M&A UPDATE

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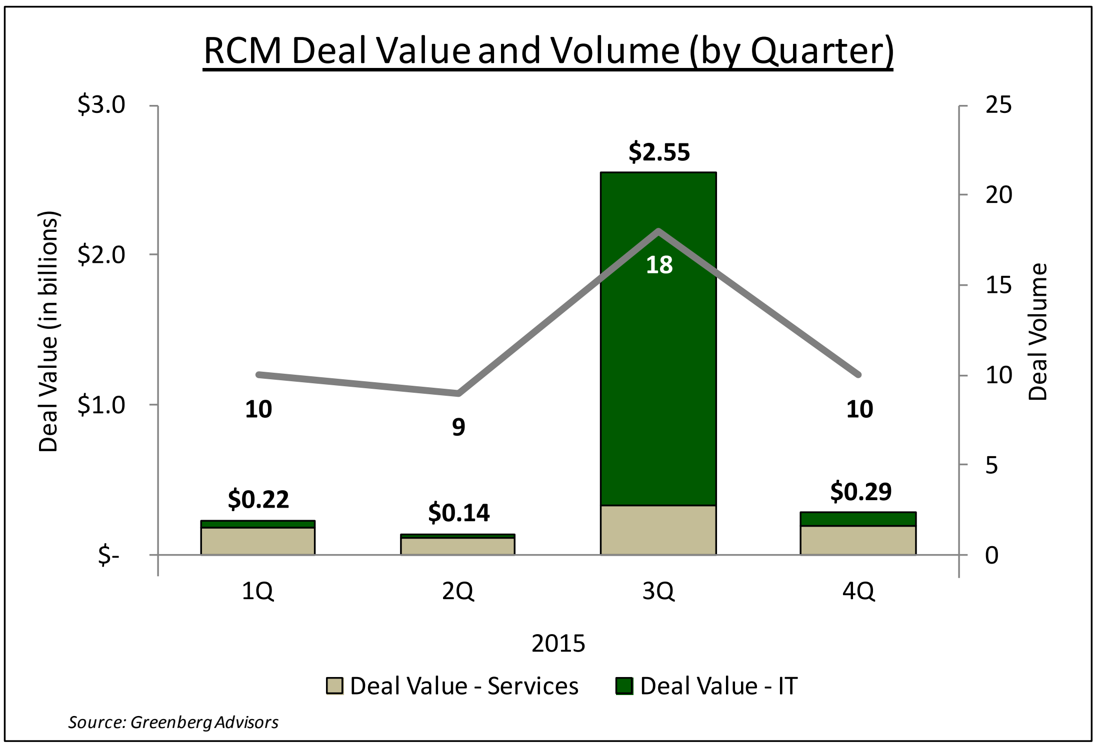
2015: The Year's M&A in Review

2015 was a dynamic year for M&A in RCM and ARM with 47 and 42 deals closing, respectively, in each sector. While both markets have their share of headwinds, they offer an abundance of opportunities for companies seeking to acquire or sell. This analysis highlights key trends and statistics from Greenberg Advisors' one-of-a-kind M&A deal database, DealTracker.

The M&A Market in Revenue Cycle Management (RCM)

The market was highly active in 2015 with $3.2 billion trading hands in RCM transactions. Sellers included service and IT companies throughout the entire revenue cycle from patient scheduling and patient access, to consulting and analytics, and all the way through extended business office (EBO) solutions and "bad debt" collections.

Deal activity spiked in the 3rd quarter – Quarterly activity was anything but consistent, with nearly 40% of the deals, and 80% of total deal value, completed in 3Q 2015. Among the notable third quarter deals, **MedeAnalytics**, **Altegra Health**, **Capario**, and **Diversified Healthcare Resources**[1] were all involved in transactions.



Valuation matters – Pricing multiples remained strong, particularly for technology and tech-enabled service companies. Based on a multiple of revenue, valuations were approximately 2.5x higher for IT or IT-enabled companies versus pure service businesses. On a multiple of EBITDA, buyers paid 72% more. While tech companies inherently generate higher profit margins and are more likely to be valued based on revenue, these statistics are directionally indicative of deal values.

