HCIT

Middle-Market Update

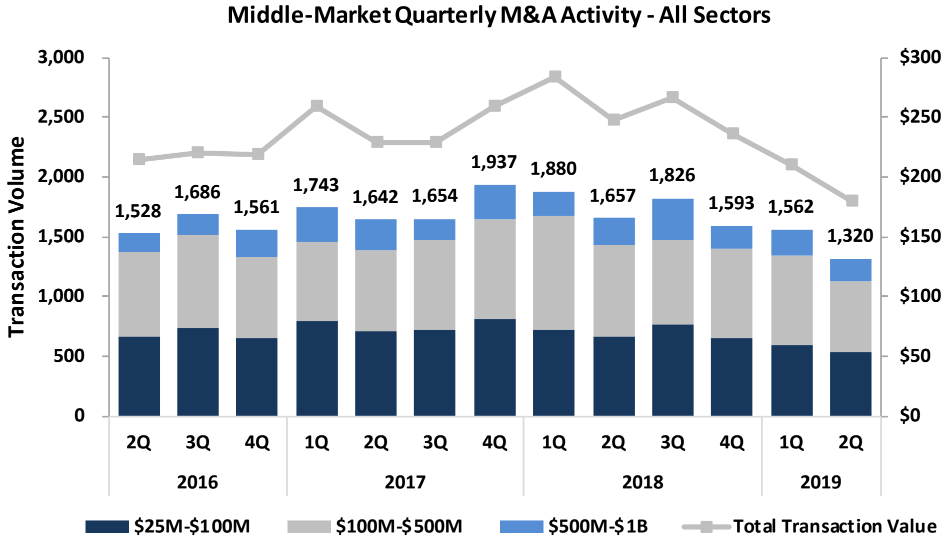
BRENTWOOD CAPITAL ADVISORS

2Q2019

2Q 2019 Overall Market Update and Economic Review

2Q 2019 M&A Update

U.S. middle-market M&A activity has declined each quarter over the last twelve months, and but for a small increase in 3Q18, this trend would have occurred for seven consecutive quarters. 2Q transaction value fell ~27% YoY and ~15% from the prior quarter. The volume of transactions declined ~20% and ~15% over the same periods, respectively. Middle-market healthcare M&A activity experienced similar declines. The bright spot in middle-market M&A continues to be in transactions of less than $500 million in value, which continue to be more stable on a relative basis.



Source: Pitchbook.

The only explanation for the reduction in M&A activity is buyer caution. Despite the economy's strength, buyers are playing defense in a recovery that remains robust yet undeniably long in the tooth. With an expansion spanning 10+ years and counting, buyers feel it is prudent to make sure they have a chair when the economic music stops. Buyers have also been operating in a much higher interest rate environment since the Fed began raising rates in early 2017 in response to more rapid economic growth. Higher index lending rates (i.e. LIBOR) have offset some of the benefits of more aggressive lending multiples and reductions in borrowing spreads.

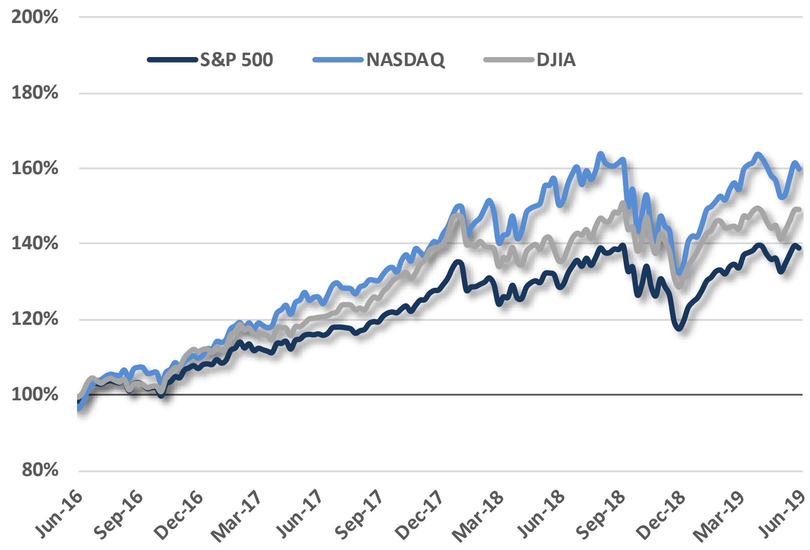
As an active participant in the relatively stable market for transactions of less than $250 million in value, BCA's M&A volume over the last 24 months has been up slightly, but transaction value is up significantly, ~40%. We believe these volume trends will continue; however, it may take a small and short-lived economic correction in 2021 before M&A activity returns to higher previous levels. With corporations having $1.5 trillion of cash on their balance sheets, private equity firms with $1.2 trillion of investing dry powder and banks willing to lend aggressively, it's only a matter of time before M&A activity takes off. With stronger economic growth in 3Q and 4Q and the knowledge that there is rarely a recession in an election year, buyers may get up from their chairs when they hear that sweet music and play the game.

