

# Healthcare IT Industry Report

*Q1 2022*

# HEALTHCARE IT: INDUSTRY KEY TAKEAWAYS

## FORECAST: CONTINUED GROWTH

- ❑ The Electronic Medical Records Systems industry is forecasted to continue its strong growth over the coming years to 2026, albeit at a slightly decelerated pace.
- ❑ Industry revenue is forecasted to increase at an annualized rate of 3.0% from 2021 to 2026, totaling \$15.0 billion.

## MEDICARE PENALTIES

- ❑ Under Title IV of the 2009 HITECH Act, healthcare providers that do not adopt an EHR system in accordance with meaningful use guidelines set out by CMS have been subject to a 3.0% reduction in their reimbursements from Medicare since 2017.
- ❑ Due to Medicare payments making up a significant share of revenue for many healthcare providers, this penalty has already spurred many providers to equip themselves with industry products and services.
- ❑ Many industry companies provide support or hosting services for their EHR systems, and these services will likely continue to generate revenue over the coming years. Moreover, companies with significant adoption rates will likely turn to the development of additional features, such as system upgrades and services that increase the interoperability of EHR systems across providers, which will likely keep revenue growth steady over the next five years.

## INDUSTRY LANDSCAPE

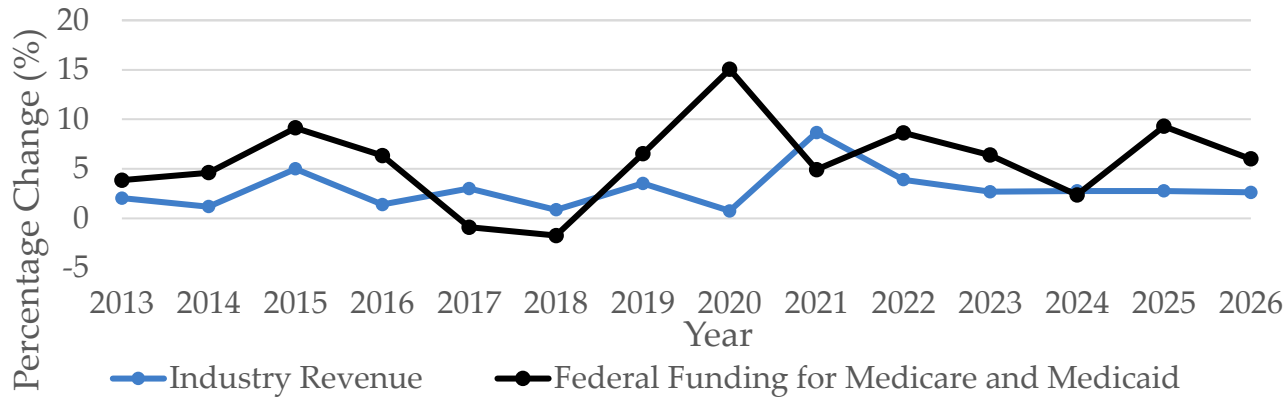
- ❑ While the total number of competing enterprises contracted in the previous five-year period, the coronavirus pandemic provided a unique growth opportunity for small-scale operators to create highly specialized product offerings. As a result, the total number of competing enterprises is forecast to increase at an annualized rate of 2.0% over the five years to 2026 to reach 2,405 individual companies.
- ❑ 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 OPERATIONS

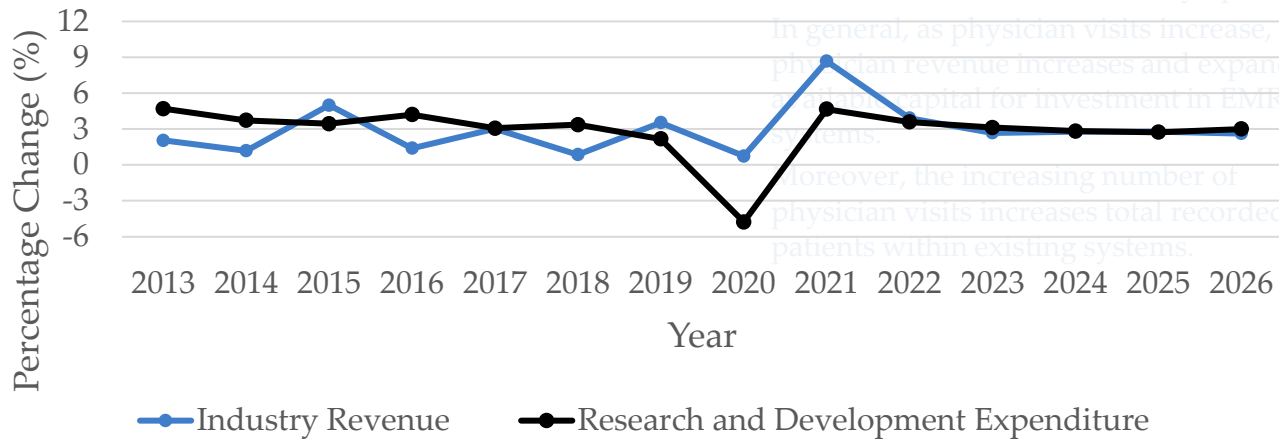
- ❑ Over the next five years, labor competition is expected to intensify. Industry enterprises will compete to retain highly trained, technically skilled personnel to develop system upgrades and new interoperability functions to maintain demand from current industry customers.
- ❑ The design and implementation 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.

# EXTERNAL INDUSTRY 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.

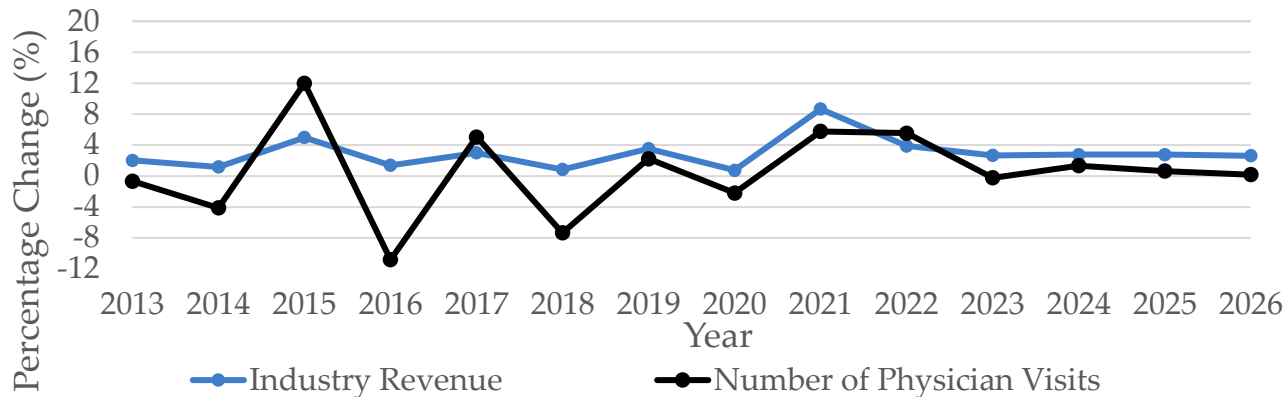


- Research and development expenditure:** Research and development (R&D) expenditure tracks the amount of annual public and private funding for R&D. R&D funding assists industry companies in producing advanced EHR systems to cater to market needs. Therefore, an increase in R&D funding generally correlates to an increase in demand for industry products and services and will likely give companies with steady access to R&D funding a competitive advantage, potentially boosting their profit.

