



MERIDIAN CAPITAL – HEALTHCARE M&A SNAPSHOT – SPRING 2015

HEALTHCARE CONTACT



Patrick Ringland
Managing Director
206.224.6155
pringland@meridianllc.com



Bruce Pym
Managing Director
206-224-6158
bpym@meridianllc.com

M&A OUTLOOK

Twice a year, Meridian Capital publishes its Healthcare M&A Snapshot, which focuses on key trends in middle market healthcare M&A. In addition to covering general healthcare industry trends, the Spring 2015 Snapshot provides a more in-depth analysis of the healthcare IT and medical device segments.

As we enter 2015, the improving economy is creating an attractive landscape for healthcare companies. The favorable market conditions have driven an upswing in M&A activity with both private equity and strategic buyers paying record multiples for middle market acquisitions. Buyers are seeking quality targets with differentiated technologies and/or capabilities, specific geographic/market reach and strong contribution margins. Given the strong valuations in M&A markets, we believe 2015 is an opportune time for shareholders to review growth, financing and/or ownership transition objectives.



Healthcare M&A Snapshot: Key Industry Trends



2015 Outlook

The healthcare M&A markets finished 2014 with a great deal of momentum. Many industry participants turned to M&A as a means of strengthening product portfolios, accessing new markets/geographies and better positioning themselves in the highly dynamic regulatory environment. The improved macroeconomic environment, combined with industry’s solid M&A fundamentals has increased business confidence and created a platform that is ripe for continued M&A activity.

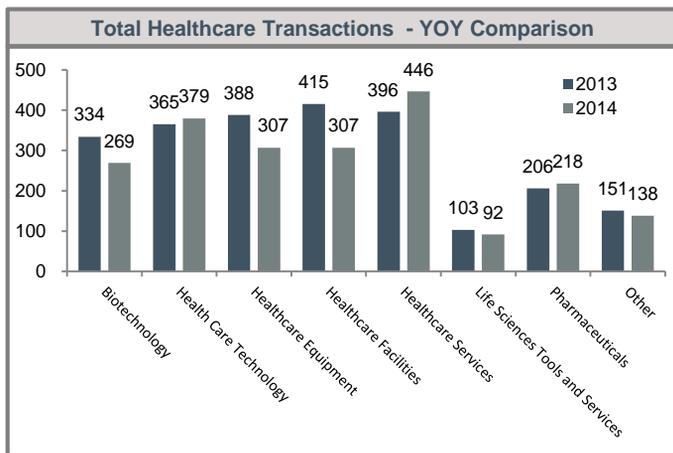
According to a recent survey conducted by KPMG of over 738 finance officers and M&A professionals, healthcare, pharmaceuticals and life sciences will be among the most active industries in terms of M&A for 2015. Respondents to the survey noted that activity will most likely be driven by factors including: response to the Affordable Care Act (ACA), achieving scale through consolidation of core businesses and desire for consumer growth. Furthermore, the increasing amount of opportunities in emerging markets, cash-rich balance sheets and a healthy capital markets environment will help sustain conditions for increased M&A activity during the year ahead.

2014 Year in Review

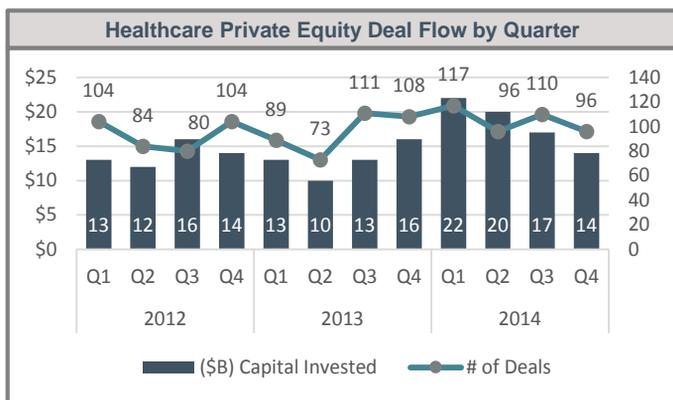
In 2014 there were 2,156 U.S. healthcare transactions, which is an 8.6% decrease compared to 2013. Total healthcare industry deal value, however, increased with industry participants spending \$143.7 billion compared to \$117.1 billion in 2013.

