HCIT

Middle-Market Update

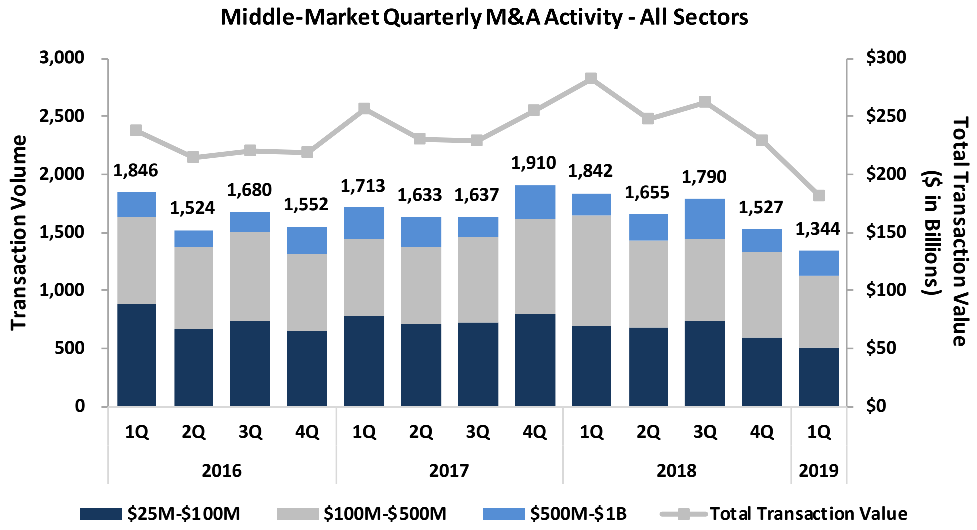
BRENTWOOD CAPITAL ADVISORS

1Q2019

1Q 2019 Overall Market Update and Economic Review

1Q 2019 M&A Update

Compared to 1Q18, U.S. middle-market M&A transaction volume has decreased ~27%, and its value has declined ~36%. Transaction volume declined ~27% QoQ from 1,842 to 1,344 deals and ~12% from 1,527 deals recorded in 4Q18. Over the same period, transaction value is down ~36% QoQ and ~21% from 4Q18. Middle-market healthcare M&A is experiencing many of the same trends.



Source: Pitchbook.

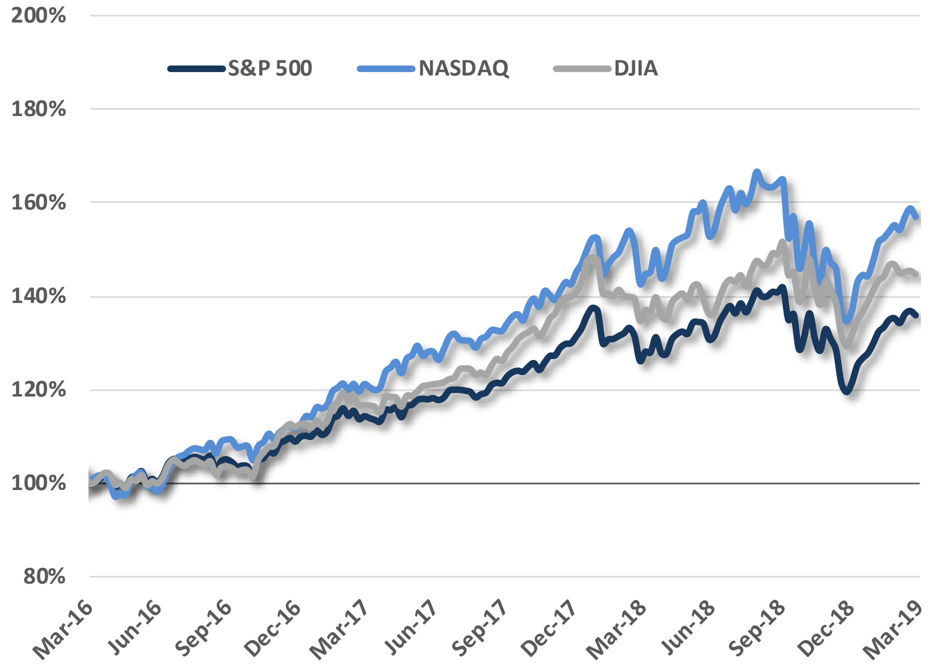
Where have all the transactions gone? It's a bit of a mystery. As we stated in our last update, the economy remains strong despite being in the very late stages of a traditional economic recovery and yellow lights flashing on some performance indicators. The Fed has come to its senses and is willing to be more accommodating if there are any demonstrable signs of an economic slowdown. Private equity has ~$1.1 trillion in available capital to deploy, corporate balance sheets are awash in another ~$1.5 trillion in cash and lenders stand ready to aggressively support both constituents' M&A activities.

