

Healthcare IT Industry Report

December 2021

HEALTHCARE IT INDUSTRY KEY TAKEAWAYS

- ❑ **Healthcare IT:** Industry revenue is forecasted to increase at an annualized rate of 3.0% from 2021 to 2026, totaling \$15.0 billion. EMR systems have been adopted by a large majority of healthcare providers to the point of minor saturation. While growth opportunities still remain in niche specialty physician practices and outpatient clinics, the industry as a whole is expected to transition toward majority over the coming years.
- ❑ **External Drivers**
 - **Federal funding for Medicare and Medicaid:** Increased federal funding for Medicare and Medicaid enables more individuals to afford medical care, thereby increasing demand for medical services and, in turn, driving demand for electronic health record (EHR) systems. Moreover, in 2015, Medicare and Medicaid began offering incentives to providers with EHR systems and have penalized providers that fail to attest to meaningful use of EHR.
 - **Private investment in computers and software:** Private investment in computers and software measures the amount spent annually by businesses on software and computing equipment, including EHR systems purchased by healthcare providers. As demand for business services and the level of available technology increase, private investment in computers and software is expected to also rise, which generally correlates with increased demand for industry products and services.
 - **Total health expenditure:** Total health expenditure measures the total level of public and private spending on health and medical needs in the United States. An increase in total health expenditure indicates greater demand for medical services. Moreover, total health expenditure includes the amount spent by hospitals and ambulatory care facilities on EHR systems.
 - **Number of physician visits:** Offices of physicians represent a substantial downstream market for industry operators. In general, as physician visits increase, physician revenue increases and expands available capital for investment in EMR systems. Moreover, the increasing number of physician visits increases total recorded patients within existing systems.
 - **Research and development expenditure:** Research and development (R&D) expenditure tracks the amount of annual public and private funding for R&D. R&D funding assists industry companies in producing advanced EHR systems to cater to market needs.
- ❑ **Industry Outlook**
 - **Continued Growth:** Medicare penalties for healthcare providers that cannot attest to the meaningful use of EHRs, which went into effect in 2015, may precipitate shifts in demand for particular products and services. Amplified adoption of EHR systems in the wake of the coronavirus pandemic will continue to support growth for more intricate systems, bolstering revenue.
 - **Emerging Trends:** As a result, the total number of competing enterprises is forecasted to increase at an annualized rate of 2.0% from 2021 to 2026 to reach 2,405 individual companies. The large majority of these new entrants will focus on more complex EHR systems, which is expected to phase out basic EHR systems without clinician notes over the outlook period.

INDUSTRY AT A GLANCE

Key Statistics



\$13.0bn Revenue

- Annual Growth 2016 – 2021 3.3%
- Annual Growth 2021 – 2026 3.0%



\$1.6bn Profit

- Annual Growth 2016 – 2021 2.2%



12.4% Profit Margin

- Annual Growth 2016 – 2021 -0.7pp



2,181 Businesses

- Annual Growth 2016 – 2021 -0.6%
- Annual Growth 2021 – 2026 2.0%



55,411 Employees

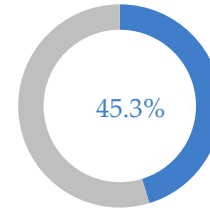
- Annual Growth 2016 – 2021 2.8%



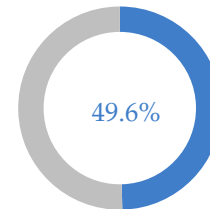
\$4.6Bn Wages

- Annual Growth 2016 – 2021 2.9%
- Annual Growth 2021 – 2026 2.8%

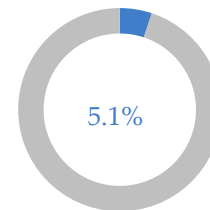
Segments



Comprehensive EMR's



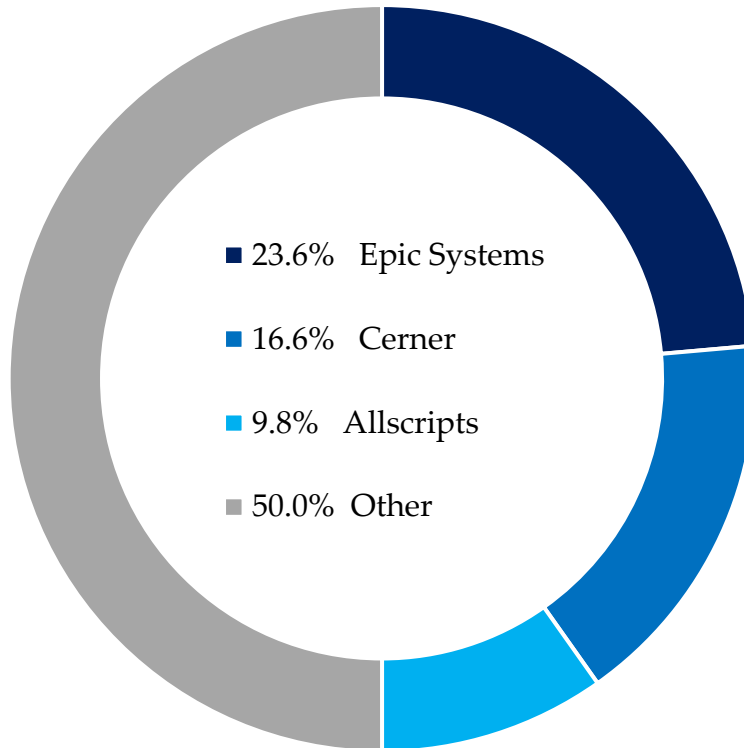
Basic EMR with clinician notes



Basic without clinician notes

INDUSTRY AT A GLANCE

Major Players



SWOT Analysis

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STRENGTHS

- High & Steady Barriers to Entry
- Growth Life Stage Cycle
- Low Volatility
- High Profits vs. Sector Average

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WEAKNESSES

- Low & Steady Level of Assistance
- High Competition
- High Product/Service Concentration

