

Healthcare IT Industry Report

Q2 2022

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.

LOREM IPSUM

- ❑ **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 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**
 - **Future Growth Opportunity:** Many companies in the Healthcare IT sector have future growth potential in the monetization through standalone data offerings and add-on tools to the HER suite enhancing physician workflows and patient outcomes.
 - The strategy of the top companies in the sector has been to invest in similar strategic growth areas over the past few years. These areas are listed below.
 - ◆ Population Health Management
 - ◆ Data-as-a-service offerings
- ❑ **Community Hospitals**
 - Companies within the middle market have an advantage in servicing community hospitals that may not have the resources to support the EHR system costs of some competitors.
 - While swit

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

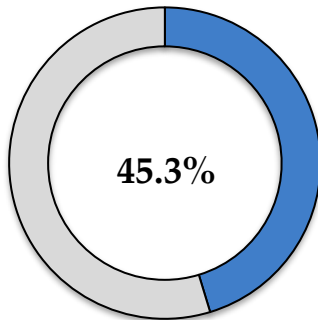
- Annual Growth 2016 – 2021 -0.7pp



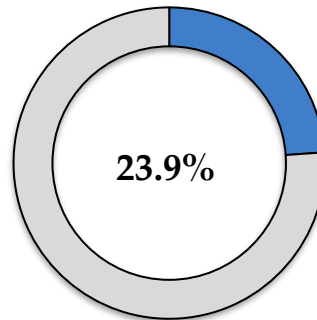
\$4.6bn Wages

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

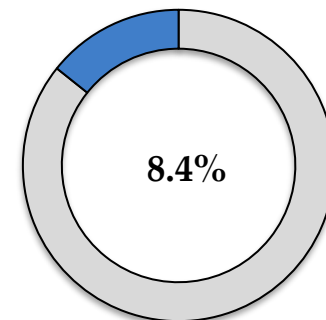
Key Segments



Bundled creative services



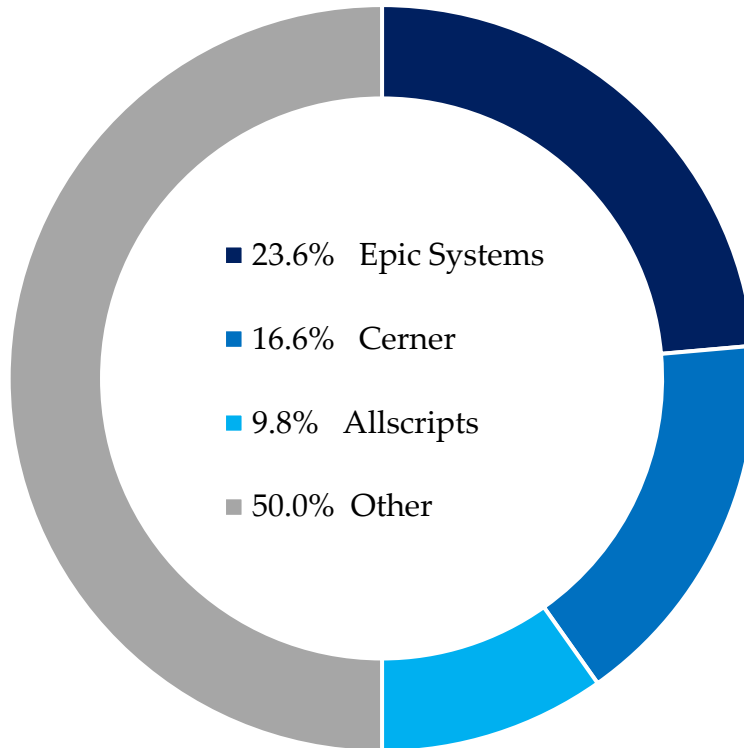
Creative services



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

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WEAKNESSES

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

