HCIT

Middle-Market Update

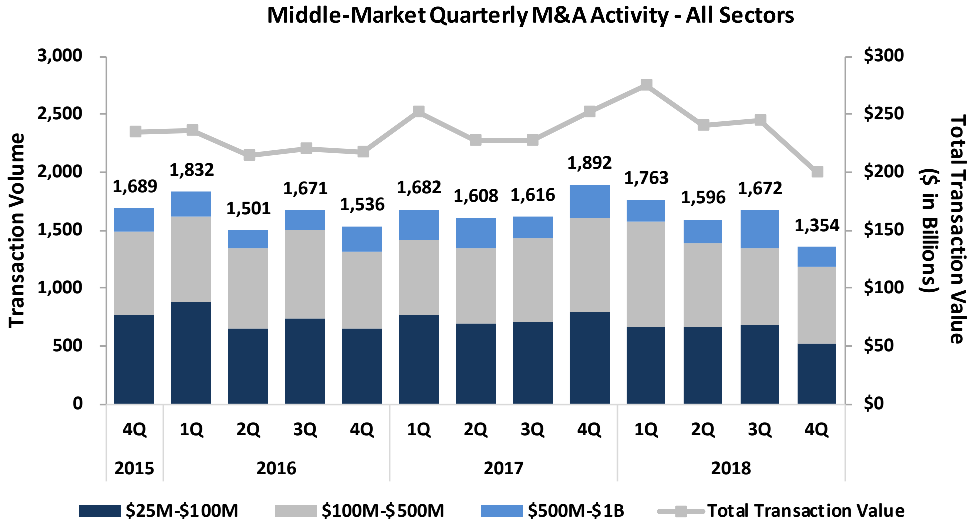
BRENTWOOD CAPITAL ADVISORS

4Q2018

4Q 2018 Overall Market Update and Economic Review

4Q 2018 M&A Update

Middle-market M&A activity declined for the fourth consecutive quarter, posting the lowest volume and value levels in 3+ years. The number of transactions in 4Q18 declined 19% from the previous quarter and 28% YoY. The value of these transaction declined 20% and 45%, respectively, over the same periods. The healthcare industry, usually a stalwart, experienced similar declines in volume and value.



Source: Pitchbook.

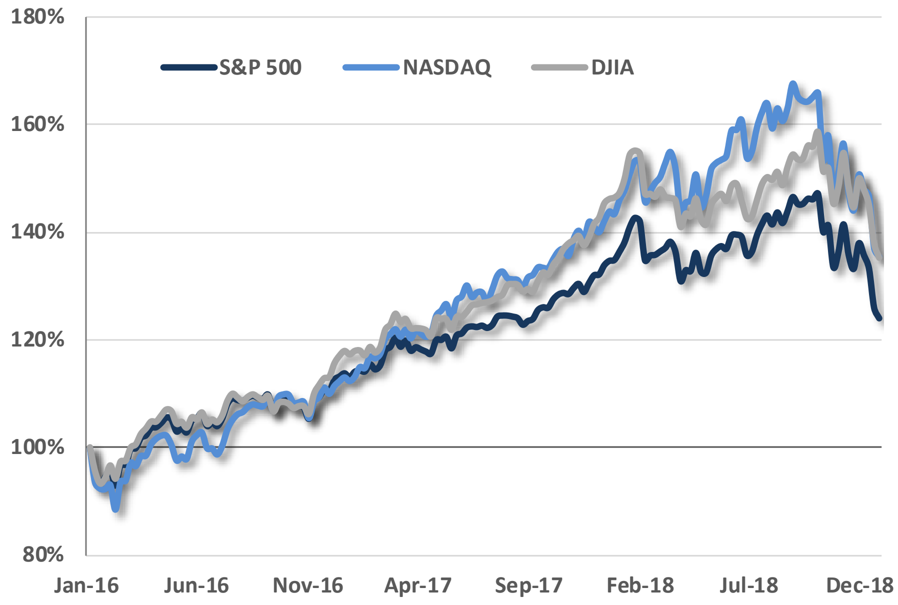
These trends are a bit alarming given the level of cash sloshing around the capital markets and corporate balance sheets and the economy demonstrating slowing but still solid growth. Private equity firms are sitting on ~$1.3 trillion in cash commitments, and banks remain eager to lend to any entity that can proverbially “fog a mirror”. For full year 2019, most economists are predicting 2.50%-2.75% GDP growth. With this backdrop, M&A activity should be stronger.

The only plausible explanation is that buyers believe we are in the very late, if not extra innings, of a long overdue end to a baseball game. The U.S. economy is experiencing its ninth consecutive year of economic expansion, versus the typical seven years of growth that follow most post-war recessions. With seller expectations at all-time highs, buyers have raised the business profile and diligence bars, demanding superior revenue (i.e. recurring) models, strong and sustainable organic growth and no accounting, legal, customer or management issues.

