

Greenberg Advisors

M&A • STRATEGIC ADVISORY • CAPITAL



M&A Update

2019

A black and white photograph of a stethoscope resting on a laptop keyboard. The stethoscope is positioned diagonally across the keyboard, with the chest piece in the foreground and the earpieces extending towards the background.

**Healthcare IT &
Revenue Cycle Management**

INTRODUCTION

2019 marked a historic year in the Revenue Cycle Management (RCM) and Healthcare IT (HCIT) M&A markets, with deal value reaching a five-year high.

The second half of 2019 (2H 2019) added \$15.7 billion of aggregate deal value on top of \$10.2 billion in the first half. With several large companies in the midst of sale processes, we expect these kinds of massive figures to continue.

There were many notable transactions in 2H 2019, including **Golden Gate Capital's \$1.2 billion investment into Ensemble Health**, the merger of **Zelis Healthcare and RedCard Systems**, and, in lower middle market M&A, the transformative acquisition of **PARA HealthCare Analytics¹**, which brought innovative technology solutions to a service-intensive business.

We hope you enjoy our M&A Update. [We look forward to hearing from you.](#)

Source: All statistics and market data in this document are from GA's proprietary M&A database. May contain estimates.

¹Greenberg Advisors initiated and served as exclusive advisor to PARA in this transaction.

SELECTED GA TRANSACTIONS

PARA
HealthCare Analytics

was acquired by



Sell-Side Advisor



was acquired by



a portfolio company of
AQUILINE
CAPITAL PARTNERS LLC

Sell-Side Advisor

INFINX

acquired



Buy-Side Advisor

KEY TAKEAWAYS

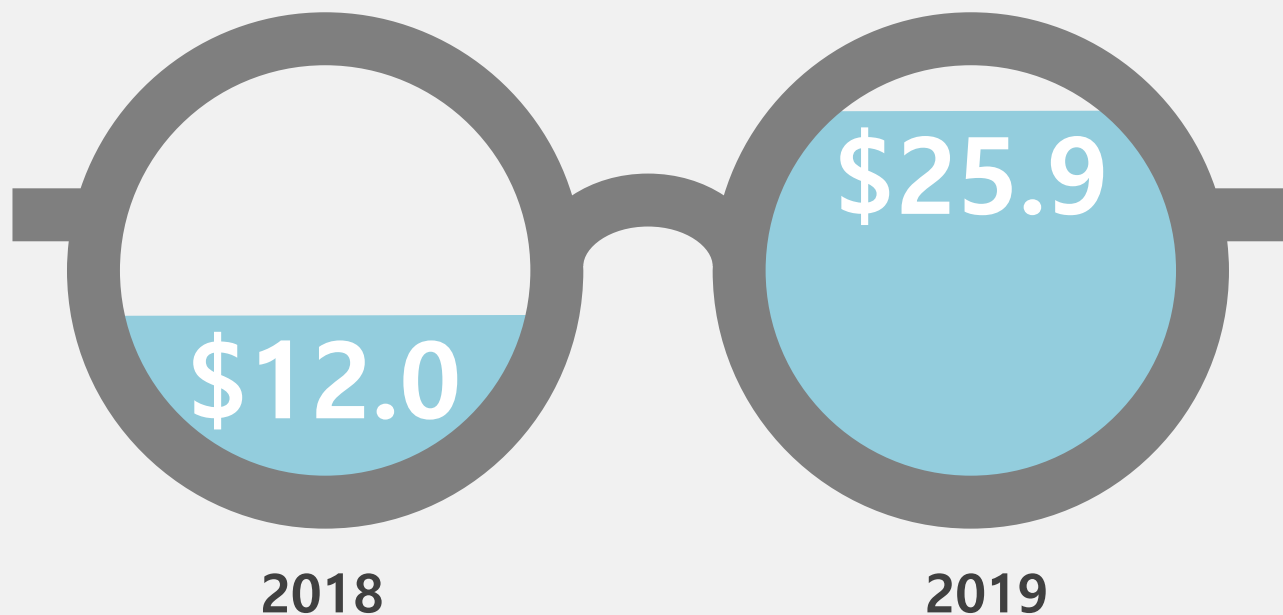
1 Seeing Double ~~Seeing Double~~

M&A soared in 2019, reaching nearly \$25.9 billion in aggregate deal value! This is significant because it marks a rebound year from 2018's total of \$12.0 billion. Interestingly, deal value has risen in each half-year since the second half of 2017.

2H 2019's \$15.7 billion in aggregate deal value marks a stark increase from the prior half, which had also experienced a significant jump.