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OPPORTUNITIES

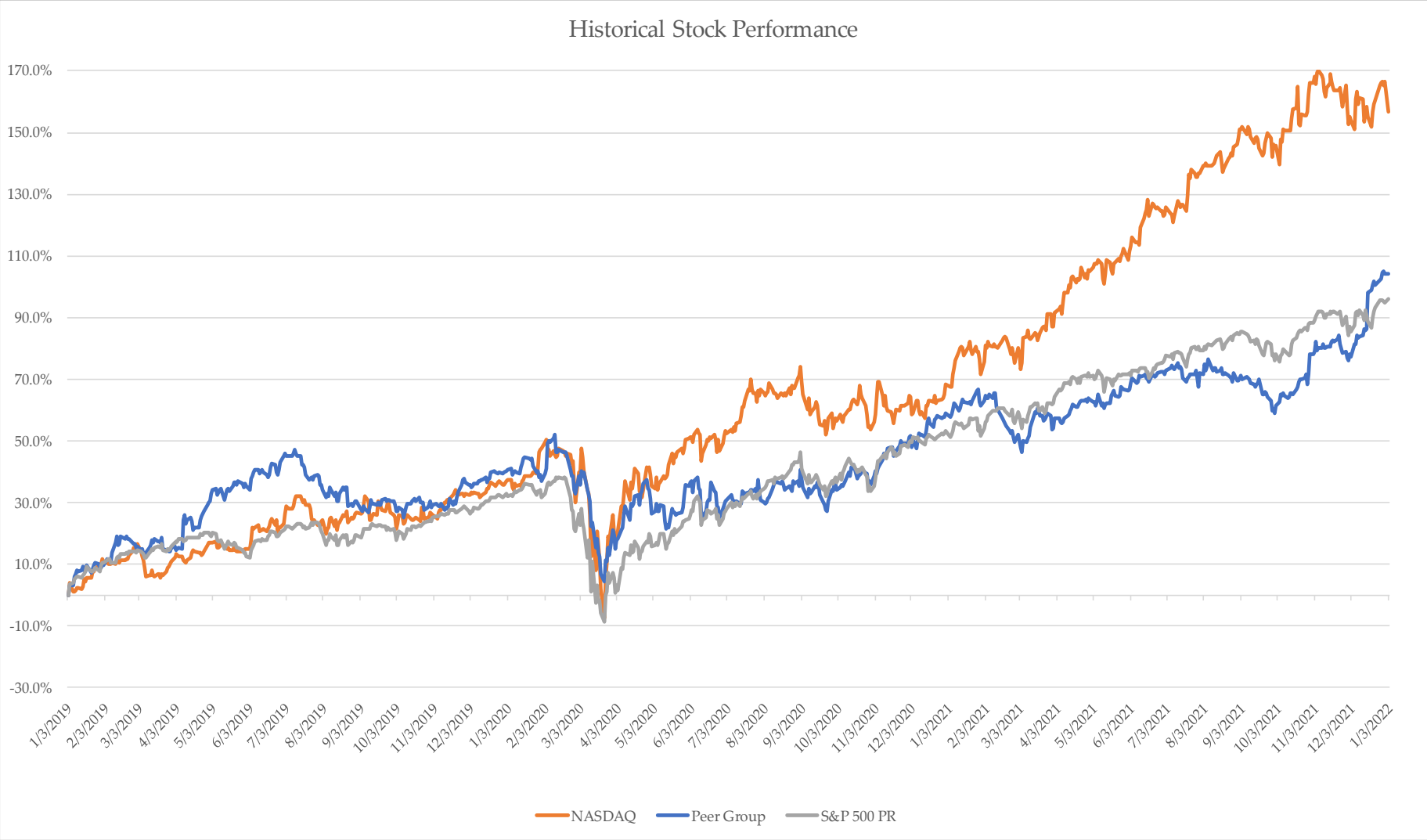
- High Revenue Growth (2021-2026)
- High Performance Drivers

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THREATS

- Low Outlier Growth
- Federal Funding for Medicare and Medicaid

HEALTHCARE IT INDEX VS. S&P 500



DCA Healthcare IT Index: CERN, MORX, INOV, OMCL, HCAT

RECENT PRIVATE TRANSACTIONS

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.

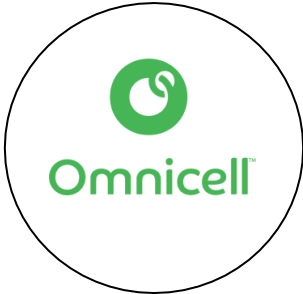
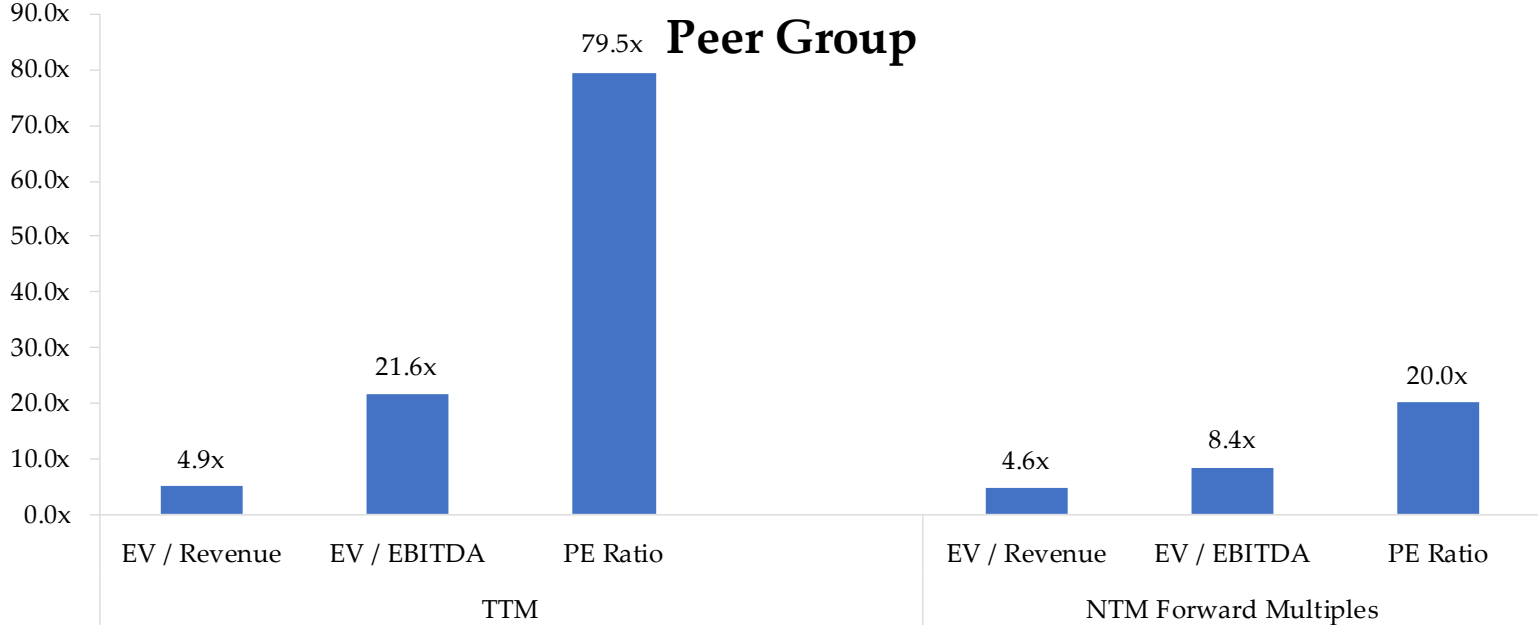
RECENT PUBLIC TRANSACTIONS