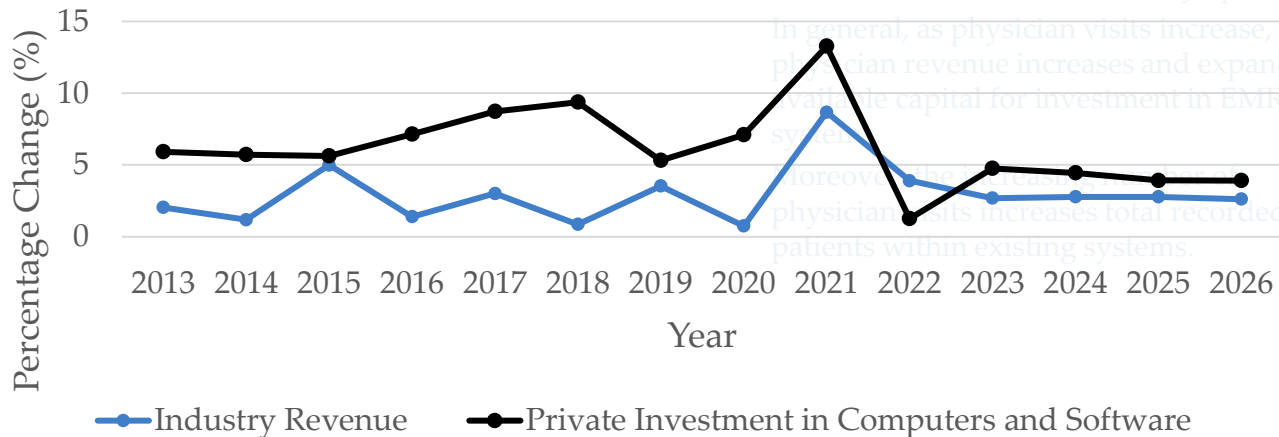


# EXTERNAL INDUSTRY DRIVERS

- 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.



- 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.



# WHAT WE'VE BEEN READING

## HEALTHCARE IT | CONTINUED CAPEX OPTIMISM FOR FY22

- In a 50-hospital survey conducted by Bank of America, spending on Healthcare IT is expected to increase slightly “year-over-year” (Y-o-Y) as a percentage of the total hospital CapEx budget.
- Within that, electronic health records (EHR) represents the biggest priority for total Healthcare IT spend at 42%, with revenue cycle management (RCM) second at 20%. These compare to 43% and 20% in FY21, respectively.
- Additionally, in feedback related to the COVID outbreak, 32% of respondents noted they decided to cancel or delay some type of capital equipment purchase, representing an increase from the 28% reported the prior quarter. Looking at that, it seems that there is continued optimism for spend normalization during FY22.

## HEALTHCARE IT | HEALTHCARE AND CYBER SECURITY

- In terms of basic cyber security, the healthcare industry lags behind other sectors like finance and manufacturing who often build their infrastructure with data security in mind.
- Four reasons the healthcare industry is vulnerable to cyber attacks:
  - Complex supply chain
  - Data has gone digital
  - Connected and outdated devices
  - Overstretched staff
- Keeping pace with the fast-moving security landscape is vital, but also removing the immense pressure of day-to-day management can help achieve broader digitalization goals within healthcare. [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.
- Healthcare data breaches have been a serious issue for many years now. In 2021, 712 breaches were reported to HHS by entities that are covered by HIPAA, which represents a 10.9% increase from 2020. In 2022, there have been 139 breaches reported through March.
- Last fall, the FTC warned it is prepared to bring actions to enforce the rule and has signaled it intends to make compliance with its breach notification rule and enforcement a priority. [Read the Article](#)