On the negative side of the ledger, the biggest threats creating economic uncertainty are the perceived damage related to a trade war with China and the inability of Congress to legislate anything. Washington is, for all practical purposes, gridlocked. Based upon the high activity level in BCA's investment banking practice, we believe the M&A environment will improve in the second half of the year.

Stock Market

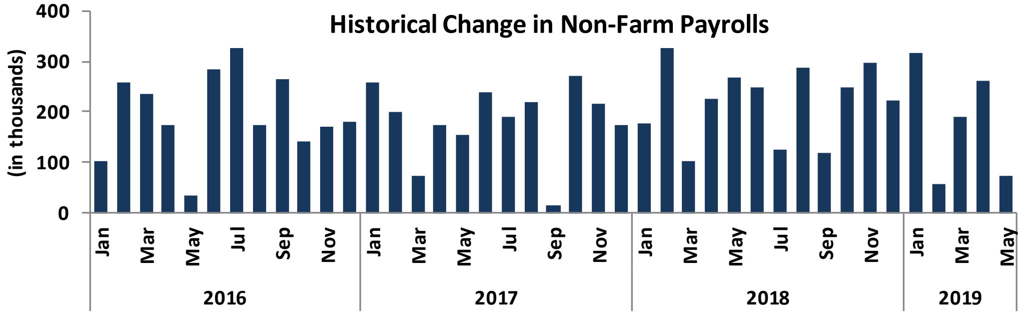
The stock market rebounded in the first quarter after taking a drubbing in 4Q18. The S&P 500, NASDAQ and DJIA increased 12.9%, 15.9% and 11.1% in 1Q19, respectively, primarily due to the Fed signaling a more accommodating stance on interest rates and the perceived, albeit short-term, lessening of trade tensions with China. Despite these increases, the market is treading water in progressively more turbulent seas. Volatility has increased significantly as investors grapple with these issues, potential tariffs on Mexico and growing political instability in the Middle East.

In addition, 1Q19 corporate financial results were up against tough YoY comparisons. Although many companies comprising the S&P 500 have produced positive revenue and earnings surprises, the overall trend is slightly negative with a blended earnings decline of 2.3%. If this trend continues, it will be the first YoY earnings decline in the index since 2Q16.



Non-Farm Payroll

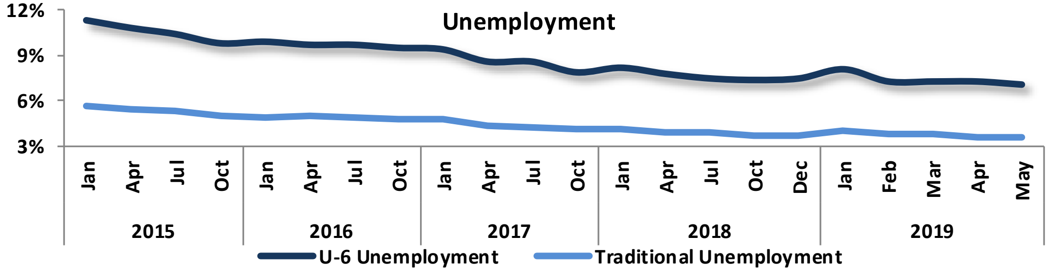
Job growth remained strong if a bit sporadic in the first quarter, adding 520K new jobs for an average of 173k per month. This represents approximately 25% slower growth than was experienced in 4Q18, when the economy created 696k jobs for an average of 232k per month, and right on top of materially similar non-farm payroll additions in 3Q18. However you slice it, this level of job growth is impressive this late in an economic recovery and with the current low levels of unemployment. Another 263k jobs were added in April and a disappointing 75k in May. The May job growth number looks like another anomaly, and we expect that this economy will resume it impressive job creation in June.



Source: Bureau of Labor Statistics

Unemployment

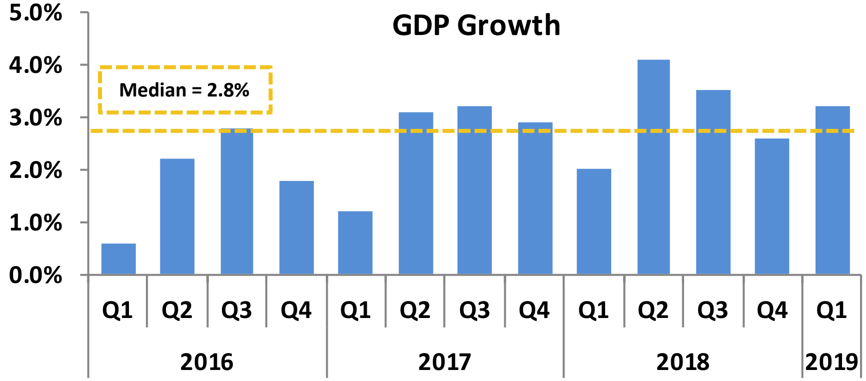
U-3 was 3.8% and U-6 was 7.3% at the end of the first quarter, largely in line with the previous quarter's unemployment rates. U-3 fell to 3.6% in April while U-6 was unchanged. As more workers return to the workforce, the current level of new job creation should keep U-3 unemployment levels fairly stable; however, we believe U-6 can decline further from its 7.3% level before the economy reaches full employment.