Deal Date	Target Companies	Investors	Deal Size (\$MM)
22-Dec-2021	Hyperfine (Diagnostic Equipment) (NAS: HYPR)	, Catalio Capital Management, Deerfield Management, Eldridge (Gre	126.0
20-Dec-2021	Cerner (NAS: CERN)	Oracle (NYS: ORCL)(Safra Catz)	28,300
15-Dec-2021	Venus Concept (NAS: VERO)	iers, HealthQuest Capital(Garheng Kong), Masters Capital Manager	17.0
15-Dec-2021	HealthBeacon (DUB: HBCN)	IPO	28.2
15-Dec-2021	Perimeter Medical Imaging (TSX: PINK)	ocial Capital Suvretta Holdings I (NAS: DNAA)(Chamath Palihapitiya	43.4
03-Dec-2021	Pear Therapeutics (NAS: PEAR)	erger Berman, Palantir Technologies (NYS: PLTR), Pilot House Ven	125.0
03-Dec-2021	Pear Therapeutics (NAS: PEAR)	Thimble Point Acquisition (NAS: THMA)(Elon Boms)	276.0
19-Nov-2021	Certara (NAS: CERT)		310.0
19-Nov-2021	Definitive Healthcare (NAS: DH)		396.0
11-Nov-2021	HeartBeam (NAS: BEAT)		16.5
10-Nov-2021	Bluejay Diagnostics (NAS: BJDJ)		21.6
02-Nov-2021	Modular Medical (PINX: MODD)		34.5

PUBLIC COMPARABLES

\$ in Millions	Cerner	Allscripts Healthcare Solutions	Omniceil	Streamline Health Solutions	Health Catalyst	
Ticker	CERN	MDRX	OMCL	STRM	HCAT	
Total Revenue	\$5,708	\$1,498	\$1,070	\$11	\$230	
Gross Profit	4,730	612	529	5	113	
EBIT	663	-2	98	-6	-138	
Net Income	\$522	\$775	\$80	(\$4)	(\$147)	
EBITDA (Normalized)	1,612	310	229	-4	-10	
Total Debt	1,836	460	536	0	202	
EV	28,192	2,507	7,973	71	1,809	
Employees	26,400	8,400	3,370	67	1,000	
Ratio Analysis						Median
Revenue/Employee	\$216,194	\$178,304	\$317,563	\$170,657	\$230,489	\$216,194
EV/Revenue	4.94x	1.80x	7.45x	4.94x	7.85x	4.94x
Debt/EBITDA	1.16x	2.76x	2.94x	NM	NM	2.76x
EV/EBITDA (Normalized)	13.47x	8.66x	31.11x	NM	NM	13.47x
Market Cap/EBITDA	12.59x	15.15x	41.02x	NM	NM	15.15x
Market Cap (mm)	27,138	2,261	7,929	71	2,062	
Close Price	92.84	18.61	180.51	1.45	40.33	
52 Week Low	67.96	13.05	116.07	1.28	35.96	
52 Week High	93.44	19.01	187.29	3.86	59.50	
Gross Margin	82.9%	40.8%	49.4%	48.0%	49.2%	49.2%
EBIT	11.6%	-0.1%	9.2%	-49.6%	-59.8%	-0.1%
EBITDA	24.8%	13.2%	16.8%	-27.4%	-44.9%	13.2%
Acct. Receivable Days	77	86	70	64	71	71
Inventory Days	9	NM	68	NM	NM	38
Acct. Payable Days	106	14	37	27	21	27
Revenue Growth	2.8%	4.9%	20.1%	-4.2%	28.7%	4.9%

PUBLIC COMPARABLES



WHAT WE'VE BEEN READING

HEALTHCARE TECH | MEDTECH M&A EXPECTED TO BE ROBUST IN SECOND HALF AFTER 2021 BEGAN WITH A FLURRY

- Medtech M&A took off in the first half of 2021, already eclipsing the number of deals made throughout 2020, and experts predict similar spending trends during the second half of this year. Dealmaking started nearly as soon as 2021 began. Companies came out of the uncertainty of last year with large cash reserves and quickly put that money to work, with at least 10 deals announced in January alone.
- While the pace of announced deals slowed from the break-neck speed of the first month of the year, multiple billion-dollar transactions and tuck-in acquisitions kept piling up. The medtech industry has recorded a total of 33 deals in the first half of 2021, up from 25 made in all of 2020, according to data provided to MedTech Dive by EY.
- John Babitt, EY's MedTech leader for the Americas, said companies were largely expected to tap into reserves built throughout 2020. [Read the article.](#)

HEALTHCARE TECH | WHAT DO FRONTLINE CAREGIVERS WANT FROM DIGITIZED HEALTHCARE?

- During the early years of implementing electronic health records in hospitals, nearly 15 years ago, I recall an intensivist in the CCU warning that EHR systems are a disaster. The reason? An inherent order form within the application prevented the physician from prescribing medicine in the dosage he required. Technology has its glitches, and all those who have been part of EHR implementations during those years will remember the challenges they have had to face.
- Fast forward 15 years, and today, the electronic health record has become the central hub for all digital developments in healthcare. With the stabilization of the EHR systems, the demand to make healthcare more user-friendly has only increased.
- The introduction of FHIR APIs and the interoperability ruling has further opened the market to a slew of consumer-friendly healthcare services that rival Uber and Amazon. The two decades of digital transformation have been expedited in the last two years due to COVID-19, which has made change management easier than it previously was. [Read the article.](#)

HEALTHCARE TECH | FTC WARNS APP MAKERS FALL UNDER BREACH NOTIFICATION RULE

- The FTC said apps are subject to the breach notification rule if they are capable of drawing health records from multiple sources. For example, if an app takes information that a user inputs along with data retrieved through an API from the fitness tracker or calendar on that person's phone, it would count.
- Many apps available now have that capability, and more are coming on the market frequently. The FTC said the rule "was issued more than a decade ago, but the explosion in health apps and connected devices makes its requirements with respect to them more important than ever."
- Healthcare data breaches have been a serious issue for many years now. So far this year, more than 400 breaches have been reported to HHS by entities that are covered by HIPAA.
- That problem has been exacerbated by the COVID-19 pandemic as providers quickly built out telemedicine platforms. The number of breaches increased by 36% from the first half of last year to the second half, according to CI security. [Read the article.](#)

