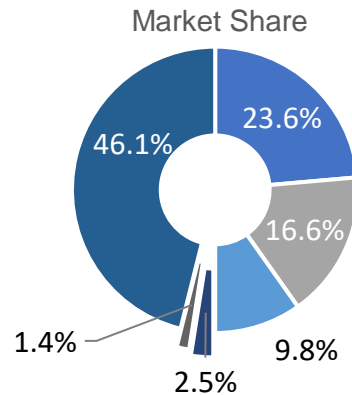


# Healthcare IT Industry Snapshot December 2021

## Executive Summary

The Healthcare IT industry is comprised of enterprises primarily involved in the design, development, implementation and continued support of electronic medical records systems (EMRs). Industry systems can range from basic record-keeping databases to interactive portals for patient-provider interaction, include data analytics and even medical history illustrations. Over the five years to 2021, industry demand has consistently expanded amid federal healthcare legislation that has mandated the adoption of these systems. The landmark Health Information Technology for Economic & Clinical Health Act established Medicare and Medicaid incentives to encourage the widespread adoption of electronic health record (EHR) systems among ambulatory and inpatient healthcare providers. As a result, industry revenue has increased at an annualized rate of 3.3% over the past five years to reach \$13.0 billion in 2021, including 8.7% growth in 2021 alone. Profit experienced significant volatility between 2016 and 2021, but is forecast to recover as new system purchases more frequently include complex, higher-priced systems.

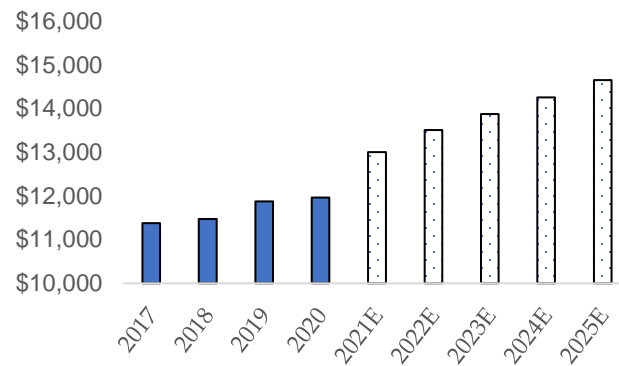
- Epic Systems Corp.
- Cerner Corporation
- Allscripts Healthcare Solutions Inc.
- Medical Information Technology Inc.
- eClinicalWorks LLC
- Other



## Sector Spotlight

- \$13.0B Healthcare IT revenue in 2020
- 3.0% Projected CAGR until 2025
- 2,181 Healthcare IT Businesses
- \$3.70T Total Health Expenditure 2020
- 50.9% Top 3 Operators Market Share 2021

### Revenue Growth (\$ in millions)



Amplified adoption of EHR systems in the wake of the coronavirus pandemic will continue to support growth for more intricate systems, bolstering revenue. Davidson Capital Advisors expect total revenue to increase at an annualized rate of 3.0% over the five years to 2026 to reach \$15.0 billion.

## Segment Breakdown

### Increasing Participation in both New Entrants and Industry Labor

While the total number of competing enterprises contracted in the previous five-year period, the coronavirus pandemic provided a unique growth opportunity for small-scale operators to create highly specialized product offerings. These can be further segmented by medical specialty or type of organization, enabling a new competitor to effectively capture market share. The total number of competing enterprises is forecast to increase at an annualized rate of 2.0% over the five years to 2026 to reach 2,405 individual companies

### Industry Expansion to Adapt to Overwhelming Demand

Booming demand, coupled with the increasingly high-tech and niche offerings put forth by industry companies, has helped drive the industry's profitability. Still, heightened operating expenses from continued expansion have encroached on industry profit margins. This encroachment was then exacerbated by lackluster revenue growth experienced in 2020 due to the coronavirus\ pandemic. As a result, profit has decreased over the past five years to 12.4% of average revenue in 2021.