Source: Bureau of Labor Statistics

Gross Domestic Product

The U.S. economy continues to fire on all cylinders. 1Q19 GDP rebounded strongly, achieving 3.2% growth versus 2.6% in 4Q18. This strong growth was achieved without any monetary stimulus from the Fed, which, until recently, was not willing to entertain any interest rate cuts. Consumer confidence remains at an all-time high, and our expectation is for the economy to continue to grow at a 3% pace.



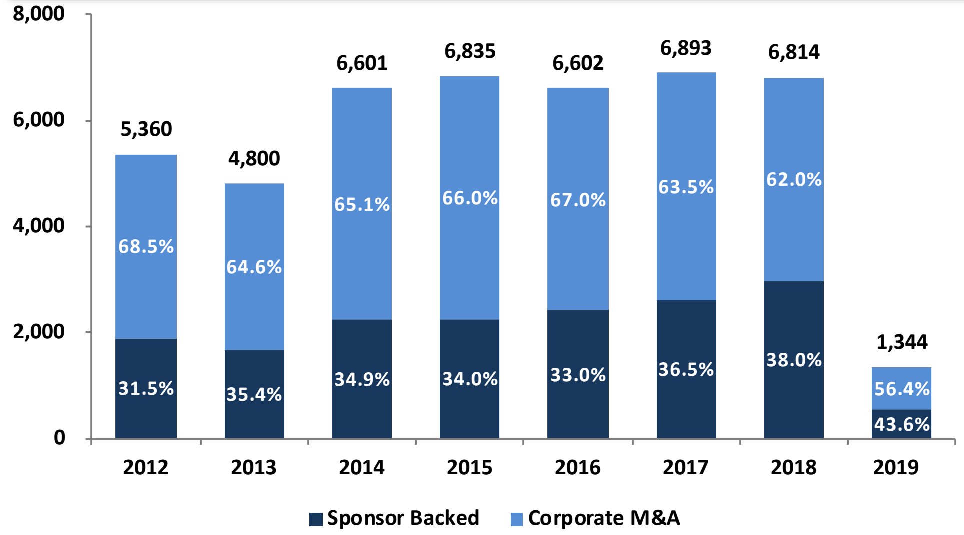
The largest cloud on the horizon is the prospect of a trade war with China and its perceived deleterious effects on the U.S. economy. These concerns are reminiscent of the 1980s when everyone feared that Japan's rapidly growing economy would supplant the U.S. as the world's leader. I think we all know how that one ended. Japan's over-hyped economy imploded and didn't recover for almost 20 years.

China is an important trading partner but does not have the financial wherewithal to bring the U.S. to its knees economically. Approximately 80% of U.S. GDP is the result of domestic commerce and the remainder is exports. China, our third largest export market, accounted for ~$180.0 billion in exports in 2018. By contrast, the Chinese economy is export reliant, 40% government controlled, rife with corruption and has few natural resources. It is a little more than half the size of the U.S. economy but has a work force two-thirds larger than ours. It also has 300 million people living like their ancestors did 1,000 years ago. China is our largest but still a relatively small debt holder, owning ~$1.1 of our ~$22.0 trillion of total debt. For these reasons, we do not believe a trade war is as likely or harmful as portrayed in the media. In the end, we believe China will be forced to make a deal or suffer a fate similar to Japan's.

