

Healthcare IT Industry Report

Q4 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.

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

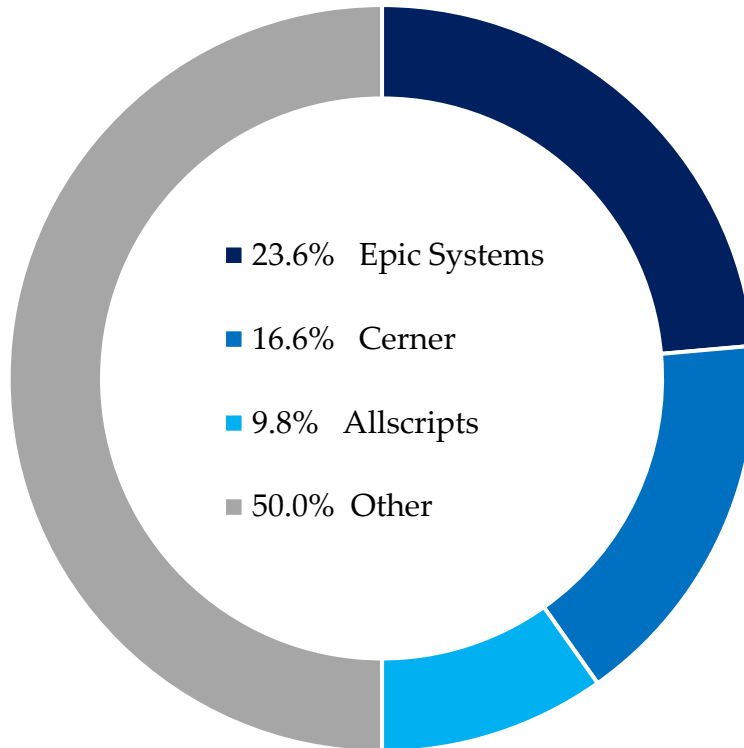


\$4.6bn Wages

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

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

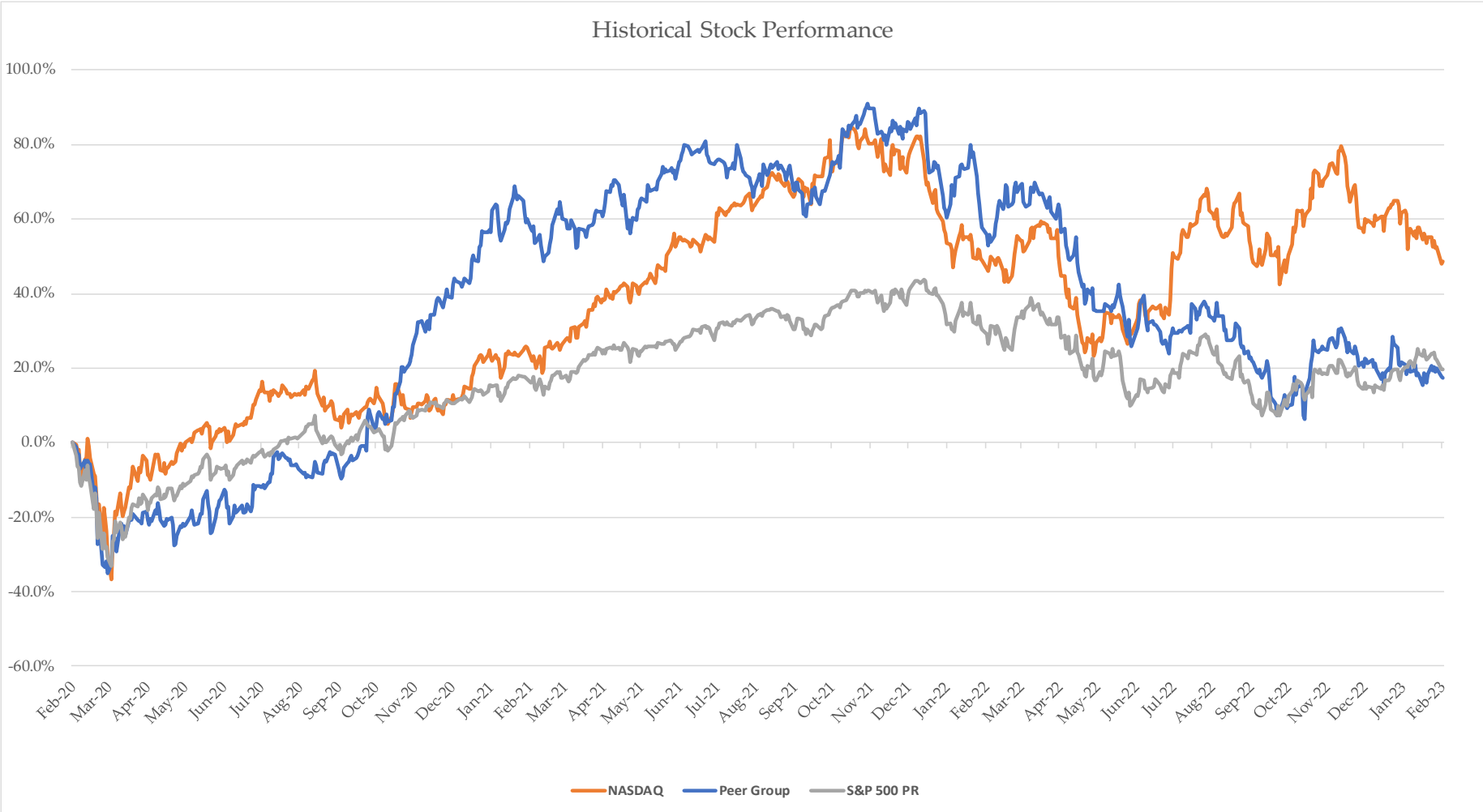
- High Revenue Growth (2021-2026)
- High Performance Drivers