Stock Market

The stock market in 2Q was highly volatile, experiencing large swings that mirrored buyers' and sellers' vacillation between euphoria and desperation over trade with China, the Fed's interest rate policy and the strength of the economy. Despite this uncertainty, all major indexes increased during the quarter and have flirted with record highs. The S&P 500, NASDAQ and DJIA rose 2.6%, 2.3% and 1.3%, respectively. However, for the first time in two years, the S&P 500 posted two consecutive quarters of YoY earnings declines.

The resumption of trade talks with China has temporarily calmed markets and significantly lessened volatility, at least through most of 3Q. Hopefully, the third time is the charm in these negotiations. The Chinese economy is struggling with droves of international companies relocating manufacturing facilities to more politically friendly countries.

Although the economy continues to look reasonably strong, The Fed's cautious approach to interest rates is just mindboggling. Who remembers the last time the Euro to USD ratio was this close to 1:1? The economy is like a lot of large objects, it takes time to accelerate and slow down. The Fed seemed to raise rates very aggressively when the economy was growing at 3% but has been slow to lower rates as it decelerated to 2%. Hopefully, the Fed eases rates before we lose this race with our global trading partners. Thank God for the U.S. consumer.

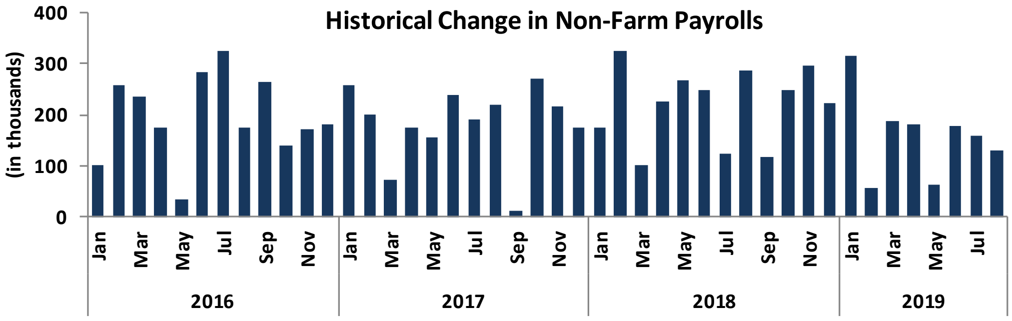


BCA

2Q 2019 Overall Market Update and Economic Review

Non-Farm Payroll

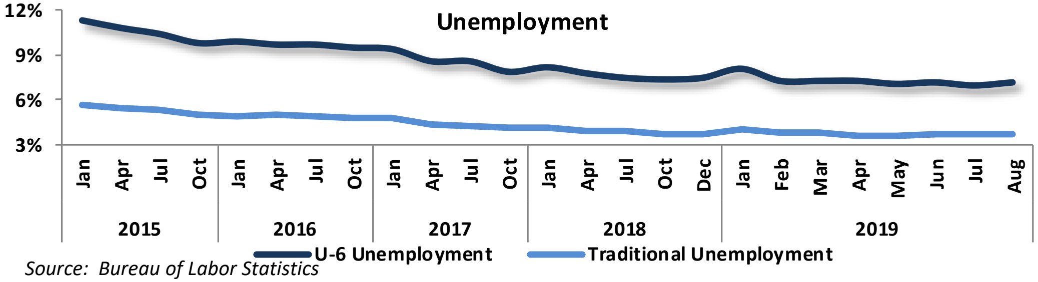
2Q job growth remained strong and closely resembled that of 1Q, creating 562K jobs in the latest quarter, or ~187K per month, versus 520K in total and ~173K per month in the prior period. Like the last quarter, 2Q included a tepid month with May coming in at 75K new jobs created. New job growth has been slower 2019 YTD than for all of 2018, averaging 173K versus 187K per month and representing a 7.5% decrease. However, similar to our commentary in the last quarterly, job growth is very impressive for the 10th year of an economic expansion. The economy added 164k jobs in July and 130K in August, both very solid numbers. Full steam ahead.



Source: Bureau of Labor Statistics

Unemployment

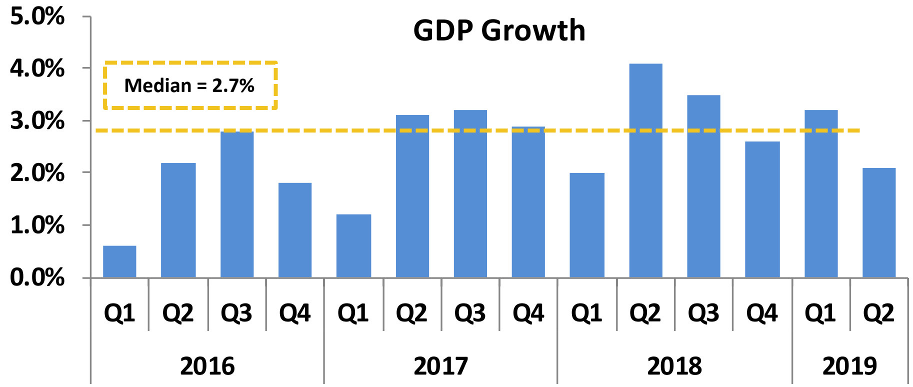
U-3 unemployment continued to trend down, finishing the quarter at 3.7% versus 3.8% during the prior period. Similarly, U-6 unemployment finished the quarter at 7.2% versus 7.3% the prior period. Unemployment is at 50-year lows for almost all minority groups including Hispanics, Asians, African-Americans and women. We believe there is still room for substantial improvement despite some experts believing we are nearing or at full employment. The labor participation rate reached 63.2% in August, signifying that another 750K+ people entered the workforce over the last quarter and following two months.