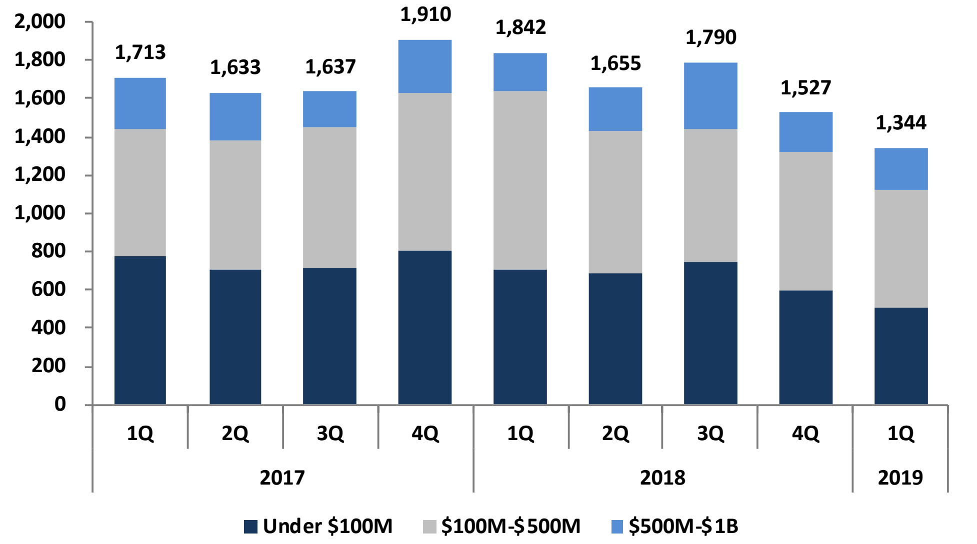
QUARTERLY MIDDLE-MARKET M&A ACTIVITY

- 1Q19 middle-market M&A volume slowed and value declined compared to 1Q18.
  - 1Q19 volume of 1,344 deals was 27% lower than the 1,842 transactions in 1Q18 and 12% lower than the 1,527 transactions in 4Q18.
  - 1Q19 transaction value of $180.9 billion was 36% lower than the $282.6 billion value of 1Q18 and 21% lower than the $229.6 billion in value in 4Q18.
  - Note: 1Q19 transaction volume and value are slightly artificially low due to the lag in gathering data on middle-market transactions.
- Higher financing costs due to volatility in the high-yield market coupled with private equity sponsors prioritizing smaller, add-on transactions drove the declines, especially as sponsor-backed transactions continue to represent a growing percentage of middle market M&A transactions.
- Middle-market M&A activity in 2019 is expected to continue to lag behind 2018, with an aging economic cycle potentially weighing further on transaction volume as the year progresses.

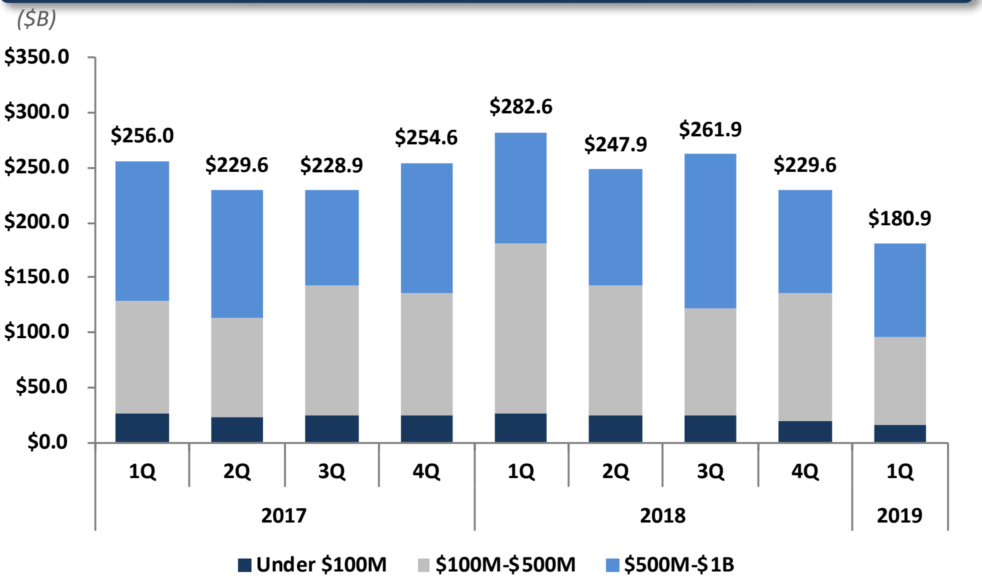
ANNUAL M&A ACQUIRER – TYPE



QUARTERLY MIDDLE-MARKET M&A – VOLUME



QUARTERLY MIDDLE-MARKET M&A – VALUE

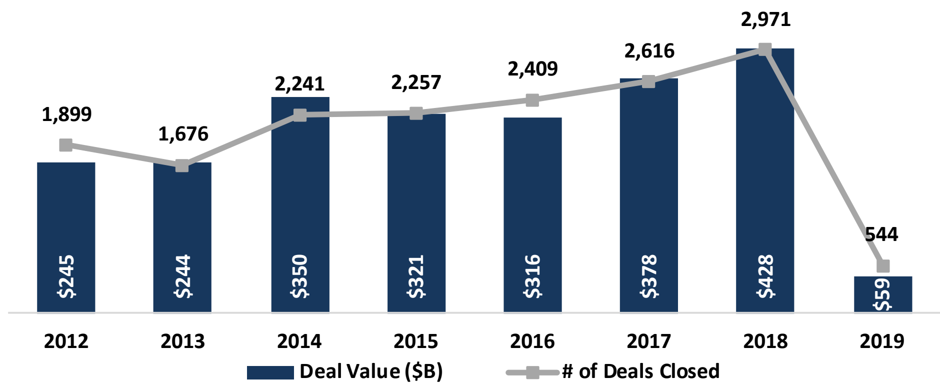


Source: PitchBook. Includes all U.S.-based disclosed, closed deals $25 million to $1 billion through March 31, 2019.