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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

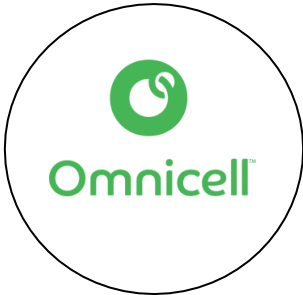
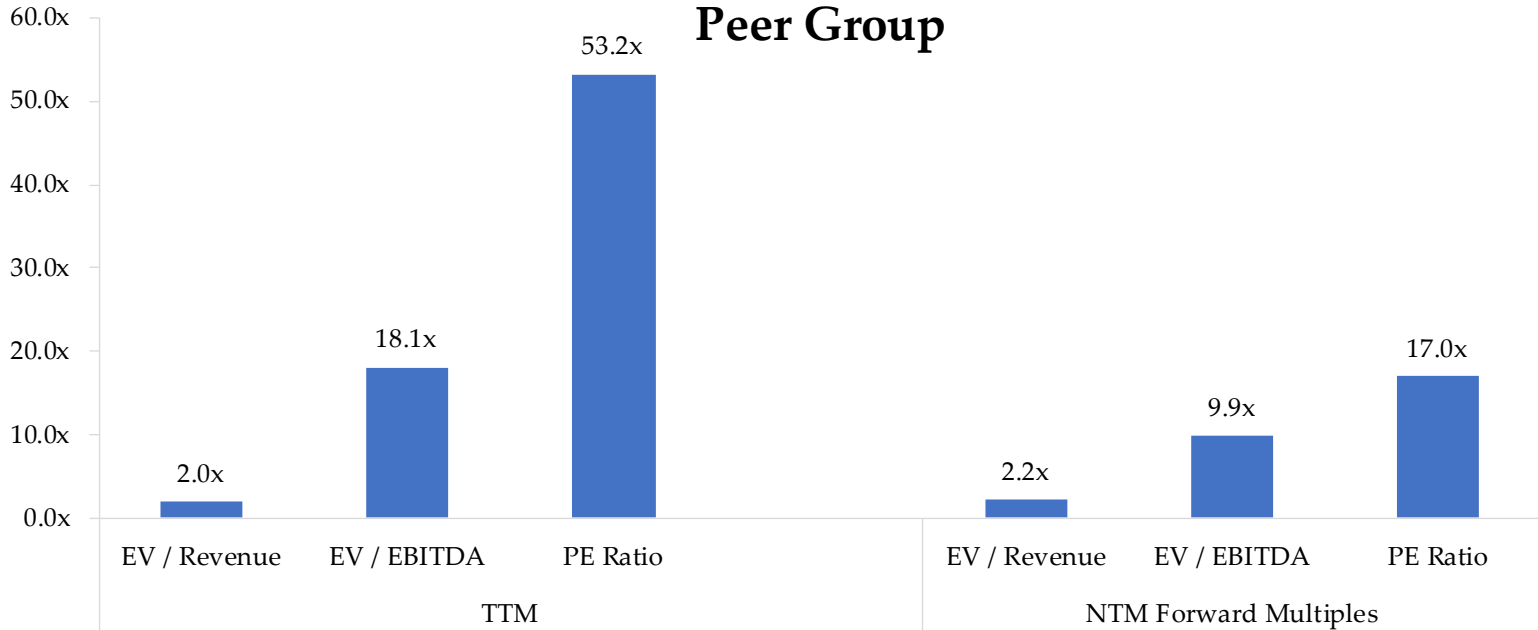
RECENT TRANSACTIONS