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OPPORTUNITIES

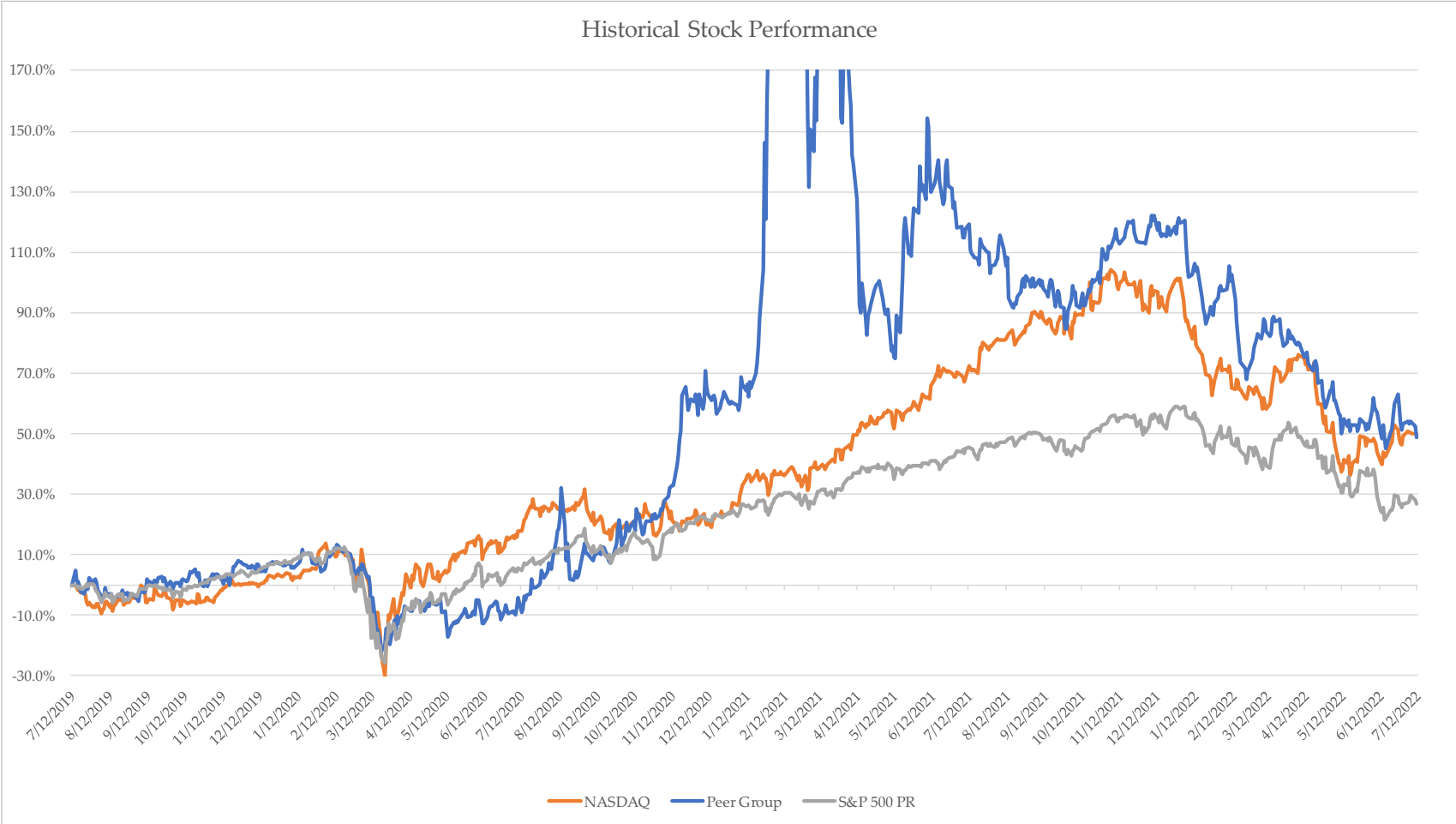
- High Revenue Growth (2021-2026)
- High Performance Drivers

T

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
22-Jun-2022	Titian Software	Battery Ventures	The company was acquired by Battery Ventures through an LBO on June 22, 2022 for an undisclosed amount. The acquisition enables Titian to support organic growth as well as potential future acquisitions.
21-Jun-2022	Inductivehealth Informatics	Diversis Capital	The company was acquired by Diversis Capital through an LBO on June 21, 2022.
06-Jun-2022	LeanTaaS	Bain Capital	The company entered into a definitive agreement to be acquired by Bain Capital through an LBO on June 6, 2022 for an undisclosed amount. The transaction includes a significant growth capital commitment from Bain Capital that will enable the company to continue to accelerate its rapid growth trajectory and innovative market-leading suite of cloud software solutions.
26-Apr-2022	OncoHealth (Atlanta)	Arsenal Capital Partners	The company was acquired by Arsenal Capital Partners and McKesson through an LBO on April 26, 2022 for an undisclosed amount. The investments will support the company's innovation and delivery of its oncology-specific digital health solutions for people with cancer.
25-Apr-2022	OneMedNet	Data Knights Acquisition	The company reached a definitive agreement to be acquired by Data Knights Acquisition Corp. (Nasdaq - DKDC) through a reverse merger on April 25, 2022.