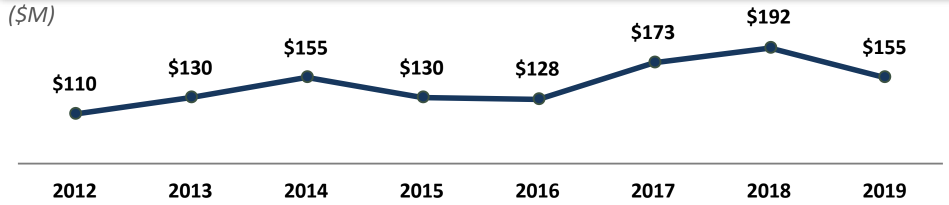
Private Equity Activity

- Private equity ("PE") funds invested $59 billion in 544 transactions in 1Q19, representing only ~13% of the transaction value and ~14% of the volume completed in 2018.
  - Middle-market valuation multiples remain elevated due to competition for high-quality transactions and technology-based opportunities representing a growing percentage of deal activity.
  - PE buyers are implementing more intensive due diligence processes as they focus on downside risk in the higher price environment.
  - Add-on acquisitions continue to comprise a growing percentage of middle-market transactions due to persistently high valuation expectations.
  - Some investors are implementing dividend recaps to boost returns in the current environment.
- US PE middle-market exit activity dropped to $27 billion across 137 transactions in 1Q19, representing YoY declines of ~42% and ~46%, respectively. Exit volume activity is expected to increase throughout the year, assuming it remains a seller's market.
- PE firms only raised $26 billion across 25 new middle-market funds in 1Q19. Mega-funds and growth equity funds account for an increasing percentage of new capital.

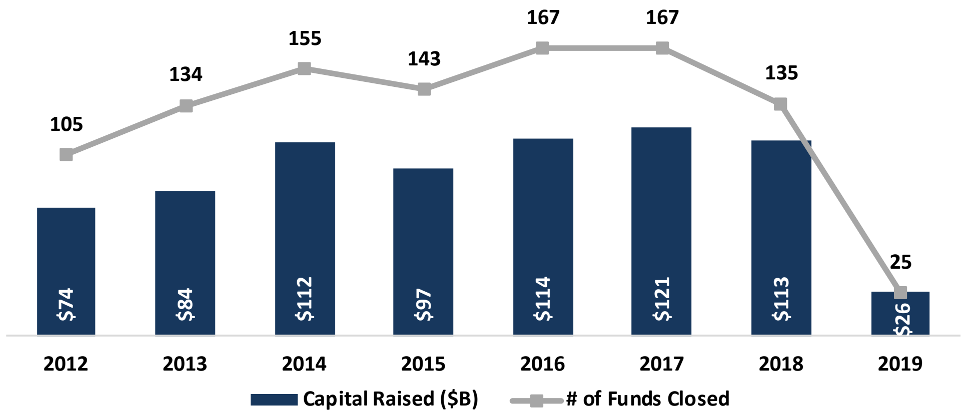
Middle-Market PE Acquisition Activity



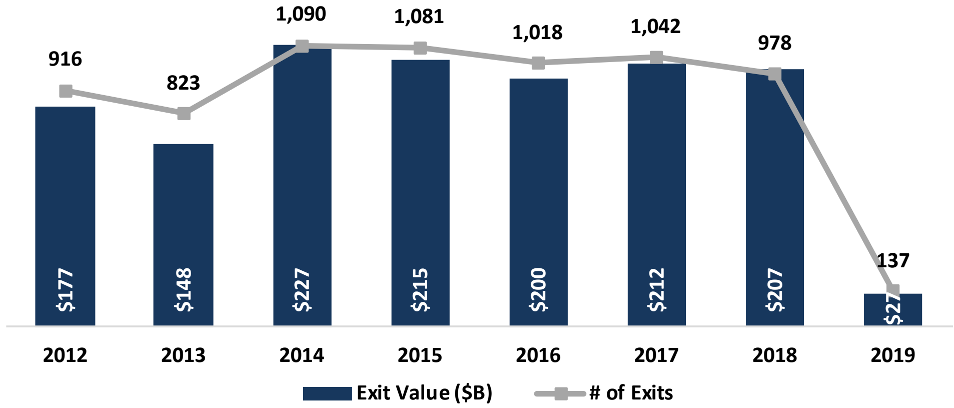
Middle-Market PE Median Deal Size



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



Source: PitchBook

Leveraged Loan Market

- Middle-market credit conditions remain favorable for high-quality borrowers in 1Q19, despite softness in 4Q18 and the beginning of pressure on the broader credit market from reaching the end of an expanded economic cycle.
- After growing steadily for the last several years, the percentage of leveraged loans with covenant-lite structures peaked at 79.2% in December and has trended slightly lower in 2019, ending April at 78.3%.
- Lenders are becoming more wary of high leverage, especially for lower-quality borrowers; however, high-quality companies continue to have ample access to debt capital to support the persistently elevated valuation multiples.
- Lower loan volume in 2019 has kept pricing and rates borrower friendly, as lenders compete for high-quality opportunities.
- As expected, in May the FOMC elected to leave the current overnight funds rate unchanged at 2.25% - 2.50% after signaling in March that they do not plan to raise rates for the remainder of 2019.
- Despite demand from both traditional and non-traditional lenders, middle-market loan issuance in 2019 is expected to trail 2018 levels.