Deal Date	Companies	Investors	Deal Size	HQ Location
15-Dec-2022	Fortified Health Security	Health Velocity Capital, Silversmith Capital Partners	NM	Franklin, TN
05-Dec-2022	Universal Marine Medical Supply International	Z Capital Group	NM	New York, NY
25-Nov-2022	Hydreight Technologies	Perihelion Capital	NM	Las Vegas, NV
17-Nov-2022	EUDA Health	8i Acquisition 2	61.48	Singapore, Singapore
11-Nov-2022	FarMedvisie	BID Equity	NM	Woerden, Netherlands
09-Nov-2022	UHB Consulting	Main Capital Partners	NM	Sankt Wolfgang, Germany
26-Oct-2022	Sound Life Sciences	Alphabet	NM	Seattle, WA
21-Oct-2022	Almerys	EMZ Partners	100.00	Clermont Ferrand, France
06-Oct-2022	American Oncology Network	Digital Transformation Opportunities	NM	Fort Myers, FL
06-Oct-2022	Ethisphere	Alpine Investors	NM	Scottsdale, AZ
04-Oct-2022	AutoCruitment	QHP Capital	NM	New York, NY
03-Oct-2022	Change Healthcare	Optum	13,000.00	Nashville, TN

PUBLIC COMPARABLES

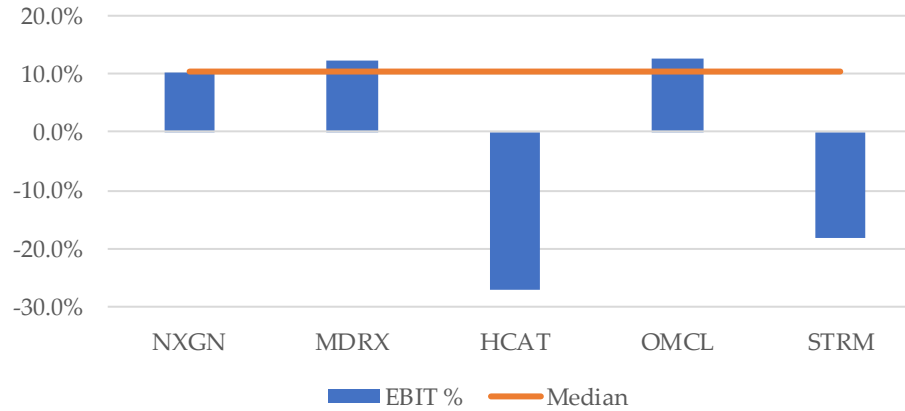
\$ in Millions	NextGen Healthcare	Allscripts Healthcare Solutions	Health Catalyst	Omniceil	Streamline Health Solutions	
Ticker	NXGN	MDRX	HCAT	OMCL	STRM	
Total Revenue	626	1,529	272	1,309	24	
Gross Profit	302	655	133	617	11	
EBIT	33	131	(148)	48	(8)	
Net Income	23	61	(151)	48	(9)	
EBITDA (Normalized)	102	358	(8)	219	283	
Total Debt	276	219	248	618	10	
EV	1,268	1,624	581	2,645	117	
Employees	2,655	7,869	1,200	4,160	134	
Ratio Analysis						Median
Revenue/Employee	\$235,737	\$194,307	\$226,492	\$314,737	\$180,522	\$226,492
EV/Revenue	2.03x	1.94x	2.14x	2.02x	4.84x	2.03x
Debt/EBITDA	0.99x	1.15x	NM	4.03x	NM	1.15x
EV/EBITDA (Normalized)	12.46x	6.44x	NM	12.07x	0.41x	9.26x
Market Cap/EBITDA	17.63x	8.52x	NM	15.88x	NM	15.88x
Market Cap (mm)	1,233	1,898	713	2,305	119	
Close Price	18.68	17.37	13.03	51.63	2.07	
52 Week Low	16.13	13.59	6.40	46.11	1.04	
52 Week High	21.99	23.25	28.22	138.50	2.35	
Gross Margin	48.3%	42.8%	48.9%	47.1%	46.0%	47.1%
EBIT	5.3%	8.6%	-54.5%	3.6%	-34.9%	3.6%
EBITDA	11.2%	19.6%	-37.0%	11.1%	-19.0%	11.1%
Acct. Receivable Days	44	56	63	80	56	56
Inventory Days	NM	NM	NM	69	NM	69
Acct. Payable Days	16	7	15	41	20	16
Revenue Growth	6.2%	89.7%	17.9%	22.3%	69.1%	22.3%