Over the course of 2014, the healthcare services and healthcare technology sectors were the most active segments, representing over 38% of total healthcare deal activity. The biotechnology and pharmaceutical sectors accounted for

nearly 22% of deal activity, and due to the size of the transactions, nearly 70% of the industry’s total deal value.



While strategics were the most prominent buyer type in the healthcare arena during 2014, private equity (PE) firms continue to invest in healthcare companies. Investments continued to pour into healthcare platforms and support add-on acquisitions for current portfolio companies; according to Pitchbook, PE firms invested a total of \$74 billion in healthcare companies in 2014 alone. Through 2014, the industry experienced a 41% increase in dollars invested compared to 2013. Furthermore, many PE firms have and will continue to capitalize on the favorable lending environment that fueled elevated valuations over the course of 2014. In 2015, it is expected that private equity players will continue to look for potential platform investments in niche, fragmented healthcare industry segments which can benefit from increased capital contributions and consolidation.



Sources: Pitchbook, CapitalIQ, KPMG, Meridian Research

Healthcare M&A Snapshot: Healthcare IT Spotlight



HCIT M&A and Industry Trends

Similar to the staggering number of hospital and physician mergers and acquisitions that have occurred over the last few years, the healthcare IT subsector is expected to experience a flurry of M&A and continue to consolidate over the next several years. The passing of the Affordable Care Act (ACA) resulted in an influx of new patients into the country's health system and introduced sweeping new regulations to healthcare facilities and providers. More emphasis is now placed on quality and coordination of care as a means of controlling costs and streamlining operations. A key method of achieving these goals is by investing in healthcare technology that can produce cost-savings and back-end efficiencies. In order to strengthen their market competitiveness, industry participants have turned to M&A to better position themselves for diminishing resources.

Vendors Expanding Solutions and/or Capabilities

The HCIT space is competitive and highly fragmented. Vendors are constantly looking for ways to win business as the healthcare landscape changes and shifts to an era in which cost-savings and efficiency are paramount. Companies of all sizes, whether publicly-traded or privately-held businesses, are making acquisitions to bolster their capabilities and provide a more complete solution. A majority of the activity during 2014, however, took place in the lower middle market, with acquisition targets having a median enterprise value of \$26 million.

As this subsector continues to evolve, industry participants that can provide access to niche markets or offer differentiated capabilities such as real-time feedback, cloud-based capabilities and/or improvements in record-keeping and

secure data transfer will remain attractive to strategics and capital providers.

A recent example of interest in acquiring cloud-based technologies is the acquisition of Evolution1, a leader in cloud-based technology and payment solutions in the healthcare industry, by WEX, a leading provider of payment solutions. The acquisition will enhance WEX's healthcare solutions offering. Another notable deal was the \$15 million investment in Kareo, Inc., a provider of cloud-based medical office software and services platform for small medical practices, by Escalate Capital Partners. The proceeds will be used to further expand Kareo's cloud-based solutions for independent physicians.