Stock Market

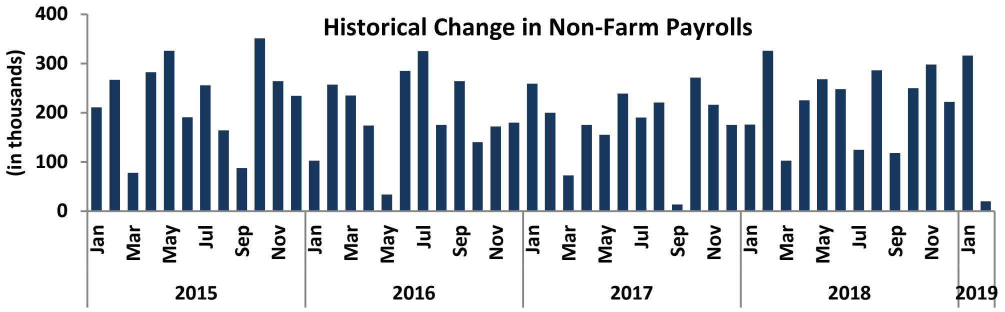
The fourth quarter was a period of reckoning for all major stock indices, which continue to be priced for perfection. Any negative earnings, economic, trade, political, fiscal or monetary policy news is greeted with significant market declines and increasing volatility. In 4Q18, the S&P 500, NASDAQ and DJIA declined 14.3%, 17.4% and 12.5%, respectively. Even more accommodative monetary policy signals from the Fed have been unable to quell the market’s “high” anxiety.

Despite market ups and downs, companies continue to report strong earnings growth. With 98% of the S&P 500 reporting results, 70% of the companies comprising the index generated positive earnings surprises and 62% have reported better than expected revenue growth. If the S&P 500 earnings continue to track at current levels, growth will average 12.4% for the quarter, representing the fifth straight quarter of double digit earnings growth.



Non-Farm Payroll

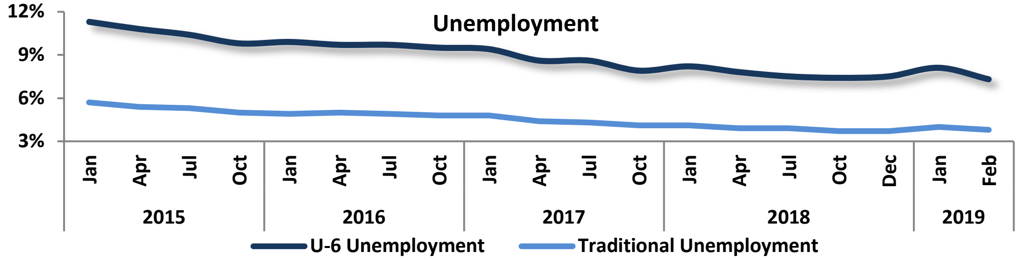
Job growth reaccelerated in 4Q18 as the impact of deregulation and tax cuts began to kick-in. For the quarter, non-farm payroll growth averaged 232,000 versus 173,677 per month in the previous quarter and 189,000 over the same period last year. This economy has been a job creating machine, producing higher quality and better paying jobs, with strong gains in manufacturing, services and technology across all demographic and racial groups. In addition, wage growth is the best it has been in nearly 20 years while inflation has been kept in check. February's job growth number was a shocker at 20,000; however, based on all the other economic data, we believe this figure is an anomaly and will return to slower, albeit still healthy, growth levels.



Source: Bureau of Labor Statistics

Unemployment

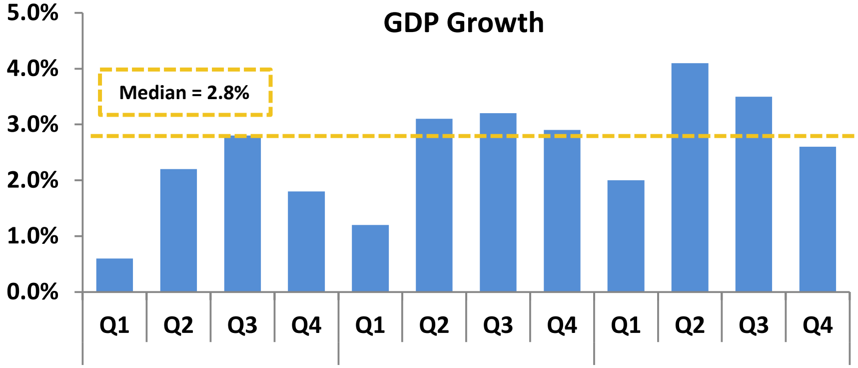
U-3 finished the year up slightly at 3.7% despite strong job creation, largely due to more participants entering the workforce. Although there have been some minor month to month fluctuations, U-3 seems to be settling in at the 3.5% – 3.7% level, which may represent full employment absent any further increases in the labor participation rate. U-6 finished the year at 7.3%, which reflects the higher quality of the jobs being created and lower levels of underemployment. At this point in the economic cycle, these levels of job growth, GDP and unemployment are unprecedented.



Source: Bureau of Labor Statistics

Gross Domestic Product

By every measure, the U.S. economy is robust. Although GDP growth slowed in the fourth quarter, the economy still managed to grow 2.6% following up on 3.5% and 4.2% increases in the previous two quarters, respectively. This performance was particularly impressive when considering the Fed's highly negative monetary stance announced at the end of the third and beginning of the fourth quarter and a prolonged government shutdown. In the middle of 4Q18, the Fed reevaluated its position and signaled it would be more accommodating, largely in an attempt to reduce increasing stock market volatility. Some economists estimate that the government shutdown knocked-off as much as 0.25% from 4Q18 GDP.