### Labor Competition will Intensify

The design and implementation of specialized systems for late adopters will also likely require highly paid R&D personnel. However, a growing share of industry revenue will likely come from maintenance and support rather than new sales as the market reaches saturation and the industry begins to mature. The industry has already begun to experience this as major players like add additional services, such as smart tools that use artificial intelligence and patient engagement platforms

## Industry Outlook

As Medicare and Medicaid payment incentives and penalties regarding meaningful adoption of EHR systems encourage healthcare providers to invest in industry products and services, several large-scale companies will likely take advantage of the industry's rapidly expanding market opportunities. Rampant consolidation is expected to provide large-scale EHR companies the resources to provide troubleshooting and product support services across the United States. This demand is expected to be amplified by the coronavirus pandemic. Healthcare providers across the country rely on patient tracking systems to evaluate virus exposure, infection cases and vaccinations. Federal funding specific to the expansion of these systems in response to the pandemic will accelerate further adoption of EHR systems, sustaining healthy demand over the five years to 2026.

## Market Concentration

The Southeast region of the U.S. accounts for an estimated 26.0% of industry establishments in 2021, mirroring the region's 25.8% contribution of the domestic population. The Mid-Atlantic region represents the second-largest regional contributor to industry activity, accounting for an estimated 19.3% of industry establishments in 2021. This is higher than the region's 15.0% contribution to the general population; however, the Mid-Atlantic region includes highly populous areas, such as New York City. The West region is the third-largest contributor to industry activity and accounts for an estimated 18.6% of establishments in 2021. Similar to the Southeast, the west region's contribution to industry activity closely matches its population density at 17.2%. The Southwest region of the United States accounts for an estimated 11.7% of industry establishments in 2021, slightly below the region's population contribution of 12.8%.

## Recent Public Transactions

Jan 2021

May 2021

Jun 2021

July 2021

April 2021



Deal Date	Target	Acquirer	Deal Synopsis
04-Jan-2022	Overjet	Liberty Global Venutres, Motorola Solutions VC, and Amazon Alexa Fund	The company raised \$45 million of Series B1 venture funding from Liberty Global Ventures, Motorola Solutions Venture Capital and Amazon Alexa Fund on January 4, 2022. PTC and 7 other investors also participated in the round.
31-Dec-2021	Mojo Vision	TDM Growth Partners	The company received \$70 million of development capital from TDM Growth Partners and other undisclosed investors on December 31, 2021. The transaction values the company at \$920 million.
29-Dec-2021	CytoVale	Blackhorn Ventures, Breakout Ventures, and Dolby Family Ventures	The company raised \$16.44 million of Series B convertible debt financing from Dolby Family Ventures, Blackhorn Ventures and Breakout Ventures on December 29, 2021, putting the company's pre-money valuation at \$37 million.
20-Dec-2021	Akido	Insight Partners and General Catalyst	The company raised \$42.5 million of Series B venture funding in a deal led by Insight Partners and General Catalyst on December 20, 2021, putting the company's pre-money valuation at \$390 million. The funds will be used to accelerate growth to support customers, grow the team, and invest in the next generation of technology to support patient care.
16-Dec-2021	TandemAI	Maverick Ventures and New Enterprise Associates	The company raised \$40 million of Series A venture funding from Maverick Ventures and New Enterprise Associates on December 16, 2021.

### Public Comps

Company Name	Revenue Growth	Gross Margin	EBITDA Margin	FTE	Revenue / FTE	EV / Revenue	EV / EBITDA
Cerner Corporation	-3.3%	83.1%	18.0%	26,400	\$2,086	4.1x	13.0x
Allscripts Healthcare	-8.0%	37.6%	6.5%	8,400	\$5,444	1.3x	19.4x
Inovalon Holdings	3.9%	74.9%	27.9%	1,836	\$5,401	8.2x	55.7x
Omniceil, Inc.	-0.5%	46.3%	12.0%	2,860	\$2,728	6.5x	29.3x
Health Catalyst Inc.	21.9%	48.1%	-45.5%	1,000	\$0	10.8x	54.4x
Streamline Health Solutio	-47.0%	54.9%	-46.2%	80	\$218,070	7.9x	-23.8x
Median	-1.9%	51.5%	9.3%	2,348	4,064	7.2x	24.4x