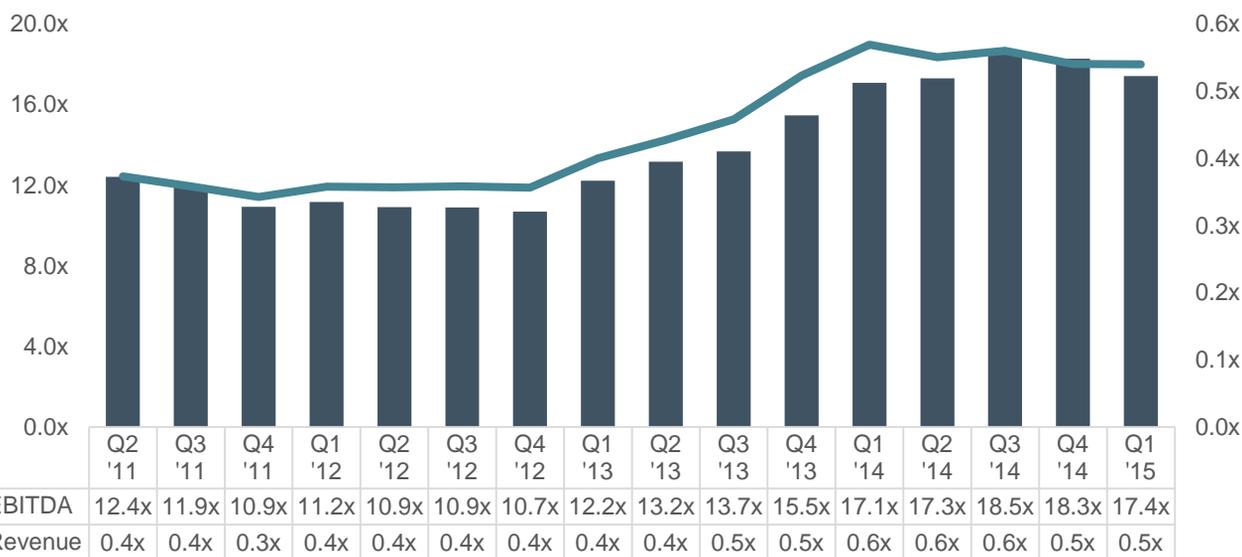
Private Equity Interest in Data Analytics

Another segment of healthcare technology that has gained a lot of attention has been the data analytics space. The overwhelming amount of data that exists, coupled with the complexity of industry regulations, has left companies searching for ways to create actionable data that facilitates informed decision-making and regulatory compliance. Business intelligence and data analytics platforms can help companies better manage data and provide the necessary tools to develop and measure quality metrics. This will be important moving forward as quality measures and performance standards are a key aspect of accountable care.

Given this technology's potential and the growth prospects it could offer in the years to come, private equity has been very attracted to companies that offer analytics and the ability to provide actionable insights. For instance, in March of 2015, Health Enterprise Partners invested in HealthQx, a provider of data analytics solutions that enable payors and providers to implement and operationalize value-based reimbursement models. Another recent example is Highland Capital Partners' investment in Predilytics, Inc., a healthcare information technology company which provides healthcare data analytics solutions by applying machine-learning analytic tools for transforming structured and unstructured client data.

Healthcare IT: Public Valuations and Transaction Activity

Public Valuations



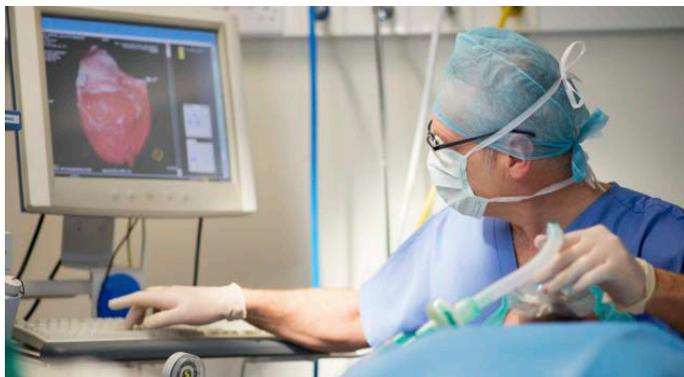
*Created from an index of 9 publicly-traded Healthcare IT companies