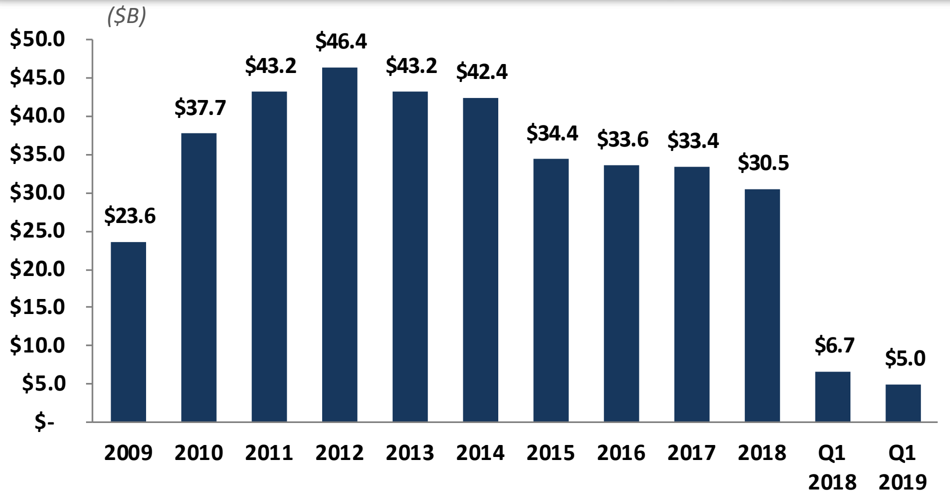
Recent Leveraged Loan Statistics

	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

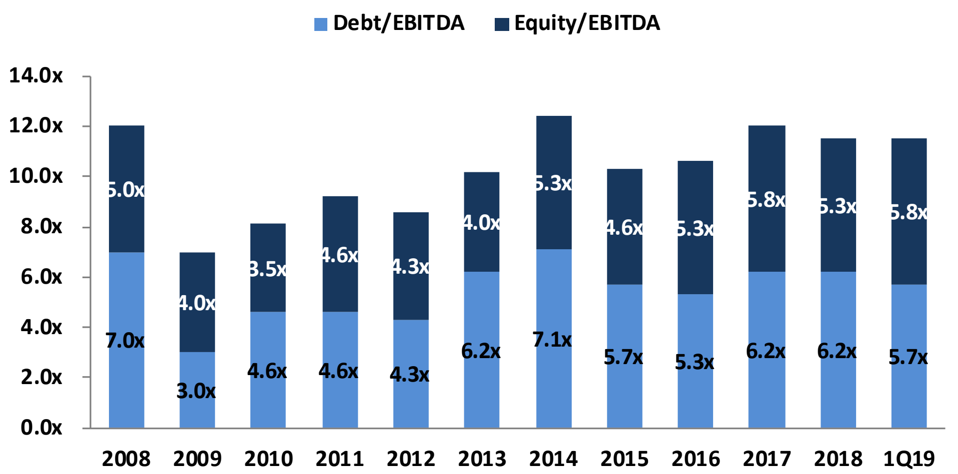
	Debt as Multiple of EBITDA	
	Senior Debt	Total Debt
Healthcare Services	4.5x	5.5x
Healthcare IT	5.0x	7.0x
Non-Healthcare	5.0x	6.0x