Source: Bureau of Labor Statistics

Gross Domestic Product

The U.S. economy remains strong and continues to significantly outperform the rest of the free world. GDP grew 2.0% in 2Q down from 3.2% in 1Q. However, most economic fundamentals and metrics are strong and point to continued growth. GDP has exceeded the 2.7% median growth rate in 7 of the last 10 quarters. Media drumbeats of "Russia, Russia, Russia" have been replaced by "Recession, Recession, Recession". Unless we talk or scare the U.S. consumer into decreasing spending, there are absolutely no signs of recession on the horizon.



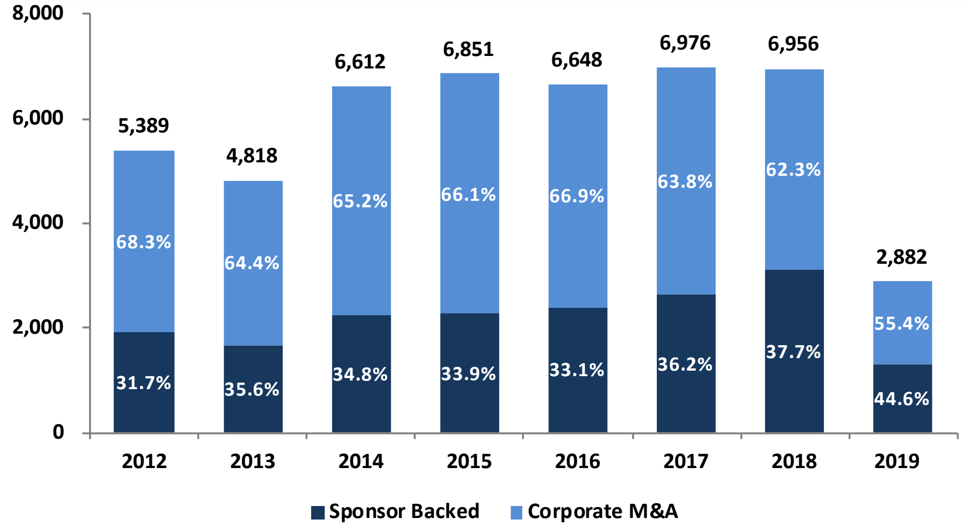
All fundamentals such as strong job creation, low unemployment, improving productivity, high consumer confidence, lower inventory levels and solid GDP point toward an expanding economy. The biggest drags on the U.S. economy are fears of a trade war with China and high interest rates. Uncertainty has caused some U.S. companies to reduce inventory purchases and capital spending. Higher interest rates have negatively impacted construction starts and raised borrowing costs. Most economists believe that higher interest rates have trimmed as much as 1% from GDP. It is hard to estimate the cost of trade tensions with China. Fortunately, Chinese producers and the government have absorbed almost the entire cost of higher tariffs rather than transfer this expense to U.S. consumers in the form of higher prices. Hopefully, the recent Fed rate cut will begin to make a positive impact on growth and the U.S. and China will strike a deal on trade.

Another headwind that is slowing the U.S. economy is the USMCA trade agreement, the replacement for NAFTA. Most economists believe this new trade agreement would add 140K new jobs and increase GDP by at least 1%. It would also give the U.S. substantial leverage in negotiating a trade deal with China. Our trade with Mexico and Canada dwarfs that with China. Let's hope USMCA gets approved soon and we stop the self-inflicted wounds on our economy.