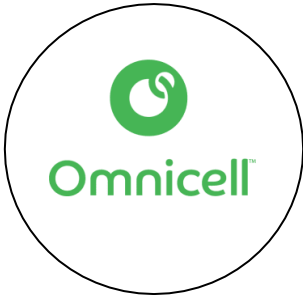
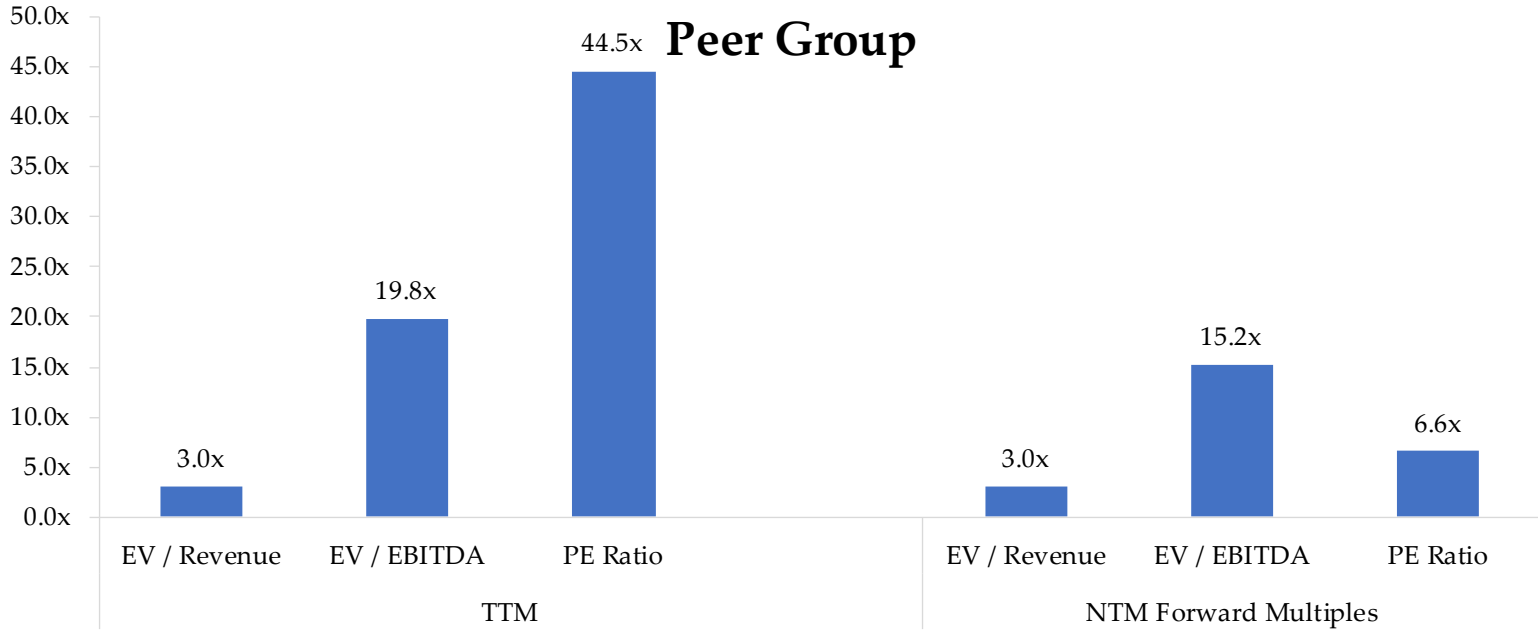
RECENT PUBLIC TRANSACTIONS

Deal Date	Target Companies	Investors	Deal Size (\$MM)
17-May-2022	3D Bio-Tissues	BSF Enterprise(Geoff Baker)	
15-May-2022	Zhejiang Heren Technology Co. (SHE: 300550)	TC Medical (SHG: 600763)	117
18-Apr-2022	ResApp Health (ASX: RAP)	Pfizer (NYS: PFE)	100
01-Apr-2022	Nutex Health (NAS: NUTX)	Clinigence Health (NAS: NUTX)(Warren Hosseinion)	