Select Recent Transaction Activity

Date	Target	Description	Transaction Type	Buyer	Transaction Value (M)
Mar-15	Health Catalyst, LLC	Health Catalyst provides healthcare data warehousing and process improvement solutions for healthcare organizations and health systems in the United States.	Private Placement	Norwest Venture Partners; Sequoia Capital; EPIC Ventures; Kaiser Permanente Ventures	\$70.0
Feb-15	DR Systems, Inc.	DR Systems, Inc. provides information and image management solutions for healthcare enterprises.	Merger/Acquisition	Merge Healthcare Incorporated (NasdaqGS:MRGE)	\$76.2
Feb-15	RevenueMed, Inc.	RevenueMed, Inc. provides healthcare revenue cycle solutions to the healthcare market in the United States.	Merger/Acquisition	Navigant Healthcare Cymetrix Corporation	\$26.0
Feb-15	HealthLine Systems, Inc.	HealthLine Systems, Inc. provides credentialing, contact center and quality management software to hospitals and healthcare organizations.	Merger/Acquisition	Sy.Med Development, Inc.	\$88.0
Jan-15	Aventura, Inc.	Aventura, Inc. develops healthcare workflow optimization software solutions.	Private Placement	HLM Venture Partners; Safeguard Scientifics, Inc. (NYSE:SFE); Siemens Venture Capital GmbH	\$14.0
Dec-14	Avantas, LLC	Avantas, LLC provides labor management solutions and services to the healthcare industry in Nebraska.	Merger/Acquisition	AMN Healthcare Services Inc. (NYSE:AHS)	\$25.0
Dec-14	AdminiSource Communications, Inc.	AdminiSource Communications, Inc. develops healthcare payment distribution solutions for insurance carriers and healthcare organizations.	Merger/Acquisition	Emdeon Inc.	\$35.0
Nov-14	Predilytics, Inc.	Predilytics, Inc. operates as a healthcare information technology company which provides healthcare data analytics solutions.	Private Placement	Highland Capital Partners; QUALCOMM Ventures; Foundation Medical Partners; Flybridge Capital Partners	\$10.0
Nov-14	Change Healthcare Corporation	Change Healthcare Corporation provides healthcare cost transparency and consumer engagement solutions for health plans, employers, and strategic partners in the United States.	Merger/Acquisition	Emdeon Inc.	\$185.0
Nov-14	Modernizing Medicine, Inc.	Modernizing Medicine, Inc. provides an iPad-based electronic medical record system.	Private Placement	Summit Partners LLP; Pentland Group plc	\$20.0
Oct-14	Kareo, Inc.	Kareo, Inc. provides cloud-based medical office software and services platform for small medical practices.	Private Placement	Escalate Capital Partners	\$15.0
Sep-14	Sandlot Solutions, Inc.	Sandlot Solutions, Inc., a healthcare information technology company, provides health information exchange (HIE) and data analytics tools and services for streamlining data sharing	Private Placement	Lernhi Ventures, Inc.; North Texas Specialty Physicians; Santa Rosa Holdings, LLC	\$23.3
Aug-14	Aperek, Inc.	Aperek, Inc. provides Web-based analytics and savings solutions for the healthcare supply chain.	Merger/Acquisition	Premier, Inc. (NasdaqGS:PINC)	\$48.5
Aug-14	TheraDoc, Inc.	TheraDoc, Inc. develops and implements electronic surveillance systems for injury detection and prevention in real-time.	Merger/Acquisition	Premier Healthcare Solutions, Inc.	\$117.0

Sources: Capital IQ

Healthcare M&A Snapshot: Medical Device Manufacturing Spotlight



Medical Device Manufacturing M&A and Industry Trends

The medical device market, which encompasses products ranging from basic supplies to inhalers to highly complex life-supporting technology has experienced rapid growth over the last several years and increased levels of M&A activity. The activity is supported by strong secular trends such as an aging U.S. population, consumerization of medical devices, ACA regulations, the FDA's 510(k) changes and the eventual phase-in of unique device identification (UDI) legislation that will continue to shape the industry.

