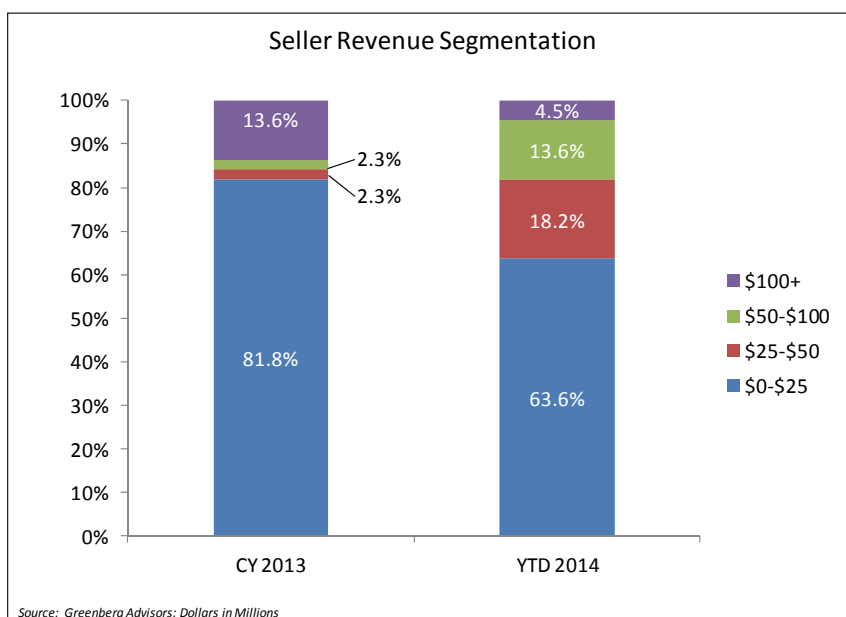
Two of the more substantial deals involved the sales of **Cymetrix** and **Convergent Resources**, which also represent 2/3^{rds} of the private equity (PE) exits this quarter. On the other hand, PE firms represented 30% of the quarter's buyers; one acquired a new platform and two made add-on acquisitions. Strategic buyers, however, remain a dominant force in most industry transactions. On a combined basis, pure strategics and PE-backed strategics completed 90% of the deals in 2Q 2014.

Median deal value rose to \$25.5 million up from \$4.5 million in 1Q 2014, reflecting the heavy activity among, and interest in, the industry's "middle market". Sellers with revenue of \$25 million to \$50 million comprised nearly 20% of this quarter's acquisitions, a vast increase from just 2% in 2013. Similarly, those with revenue of \$50 million to \$100 million comprised nearly 15%, up from 2% in 2013.

In aggregate, ten deals totaling approximately \$410 million brought the deal value in 1H 2014 to \$1.3 billion, mirroring that of 1H 2013.

Mid-Year Predictions:

- ~ Technology and service providers that can help clients better utilize their data and improve efficiencies will be largely sought after for acquisitions.
- ~ RCM vendors will have many attractive options for partial/full exits, as well as for strategic acquisitions.
- ~ Debt/NPL purchasers will sell in order to capitalize on the appetite for growth and expansion among publicly-held companies and others who are aggressively snapping up stakes in businesses globally.
- ~ Highly distressed sales will continue to occur among firms losing clients due to non-compliance with client or regulatory requirements. Strategic buyers will benefit as they acquire clients and services on the cheap.



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