AGGREGATE DEAL VALUE

(\$ in billions)



KEY TAKEAWAYS

2 I-P-yO

It was a busy summer, as Change Healthcare (NASDAQ: CHNG), Phreesia (NYSE: PHR), and Health Catalyst (NASDAQ: HCAT) all launched IPOs, substantially increasing the number of public companies in the space.

These could serve as the 'catalyst' for future IPOs in the space, presenting an attractive exit alternative mainly for financial investors. This lucrative path to exit should drive investors to structure deals more aggressively, given the potential future returns that can be realized by reaching a scale for which public investors have an appetite.

3 Billions and Billions

2019 had the highest volume of billion-dollar deals in years. While deals of this size are not the best barometer for overall M&A activity, they are indicative of the bullish bets that investors are making on the market. The buyers comprised of a diverse mix of financial and strategic investors, together representing a single theme: a highly confident outlook.

Comparables... Don't Get Lost in the Numbers

There are many ways to value a company. In niche industries with unique market dynamics, such as those in RCM and HCIT, a comparable transactions analysis often provides the best barometer. This type of analysis requires transaction data involving sellers with similar financial performance, offerings, clients, and various other traits. Given that there are no great public sources of this data, one might be tempted to use valuation ratios from public companies as a proxy. We'd caution against this in most cases. The vast majority of RCM and HCIT firms are not comparable to their public peers and will be valued completely differently. Instead, talk to an expert that has insight into the transactions that are actually comparable.

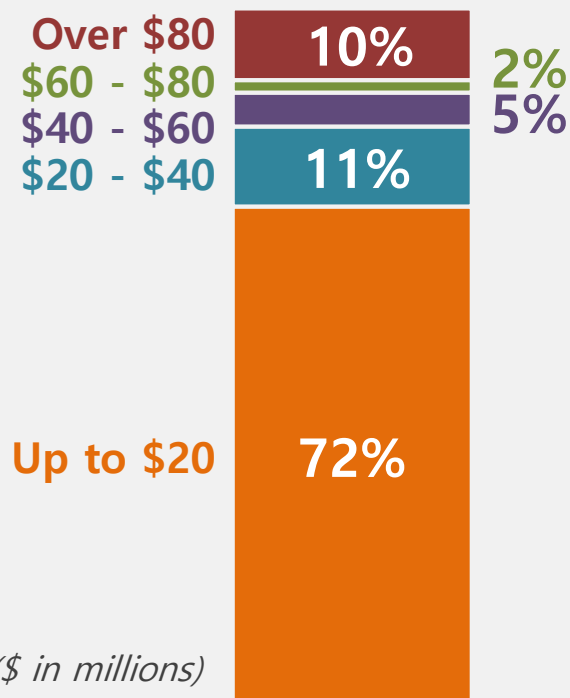
KEY TAKEAWAYS

4 So, Who Are The Sellers?

Companies with \$20 million in revenue or less still make up the overwhelming majority of sellers.

From a client standpoint, companies that service physician groups continued to garner buyer attention, while hospital clients are the holy grail for other buyers. Two highly active non-hospital specialties were ASCs and behavioral health. These two markets will continue to grow in 2020 as an increasing number of patients move from inpatient surgeries to outpatient ASC settings and as the US continues to grapple with the opioid crisis.