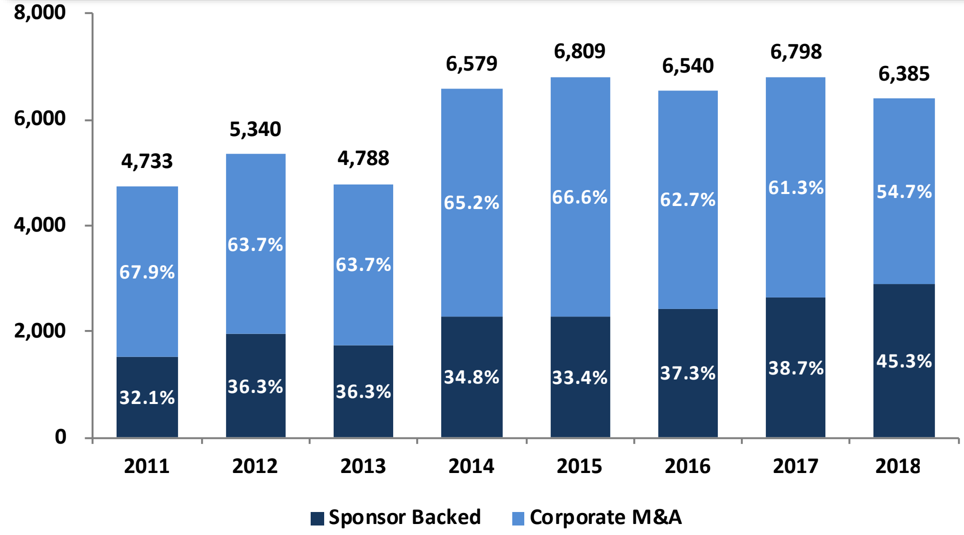
Despite all the political handwringing over Russian Collusion, 2018 was an excellent year in most respects. The U.S. experienced strong GDP and job growth, finished the year with record low unemployment, had 8 million less people living in economic poverty than eight years ago and 3 million fewer people on food stamps then in January of 2017. Over the same period, GDP increased by $1.7 trillion, America has made slow but steady progress toward establishing more equitable trade and has reclaimed the title (1973) of the world's largest oil producer, generating 11.6 million barrels per day. Ironically, the U.S. exceeded the annual percentage of carbon reductions of most members of the Paris Climate Accord.

The two biggest issues weighing on economic growth are trade disputes with China and the growing national debt. We believe the impact of trade talks is overblown. The U.S economy is still $8 trillion larger than China's, and our workforce is 80% more productive. National debt stood at $22 trillion at year-end. As we have discussed in previous reports, debt is growing but much more slowly under the Trump Administration. Higher GDP growth and the resulting increase in the size of the economy ameliorate some of the concerns associated with higher debt levels; however, the only real solution is entitlement reform. In summary, we remain optimistic about near-term economic expansion.

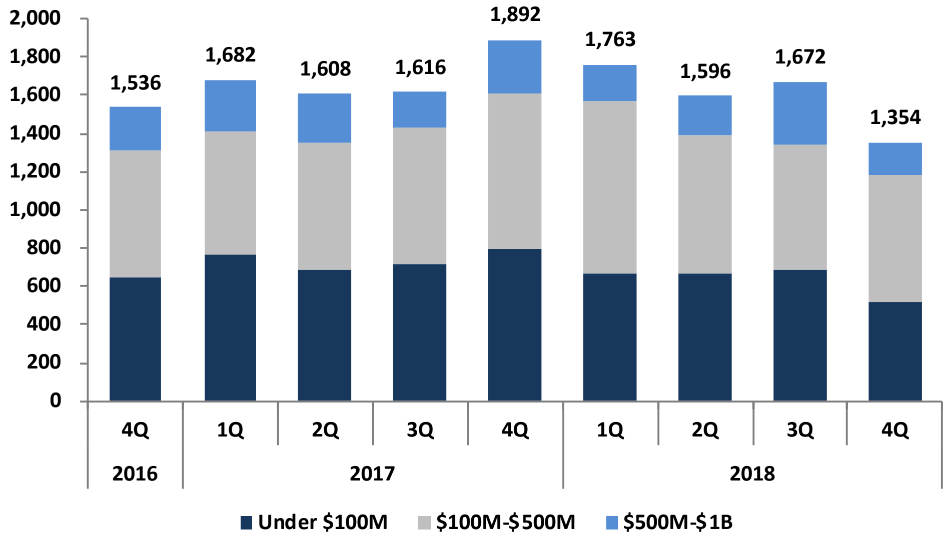
Quarterly Middle-Market M&A Activity

- 2018 middle-market M&A volume was lower with 6,385 transactions compared to 6,798 in 2017.
  - 4Q18 volume of 1,354 deals was 28.4% lower than the 1,892 transactions in 4Q17 and 19.0% lower than the 1,672 transactions in 3Q18.
  - 2018 transaction value of $960.6 billion was essentially flat compared to 2017 of $959.6 billion.
  - Note: 4Q18 transaction volume and value are artificially low due to the lag in gathering data on middle-market transactions.
- Sponsor-backed transactions continue to represent a growing percentage of M&A deals, expanding from 38.7% of transactions in 2017 to 45.3% in 2018.
- Middle-market M&A activity is expected to be steady in the first half of 2019, though high seller valuation expectations and an aging economic cycle may weigh on transaction volume as the year progresses.