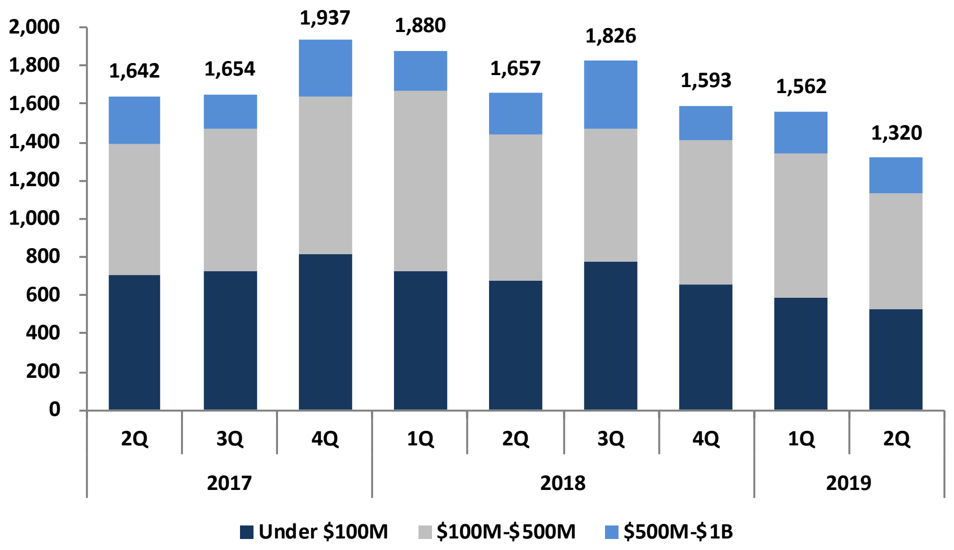
Quarterly Middle-Market M&A Activity

- Middle-market M&A volume and value continued to decline in 2Q19.
  - 2Q19 volume of 1,320 deals was 20.3% lower than the 1,657 transactions in 2Q18 and 15.5% lower than the 1,562 transactions in 1Q19.
  - 2Q19 transaction value of $179.8 billion was 27.3% lower than the $247.4 billion value of 2Q18 and 14.6% lower than the $210.5 billion in value in 1Q19.
  - Note: 2Q19 transaction volume and value are slightly artificially low due to the lag in gathering data on middle-market transactions.
- While M&A activity is slightly down, the middle-market has been relatively sheltered from the volatility in the broader public equity markets. Valuation multiples remain high as sponsors continue to have dry powder and ample access to debt financing. Buyers prioritize high-growth or tuck-in opportunities given valuation multiples.
- Middle-market M&A activity is expected to remain stable through the end of 2019 despite the aging economic cycle and increasing volatility in the broader market.

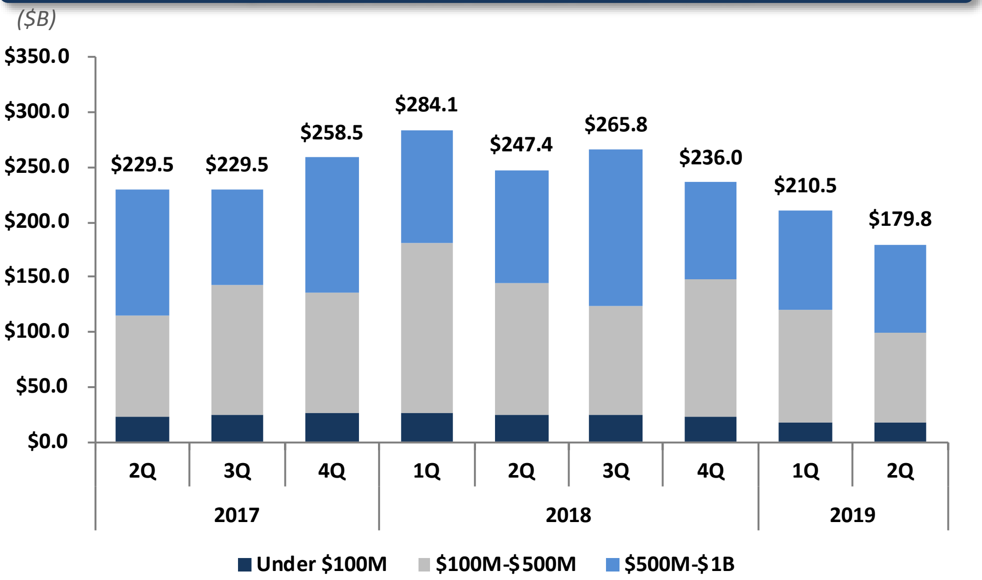
Annual M&A Acquirer – Type



Quarterly Middle-Market M&A – Volume



Quarterly Middle-Market M&A – Value

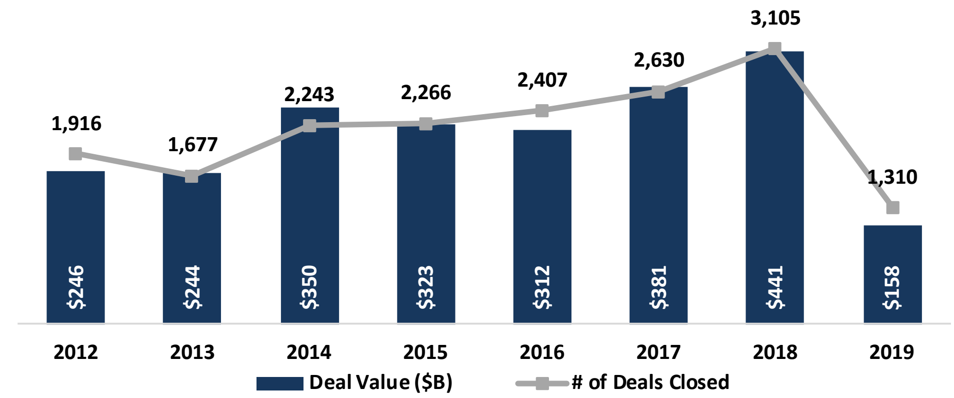


Source: PitchBook. Includes all U.S.-based disclosed, closed deals $25 million to $1 billion through June 30, 2019.