[1]Greenberg Advisors facilitated and served as exclusive advisor to DHR throughout this transaction.

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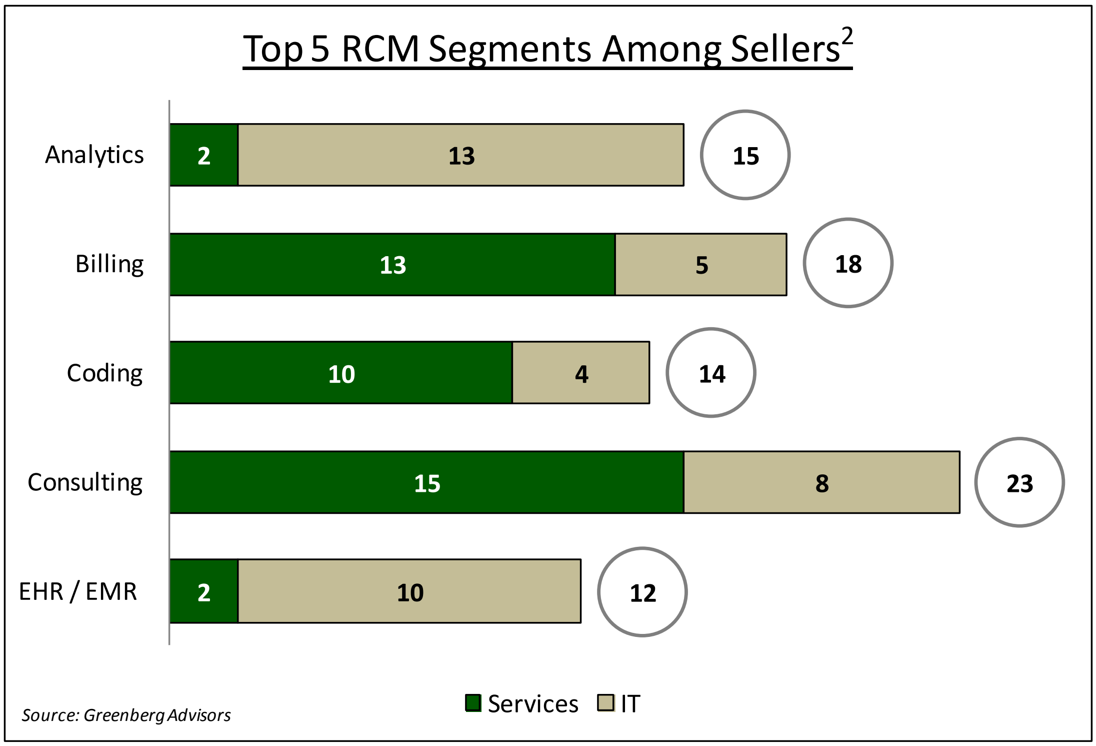
Strategic and financial buyers – Strategic buyers carried the day winning 77% of all deals, but on closer inspection, half were private equity-backed. Looking at the buyers another way, 29 of them (62%) were PE firms or PE-backed companies. There were also 10 exits by PE firms in 2015, reflecting an almost 3:1 ratio of PE investing versus divesting. Given the returns generated in some of those exits, we think it's safe to say that private equity likes RCM quite a bit.

Activity everywhere, but RCM back-end and IT solutions were most active – Almost all of the sellers, in fact 96%, provided at least one back-end revenue cycle service or IT solution. This is in contrast to the 53% of sellers offering at least one front-end service or IT solution. Keep in mind that some sellers offer both front- and back-end solutions. Further, 61% of sellers were technology companies. Regardless of IT or Service orientation, the greatest demand by buyers was in the areas of Analytics, Billing, Coding, Consulting, and EHR/EMR (see graphic below).



High interest in lower-middle market – Sixty percent of sellers generated less than $25 million in revenue and 70% brought in less than $50 million. This means that while the 3rd quarter seemed to include some of the industry's largest deals, and every year will include blockbuster deals, it is the companies with revenue up to $50 million that drive the mass of the M&A volume and buyer interest in the sector.