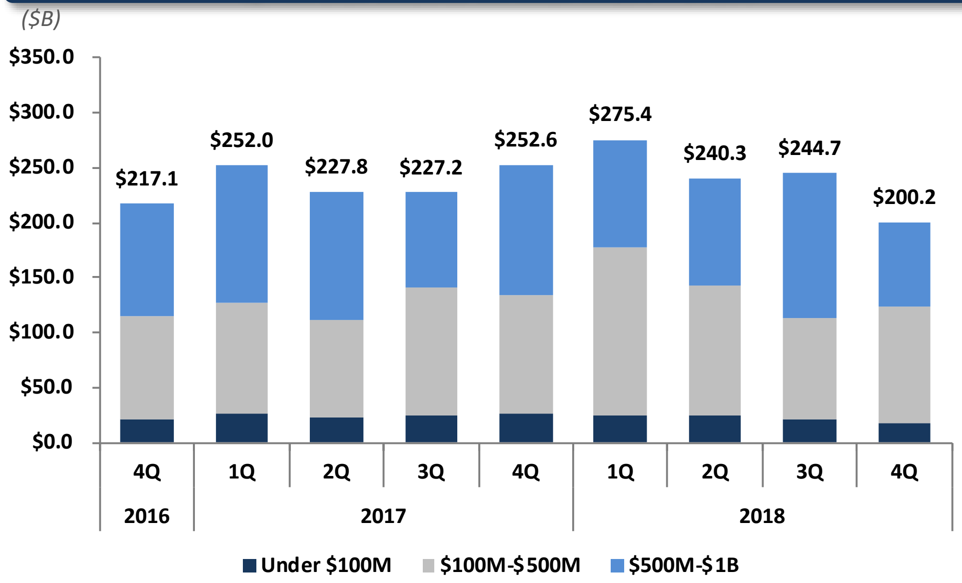
Annual M&A Acquirer – Type



Quarterly Middle-Market M&A – Volume



Quarterly Middle-Market M&A – Value

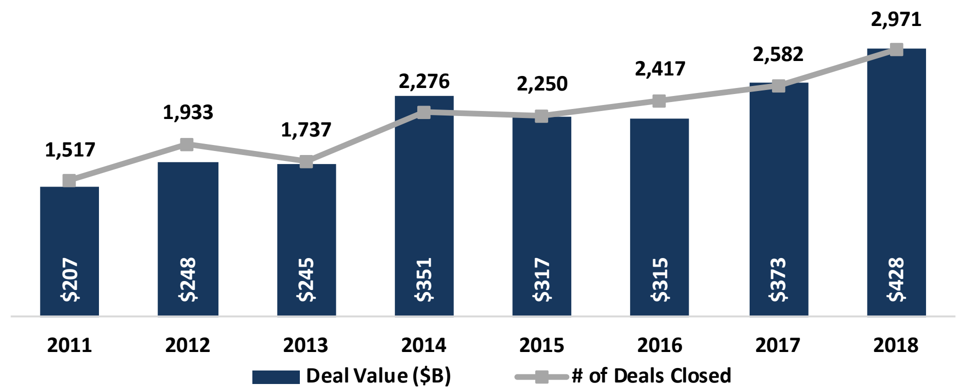


Source: PitchBook. Includes all U.S.-based disclosed, closed deals $25 million to $1 billion through December 31, 2018.

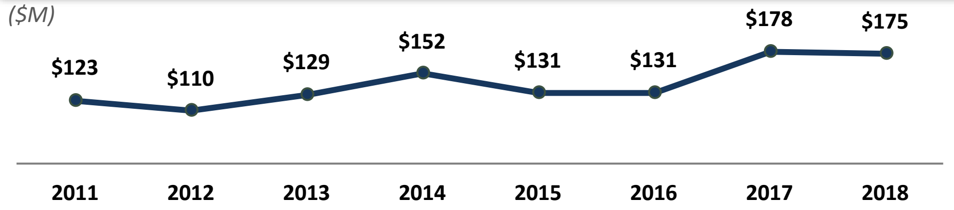
Private Equity Activity

- Private equity ("PE") funds invested $428 billion across 2,971 transactions in 2018, representing YoY increases of 14.8% and 15.1%, respectively.
  - For the first time, each quarter of 2018 had over $100 billion in total middle-market PE deal value.
  - PE's focus on software and other high-growth sectors caused middle market valuations to remain elevated even as U.S. public company multiples have contracted.
  - Add-on acquisitions are expected to comprise a growing percentage of middle market transactions given the higher valuation multiples.
  - Across the broader PE market, deals and funds continue to rise in size, resulting in US middle market total deal value comprising only 53.3% of all PE dollars in 2018, a 13.1% decrease from the 61.3% in 2017.
- US PE middle-market exit activity dropped to $188 billion across 876 transactions in 2018, representing decreases from 2017 of 10.5% and 14.8%, respectively.
- PE firms are raising larger funds with 130 new funds closed in 2018 totaling $109 billion, representing an average middle-market fund size of $842 million.
- Middle market activity is expected to be stable in 2019, though valuation multiples may come under pressure as the market enters the end of a long economic cycle and PE firms become more disciplined in seeking high-quality and growing opportunities.