# INDUSTRY AT A GLANCE

## Key Statistics



### \$13.0bn Revenue

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



### 2,181 Businesses

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



### 55k Employment

- Annual Growth 2021 – 2026 2.8%



### \$1.6bn Profit

- Annual Growth 2016 – 2021 2.2%



### 5.0% Profit Margin

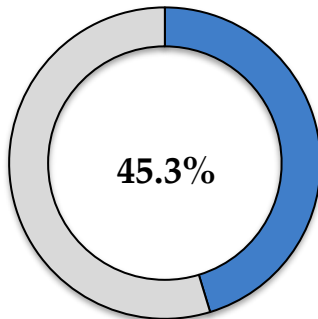
- Annual Growth 2016 – 2021 -0.7pp



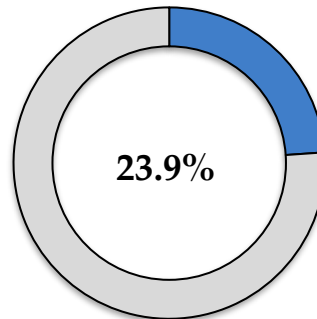
### \$4.6bn Wages

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

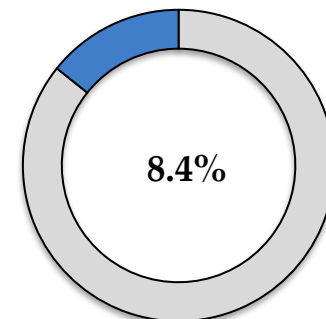
## Key Segments



**Bundled Creative Services**



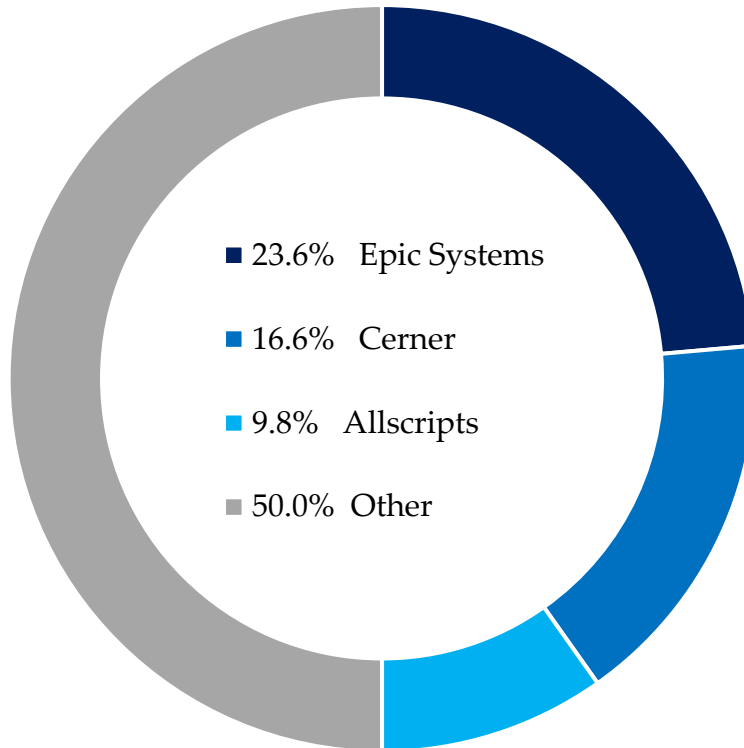
**Creative Services**



**Media Buying / Planning Services**

# 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
- Low Capital Requirements

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### WEAKNESSES

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

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### OPPORTUNITIES

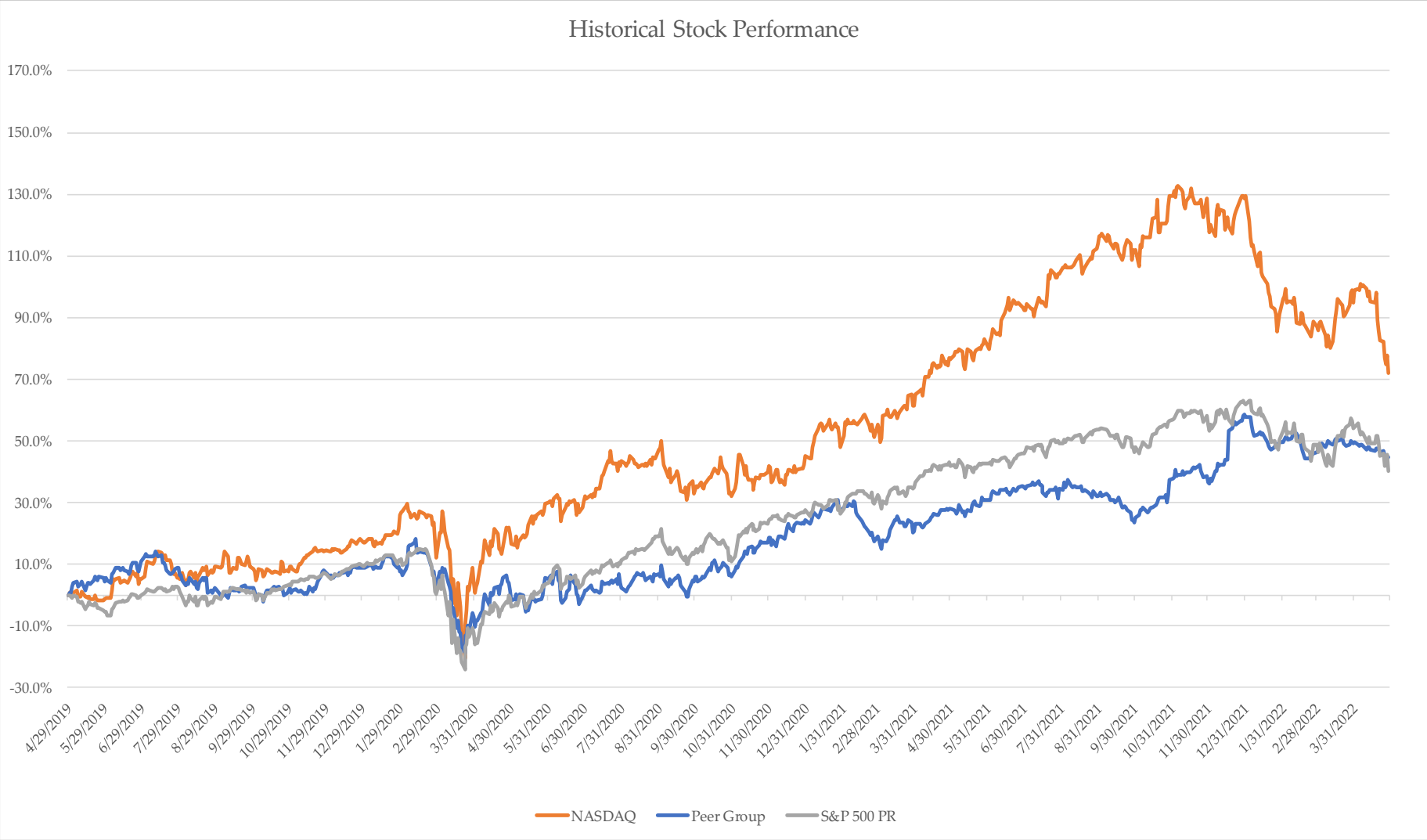
- High Revenue Growth (2021-2026)
- High Performance Drivers

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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
06-Apr-2022	SOC Telemed	Patient Square Capital	SOC Telemed was acquired by Patient Square Capital through a \$302.5 million public-to-private LBO on April 6, 2022.
31-Mar-2022	Ivenix	Fresenius Kabi	The company reached a definitive agreement to be acquired by Freenius Kabi for \$240 million on March 31, 2022.
24-Feb-2022	Experity	GTCR	Experity was acquired by GTCR through an LBO on February 24, 2022 for an undisclosed amount. The transaction values the company at \$1.25 billion.
12-Jan-2022	Compliancy Group	Aldrich Capital Partners	The Compliancy Group was acquired by Aldrich Capital Partners through an LBO on January 12, 2022.
04-Jan-2022	Physician Partners	Kinderhook Industries Mr. Michael Polen	Physician Partners was acquired by Kinderhook Industries and Mr. Michael Polen through a \$500 million LBO on February 1, 2022. As a part of the transaction, Credit Suisse and Truist provided debt financing for the deal.