2019 DEAL VOLUME BY SELLER REVENUE



2019 DEAL VOLUME BY SELLER'S CLIENT SEGMENTS



21%

Physician Groups



29%

Both Hospitals & Physician Groups



50%

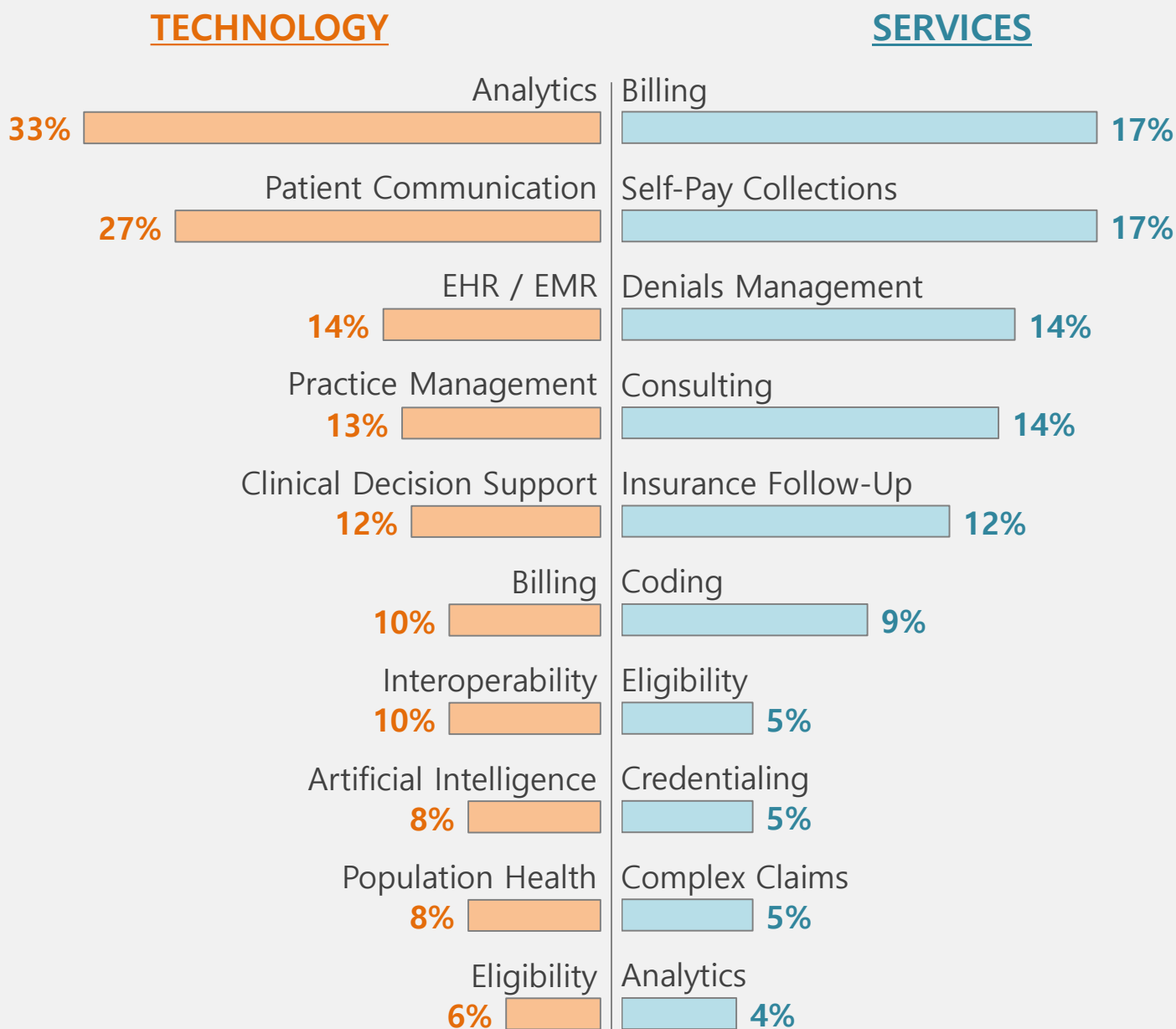
Hospitals

KEY TAKEAWAYS

4 So, Who Are The Sellers? *(continued)*

2019 ACTIVITY: MOST ACTIVE TECHNOLOGY & SERVICE OFFERINGS

(% of total deals)