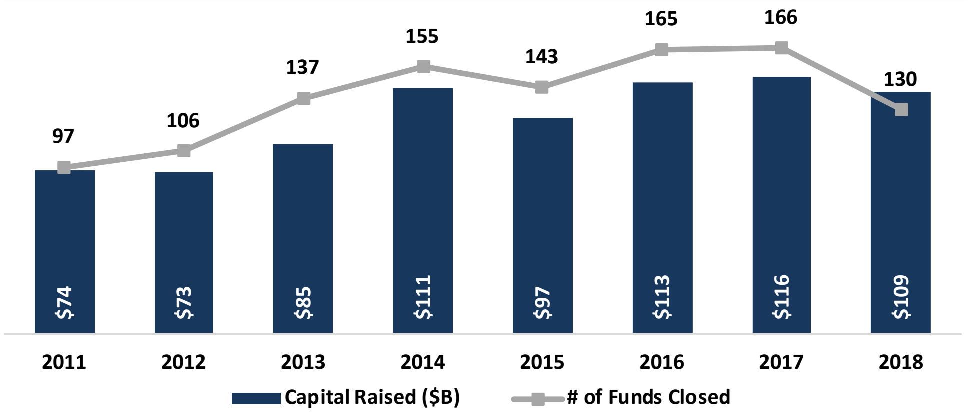
Middle-Market PE Acquisition Activity



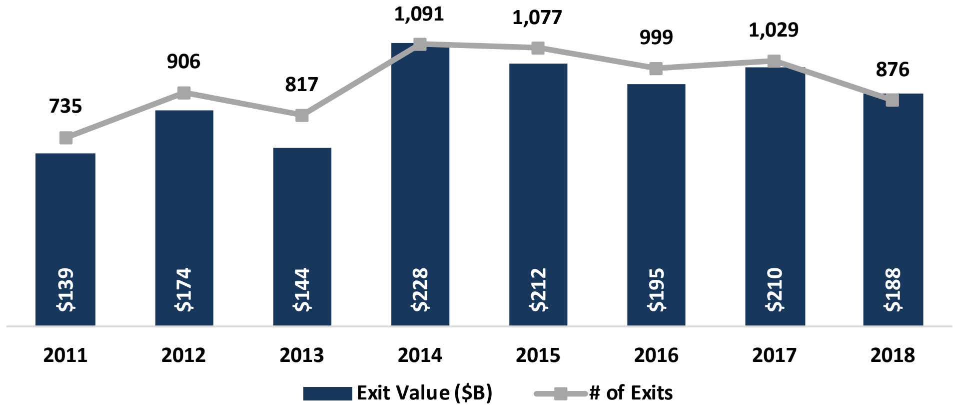
Middle-Market PE Median Deal Size



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



Source: PitchBook

Leveraged Loan Market

- Leverage and covenant structures have become increasingly more aggressive over the last few years, and although the fundamental backdrop for the credit market remains strong, lenders began to push back in 4Q18.
- The extended credit cycle seems to be reaching its peak, and lenders are becoming more wary of high leverage and covenant erosion.
- High-quality companies still have significant access to debt for M&A, refinancing and growth initiatives due to strong lender demand.
- Aggressive leverage ratios for these credits continue to provide ample capital to support elevated valuations.
- Middle-market loan issuance in 2018 was slightly lower than 2017, despite strong demand from both traditional and non-traditional lenders.
- In January, the FOMC elected to leave the current overnight funds rate unchanged at 2.25% - 2.50% following a 25bp increase in December. Projections for rate hikes in 2019 are more uncertain after being reduced from three to two in December.
- Middle-market credit conditions are expected to remain favorable for much of 2019, though the market is beginning to show signs of weakness from reaching the end of an expanded economic cycle.

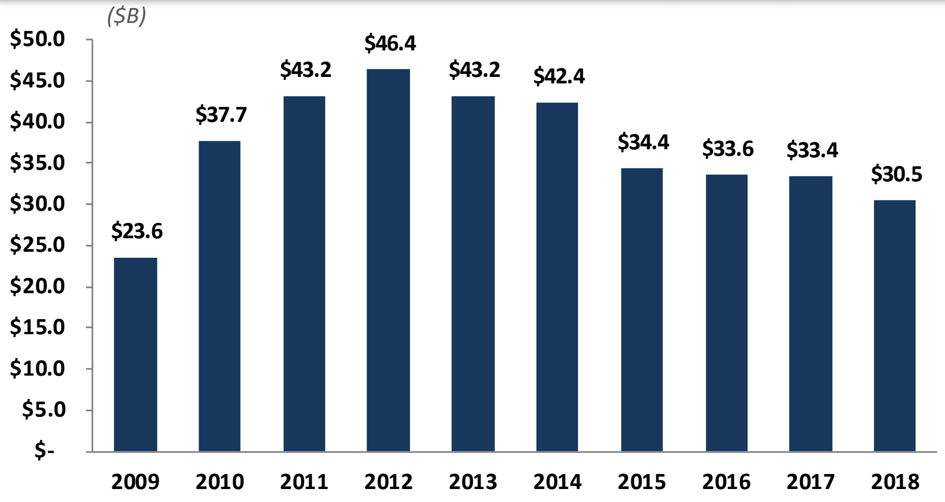
Recent Leveraged Loan Statistics

	Leverage Pricing and Fees	
	Bank	Non-Bank
Libor (3-month)	2.63%	2.63%
Pricing	L + (4.0 - 4.5%)	L + (5.0 - 5.5%)
Floor	-	-
Upfront Fees	50 bps	50 bps
Unused	25 bps	50 bps