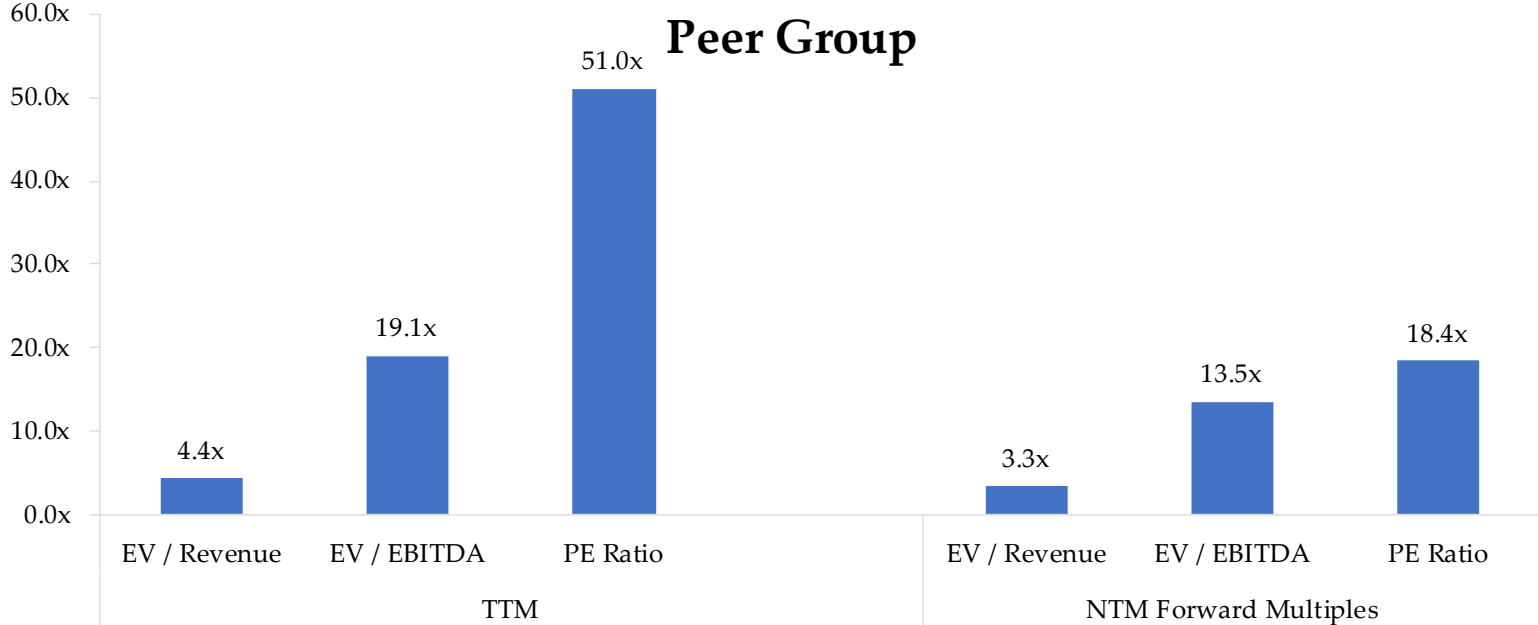
# RECENT PUBLIC TRANSACTIONS

Deal Date	Target Companies	Investors	Deal Size (\$MM)
25-Apr-2022	OneMedNet	Data Kinghts Acquisition Corp. (NASDAQ: DKDC)	126
14-Apr-2022	VitaCare Prescription Services	GoodRX Holdings (NAS: GDRX)	157
12-Apr-2022	Precision Healing (New ton)	Sanara MedTech (NAS: SMTI)	5
01-Apr-2022	Nutex Health (NAS: NUTX)	Clinigence Health (OTC: CLNH)	
04-Mar-2022	Nuance Communications	Microsoft (NAS: MSFT)	20,000

# PUBLIC COMPARABLES

\$ in Millions	Cerner	Allscripts Healthcare Solutions	Omniceil	Streamline Health Solutions	Health Catalyst	
Ticker	CERN	MDRX	OMCL	STRM	HCAT	
Total Revenue	\$5,765	\$1,503	\$1,132	\$14	\$230	
Gross Profit	4,764	620	555	7	113	
EBIT	717	175	90	-8	-138	
Net Income	\$556	\$134	\$78	(\$8)	(\$147)	
EBITDA (Normalized)	1,828	390	230	-124	-10	
Total Debt	1,836	434	541	10	202	
EV	28,568	2,718	4,948	66	702	
Employees	25,150	8,000	3,800	67	1,000	
<b>Ratio Analysis</b>						<b>Median</b>
Revenue/Employee	\$229,218	\$187,880	\$297,899	\$213,537	\$230,489	\$229,218
EV/Revenue	4.96x	1.81x	4.37x	4.64x	2.90x	4.37x
Debt/EBITDA	1.16x	1.12x	3.06x	NM	NM	1.16x
EV/EBITDA (Normalized)	17.48x	10.99x	34.79x	NM	NM	17.48x
Market Cap/EBITDA	19.16x	19.50x	44.04x	NM	NM	19.50x
Market Cap (mm)	27,574	2,472	4,767	67	942	
Close Price	93.80	21.27	107.92	1.40	17.66	
52 Week Low	69.08	13.05	107.65	1.22	17.59	
52 Week High	93.98	23.25	187.29	2.29	59.50	
Gross Margin	82.6%	41.2%	49.0%	50.5%	49.2%	49.2%
EBIT	12.4%	11.6%	7.9%	-56.6%	-59.8%	7.9%
EBITDA	26.0%	23.4%	15.4%	-36.4%	-44.9%	15.4%
Acct. Receivable Days	76	83	70	66	71	71
Inventory Days	9	NM	65	NM	NM	37
Acct. Payable Days	109	11	39	20	21	21
Revenue Growth	4.7%	0.0%	26.9%	29.4%	28.7%	26.9%

# PUBLIC COMPARABLES



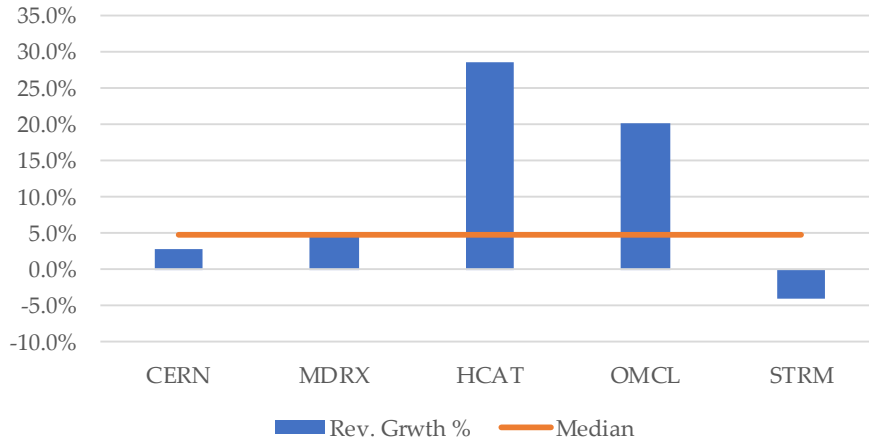
# VALUATION TRENDS

Ticker	Company	Fundamentals								
		Close Price	Market Cap	TTM				NTM Estimates		
				Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
<b>Peer Group</b>										
CERN	Cerner	93.79	27,574.21	28,568.00	5,764.82	1,498.42	1.86	6,103.79	2,111.49	3.64
MDRX	Allscripts Healthcare Solutions	20.85	2,471.76	2,717.89	1,503.04	351.13	1.03	1,520.73	315.03	1.14
HCAT	Health Catalyst	17.80	942.11	701.74	241.93	(106.10)	(3.23)	304.73	0.22	(0.29)
OMCL	Omnicell	107.40	4,767.15	4,948.44	1,132.02	174.44	1.79	1,438.39	270.17	4.12
STRM	Streamline Health Solutions	1.57	66.64	66.40	14.31	(5.21)	(0.20)	20.05	(3.03)	(0.22)