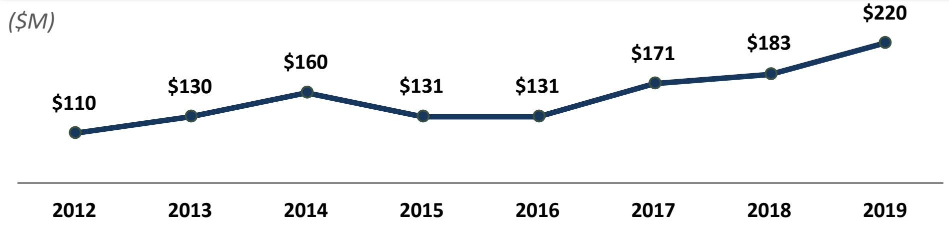
Private Equity Activity

- Private equity ("PE") funds invested $158 billion in 1,310 transactions in the first half of 2019, representing ~36% of the transaction value and ~42% of the volume completed in 2018.
  - PE middle-market activity increased slightly in 2Q19 compared to 1Q19, though the YTD volume and transaction value trail 2018 levels.
  - Sponsor-backed transactions continue to represent a growing percentage of M&A activity, up from 37.7% of transactions in 2018 to 44.6% in YTD 2019.
  - Despite a continued focus on add-on acquisitions, the median middle-market PE transaction size continues to rise, increasing from ~$183 million in 2018 to ~$220 million in YTD 2019.
  - With equity to deploy and access to debt financing, PE buyers prioritize high-growth opportunities given middle-market valuation multiples remain elevated.
- US PE middle-market exit activity continues to be slow with only $60 billion realized across 319 transactions in the first half of 2019 compared to $209 billion across 997 transactions in full year 2018.
- PE firms raised $23 billion across 27 new middle-market funds in 2Q19. The average new fund size has continued to increase in YTD 2019.