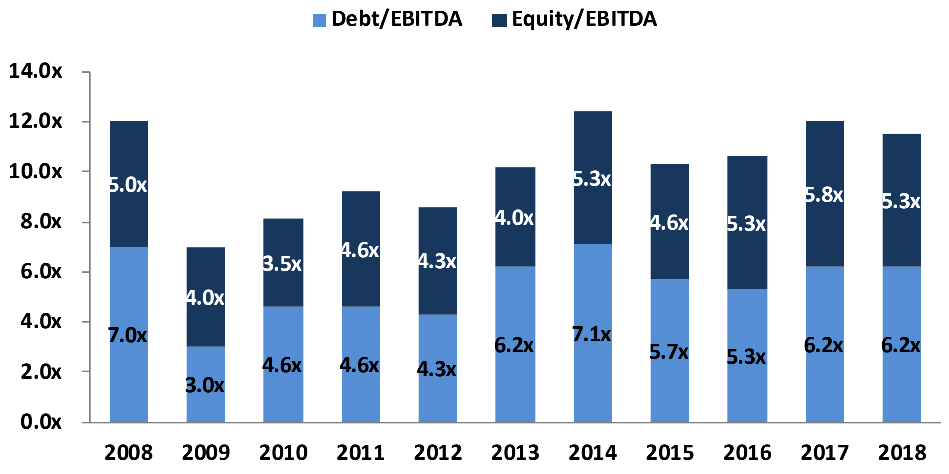
	Debt as Multiple of EBITDA	
	Senior Debt	Total Debt
Healthcare Services	4.5x	5.5x
Healthcare IT	5.0x	7.0x
Non-Healthcare	5.0x	6.0x

Note: Indicative debt multiples are for borrowers with at least $10 million of EBITDA.

Loan Issuance for the Middle-Market (<$100M)



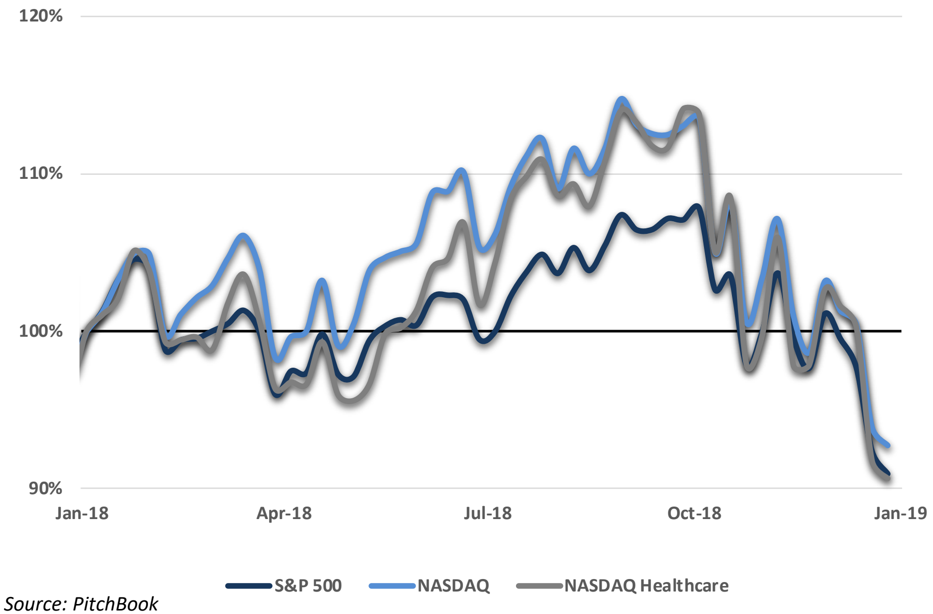
U.S. PE Buyout Multiples



Healthcare Industry Overview

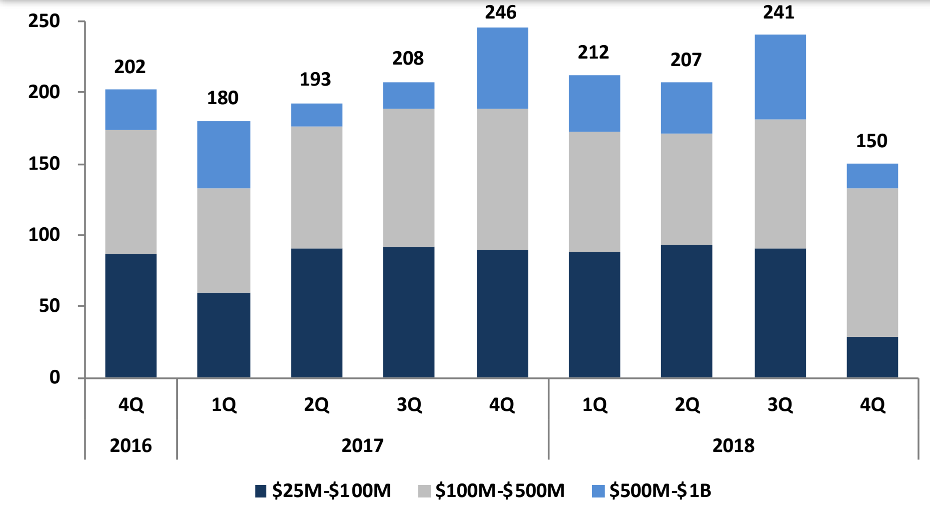
- The pullback by the broader equity market in 4Q18 weighed heavily on healthcare stocks with the NASDAQ Healthcare Index erasing previous gains and now mirroring the S&P 500 and underperforming the NASDAQ by 120 bps in 2018.
- While healthcare continues to be an industry of interest for private equity investors, 4Q18 saw a steep decline in both the number and value of middle-market healthcare transactions.
  - 4Q18 middle-market healthcare M&A activity consisted of $24.0 billion of value across 150 transactions, compared to $33.9 billion from 241 transactions in 3Q18 and $35.1 billion from 246 transactions in 4Q17.
- With high valuations, middle-market investors are more frequently opting for smaller add-on opportunities rather than platform investing.
- The broader healthcare industry continues to see very large M&A transactions. In 4Q18, Veritas Capital and Elliott Management announced the acquisition of athenahealth for $5.7 billion. Also, two major non-profit health systems in Texas signed an LOI to merge in 4Q18.
- 2019 middle-market healthcare M&A activity is expected to be steady but not reach the levels of 2018.