PUBLIC COMPARABLES

\$ in Millions	LifeMD	Allscripts Healthcare Solutions	Ommicell	Streamline Health Solutions	Health Catalyst	
Ticker	LFMD	MDRX	OMCL	STRM	HCAT	
Total Revenue	\$104	\$1,277	\$1,199	\$17	\$254	
Gross Profit	84	543	582	9	123	
EBIT	-60	167	75	-7	-144	
Net Income	(\$63)	\$148	\$72	(\$7)	(\$147)	
EBITDA (Normalized)	-40	383	229	-2	-10	
Total Debt	2	398	613	10	248	
EV	43	1,970	5,302	68	701	
Employees	232	7,869	3,890	134	1,200	
Ratio Analysis						Median
Revenue/Employee	\$447,071	\$162,328	\$308,227	\$129,694	\$211,806	\$211,806
EV/Revenue	0.41x	1.54x	4.42x	3.34x	2.76x	2.76x
Debt/EBITDA	NM	1.22x	3.36x	NM	NM	2.29x
EV/EBITDA (Normalized)	NM	7.35x	25.84x	NM	NM	16.59x
Market Cap/EBITDA	NM	7.45x	32.98x	NM	NM	20.21x
Market Cap (mm)	63	1,654	4,964	66	878	
Close Price	2.29	14.26	112.32	1.36	16.78	
52 Week Low	1.80	13.05	104.32	1.04	11.25	
52 Week High	10.35	23.25	187.29	1.88	59.50	
Gross Margin	80.6%	42.5%	48.6%	50.6%	48.5%	48.6%
EBIT	-57.5%	13.1%	6.3%	-37.8%	-56.5%	-37.8%
EBITDA	-56.3%	26.7%	13.7%	-19.4%	-40.3%	-19.4%
Acct. Receivable Days	5	88	72	67	67	67
Inventory Days	28	NM	66	NM	NM	47
Acct. Payable Days	226	11	41	20	14	20
Revenue Growth	102.6%	1.8%	31.1%	53.2%	27.4%	31.1%

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 IT NEWS | WHERE IT LEADERS SHOULD FOCUS THEIR ENERGIES IN 2022

- ~~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.~~
- The centralized IT department is no longer relevant in today's environment. Explore a decentralized model in which top management delegates day-to-day operations and decision-making power to sector (department) experts, with technology specialists as part of the team
- Think about your tech stack and whether those are robust enough for work-from-anywhere with security measures in place. The employee's home is now an extension of the network environment, and the solutions must be simple to use when employees are outside of the organization's campus. [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.](#)

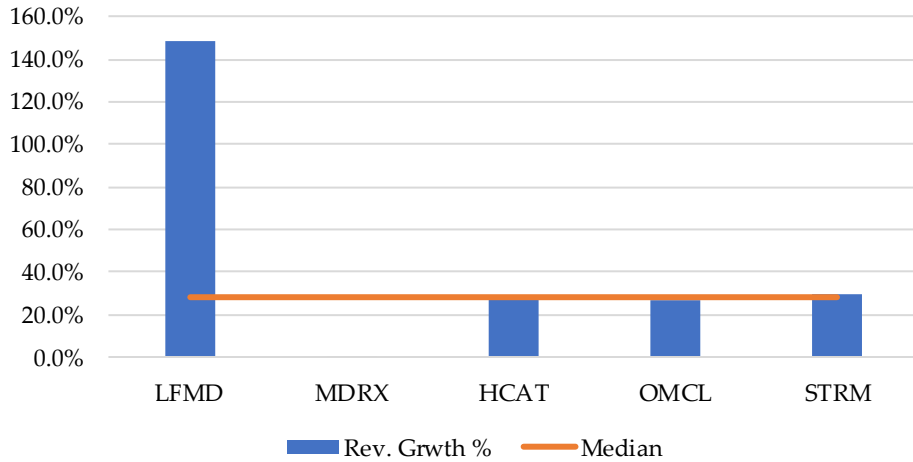
VALUATION TRENDS

		Fundamentals								
		TIM						NTM Estimates		
Ticker	Company	Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
LFMD	LifeMD	2.29	62.82	42.72	103.72	(58.38)	(2.27)	155.25	(0.43)	(0.81)
MDRX	Allscripts Healthcare Solutions	14.26	1654.44	1969.93	1277.36	340.76	1.22	635.93	177.50	0.74
OMCL	OmniceLL	112.32	4964.34	5301.58	1199.00	163.87	1.65	1487.52	282.70	4.18
STRM	Streamline Health Solutions	1.36	65.91	68.07	20.36	(3.25)	(0.15)	23.18	(4.11)	(0.22)
HCAT	Health Catalyst	16.78	878.34	701.40	254.17	(102.35)	(2.98)	319.49	0.30	(0.27)