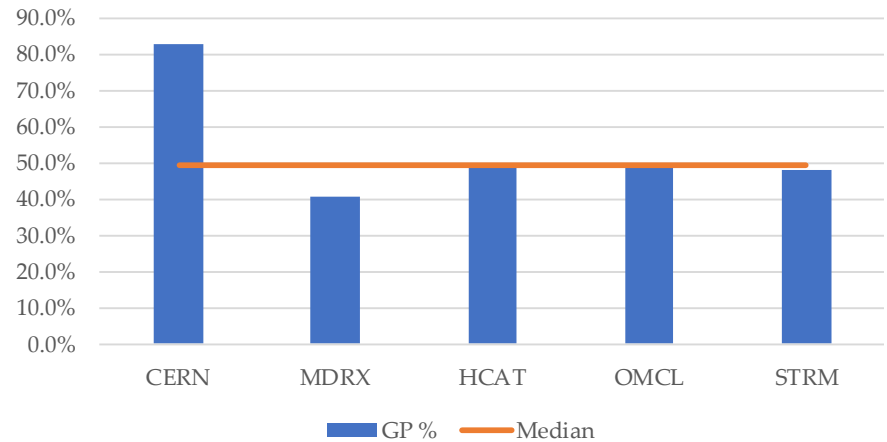
Ticker	Company	Multiples						
		EV / Revenue	TTM			NTM Forward Multiples		
			EV / EBITDA	PE Ratio		EV / Revenue	EV / EBITDA	PE Ratio
<b>Peer Group</b>								
CERN	Cerner	5.0x	19.1x	51.0x	4.7x	13.5x	25.8x	
MDRX	Allscripts Healthcare Solutions	1.8x	7.7x	21.5x	1.8x	8.6x	18.4x	
HCAT	Health Catalyst	2.9x			2.3x	3,263.9x	-62.4x	
OMCL	Omnicell	4.4x	28.4x	66.3x	3.4x	18.3x	26.1x	
STRM	Streamline Health Solutions	4.6x			3.3x	-21.9x	-7.1x	