PUBLIC COMPARABLES

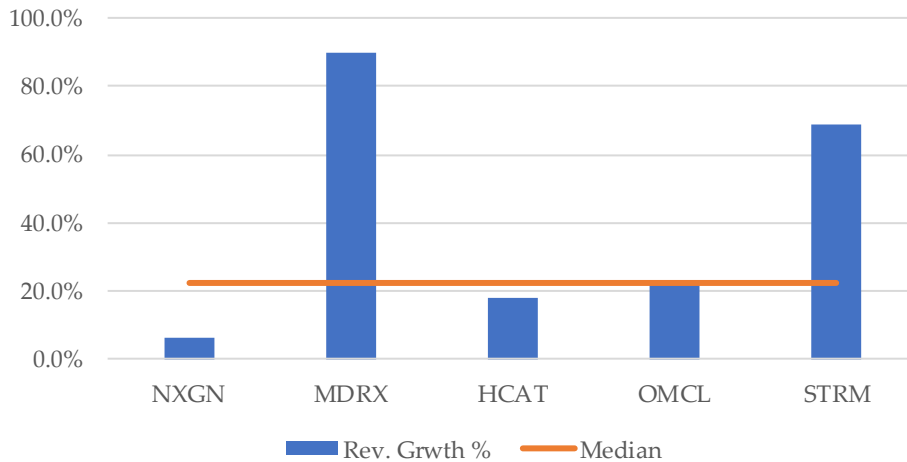


OPERATING METRICS

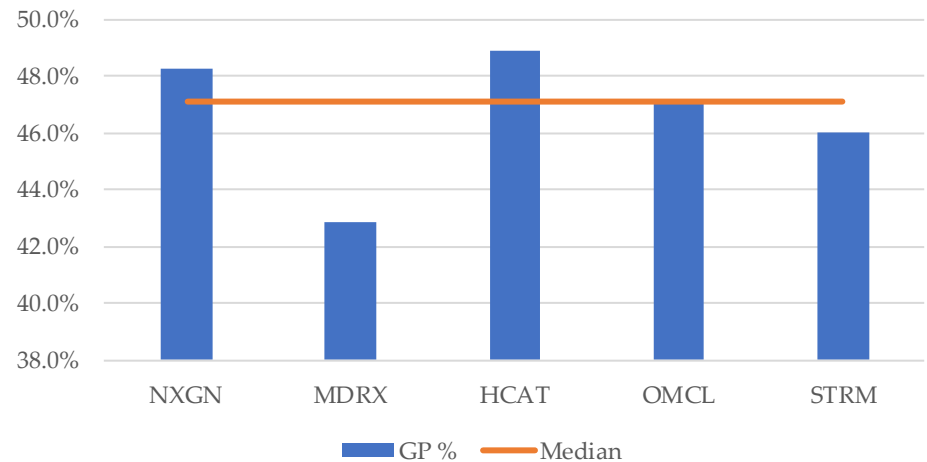
EBIT Margin Normalized



Revenue Growth

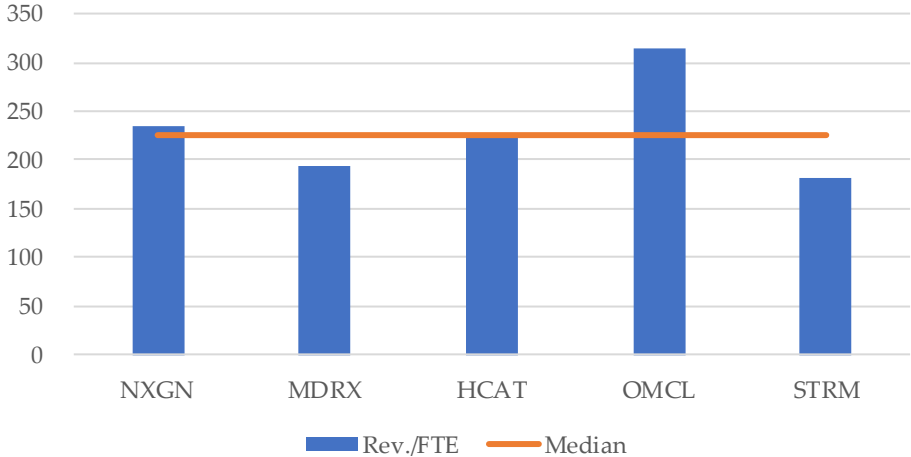


Gross Profit Margin

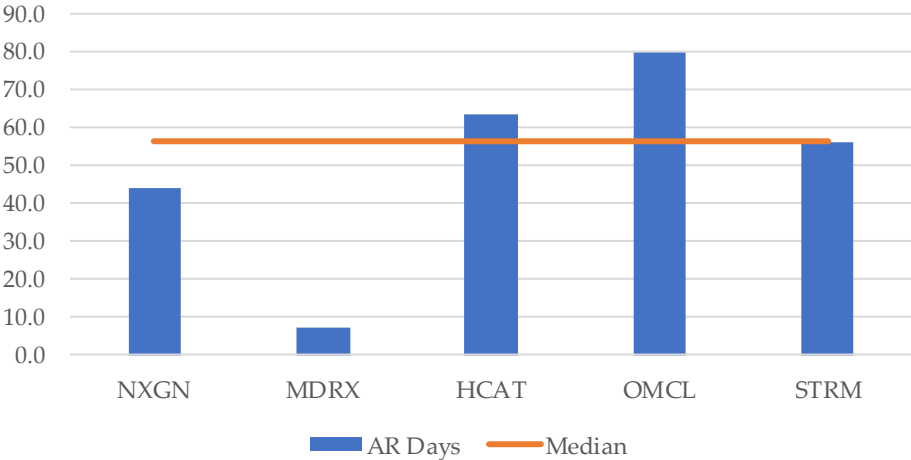


RATIO ANALYSIS

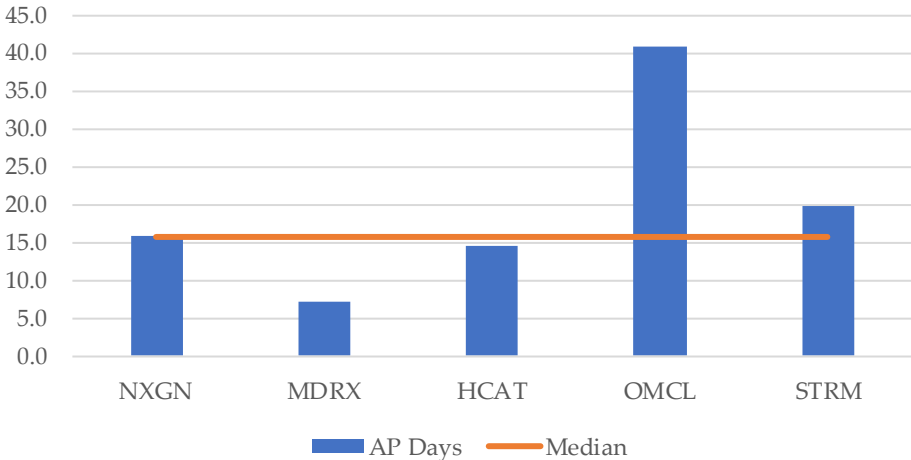
Revenue per Employee



AR Days



AP Days



VALUATION TRENDS

(\$MM)		Fundamentals								
		TIM			NTM Estimates					
		Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
Ticker	Company									
NXGN	NextGen Healthcare	18.48	1,233	1,268	626	69.95	0.35	700	128	1.09
MDRX	Allscripts Healthcare Solutions	17.08	1,898	1,624	1,529	300.27	0.50	656	191	0.94