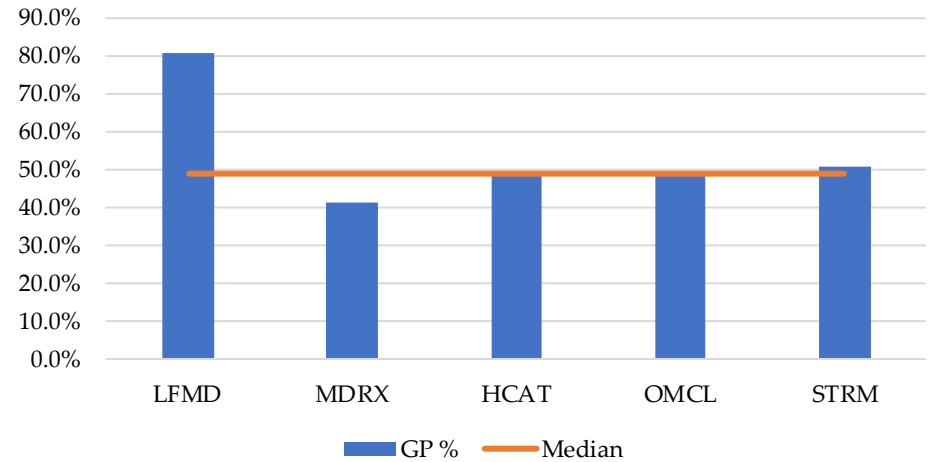
		Multiples					
		TIM			NTM Forward Multiples		
Ticker	Company	EV / Revenue	EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
LFMD	LifeMD	0.41			0.28	(99.47)	(2.83)
MDRX	Allscripts Healthcare Solutions	1.54	6.40	13.08	3.10	11.10	19.27
OMCL	OmniceLL	4.42	32.35	75.89	3.56	18.75	26.87
STRM	Streamline Health Solutions	3.34			2.94	(16.55)	(6.08)
HCAT	Health Catalyst	2.8x			2.2x	2,322.5x	-62.7x