Gaining Access to New/Emerging Markets

Due to maturation in the domestic market, combined with regulatory headwinds, many firms are looking to emerging markets for growth opportunities. Many of these economies are expected to grow at double-digit rates over the next several years. Leading industry players such as Medtronic and Abbot have already begun their forays into these markets, looking to diversify a significant portion of their revenue mix into high-growth emerging markets.

The increased level of competition in the medical device space has driven many firms to look for new areas to grow internationally. Large- and medium-sized industry participants in this space have begun focusing their attention overseas for new opportunities to expand their presence and gain access to new and innovative technologies. Specifically, many U.S. players have turned their focus to the Europe, China, Brazil, India, Turkey, and Mexico M&A markets in effort to counteract compressed domestic margins and capitalize on compelling growth prospects. On the flipside, the U.S. has also seen foreign entrants recently invest in medical device companies.

A recent example of this is the acquisition of Zonare Medical Systems, a U.S.-based provider of high-end ultrasound technologies, by Chinese medical device company Mindray Medical for \$71 million. The transaction will strengthen Mindray's R&D capabilities and increase the Company's U.S. sales efforts. Moving forward, companies that offer products serving a specific niche within the device market, or provide a differentiated, innovative product or service will remain attractive to not only domestic buyers, but also to foreign buyers and capital providers looking to gain access to new technologies and capitalize on domestic growth. Further, large- and medium-sized domestic players will also remain interested in companies that have the ability to help them overcome foreign barriers to entry by providing knowledge of local regulatory environments and proven distribution models.

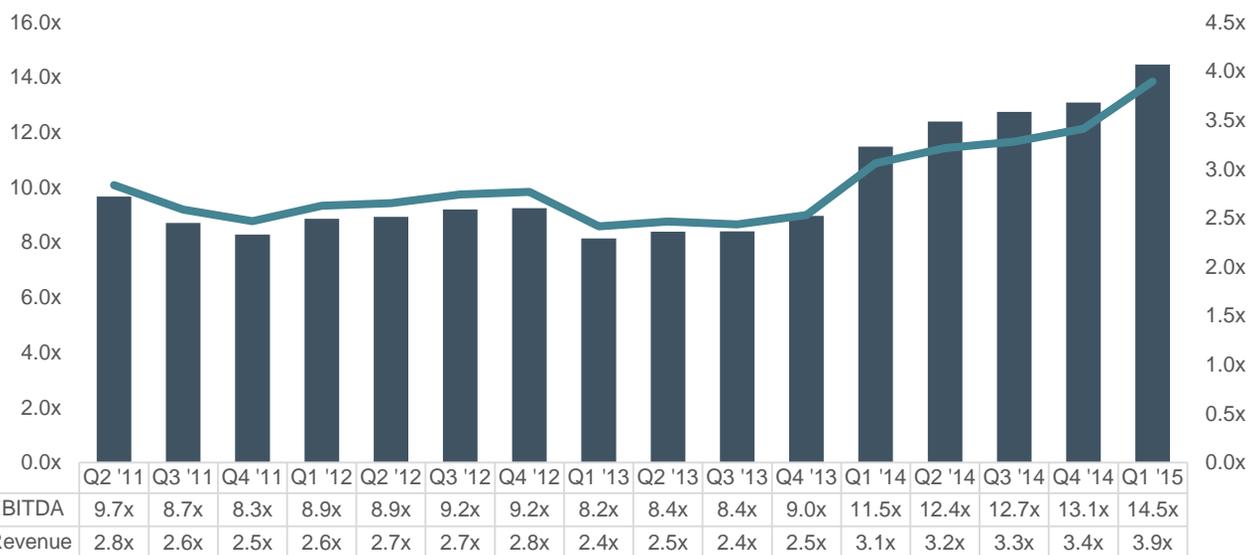
Achieving Scale through Consolidation

Many companies in the medical device market are experiencing increased pricing pressure and are looking to scale as a means of combatting decreased margins and increased competition. The benefits of being a larger organization are becoming clearer. Many companies are banning together to gain leverage on hospitals' suppliers lists and with group purchasing organizations (GPOs), as cost cutting through supplier concentration is becoming more typical. Continued activity in this sector is expected as the competitive bidding program within the ACA becomes more expansive. This, along with the significant reductions in reimbursements, is expected to act as a catalyst for continued consolidation as smaller suppliers struggle to compete for Medicare reimbursement contracts.