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

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



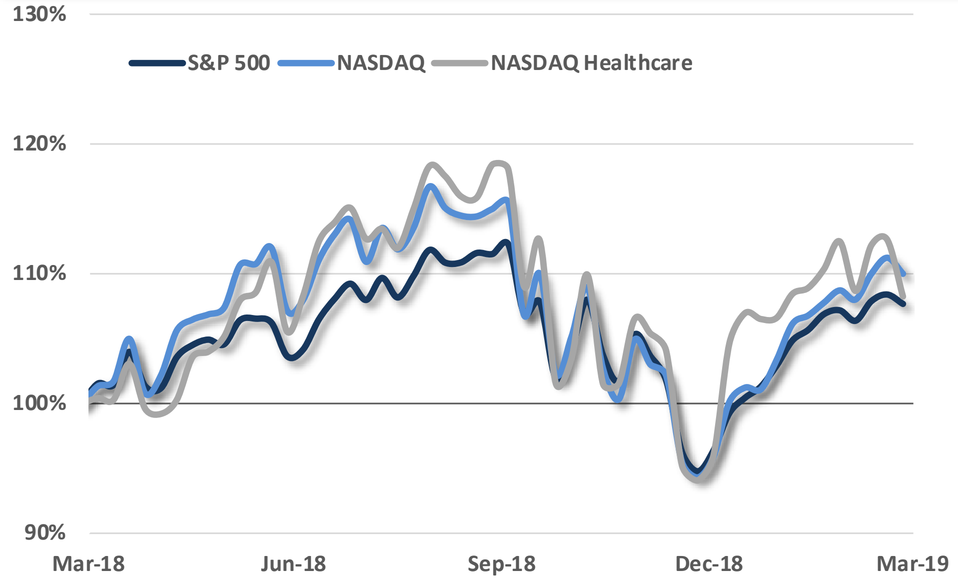
U.S. PE Buyout Multiples



Healthcare Industry Overview

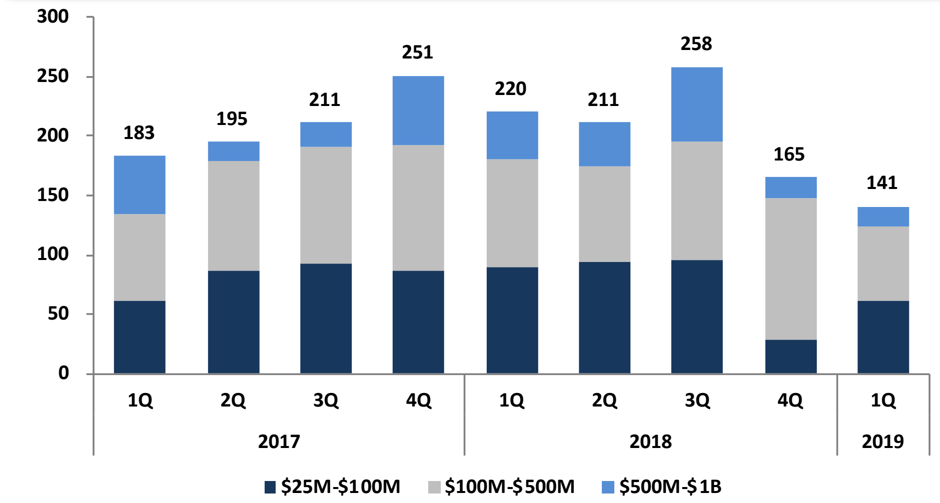
- The NASDAQ Healthcare Index followed the broader equity market in 1Q19, rebounding significantly from 4Q18 to end the LTM as of March 31, 2019, mirroring the S&P 500 and NASDAQ.
- Following the broader trend of middle-market M&A activity, both the number and value of middle-market healthcare transactions declined in 1Q19.
  - 1Q19 middle-market healthcare M&A activity consisted of $23.5 billion of value across 141 transactions, compared to $27.9 billion from 165 transactions in 4Q18 and $32.4 billion from 220 transactions in 1Q18.
- Larger transactions represent a shrinking percentage of middle-market healthcare activity, as investors prioritize add-on acquisitions.
- Transactions valued between $25 and 100 million represented ~44% of 1Q19 middle-market healthcare M&A volume compared to ~18% in 4Q18 and ~41% in 1Q18.
- Given that healthcare is a relatively recession-resistant industry, middle-market healthcare M&A activity is expected to remain steady throughout 2019 despite the aging economic cycle, though it is not on pace to reach the levels of 2018.