OPERATING METRICS

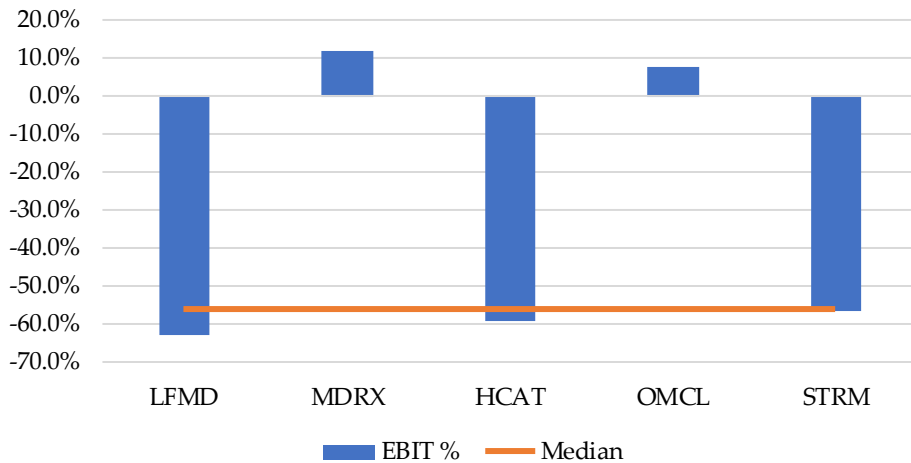
Revenue Growth



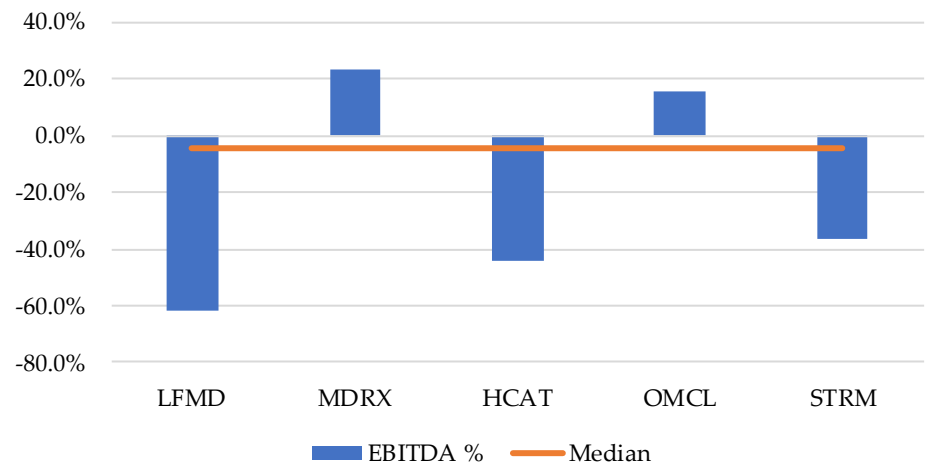
Gross Profit Margin



EBIT Margin

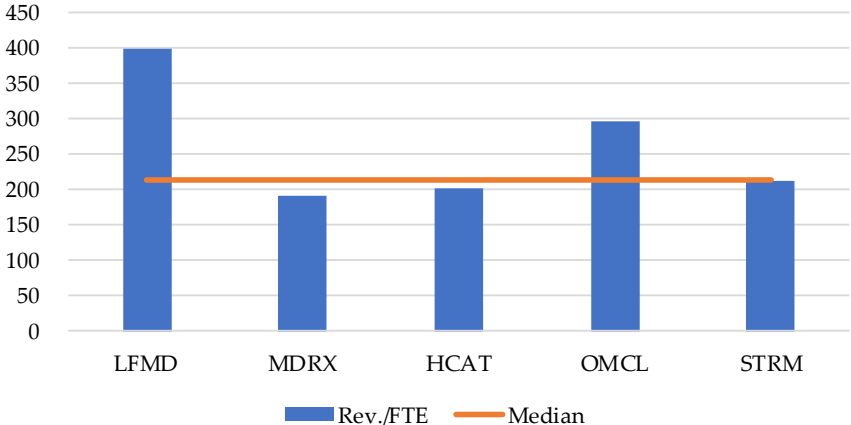


EBITDA Margin

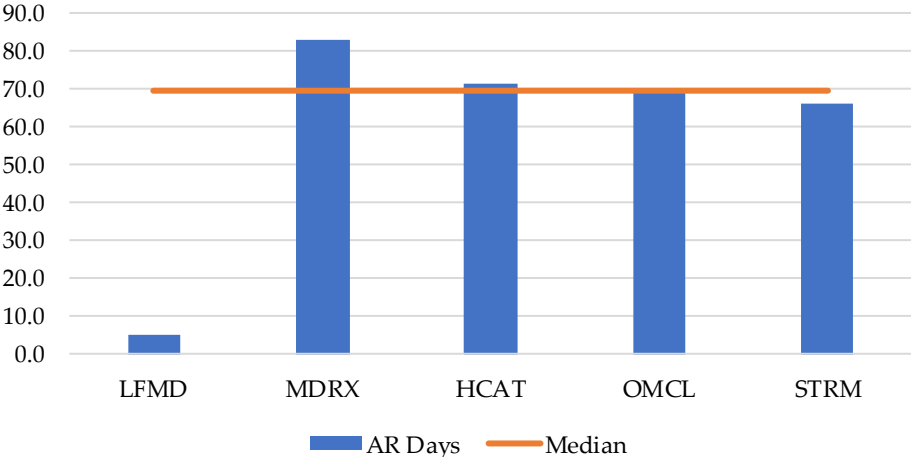


RATIO ANALYSIS

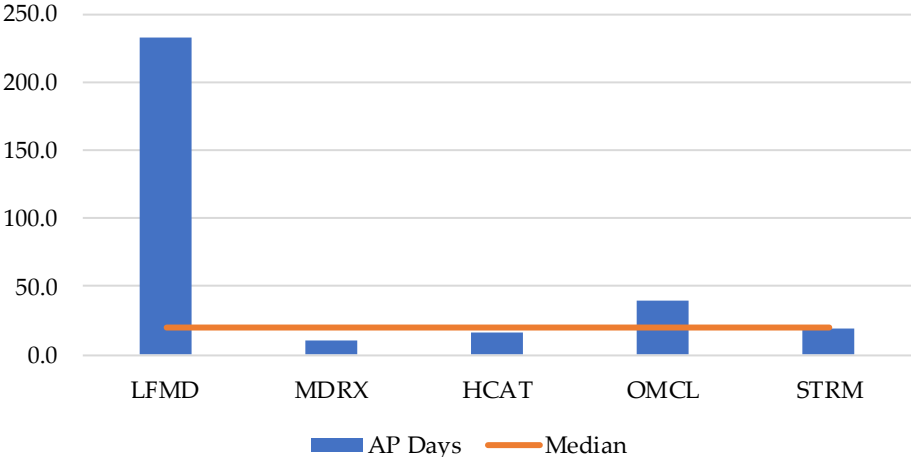
Revenue per Employee



AR Days



AP Days



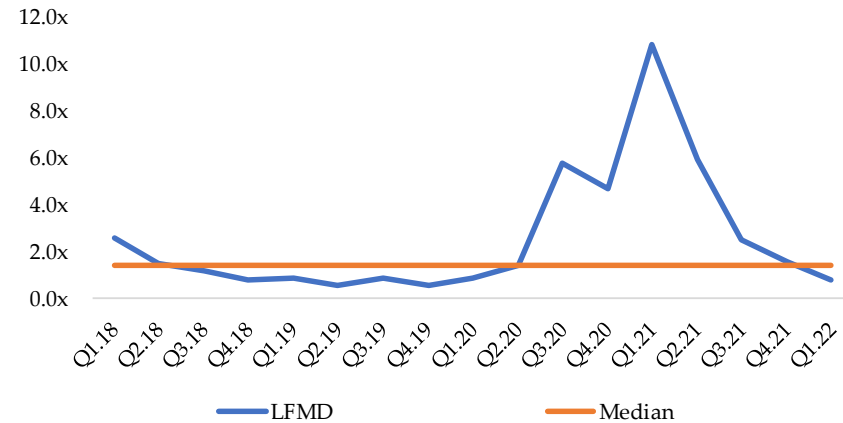
PUBLIC COMP



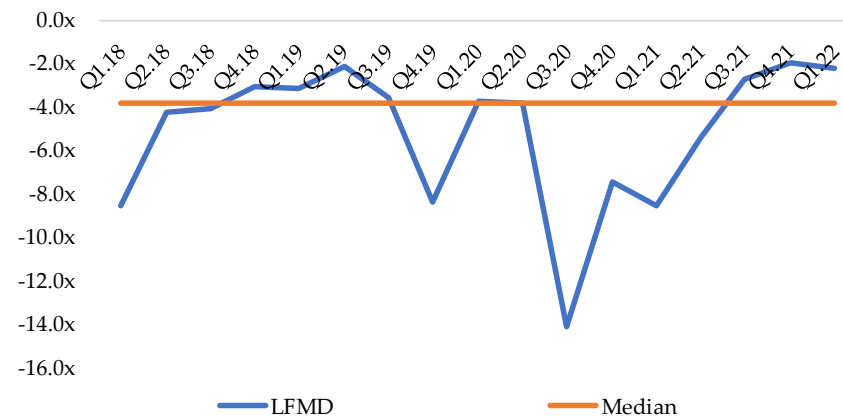
LifeMD (NAS: LFMD)