The future is bright…

M&A and market trends bode well for both buyers and sellers of all types and sizes, as not only are many vendors to the revenue cycle benefitting from the pace of change occurring in the market, but the trends for the foreseeable future look quite favorable.

[2] *Sellers often provide services or IT to more than one segment of the revenue cycle.*

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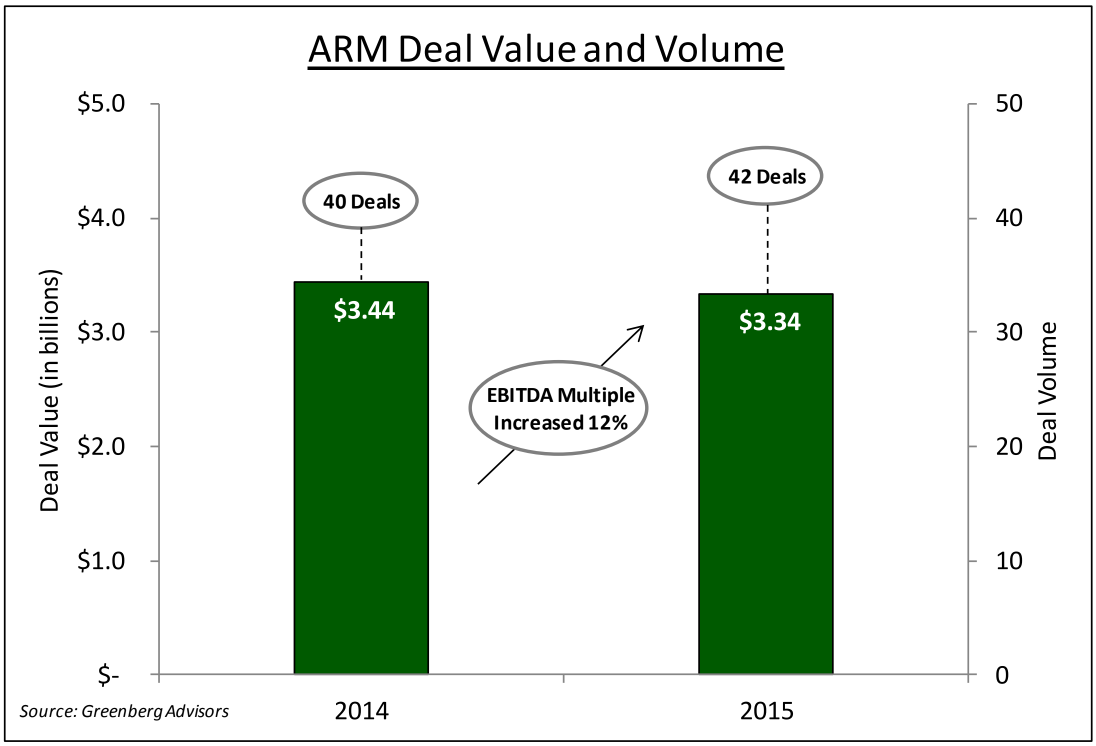
The M&A Market in Account Receivable Management (ARM)

We are frequently asked if deals are still happening in ARM. They most certainly are. It's just that, with so many privately held companies in the market, many transactions are never publicly announced. Deal activity in 2015, in fact, is remarkably consistent with the prior year in terms of both deal volume and value, and if that's not enough, valuations even increased in 2015.

Valuations were up – The median EBITDA multiple paid in ARM transactions increased by 12% in 2015. This is due to an abundance of determined strategic buyers, in conjunction with a greater focus among buyers seeking specialists in certain sectors and the fact that niche firms often obtain higher valuations.



Strategic buyers still winning, but less often – The number of deals acquired by strategic buyers dropped 10%. That said, strategics still completed 88% of all transactions in 2015. Of the 37 strategic deals, 10 were completed by private equity-backed buyers. These trends suggest continued consolidation in the industry where PE-backed and non-PE-backed groups alike seek to capture market share and service offerings.