YTD Healthcare Index vs. S&P & NASDAQ

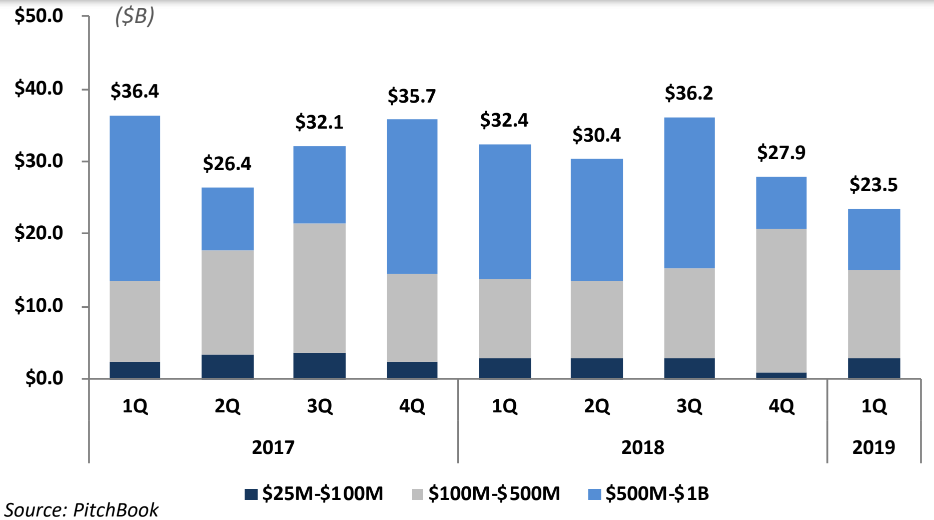


Source: PitchBook

Quarterly Middle-Market Healthcare M&A - Volume



Quarterly Middle-Market Healthcare M&A - Value



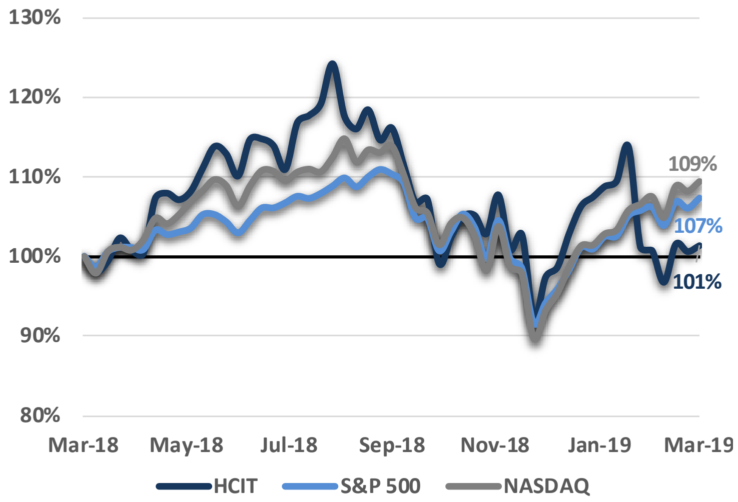
Source: PitchBook

Healthcare IT Sector Overview

Commentary

- 1Q19 saw the continued evolution of healthcare delivery towards a value-based paradigm. Providers of all types continue to face mounting pressures to enhance clinical quality and operational efficiency while also ensuring patient satisfaction and capturing the patient's financial responsibility for their bills. HCIT companies garnering the most attention are those that alleviate these pressures in a meaningful and measurable way. In short, providers and payers are increasingly reliant upon technology to take excess cost out of the system and improve care quality and, specifically, patient outcomes.
- The ubiquity of data, both clinical and financial, presents the greatest opportunity and challenge for payers and providers to better understand their respective populations and identify opportunities for improvement. More specifically, the growing archive of historical data is creating new compliance and security challenges for providers, especially as the care delivery landscape continues to consolidate. In Q1, BCA represented Harmony HIT, a leader in the data extraction and archiving space, in its recapitalization with Primus Capital.
- Overall, investor and strategic buyer sentiment remain positive and valuations continue to be elevated for companies demonstrating consistent growth, profitability, and operating in large and growing markets.

Stock Indices Relative Price Performance



Valuation Analysis

Public Company Analysis

($M, except share prices)

Company	Ticker	Stock Price 3/31/19	% of 52-Week High	% of 52-Week Low	TEV	TEV / Revenue 2018	TEV / Revenue 2019P	TEV / EBITDA 2018	TEV / EBITDA 2019P
Allscripts	MDRX	$9.54	64%	112%	$2,198	1.3x	1.2x	7.8x	7.0x
Cerner	CERN	$57.21	85%	117%	18,752	3.5x	3.2x	11.8x	10.8x
Computer Programs and Systems	CPSI	$29.69	86%	125%	528	1.9x	1.9x	10.9x	10.3x
Evolent	EVH	$12.58	43%	104%	966	1.5x	1.1x	NM	NM
Healthstream	HSTM	$28.06	88%	122%	$739	3.2x	2.9x	17.8x	N/A
HMS Holdings	HMSY	$29.61	78%	182%	2,612	4.4x	4.0x	16.1x	14.5x
Inovalon	INOV	$12.43	80%	140%	2,651	4.2x	4.1x	14.8x	13.2x
Medidata	MDSO	$73.24	82%	122%	4,327	6.8x	5.6x	29.3x	23.2x
NextGen Healthcare, Inc.	NXGN	$16.83	71%	128%	1,080	2.0x	2.0x	13.0x	11.2x
Veeva	VEEV	$126.86	98%	186%	18,715	NM	NM	NM	NM
					Average	**3.2x**	**2.9x**	**15.2x**	**12.9x**
					Median	**3.2x**	**2.9x**	**13.9x**	**11.2x**

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
3/11/19	Voalte	Hill-Rom Holdings	$180	4.5x	N/A
2/26/19	OnLife	Guidewell Connect	84	2.5x	10.5x
2/20/19	API Healthcare	Symplr	290	N/A	14.5x
1/10/19	Providigm	HealthStream (NAS: HSTM)	19	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

Brentwood Capital Advisors Overview

Transaction Activity

Since 2002, BCA has completed:

- 100 transactions with aggregate value of approximately $6.4 billion.
- 81 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

Sell-Side
Dental Practice Mgmt. Software
Sell-Side Advisory to
Middle-Market Software PE Firm

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 Nevada
Sell-Side Advisory to
Comprehensive EyeCare Partners

Unitranche Debt
MEDHOST
Debt-Private Placement Led By
Goldman Sachs / COMVEST

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