LifeMD Inc is a direct-to-patient telehealth company that provides a smarter, cost-effective and convenient way of accessing healthcare. Its telemedicine platform helps patients access licensed providers for diagnoses, virtual care, and prescription medications often delivered on a recurring basis.

EV/Revenue LifeMD



EV/EBITDA LifeMD

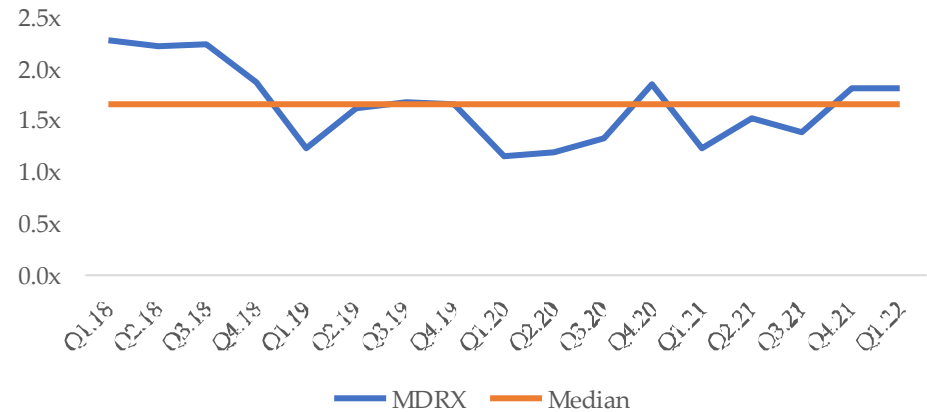




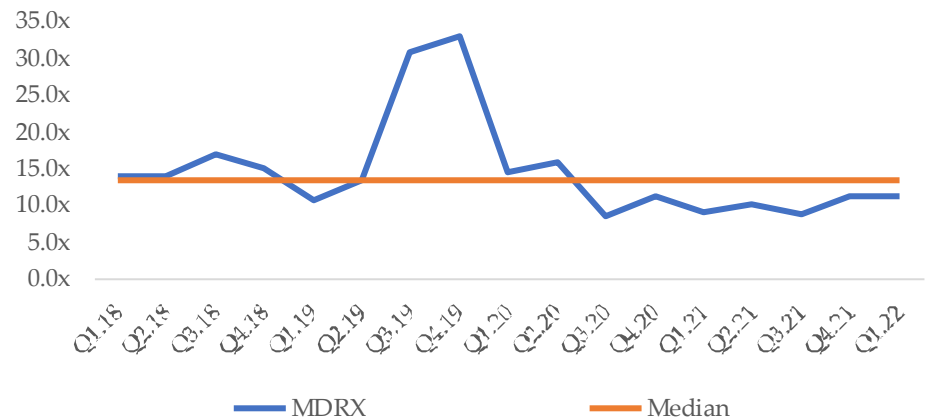
Allscripts (NAS: MDRX)

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.