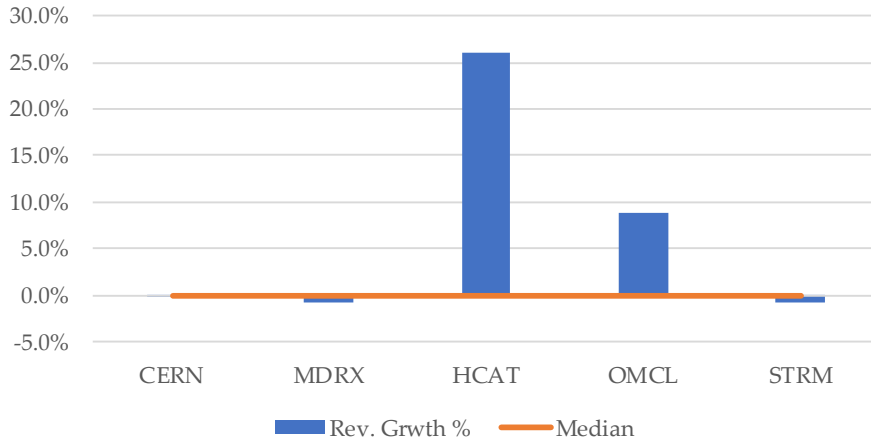
VALUATION TRENDS

Ticker	Company	Fundamentals								
		Close Price	Market Cap	TTM			NTM Estimates			
				Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
Peer Group										
CERN	Cerner	92.84	27,137.62	28,191.65	5,707.53	1,416.04	1.73	6,087.00	2,061.39	3.70
MDRX	Allscripts Healthcare Solutions	18.61	2,261.46	2,506.79	1,497.75	198.03	4.92	1,537.95	297.31	0.93
HCAT	Health Catalyst	40.33	2,062.43	1,809.33	230.49	(103.44)	(3.28)	291.43	(2.52)	(0.33)
OMCL	Omnicell	180.51	7,929.02	7,973.20	1,070.19	180.04	1.87	1,291.28	280.86	4.14
STRM	Streamline Health Solutions	1.45	70.92	70.68	14.31	(5.21)	(0.20)	19.85	(3.63)	(0.23)

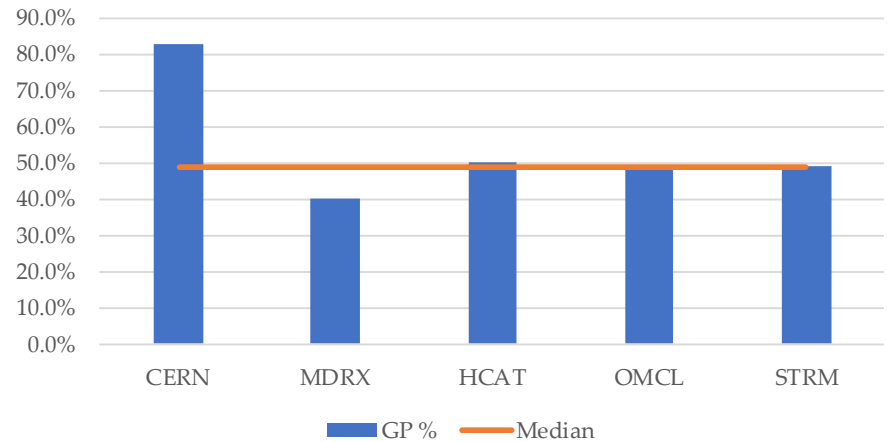
Ticker	Company	Multiples					
		EV / Revenue	TTM		NTM Forward Multiples		
			EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
Peer Group							
CERN	Cerner	4.9x	19.9x	54.6x	4.6x	13.7x	25.1x
MDRX	Allscripts Healthcare Solutions	1.8x	21.6x		1.6x	8.4x	20.0x
HCAT	Health Catalyst	7.8x			6.2x	-718.0x	-122.2x
OMCL	Omnicell	7.5x	44.3x	104.3x	6.2x	28.4x	43.6x
STRM	Streamline Health Solutions	4.9x			3.6x	-19.5x	-6.3x