# OPERATING METRICS

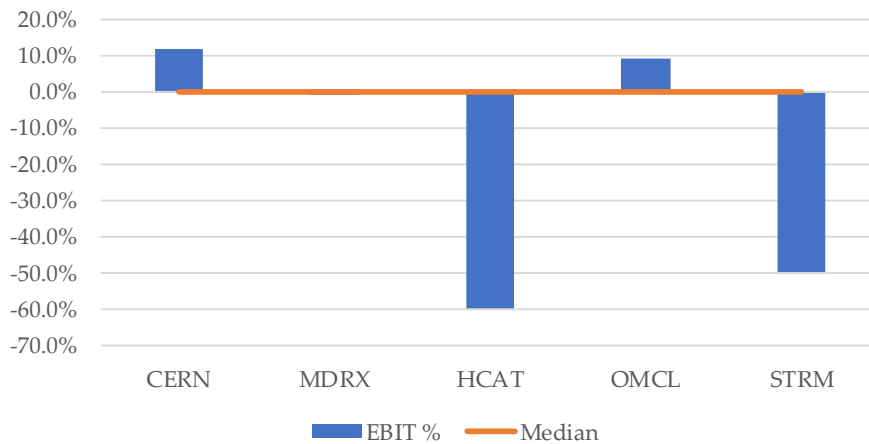
## Revenue Growth



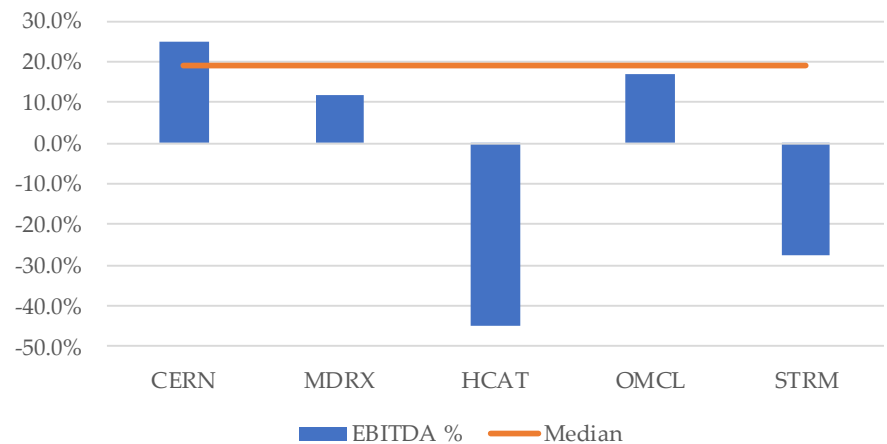
## Gross Profit Margin



## EBIT Margin

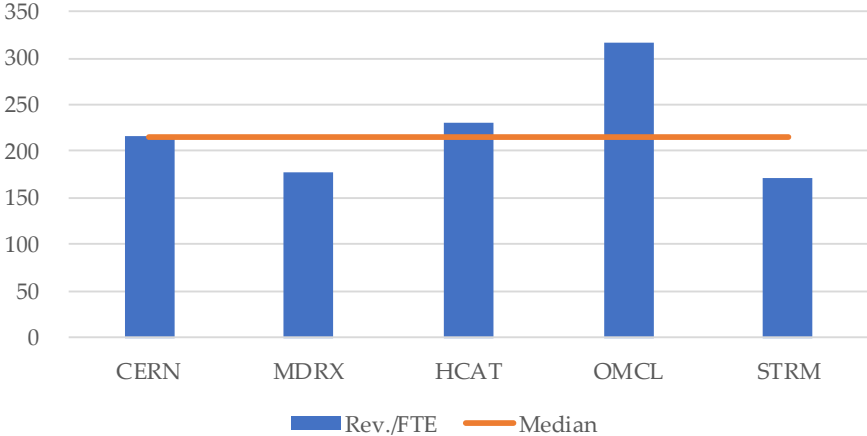


## EBITDA Margin

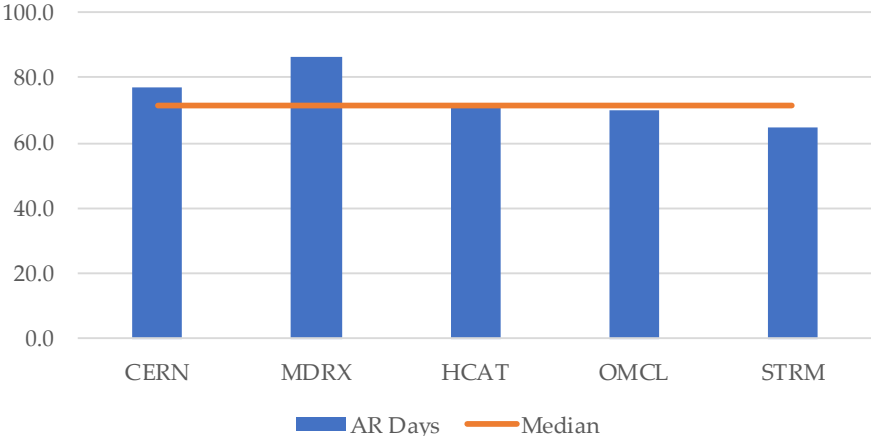


# RATIO ANALYSIS

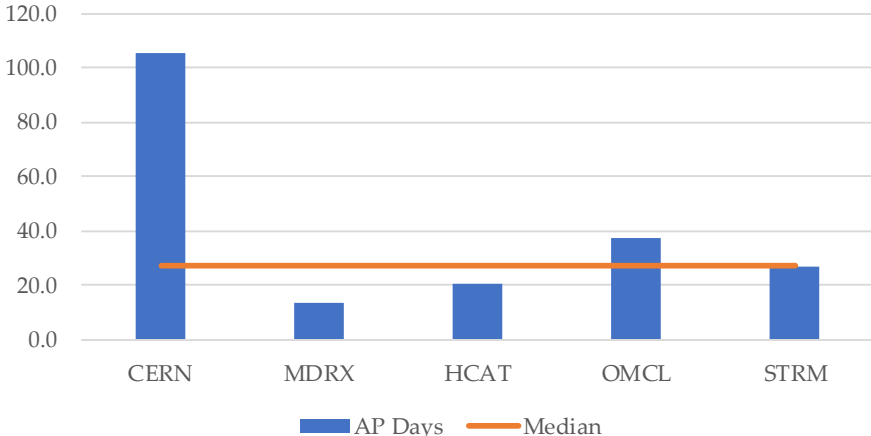
### Revenue per Employee



### AR Days



### AP Days

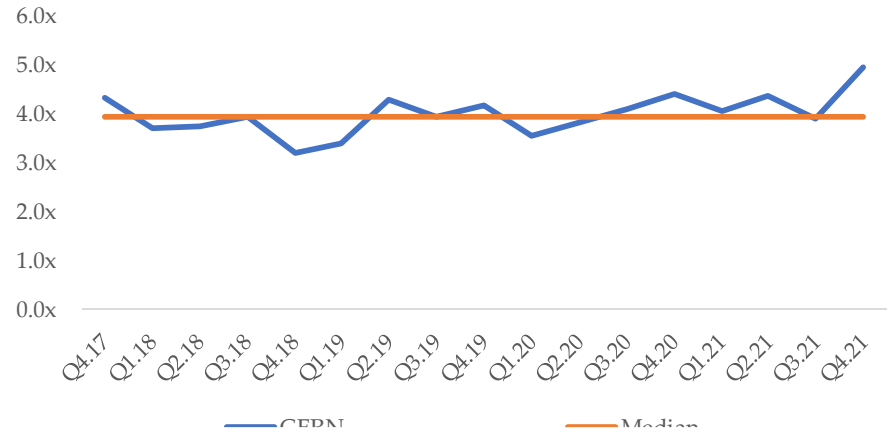


# PUBLIC COMP

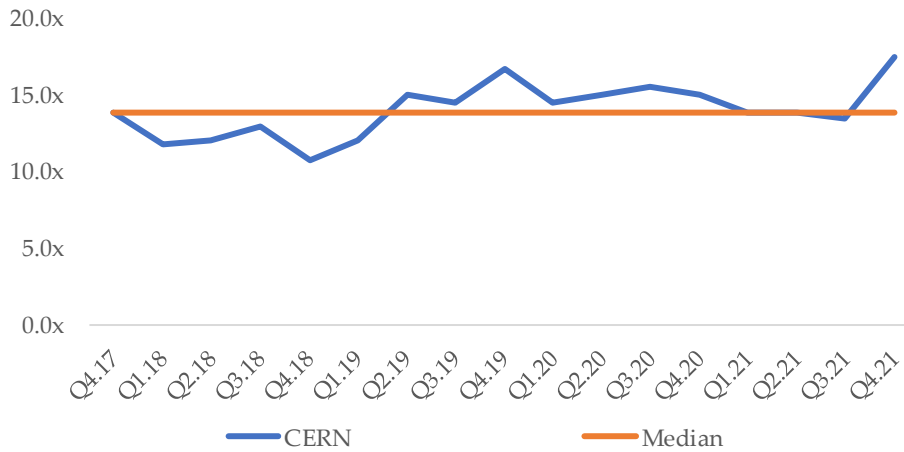


**Cerner (NAS: CERN)** is a leading supplier of healthcare information technology solutions and tech-enabled services. The company is a long-standing market leader in the electronic health record industry. Beyond medical records, the company offers a wide range of technology that supports the clinical, financial, and operational needs of healthcare facilities