Middle market participants have been active in the M&A markets with many players raising capital in order to finance acquisitions. Recently, Level Four Orthotics & Prosthetics, Inc., a manufacturer of orthotic and prosthetic devices, raised capital from Penta Mezzanine Fund in order to fund a number of strategic acquisitions. As the capital markets stay frothy and many capital providers look to gain exposure to the medical device market, it is expected that this trend will continue, especially in niche segments of the market where participants can readily capture benefits associated with scale.

Medical Devices: Public Valuations and Transaction Activity

Public Valuations



*Created from an index of 11 publicly-traded medical device companies

Select Recent Transaction Activity

Date	Target	Description	Transaction Type	Buyer	Transaction Value (M)
Mar-15	Glooko, Inc.	Glooko, Inc. offers blood glucose monitoring meters for people with diabetes.	Private Placement	Canaan Partners; Medtronic plc (NYSE:MDT); Samsung Venture Investment Corporation	\$16.5
Feb-15	MRLB International, Inc.	MRLB International, Inc. engages in the research, development, and manufacture of cartridge, an iodinated resin for municipal or bottled water.	Merger/Acquisition	Crosstex International, Inc.	\$10.0
Feb-15	AdvancedCath Inc.	AdvancedCath Inc. provides advanced catheter systems for cardiovascular, structural heart, electrophysiology and neurovascular applications.	Merger/Acquisition	TE Connectivity Ltd. (NYSE:TEL)	\$190.0
Jan-15	Advanced Scientifics Inc.	Advanced Scientifics Inc. develops single-use systems for the healthcare and life sciences industries	Merger/Acquisition	Thermo Fisher Scientific, Inc. (NYSE:TMO)	\$300.0
Dec-14	Volcano Corporation (NasdaqGS:VOLC)	Volcano Corporation designs, develops, manufactures, and commercializes a suite of precision guided therapy tools worldwide.	Merger/Acquisition	Philips Holding USA Inc.	\$1,363.5
Dec-14	PneumRx, Inc.	PneumRx, Inc., a medical device company, engages in the development of products to treat emphysema using minimally invasive techniques.	Merger/Acquisition	BTG International Inc.	\$475.0
Dec-14	Conventus Orthopaedics, Inc.	Conventus Orthopaedics, Inc., a fracture fixation company, provides fixation solutions for patients and surgeons.	Private Placement	Bluestem Capital Company, LLC; Sightline Partners LLC; Spray Venture Partners	\$24.0
Oct-14	Medrobotics Corporation	Medrobotics Corporation develops flexible robot platforms for single-site surgical and interventional applications.	Private Placement	Pittsburgh Life Sciences Greenhouse; Slater Technology Fund	\$20.0
Oct-14	Medical Instrument Development Laboratories, Inc.	Medical Instrument Development Laboratories, Inc. develops and supplies ophthalmic products to major ophthalmic system manufacturers.	Private Placement	OrbiMed Advisors, L.L.C.; SB China Venture Capital; Frontline BioVentures	\$51.0
Sep-14	ellman International, Inc.	ellman International, Inc. manufactures surgical devices that are used to perform medical, dental, and veterinary procedures.	Merger/Acquisition	Cynosure, Inc. (NasdaqGS:CYNO)	\$13.2
Aug-14	Altimate Medical, Inc.	Altimate Medical, Inc. develops and manufactures standing frames and equipment to improve the quality of life for people using wheelchairs.	Merger/Acquisition	Granite Equity Partners; RockWood Equity Partners LLC	\$23.0
Aug-14	Healthsense, Inc.	Healthsense, Inc. provides technology solutions to assist care providers in caring for at-risk populations.	Private Placement	Radius Ventures, LLC; Merck Global Health Innovation LLC; Mansa Capital	\$10.0
Aug-14	Avalon Laboratories, LLC	Avalon Laboratories, LLC engages in the development and manufacturing of medical devices for surgical and minimally invasive procedures worldwide.	Merger/Acquisition	Nordson Medical Corporation	\$180.0
Jul-14	NeuroTherm, Inc.	NeuroTherm, Inc., a medical device company, develops, manufactures, and markets minimally invasive solutions for pain management.	Merger/Acquisition	St. Jude Medical Inc. (NYSE:STJ)	\$200.0