OPERATING METRICS

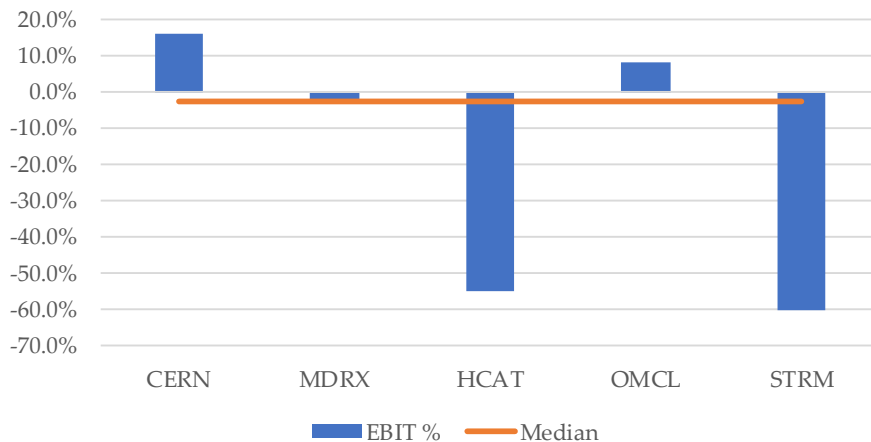
Revenue Growth



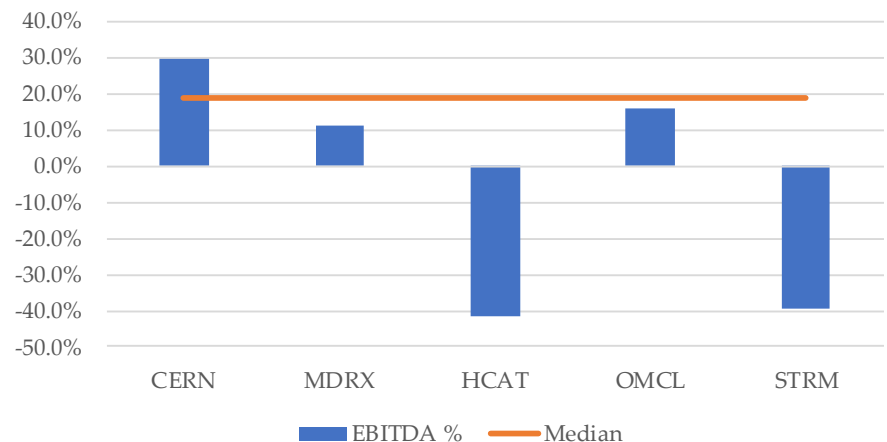
Gross Profit Margin



EBIT Margin

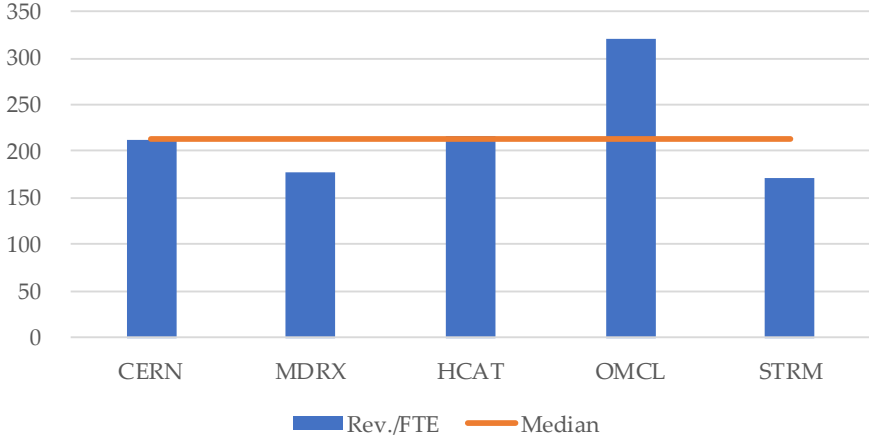


EBITDA Margin

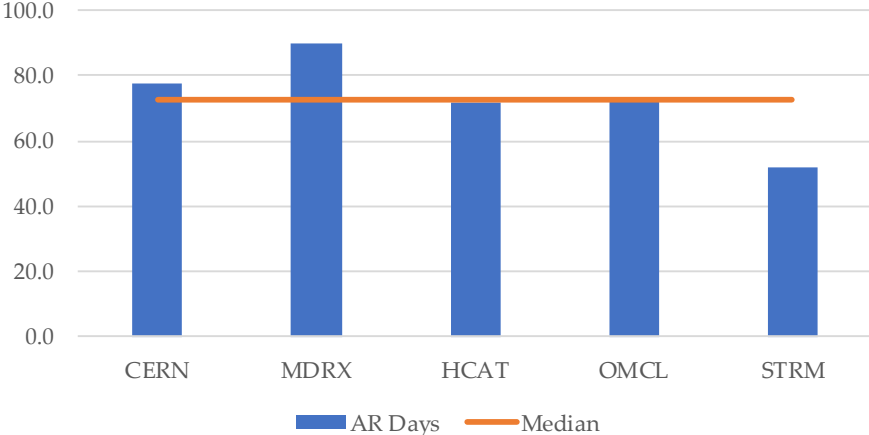


RATIO ANALYSIS

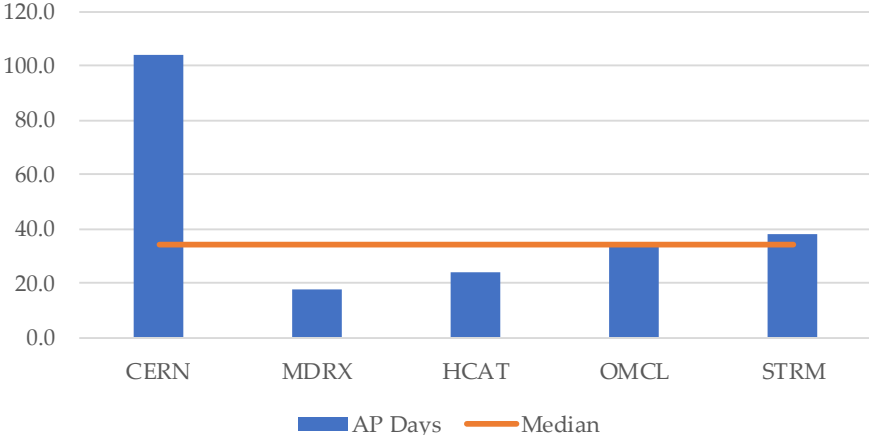
Revenue per Employee



AR Days



AP Days

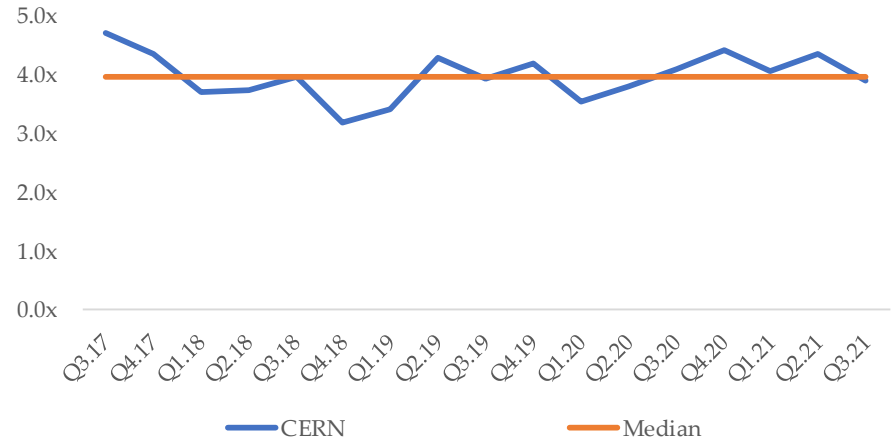


PUBLIC COMP

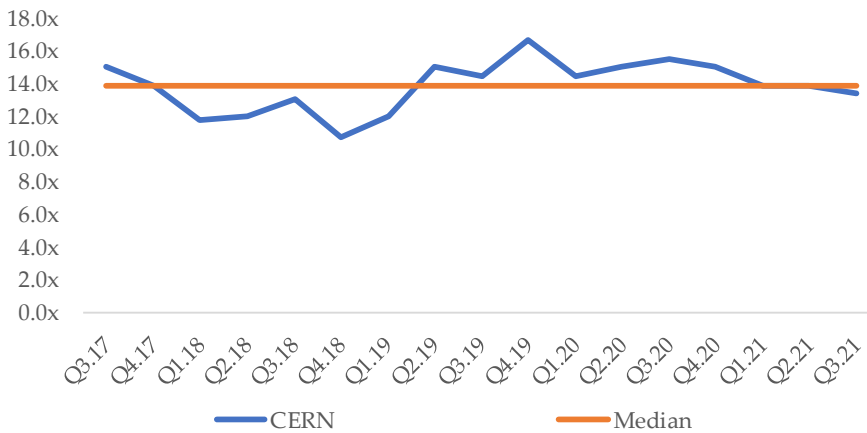
Cerner (NAS: CERN)

Cerner is a leading supplier of healthcare information technology solutions and tech-enabled services. The company is a long-standing market leader in the electronic health record industry, and along with rival Epic Systems corners a majority of the market for acute care EHR within health systems. The company is guided by the mission of the founding partners to provide seamless medical records across all healthcare providers to improve outcomes. Beyond medical records, the company offers a wide range of technology that supports the clinical, financial, and operational needs of healthcare facilities