Financial buyers and private equity still actively investing – Thirty-six percent of all buyers in 2015 were either PE or PE-backed companies, an increase of 30% over 2014. While the ARM industry has taken its lumps lately due to the regulatory and compliance environment, and many are determining their go-forward plans, these figures make a pretty strong statement that the professional investment community views the industry as a viable and attractive opportunity. In fact, almost twice as many PE buyers entered into or expanded within the ARM industry in 2015 than exited it.

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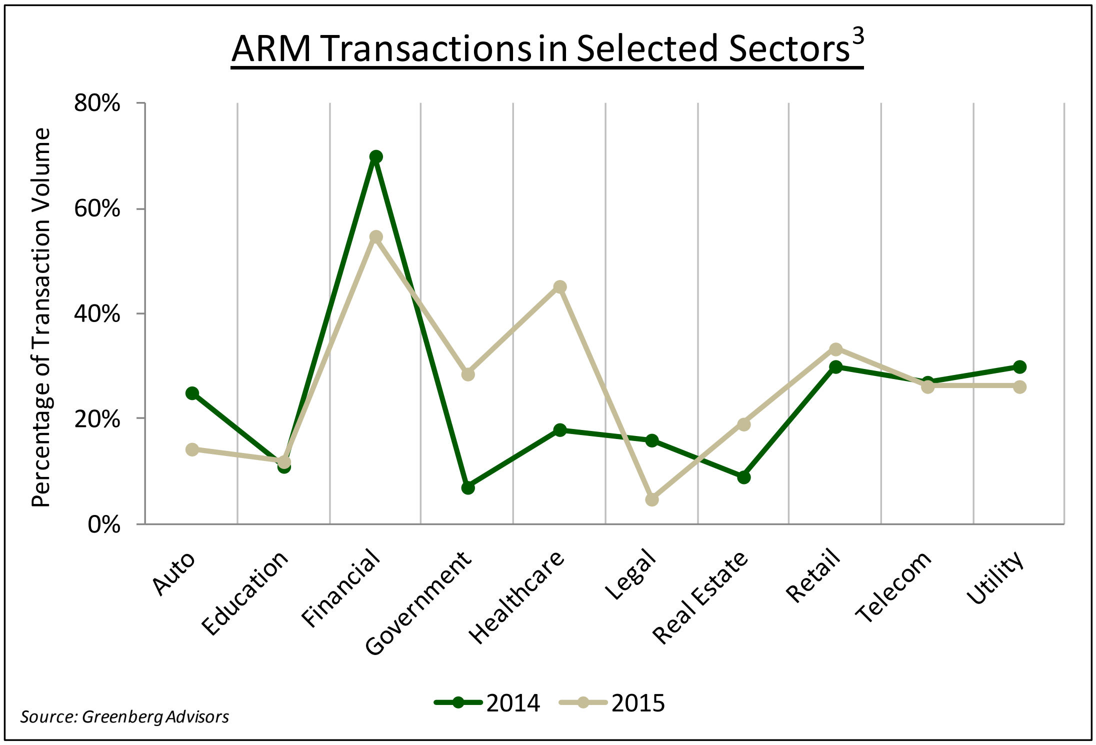
Buyers are targeting the lower middle market – Fifty-five percent of sellers generated less than $25 million in annual revenue while 67% generated less than $50 million. As always, the year brought some larger transactions as well, including the never-thought-it-would-happen sale of **GC Services**, and the sale of **West Corp's agent services businesses**. All in, the median revenue of sellers rose from $11 million in 2014 to $15 million in 2015.



Most active sectors – The ARM markets most involved in M&A activity in 2015 were: Financial, Government, Healthcare, and Retail. In terms of gains or declines in activity, the largest increases were in Government, Healthcare, and Real Estate, while the greatest decreases were in Auto, Financial, and Legal. Activity among debt buyers continued as expected, with 10 transactions, fueled most notably by large debt buyers expanding their global reach in South America and Europe.

Contact us to learn more about our current engagements, to discuss your plans or interests, or to learn more about the data contained in this M&A Update.

[3]*Sellers often operate in more than one sector.*

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