HCAT	Health Catalyst	13.51	713	581	272	NM	NM	300	4	NM
OMCL	Omnicell	53.15	2,305	2,645	1,309	145.20	1.09	1,211	127	1.48
STRM	Streamline Health Solutions	2.04	119	117	24	NM	NM	25	NM	NM

		Multiples					
		TIM			NTM Forward Multiples		
		EV / Revenue	EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
Ticker	Company						
NXGN	NextGen Healthcare	2.03x	18.12x	56.00	1.81x	9.88x	16.95
MDRX	Allscripts Healthcare Solutions	1.94x	7.29x	18.37	2.47x	8.50x	18.17
HCAT	Health Catalyst	2.14x			1.94x	145.37x	NM
OMCL	Omnicell	2.02x	18.21x	53.15	2.18x	20.89x	35.91
STRM	Streamline Health Solutions	4.84x			4.66x	NM	NM

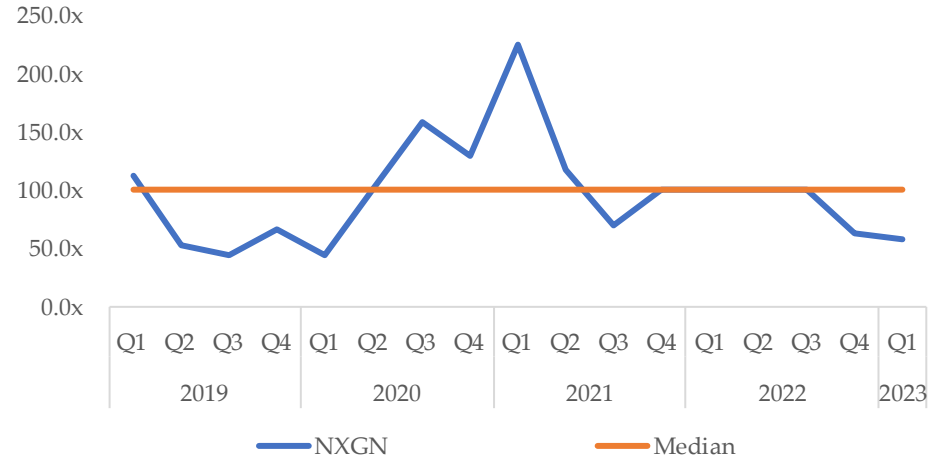
PUBLIC COMP

NextGen Healthcare (NAS: NXGN)