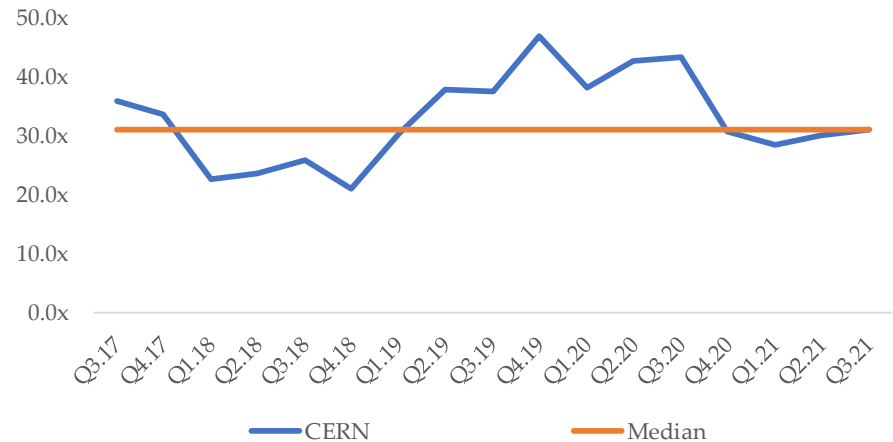
EV/Revenue Cerner



EV/EBITDA Cerner



P/E Cerner

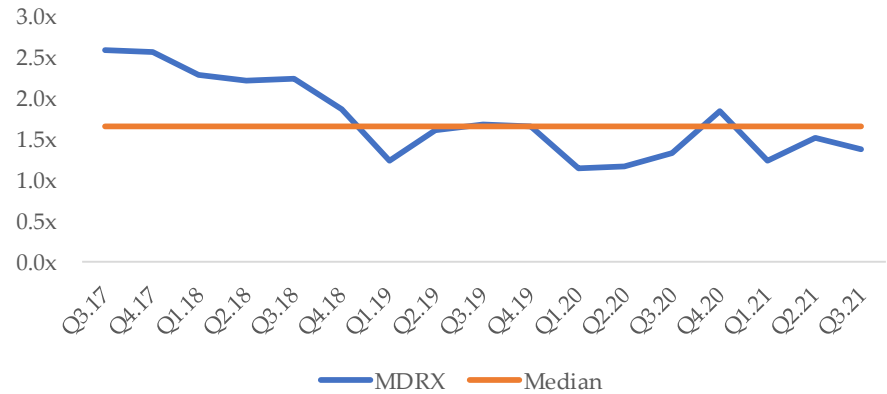


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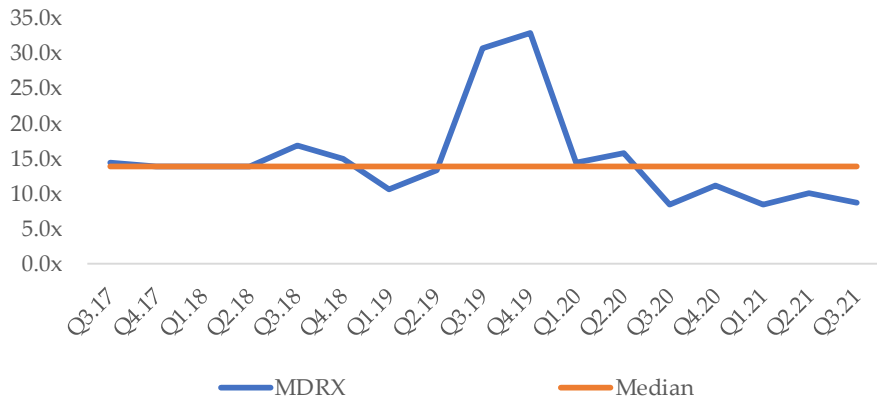
Allscripts (NAS: MDRX)

Allscripts Healthcare Solutions provides information technology and offerings to acute and ambulatory providers as well as hospital services. The company supports electric medical records, private cloud hosting, and other clinical services that support patient engagement and better outcomes. Additionally, the company offers administrative tools and services to improve operations, such as practice management, revenue cycle management, and clinical care coordination. Allscripts was founded in 1986 and is headquartered in Chicago.

EV/Revenue Allscripts Healthcare Solutions



EV/EBITDA Allscripts Healthcare Solutions

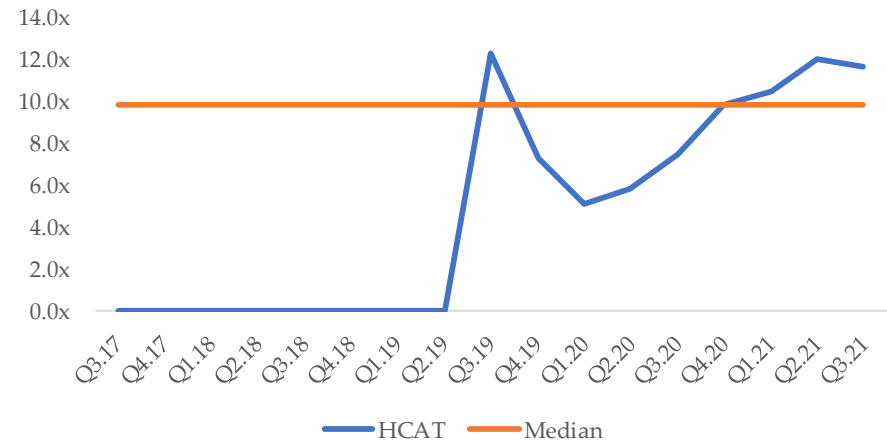


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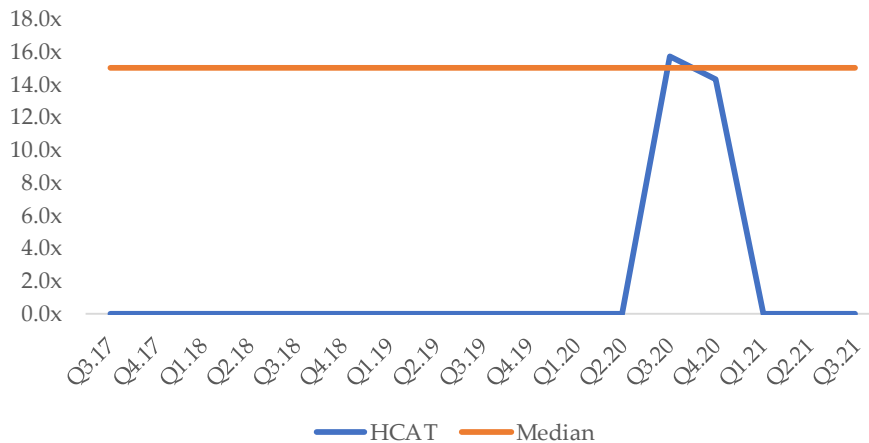
Health Catalyst, Inc. (NAS: HCAT)

Health Catalyst, Inc. provides data and analytics technology and services to healthcare organizations. Its solutions include a cloud-based data platform, analytics software, and professional services. The company was formerly known as HQC Holdings, Inc. and changed its name to Health Catalyst, Inc. in March 2017. The company was founded in 2008 and is headquartered in South Jordan, Utah.