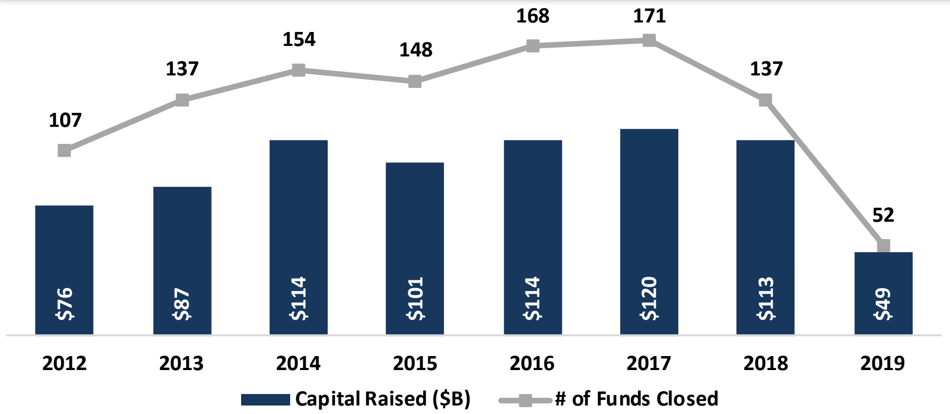
Middle-Market PE Acquisition Activity



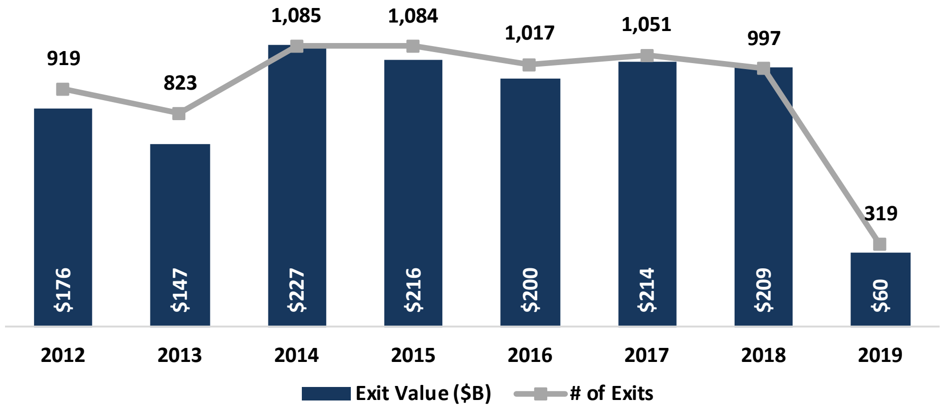
Middle-Market PE Median Deal Size



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



Source: PitchBook

Leveraged Loan Market

- Middle-market credit conditions have remained stable and sheltered from broader market volatility. High-quality companies, particularly PE-backed, have ample access to debt capital, further supporting elevated valuation multiples in the middle-market.
- Lenders are becoming more cautious of lower-quality borrowers due to pressure on the broader credit market from extensive covenant-lite structures and an expanded economic cycle.
- "Covenant-loose" structures (with one or two maintenance covenants, or just leverage maintenance) have become more prominent in the private debt market in 2019, as lenders reserve more lenient covenant-lite structures for larger companies.
- In August, the yields on the 2-year and 10-year Treasury notes inverted for the first time since 2007. While the yield curve has since steepened, some investors see the brief inversion as an early indicator of a looming recession given the aging recovery.
- In September 2019, the FOMC voted to reduce the overnight fed funds rate by 25 bps to 1.75% - 2.0%, representing only the second rate reduction since 2008.
- Middle-market loan issuance is expected to continue to trail 2018 levels, keeping pricing and rates borrower friendly for high-quality opportunities due to lender demand.

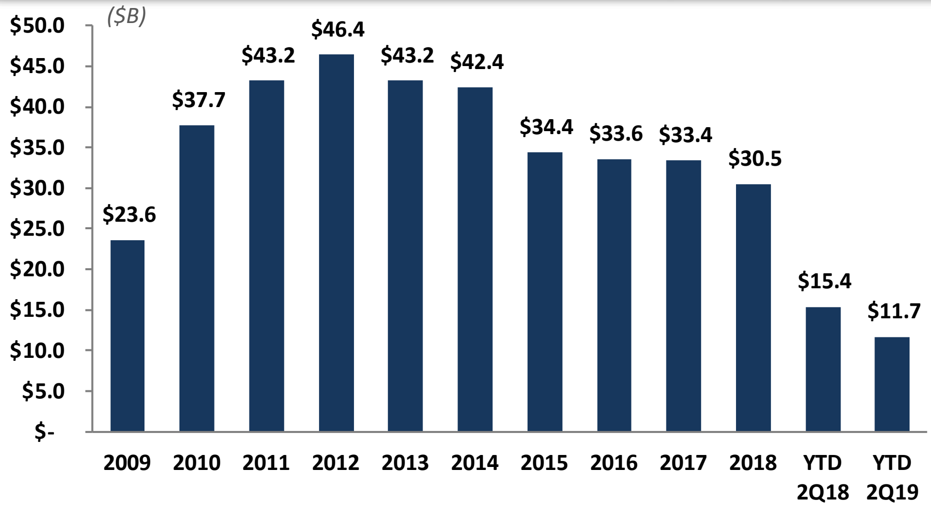
Recent Leveraged Loan Statistics

	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

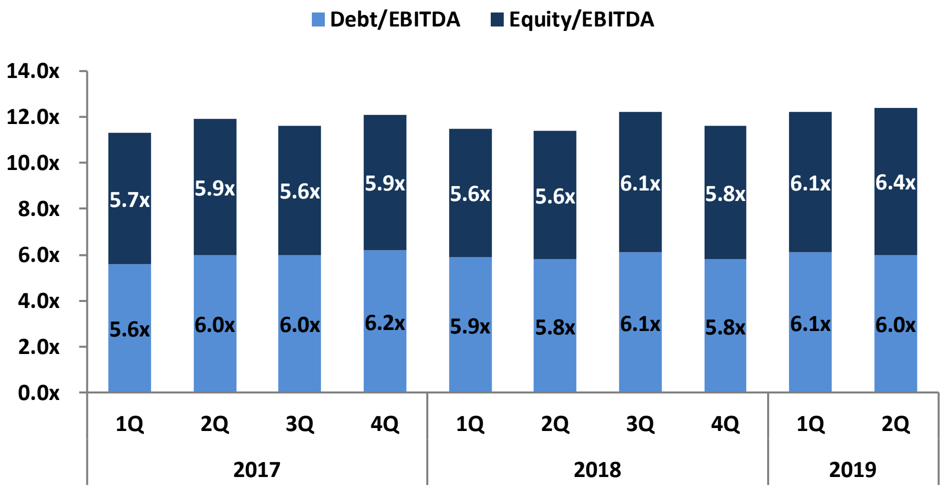
	Debt as Multiple of EBITDA	
	Senior Debt	Total Debt
Healthcare Services	4.5x	5.5x
Healthcare IT	5.0x	7.0x
Non-Healthcare	5.0x	6.0x