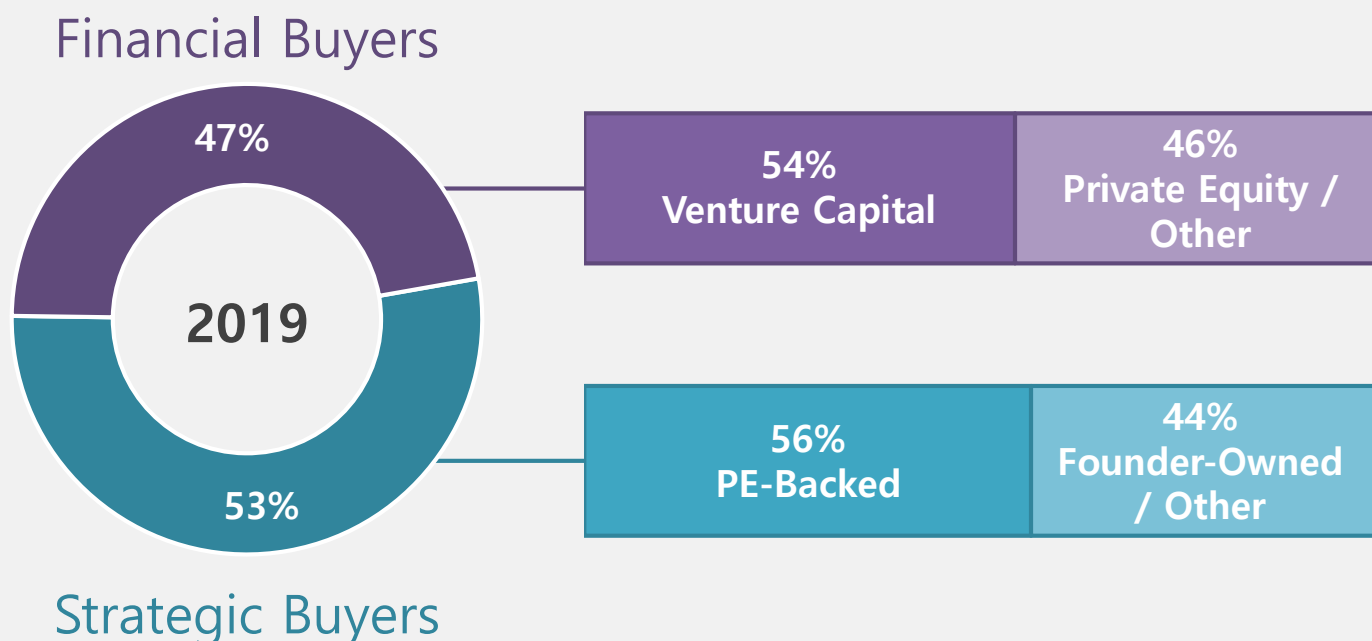
KEY TAKEAWAYS

5 Now, Who Are The Buyers?

Private equity (PE) firms made quite an impact in 2019, with PE or PE-backed buyers accounting for 73% of aggregate deal value, more than tripling the amount they invested in 2018.

The presence of PE buyers, and their piles of capital, only increases the competition for deals which has contributed to the valuation multiples and deal structures we've seen. To be clear, strategics remain very active and offer potential cost synergies, which gives them added flexibility to be more aggressive on valuation. As noted in a recent report¹, dry powder (capital raised by PE firms but not yet invested) reached a record \$1.7 trillion. This combination is creating a very enticing environment for sellers.

FINANCIAL BUYERS VS. STRATEGIC BUYERS



¹ Melissa Karsh & Benjamin Robertson. "Private Equity Is Starting 2020 With More Cash Than Ever Before." Bloomberg, Jan. 2020.

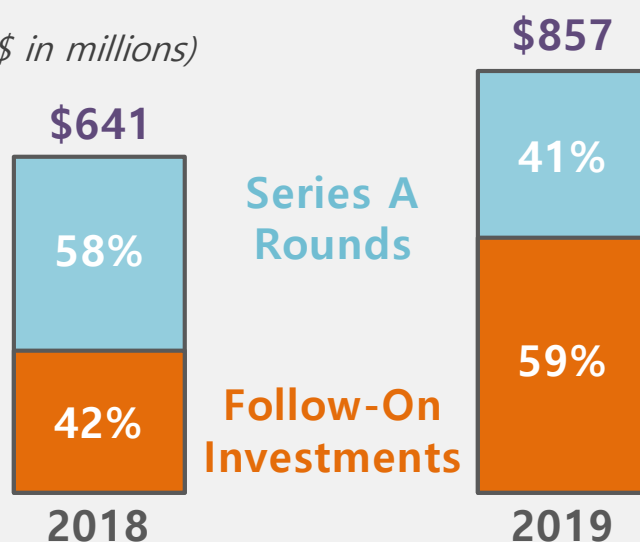
KEY TAKEAWAYS

6 VC Stays **Hot**

Venture capital (VC) investment reached another high in RCM and HCIT, in terms of volume and aggregate deal value. In prior years, Series A rounds constituted the majority of VC transactions. The pendulum swung back in 2019, with follow-on VC investments taking over as the majority. But VCs aren't alone; multiple startups sold to strategics in 2019, which further emphasizes the plethora of opportunities that exist for RCM and HCIT firms looking to scale.

VENTURE CAPITAL FUNDING BY FINANCING ROUND

(\$ in millions)



7 Putting the 'M' in 'M&A'

1H 2019 saw the most mergers in any half-year in the past five years... until 2H 2019! These mergers alone accounted for almost 25% of aggregate deal value during the year. While individually it reveals a unique trend, it also screams the fact that 'this isn't your mother's / father's revenue cycle anymore.'