Sources: Capital IQ

Meridian Capital Overview

Select Recent Healthcare Experience – Meridian Capital



Producer of ceramics used in biomedical applications

-Acquired By-




MERIDIAN CAPITAL INVESTMENT BANKERS



Leading manufacturer of bio-active glass for the healthcare industry

-Acquired By-




MERIDIAN CAPITAL INVESTMENT BANKERS



Independent living, assisted living, skilled nursing, nursing home care, and memory care

-Board Advisory-



MERIDIAN CAPITAL INVESTMENT BANKERS



A LIFE OF SCIENCE

Independent research institute housing the nation's largest cancer prevention research program

-Board Advisory-



MERIDIAN CAPITAL INVESTMENT BANKERS



One of the nation's largest retirement and assisted living companies

-Capital Raise-



MERIDIAN CAPITAL INVESTMENT BANKERS



Designer and manufacturer of innovative wheelchair products

-Financial Advisory-



MERIDIAN CAPITAL INVESTMENT BANKERS

Rik Medical

Medical equipment business

-Acquired By-




MERIDIAN CAPITAL INVESTMENT BANKERS



Non-profit hospital and medical center, providing medical and surgical services

-Board Advisory-



MERIDIAN CAPITAL INVESTMENT BANKERS



Provider of orthopedic implants and ancillaries

-Acquired By-




GLOBALM&A PARTNERS



German manufacturer of high-precision products for the medical industry

-Acquired By-




GLOBALM&A PARTNERS



Provider of products and services for life science research

-Acquired By-




GLOBALM&A PARTNERS



Developer of infection control and wound healing products

-Acquired By-




GLOBALM&A PARTNERS

Meridian Healthcare Industry Coverage and Services

Sales Process

- Strategic Sale
- Minority Sale
- Subsidiary Divestitures
- Succession Planning

Recapitalization

- Management Buy-Outs
- New Growth Capital
- Liquidity Events
- Financial or Strategic Partner

Buy-side Process

- Targeted Buy-Side
- Add-on Acquisitions
- Merger of Equals
- Vertical & Horizontal Acquisitions

Strategic Advisory

- Strategic Issues & Projects
- Ownership Transition Plans
- Corporate Finance Alternatives
- Exit Strategy Assessment



Medical Devices & Products



Healthcare IT



Healthcare Services



Diagnostics & Research



Biopharmaceuticals



MERIDIAN CAPITAL
INVESTMENT BANKERS

MERIDIAN CAPITAL CONTACTS

Chuck Wilke
Founder and Managing Director
206.224.6151
cwilke@meridianllc.com

Brian Murphy
President and Managing Director
206.224.6156
bmurphy@meridianllc.com

John O'Dore
Managing Director
206.224.6152
Jodore@meridianllc.com

Bruce Pym
Managing Director
206.224.6158
bpym@meridianllc.com

Patrick Ringland
Managing Director
206.224.6155
pringland@meridianllc.com