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

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



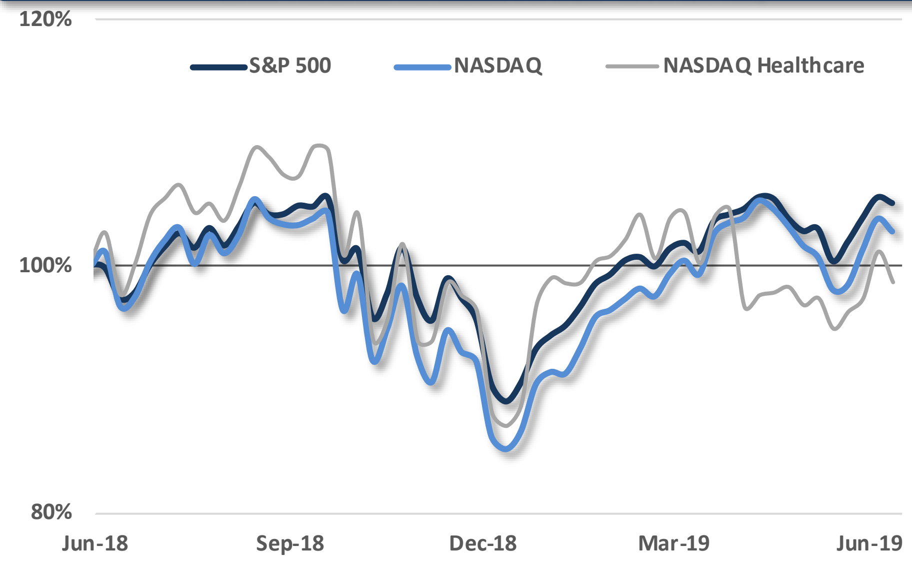
U.S. PE Buyout Multiples



Healthcare Industry Overview

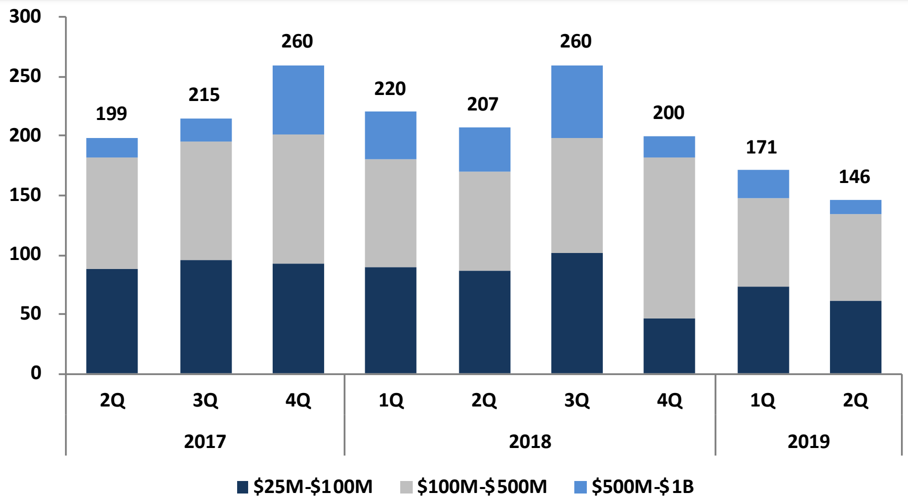
- In 2Q19, the NASDAQ Healthcare Index trended below the broader equity market, experiencing a fair amount of volatility over the LTM ended June 30, 2019.
- Healthcare remains an active M&A sector for the middle-market as investors seek recession-resistant opportunities in the aging economic cycle.
  - 2Q19 middle-market healthcare M&A activity consisted of $21.5 billion of value across 146 transactions, compared to $26.2 billion from 171 transactions in 1Q19 and $30.4 billion from 207 transactions in 2Q18.
  - Note: 2Q19 transaction volume and value are slightly artificially low due to the lag in gathering data on middle-market transactions.
- Payers continue to be active in the M&A market including Anthem's announced acquisition of Beacon Health and UnitedHealth Group's announced acquisitions of Equian for $3.2 billion and PatientsLikeMe.
- Larger transactions continue to represent a shrinking percentage of middle-market healthcare activity, as investors prioritize add-on acquisitions.
- Middle-market healthcare M&A activity is expected to remain steady throughout 2019 despite the aging economic cycle.