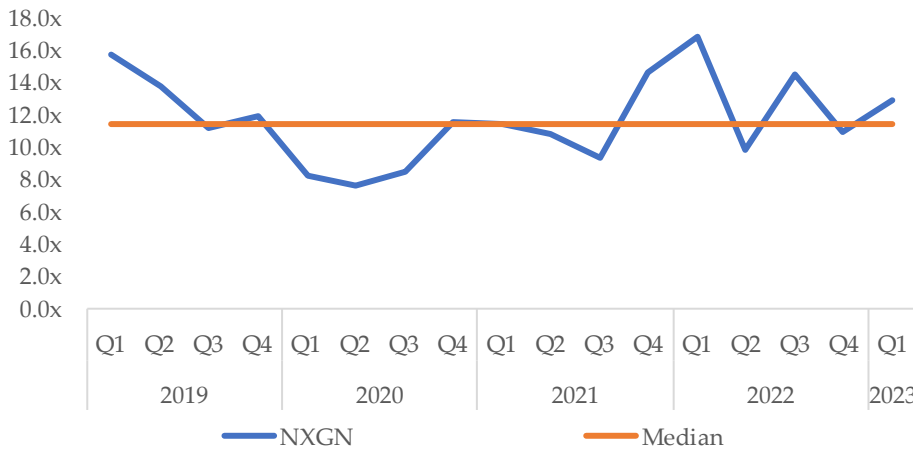
NextGen Healthcare Inc is a United States-based company that provides healthcare solutions. The company offers technology and services platform supports for ambulatory and specialty practices of all sizes. It provides software, services, and analytics solutions to medical and dental group practices.



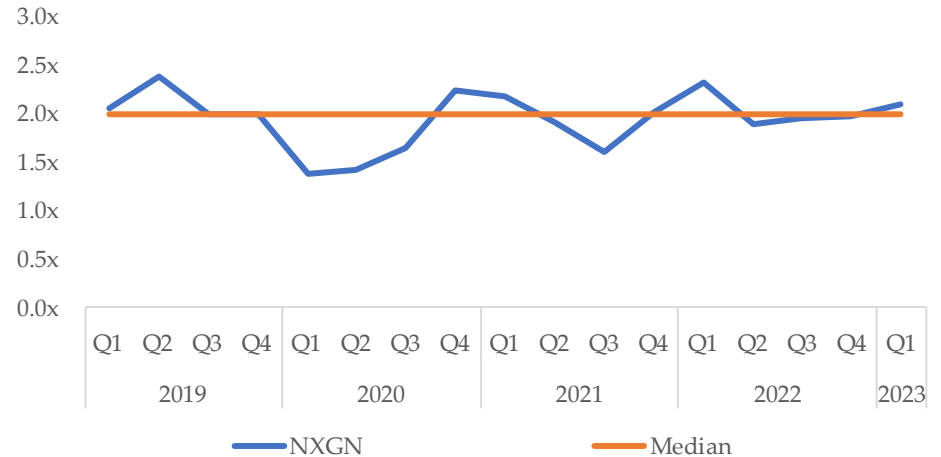
P/E NextGen Healthcare



EV/EBITDA NextGen Healthcare



EV/Revenue NextGen Healthcare



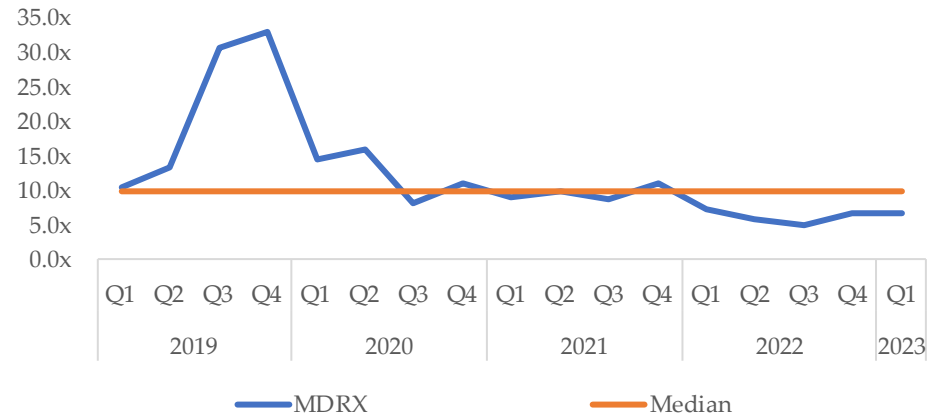
PUBLIC COMP

Allscripts (NAS: MDRX)

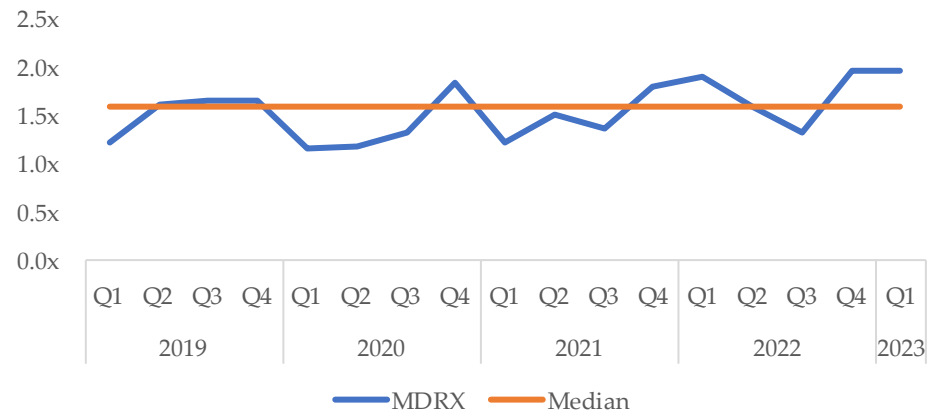
Allscripts Healthcare Solutions provides information technology and offerings to acute and ambulatory providers as well as hospital services. The company supports electric medical records, private cloud hosting, and other clinical services that support patient engagement and better outcomes. Additionally,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