YTD Healthcare Index vs. S&P & NASDAQ

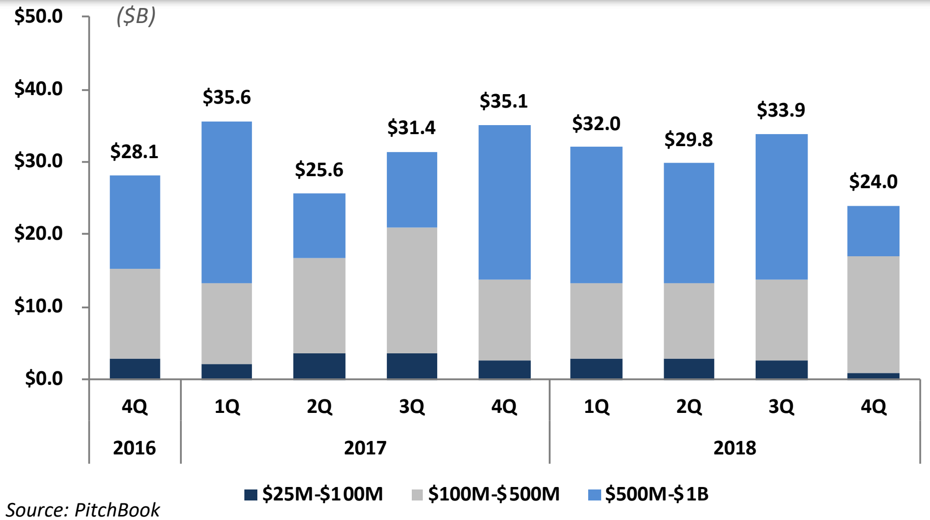


Source: PitchBook

Quarterly Middle-Market Healthcare M&A - Volume



Quarterly Middle-Market Healthcare M&A - Value



Source: PitchBook

Healthcare IT Sector Overview

Commentary

- Following numerous conversations at the JPM Healthcare Conference, which serves as the unofficial kickoff to the year, it is clear that HCIT investors remain eager to deploy capital despite the elevated valuations in the sector. Strategic buyers, likewise, remain interested in pursuing M&A as a growth strategy in order to expand the scope of their current offerings, expand their client footprint or compensate for slower organic growth. In short, public market volatility does not seem to have adversely affected private investor or strategic buyer sentiment.
- The transition to value-based care continues to be a prevalent theme, though the transition has taken longer than expected. Providers and payers alike continue to look for both software and tech-enabled solutions to better understand their member populations and to proactively engage the high-risk/high-cost patient cohorts. Now that the concept of population health has been around for several years, it's clear that the companies garnering the highest valuations have comprehensive, platform solutions (i.e. are not point solutions) and a measurable ROI.
- Healthcare is no longer delivered in a single care setting but across a continuum in which patients are ideally treated in the best setting for their level of acuity. This new paradigm has created an opportunity for technology platforms that can facilitate interoperability, drive patient engagement and deliver analytics to provide clarity on the right care setting for a given patient.

Recent BCA Deals:

Recapitalization

harmony HEALTHCARE IT

Recapitalization Led by

PRIMUS

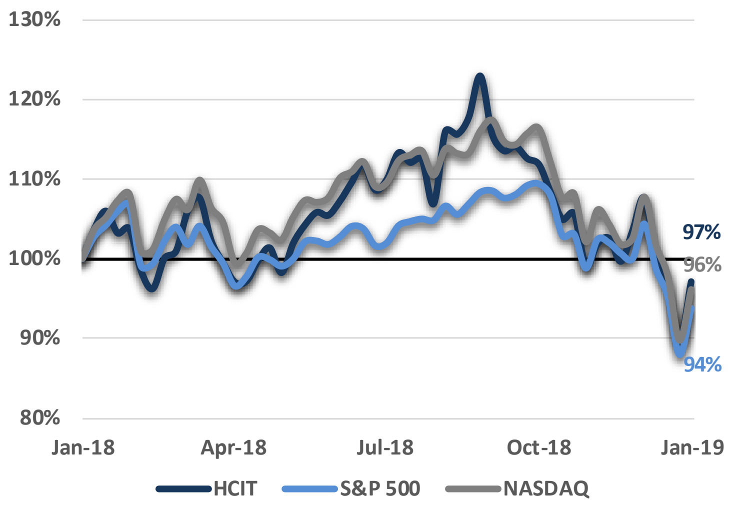
Sell-Side

CONNECTURE

Sell-Side Advisory to

BENEFITFOCUS

Stock Indices Relative Price Performance



Valuation Analysis

Public Company Analysis

($M, except share prices)