Over the last few years, we've seen an influx of highly strategic partnerships, mergers, and acquisitions, which appears to be the direct result of the increased level of interest that financial investors have shown in RCM and HCIT. Of the seven mergers that occurred in 2019, five involved private equity sponsors. In some cases, a private equity owner merged a target with a current portfolio company, and in other cases, the private equity firm simultaneously acquired and merged two companies. In these types of transactions, the hurdles to integrate and fully recognize expected synergies are significant. But, if done correctly, a merger can offer a much more rapid path to diversifying the profile of a company's revenue, client base, and services / technology offerings.

LOOKING AHEAD

What a year. We'd be hard-pressed to think of a time with more conflicting viewpoints regarding the best direction for the healthcare market. Many open questions still exist making the future of healthcare hazy. Despite all of this, the market proved quite resilient in 2019.

With the 2020 election right around the corner, we expect that any systemic changes will most likely resemble 'tweaks' more than a colossal overhaul. And with so many monumental deals expected to close in 2020, we foresee another blockbuster year for M&A in RCM and HCIT.



GA can help you maximize your investment, growth, and exit strategy. Find out how.

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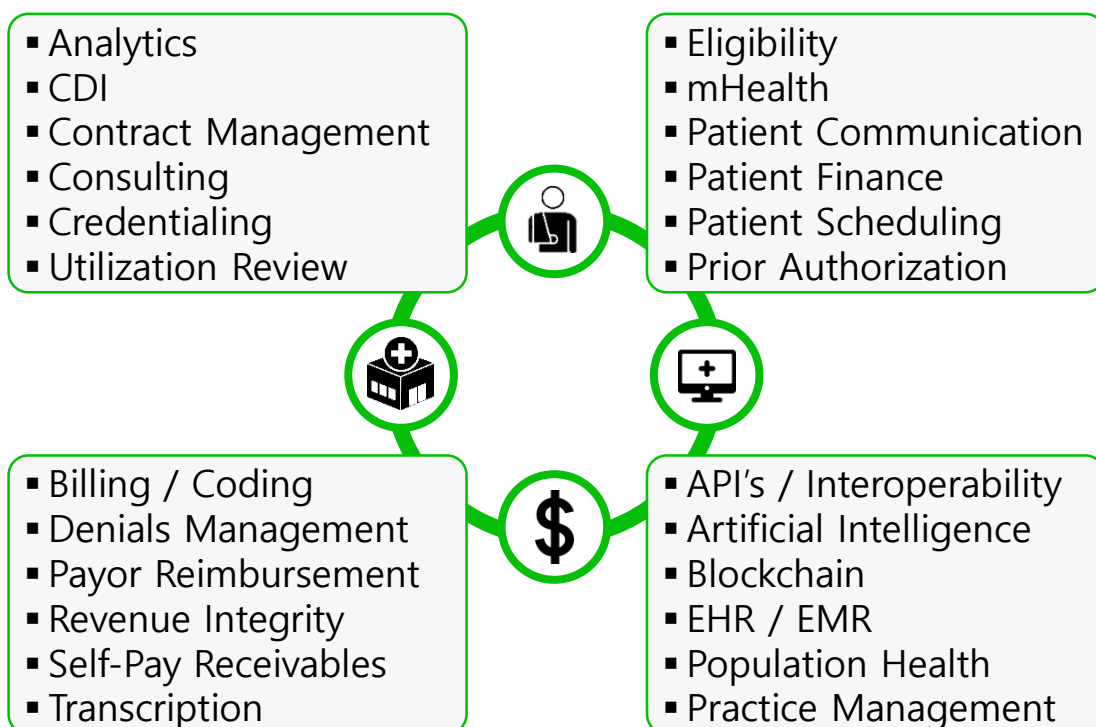
Zach Eisenberg
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Greenberg Advisors, LLC is one of the only firms to specialize in the Revenue Cycle Management (RCM) and Healthcare IT (HCIT) sectors. The firm's professionals have provided trusted M&A and strategic advice to executives and investors for nearly 25 years, resulting in the completion of over 130 merger & acquisition (M&A), capital raising, valuation, and strategic advisory engagements. Greenberg Advisors celebrated its 10-year anniversary in 2019.

GA's RCM and HCIT expertise spans nearly all care delivery methods and specialties across the following IT and service offerings, as well as many others.



Note: This update is for informational use only. Information contained in this update is based on data obtained from sources believed to be reliable, and in some instances contains estimates. Data may include sellers that generate some non-RCM and/or non-HCIT revenue. Nothing in this publication is intended as investment advice. Use of any of the included proprietary information for any purpose without the written permission of Greenberg Advisors is prohibited.