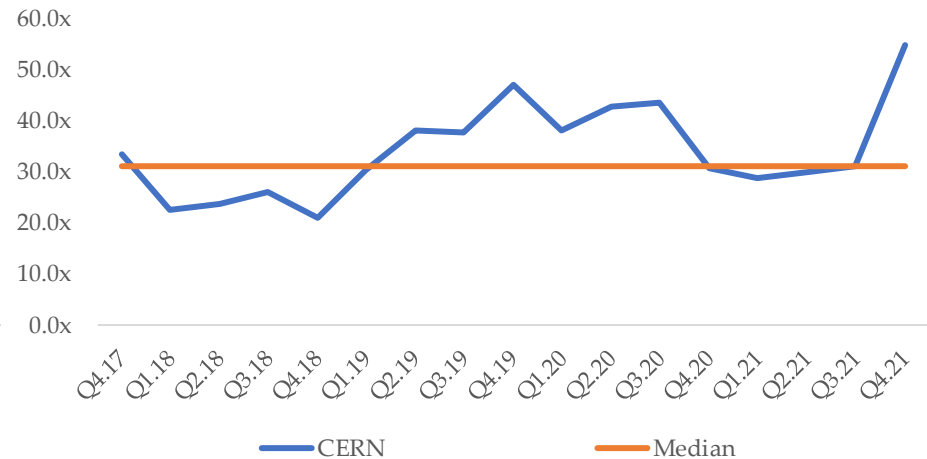
### EV/Revenue Cerner



### EV/EBITDA Cerner



### P/E Cerner

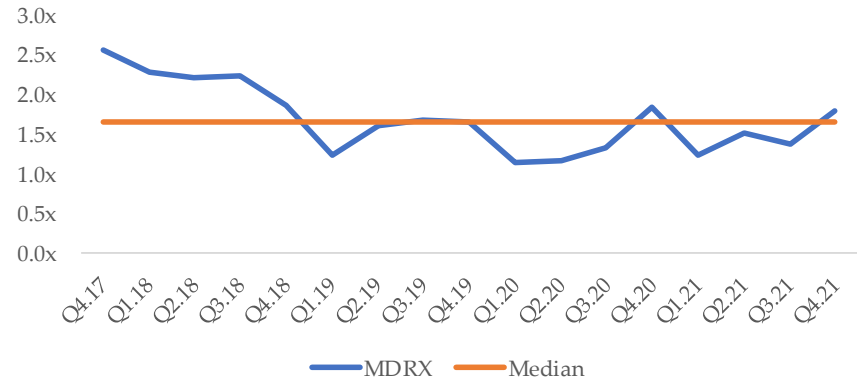




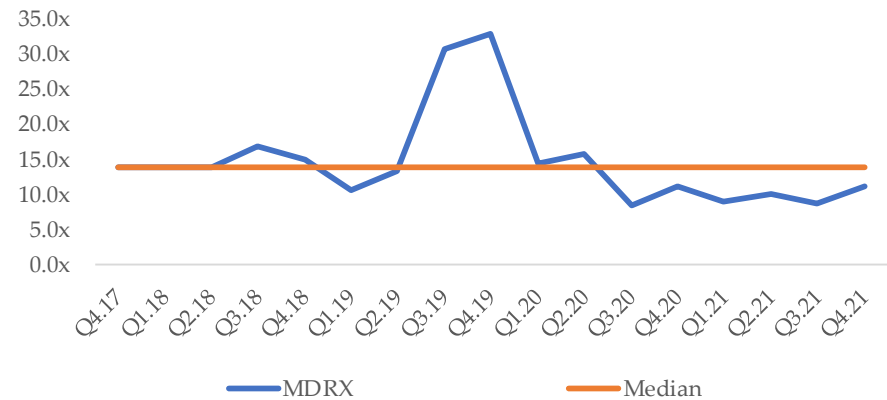


**Allscripts Healthcare Solutions (NAS: MDRX)** provides information technology and offerings to acute and ambulatory providers as well as hospital services. The company supports electric medical records, private cloud hosting, and other clinical services that support patient engagement and better outcomes. Additionally, the company offers administrative tools and services to improve operations, such as practice management, revenue cycle management, and clinical care coordination.

### EV/Revenue Allscripts Healthcare Solutions



### EV/EBITDA Allscripts Healthcare Solutions

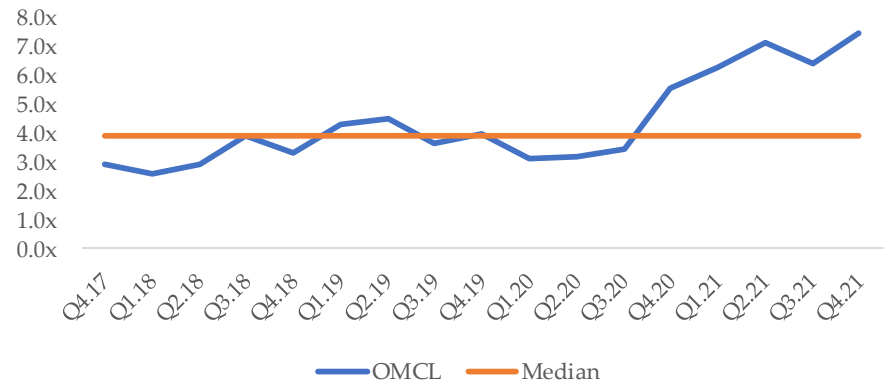


# PUBLIC COMP

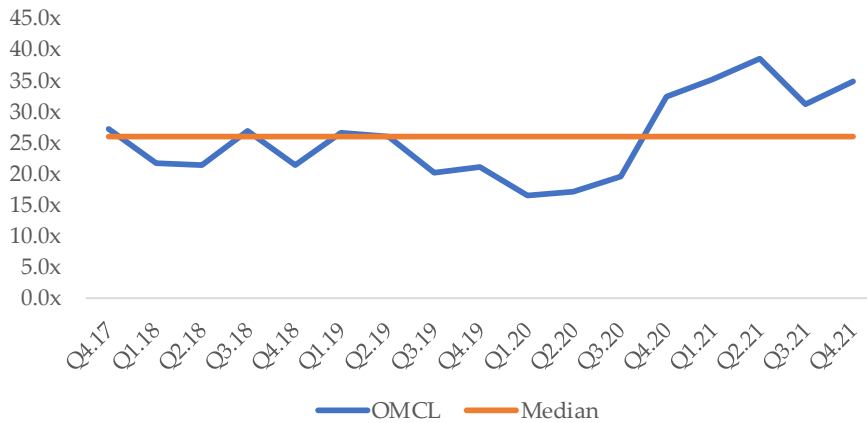


**Omnicell (NAS: OMCL)** provides automation and business analytics software for healthcare providers. The firm operates in two segments: automation and analytics and medication adherence.