EV/Revenue Allscripts Healthcare Solutions



EV/EBITDA Allscripts Healthcare Solutions



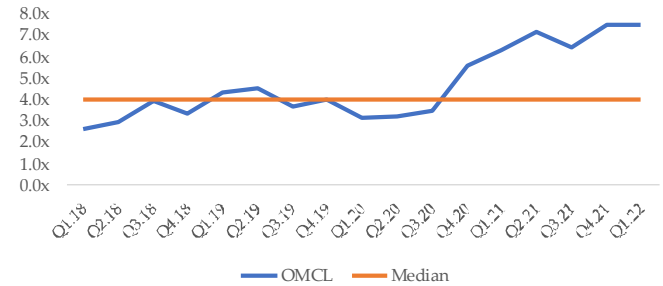
PUBLIC COMP



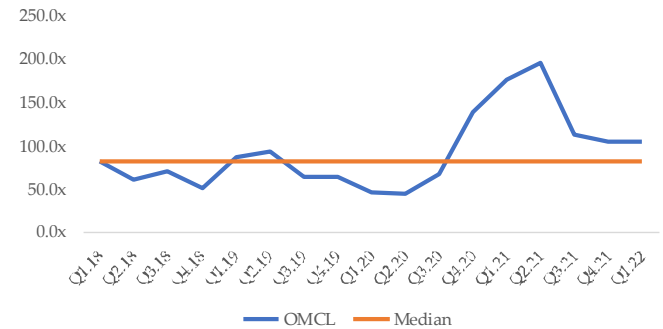
Omnicell (NAS: OMCL)

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

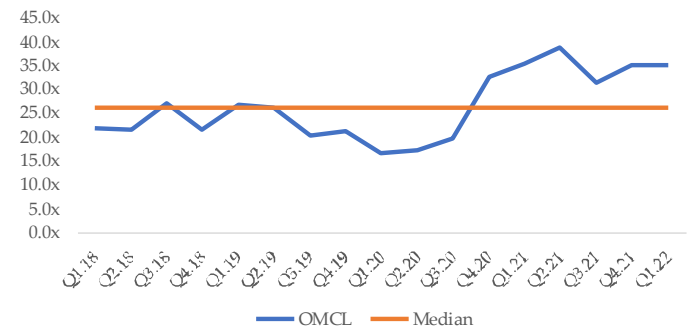
EV/Revenue Omnicell



P/E Omnicell



EV/EBITDA Omnicell



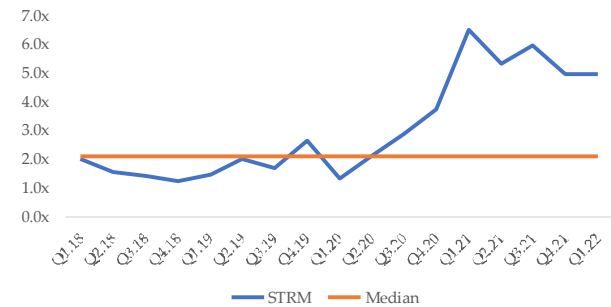


Streamline Health®

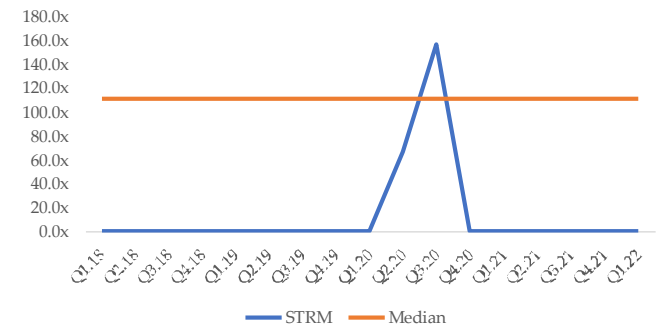
Streamline Health Solutions (NAS: STRM)

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.

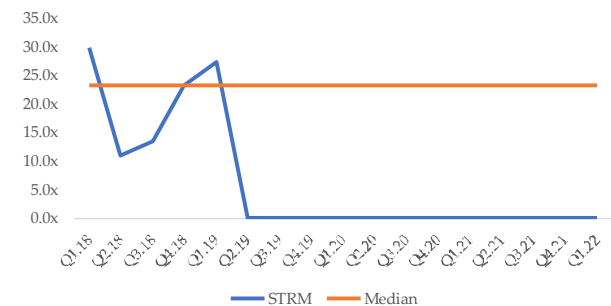
EV/Revenue Streamline Health Solutions



P/E Streamline Health Solutions



EV/EBITDA Streamline Health Solutions



DAVIDSON CAPITAL ADVISORS RECENT HEALTHCARE TRANSACTIONS



Healthcare Technology, Payment Services
www.acryness.com



Health Care, Health Care Facilities
www.encompashealth.com



Retail, Pharmacy and Retail
www.fruthpharmacy.com



Health Care, Health Care Facilities
www.ecompasshealth.com



Hospital & Healthcare
www.accessonemedcard.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.

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.

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.

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.

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.



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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.



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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.

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.