EV/EBITDA Allscripts Healthcare Solutions



EV/Revenue Allscripts Healthcare Solutions



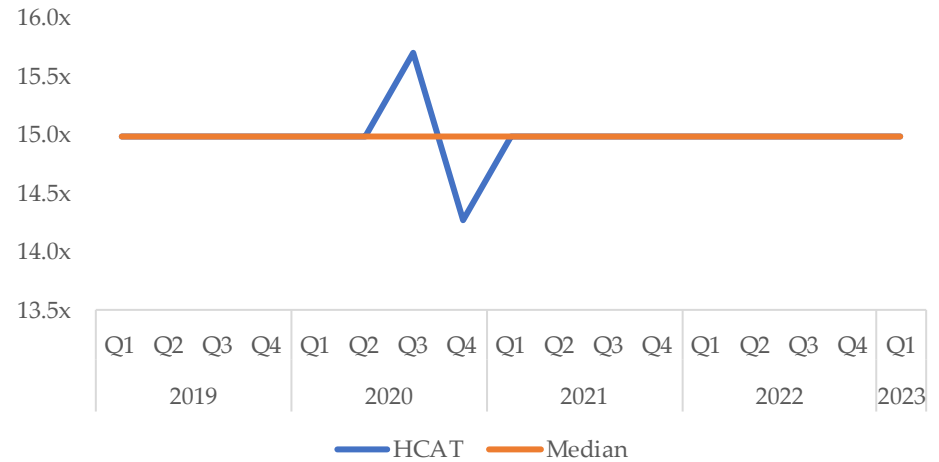
PUBLIC COMP

Health Catalyst, Inc. (NAS: HCAT)

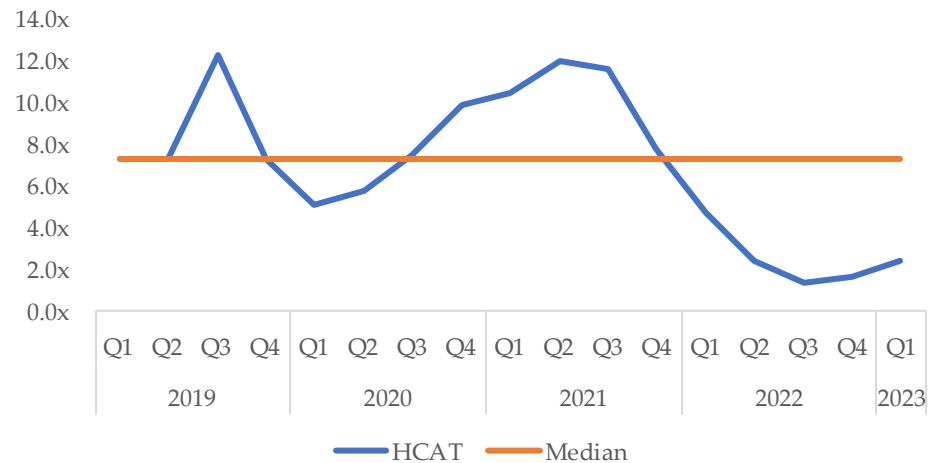
Health Catalyst, Inc. provides data and analytics technology and services to healthcare organizations. Its solutions include a cloud-based data platform, analytics software, and professional services.



P/E Health Catalyst



EV/Revenue Health Catalyst



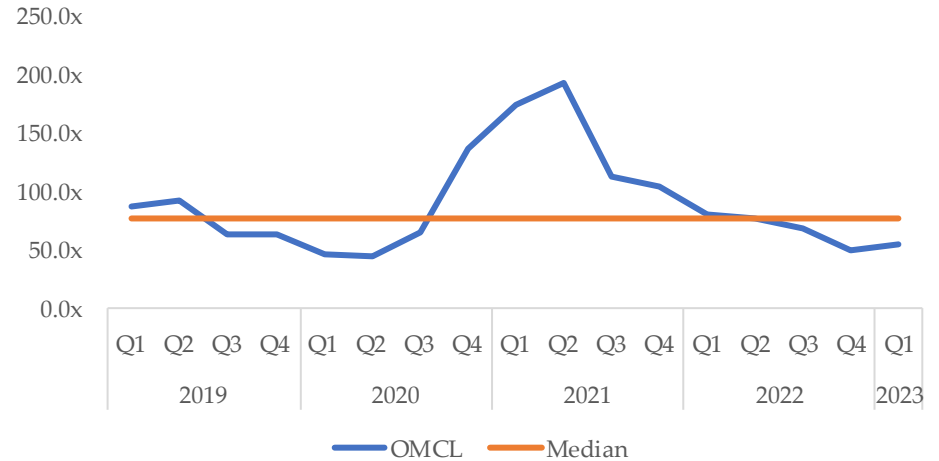
PUBLIC COMP

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.