Company	Ticker	Stock Price 12/31/18	% of 52-Week High	% of 52-Week Low	TEV	TEV / Revenue LTM	TEV / Revenue NTM	TEV / EBITDA LTM	TEV / EBITDA NTM
Allscripts	MDRX	$9.64	60%	112%	$3,431	1.7x	1.6x	8.8x	8.5x
Cerner	CERN	$52.44	72%	107%	17,216	3.2x	3.0x	10.8x	10.1x
Computer Programs and Systems	CPSI	$25.10	73%	103%	472	1.6x	1.6x	10.1x	9.3x
Evolent	EVH	$19.95	69%	162%	1,424	2.6x	1.7x	1.7x	1.4x
Healthstream	HSTM	$24.15	76%	110%	$605	2.3x	2.5x	2.5x	2.5x
HMS Holdings	HMSY	$28.13	75%	187%	2,502	4.2x	3.9x	17.8x	15.0x
Inovalon	INOV	$14.18	93%	157%	2,890	4.9x	4.6x	19.4x	14.3x
Medidata	MDSO	$67.42	76%	112%	3,988	6.5x	5.3x	29.9x	21.5x
NextGen Healthcare, Inc.	NXGN	$15.15	66%	123%	982	1.8x	1.8x	12.3x	11.1x
Veeva	VEEV	$89.32	82%	164%	12,829	NM	NM	NM	NM
					Average	3.2x	2.9x	12.6x	10.4x
					Median	2.6x	2.5x	10.8x	10.1x

Note: Data per SEC filings and PitchBook.

Select M&A Transactions

($M)

Announced Date	Target	Acquiror	TEV	TEV LTM Multiple Revenue	TEV LTM Multiple EBITDA
1/10/19	Providigm	HealthStream (NAS: HSTM)	$19	N/A	N/A
1/8/19	Influence Health	Healthgrades	N/A	N/A	N/A
12/19/18	Mmodal	3M	1,000	5.0x	10.0x
12/10/18	Netsmart	GI Partners & TA Associates	N/A	N/A	N/A
11/12/18	athenahealth (NAS: ATHN)	Veritas Capital & Evergreen Coast Capital	5,700	4.3x	21.3x
11/5/18	MatrixCare	ResMed (NYS: RMD)	750	6.2x	25.0x
10/23/18	Symplr	Clearlake Capital Group	550	7.1x	16.2x

TRANSACTION ACTIVITY

Since 2002, BCA has completed:

- 99 transactions with aggregate value of approximately $6.4 billion.
- 80 M&A and equity raising assignments with aggregate volume of $5.6 billion.
- 19 debt raises representing approximately $800 million in capital.
- Average enterprise value per healthcare M&A transaction of approximately $100 million.

TRANSACTION EXPERTISE

- Sell-Side M&A Advisory
- Buy-Side M&A Advisory
- Recapitalizations
- Fairness Opinions
- Growth Equity
- Senior Debt
- Subordinated Debt
- PE-Sponsored Transactions

INDUSTRY FOCUS

- Healthcare
- Enterprise Software
- Business Services
- Technology-enabled and Outsourced Services
- Financial Technology and Services
- Specialty Pharma and Contract Research Organizations

THE BEST DEAL. DONE.

REPRESENTATIVE HEALTHCARE TRANSACTIONS

Recapitalization harmony Healthcare IT Recapitalization Led by PRIMUS	Sell-Side CONNECTURE Sell-Side Advisory to BENEFITFOCUS	Recapitalization PMC Psychiatric Medical Care Recapitalization Led By CONSONANCE CAPITAL	Sell-side Retina Consultants of Houston Sell-Side Advisory to Comprehensive EyeCare Partners
Unitranche Debt MEDHOST Debt-Private Placement Led By Goldman Sachs / COMVEST PARTNERS	Recapitalization OSM Ophthalmic Specialists of Michigan Recapitalization Led by Ridgemont Equity Partners	Sell-Side Camellia Healthcare Sell-Side Advisory to Encompass Health	Recapitalization Comprehensive EyeCare Partners Recapitalization Led by GAUGE CAPITAL
Sell-Side HealthStream Sell-Side Advisory to PRESS GANEY	Sell-Side Arbor Health Sell-Side Advisory to EQUIAN	Recapitalization ENABLECOMP Recapitalization Led by PRIMUS	Sell-Side WhiteCloud Analytics Sell-Side Advisory to RELIAS LEARNING
Sell-Side IMAGING ADVANTAGE Sell-Side Advisory to Envision Healthcare	Sell-Side CATHETER CONNECTIONS Sell-Side Advisory to MERIT MEDICAL	Recapitalization American Physician Partners Recapitalization Led by Brown Brothers Harriman	Sell-Side ACADIA Healthcare Sell-Side Advisory to Oceans Healthcare
Recapitalization Haven Behavioral Healthcare Recapitalization Led by Brown Brothers Harriman	Sell-Side PHYSICIANS CARE Sell-Side Advisory to urgent team	Sell-Side ASCEND Management Innovations Sell-Side Advisory to MAXIMUS	Sell-Side MMO Behavioral Health Systems Sell-Side Advisory to ACADIA Healthcare