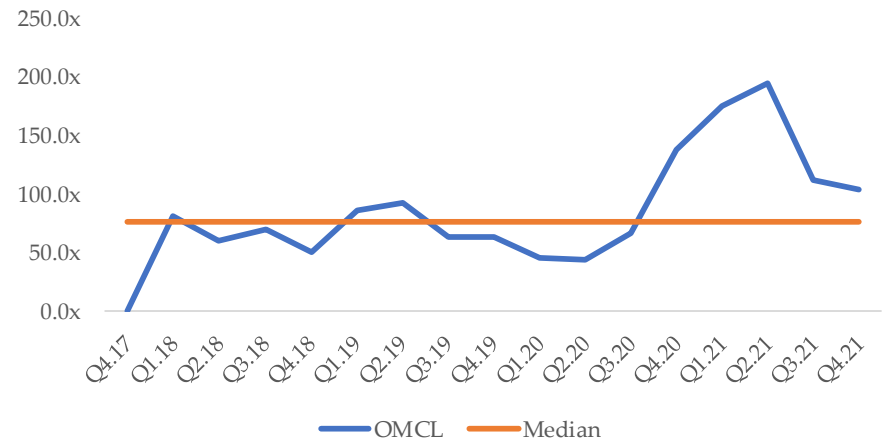
### EV/Revenue Omnicell



### EV/EBITDA Omnicell



### P/E Omnicell

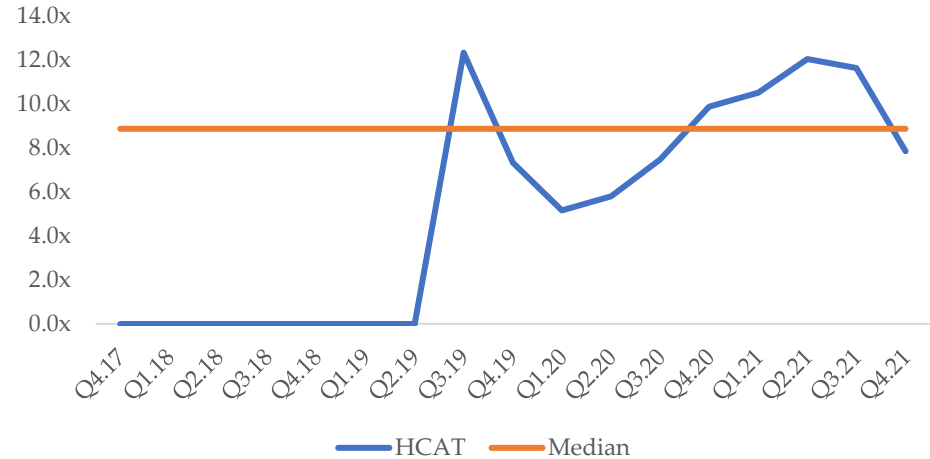


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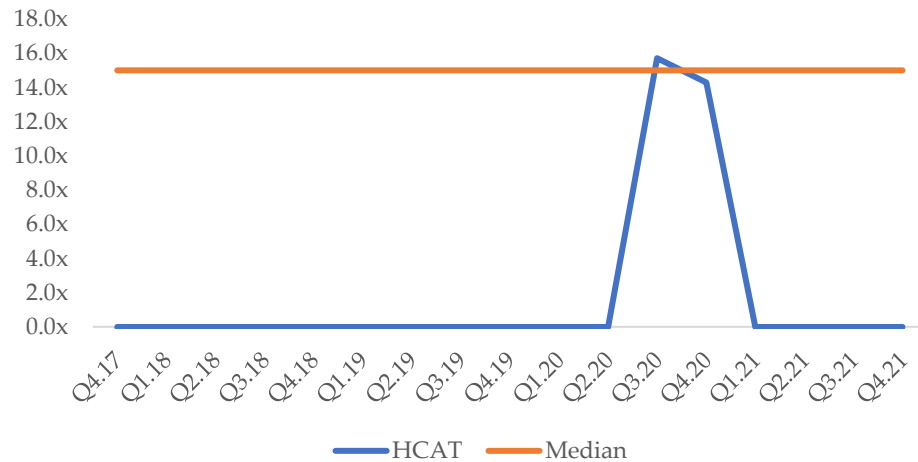


**Health Catalyst, Inc. (NAS: HCAT)** Health Catalyst Inc is engaged in providing data and analytics technology and services to healthcare organizations. It has two operating segments, Technology and Professional Services.

### EV/Revenue Health Catalyst



### P/E Health Catalyst



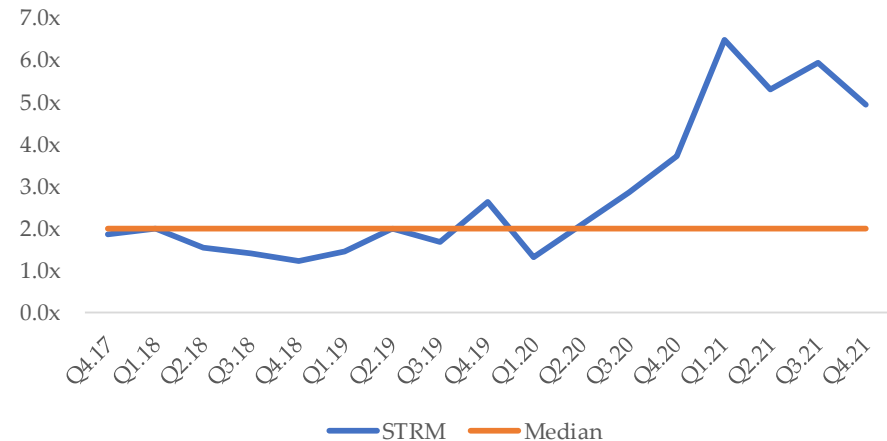
# PUBLIC COMP



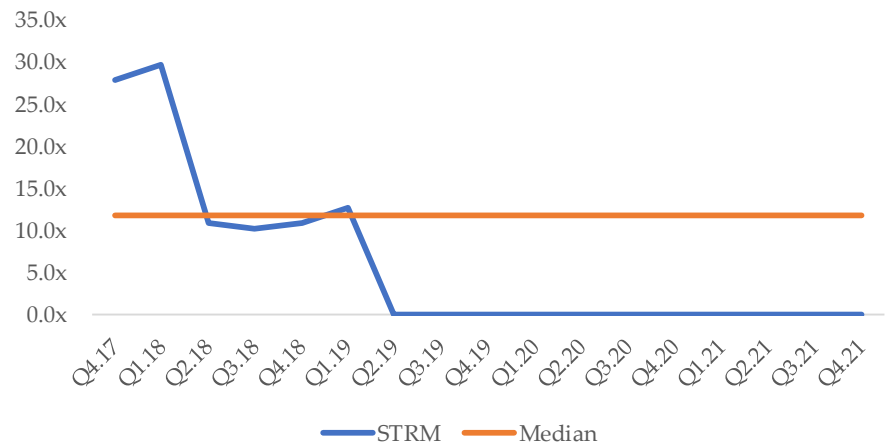
Streamline Health®

**Streamline Health Solutions Inc (NAS: STRM)** 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.

### EV/Revenue Streamline Health Solutions



### EV/EBITDA Streamline Health Solutions



# DAVIDSON CAPITAL ADVISORS RECENT HEALTHCARE TRANSACTIONS



Healthcare Technology, Payment Services  
[www.acryness.com](http://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](http://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](http://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](http://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](http://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

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## **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.



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# DAVIDSON CAPITAL ADVISORS PROFESSIONALS

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## **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.



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# DAVIDSON CAPITAL ADVISORS ANALYST TEAM

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## **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.

## **Kyle Burnett, Jr.** **Analyst, Investment Banking**

Prior to joining Davidson Capital Advisors in 2021, Mr. Burnett interned with UBS Financial Services, Inc., a Swiss multinational investment bank. He graduated from Northwestern University in 2021 with a Bachelor of Arts in Economics and Political Science.