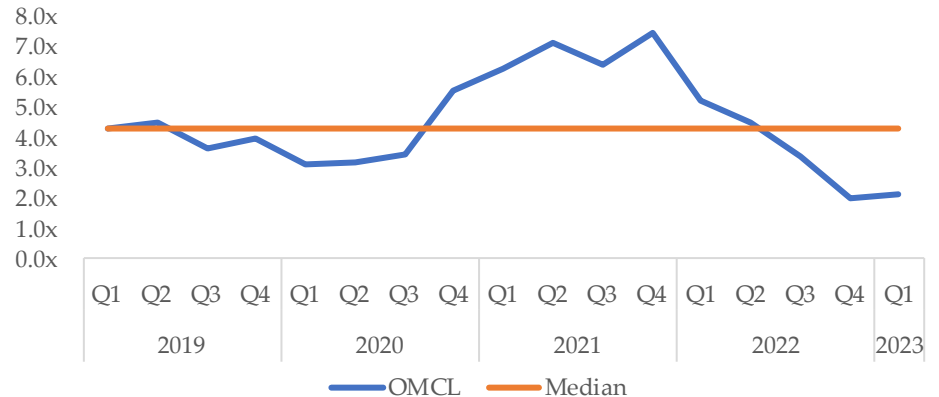
P/E Omnicell



EV/EBITDA Omnicell



EV/Revenue Omnicell



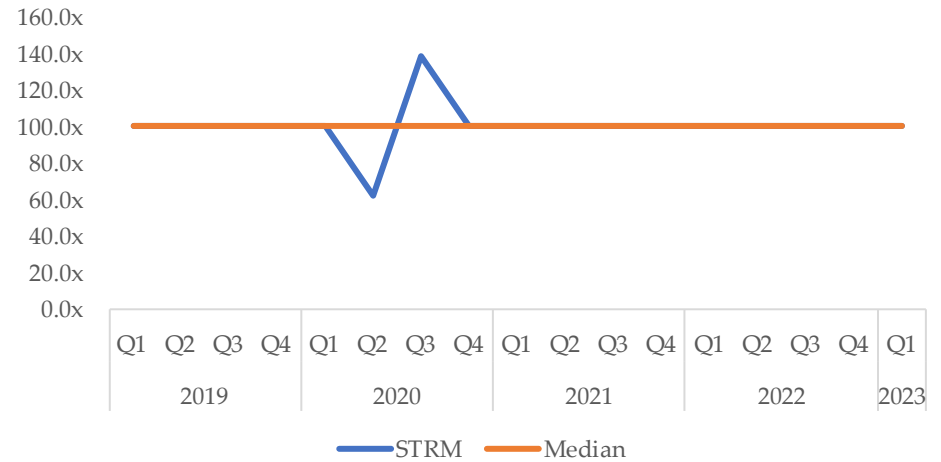
PUBLIC COMP

Streamline Health Solutions (NAS: STRM)

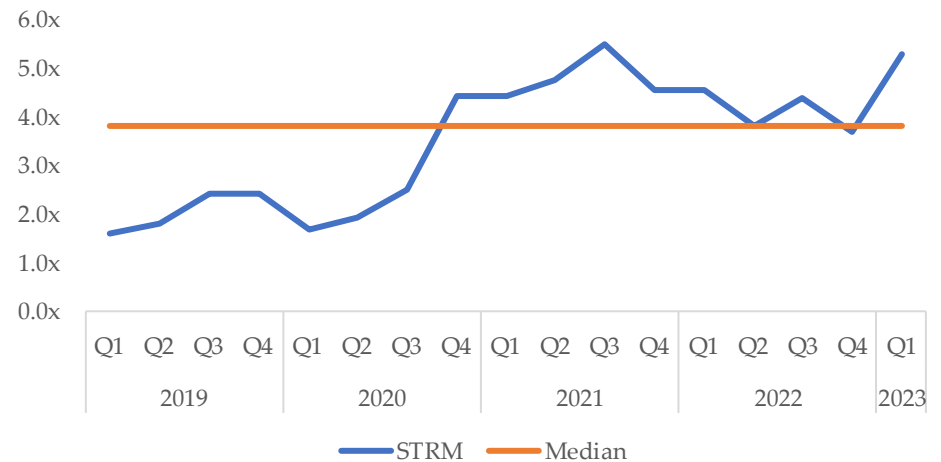
Streamline Health Solutions Inc provides transformational data-driven solutions for healthcare organizations. STRM provides computer software-based solutions through its looking glass platform. STRM solutions include coding and CDI, coding audit, and financial management solutions.



P/E Streamline Health Solutions



EV/Revenue 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.



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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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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.