LTM Healthcare Index vs. S&P & NASDAQ

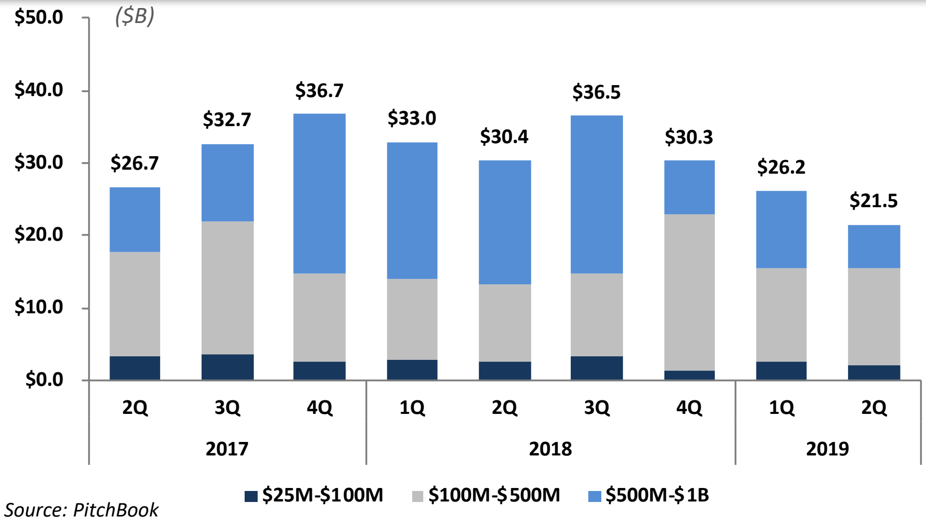


Source: PitchBook

Quarterly Middle-Market Healthcare M&A - Volume



Quarterly Middle-Market Healthcare M&A - Value



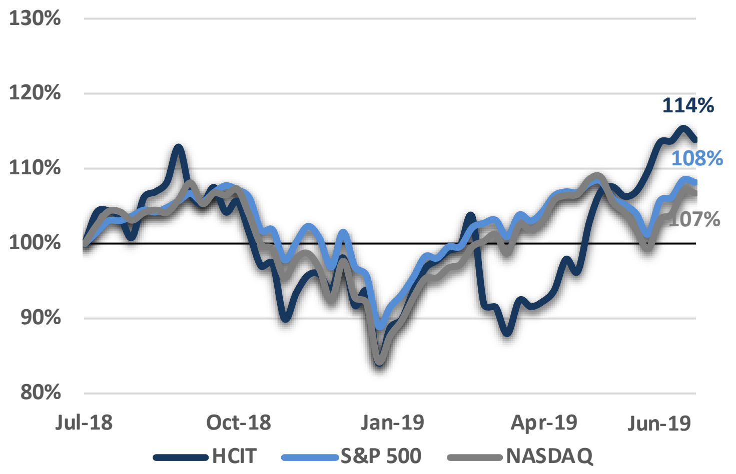
Source: PitchBook

Healthcare IT Sector Overview

Commentary

- The availability and cost of debt, coupled with vast amounts of private capital chasing a scarce number of high-growth HCIT businesses, continue to support elevated price levels in the sector. In short, it very much remains a sellers' market.
- 2Q19 witnessed a number of sizeable transactions in the healthcare payments sub-sector:
  - In May, J.P. Morgan acquired the digital healthcare payments business, Instamed, for over $500M. The transaction is significant not only for its size (it represents the largest acquisition for J.P. Morgan since the financial crisis) but also because it reinforces the ongoing trend of disruption in healthcare's payments space, which historically has been very antiquated and paper-based.
  - In June, UnitedHealthGroup acquired Equian for $3.2B. Equian, a portfolio company of New Mountain Capital, provides payment integrity solutions to payers. We expect continued M&A activity in this sector in the near term.
- In addition to pure-play HCIT businesses, there continues to be activity in technology-enabled service models, particularly in the RCM sector. A recent example of such activity is the Bon Secours majority sale of its RCM unit, Ensemble, to Golden Gate Capital, which netted over $1.2B in cash.

Stock Indices Relative Price Performance



Valuation Analysis

Public Company Analysis

($M, except share prices)

Company	Ticker	Stock Price 6/30/19	% of 52-Week High	% of 52-Week Low	TEV	TEV / Revenue LTM	TEV / Revenue NTM	TEV / EBITDA LTM	TEV / EBITDA NTM
Allscripts	MDRX	$11.63	78%	136%	$2,816	1.6x	1.5x	12.3x	9.0x
Cerner	CERN	$73.30	100%	150%	23,811	4.4x	4.0x	15.1x	13.4x
Computer Programs and Systems	CPSI	$27.79	80%	117%	504	1.8x	1.8x	10.4x	9.8x
Evolent	EVH	$7.95	27%	104%	734	1.1x	0.8x	NM	NM
Healthstream	HSTM	$25.86	81%	112%	$723	3.0x	2.9x	16.5x	18.7x
HMS Holdings	HMSY	$32.39	85%	151%	2,859	4.7x	4.3x	16.2x	15.3x
Inovalon	INOV	$14.51	93%	158%	3,020	4.4x	4.5x	14.2x	14.0x
Medidata	MDSO	$90.51	92%	151%	5,565	8.4x	7.0x	NM	NM
NextGen Healthcare, Inc.	NXGN	$19.90	84%	143%	1,263	2.4x	2.3x	13.8x	13.4x
Veeva	VEEV	$162.11	93%	221%	24,118	NM	NM	NM	NM

Select M&A Transactions

($M)

Announced Date	Target	Acquiror	TEV	TEV LTM Multiple Revenue	TEV LTM Multiple EBITDA
7/2/19	Hodges-Mace	Alight	$300	5.3x	19.5x
6/20/19	Equian	UnitedHealth	3,200	7.1x	20.6x
6/19/19	NexTech	Thomas H. Lee Partners	500	N/A	16.0x
6/3/19	Critical Technologies	Best Buy	125	4.9x	18.0x

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

The Best Deal. Done.

Representative Healthcare Transactions

Sell-Side cloud9software "it just makes sense" 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 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