EV/Revenue Health Catalyst



P/E Health Catalyst

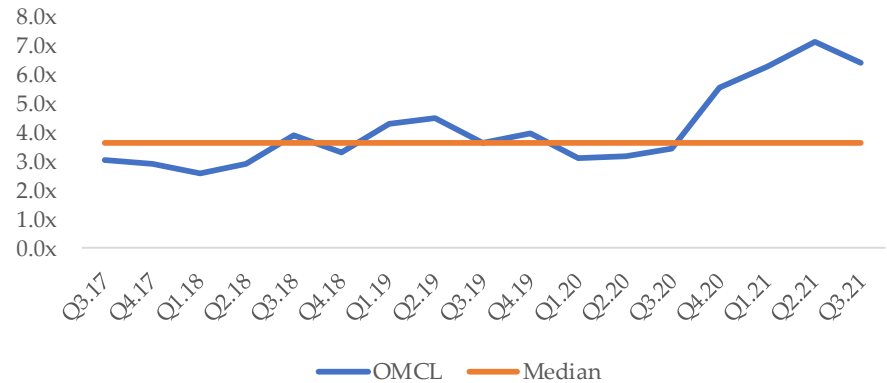


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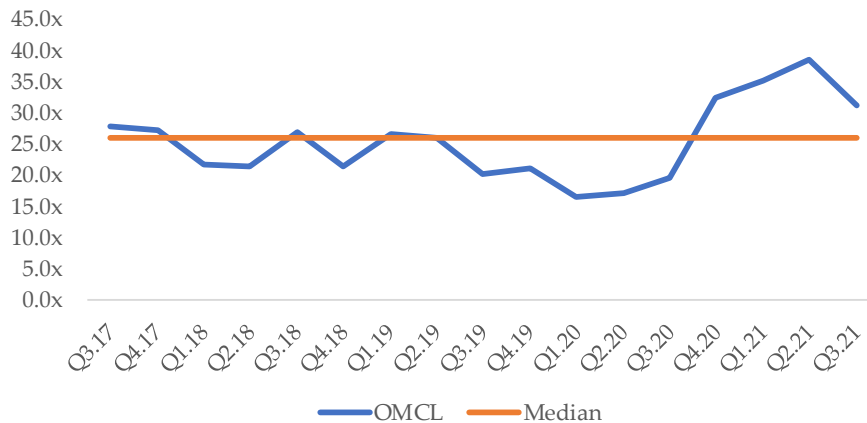
Omniceil (NAS: OMCL)

Omniceil provides automation and business analytics software for healthcare providers. The firm operates in two segments: automation and analytics and medication adherence. The automation and analytics segment manufactures medication dispensing systems, pharmacy inventory management systems, and related software. This segment contributes the majority of revenue. The medication adherence segment sells products like consumable medication blister cards and packaging equipment to help administer medication outside of a hospital setting. Omnicell generates the vast majority of its revenue in the United States.

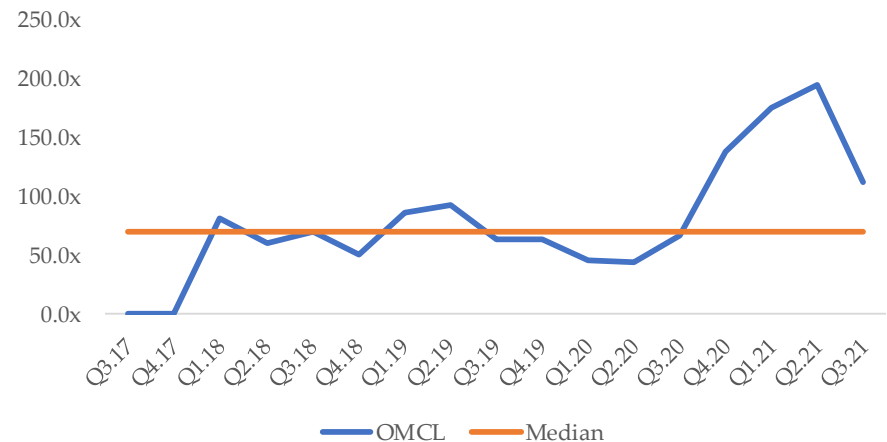
EV/Revenue Omnicell



EV/EBITDA Omnicell



P/E Omnicell

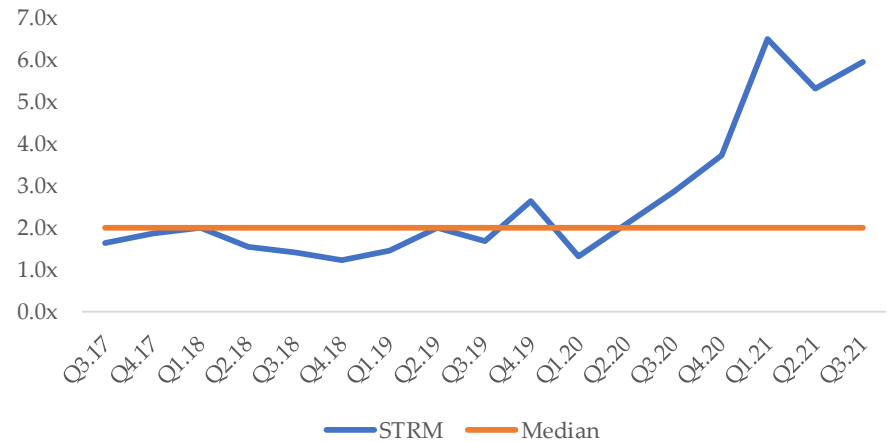


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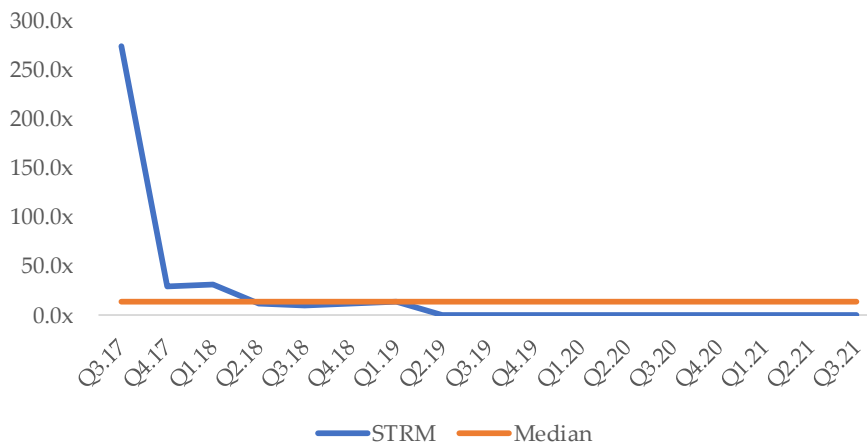
Streamline Health Solutions (NAS: STRM)

Streamline Health Solutions Inc is a provider of transformational data-driven solutions for healthcare organizations. The company provides computer software-based solutions through its looking glass platform. Its solutions include coding and CDI, coding audit, and financial management solutions. It offers various services, such as custom integration services, training services, electronic image conversion and database monitoring services. It sells its solutions and services in North America to hospitals and health systems, including physician practices, through its direct sales force and its reseller partnerships.

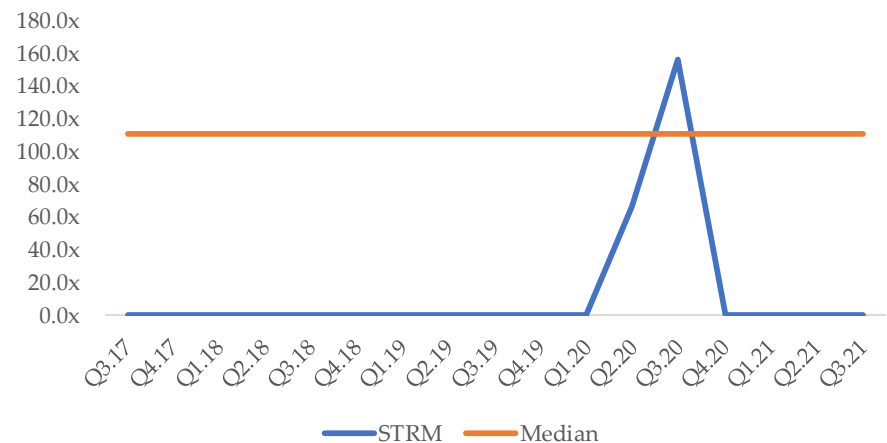
EV/Revenue Streamline Health Solutions



EV/EBITDA Streamline Health Solutions



P/E Streamline Health Solutions



DAVIDSON CAPITAL ADVISORS RECENT HEALTHCARE TRANSACTIONS



Healthcare Technology, Payment Services
www.acryness.com

Client Acryness

Acryness is an information technology company which provides a full range of billing support and payment processing solutions for large and small B2C billers with a core emphasis serving the healthcare community.



Health Care, Health Care Facilities
www.encompashealth.com

Client: Radiotherapy Clinics of Georgia

Radiotherapy Clinics of Georgia LLC operates as a provider of medical services specializing in radiation oncology. The Company provides treatments including surgery, chemotherapy, biologic therapy, and radiation therapy. Radiotherapy Clinics diagnoses and treats conditions such as brain, breast, cervical, endometrial, lung, prostate, and skin cancer. Acquired January 2007 by Physician Oncology Services, L.P.



Retail, Pharmacy and Retail
www.fruthpharmacy.com

Client: Fruth Pharmacy

Fruth Pharmacy operates as pharmacy and retail store. The Company provides medication, health and beauty products, groceries, household items, gifts, balloons, and flowers. Fruth Pharmacy serves customers throughout West Virginia and Ohio.



Health Care, Health Care Facilities
www.ecompasshealth.com

Client: Health South

Health South changed its name to Encompass Health, based in Birmingham, Alabama, is one of the United States' largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 36 states and Puerto Rico through its network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies.



Hospital & Healthcare
www.accessonemedcard.com

Client: Access One

Based in Fort Mill, South Carolina, Access One provides hospitals, health systems and employers with patient financing solutions. They strive to provide an easy user experience and a patient-friendly interface



DAVIDSON CAPITAL ADVISORS PROFESSIONALS

Robert S. Cashion
Managing Director, Investment Banking and Advisory Services

Prior to joining Davidson Capital Advisors, Mr. Cashion spent over 20 years in the financial services industry. He manages the firm's overall corporate finance and consulting practice where he oversees and executes the firm's investment banking, advisory and capital raising engagements.

Mr. Cashion worked with several financial institutions and consulting firms delivering investment banking, leveraged finance, consulting and restructuring services. He worked with Bank of America Merrill Lynch and its predecessor firms in the High Grade Capital Markets, Corporate Finance and the Special Situations group.

Mr. Cashion has been involved in industry sectors including general industrial, distribution, business services, retail, technology and healthcare. Mr. Cashion holds B.A. Education, B.S. Accounting, and an MBA from the University of North Carolina. He is a Certified Public Accountant and holds FINRA 7, 63 and 79 securities licenses.



980-237-9474 | Direct
robert.cashion@davcapadvisors.com



DAVIDSON CAPITAL ADVISORS PROFESSIONALS

Elizabeth Folger **Managing Director, Institutional Client Coverage**

Prior to joining Davidson Capital Advisors, Ms. Folger spent 16 years in the financial services industry in a variety of functions, most recently with Bank of America Merrill Lynch and its predecessor firms. She manages the sales and auction processes for the firm's sell side M&A and capital raising engagements. Her deep experience in the sales and trading has resulted in excellent execution for our client's projects.

She worked in the Loan Syndication Sales Group, headquartered in Charlotte, with her primary responsibilities for sales and distribution of syndicated loans for middle market and large corporate credits. Also, Ms. Folger worked on the Corporate Bond Trading desk where she managed and traded risk positions of \$50-\$100 million of intermediate term bank and finance paper.

Ms. Folger has been involved in a variety of sectors including general industrial, distribution, business services, retail, technology and healthcare. She holds a Bachelor of Arts from Hollins University.



980-237-9474 | Direct
beth.folger@davcapadvisors.com

DAVIDSON CAPITAL ADVISORS ANALYST TEAM

Maxwell Purdy

Corporate Finance Coverage

Prior to joining Davidson Capital Advisors in 2021, Mr. Purdy interned with Graycliff Partners, a private equity located in New York, NY. He graduated from University of North Carolina Chapel Hill in 2021 with a BS in Political Science and a minor in Economics and Entrepreneurship.

Maxwell assists in leading the firm's corporate finance client coverage as well as private equity coverage.

Jake Hall

Analyst, Investment Banking

Prior to joining Davidson Capital Advisors, Mr. Hall interned with Churchill Terry, a private equity firm located in Dallas, TX. He graduated from Southern Methodist University in 2021 with an MBA in Finance and Strategy.

Sam Fernandez

Analyst, Investment Banking

Prior to joining Davidson Capital Advisors in 2021, Mr. Fernandez lead finance and business development for Radio Nueva Vida radio station. He graduated from University of North Carolina in 2021 with a Bachelor of Science in Business Administration.

Luke Habecker

Analyst, Investment Banking

Prior to joining Davidson Capital Advisors in 2021, Mr. Habecker headed up business development for Odyssey Specialized Logistics, LLC. He graduated from University of North Carolina in 2019 with a Bachelor of Science in Business Administration.