

A photograph of two surgeons in blue scrubs and masks, looking at a tablet. The image is overlaid with a semi-transparent blue filter.

FOUNDERS ADVISORS

Healthcare IT

Market Update | Q2 2024

Decorative diagonal stripes in the bottom right corner, transitioning from light blue to dark blue.

Introduction

From Thomas and Billy



Billy Pritchard



Thomas Dixon

Greetings,


On behalf of Founders Advisors' healthcare and tech teams, we are pleased to present our inaugural *Healthcare IT M&A and Valuations* quarterly report.

Founders has served the HIT market for years, though, candidly, we've done it reactively. Our tech team focused on growing within more broadly defined sectors; our healthcare team looked to expand outside of its biopharma/biotech roots and turned its attention to physician services.

We then looked up and realized that (1) there is underserved demand for HIT transaction advisory services among our core market, and (2) Founders has an opportunity to deliver something unique. Here we sit with one of the largest, most successful tech practices and as credible a healthcare team as can be found in the lower middle market. Restated, we intimately understand tech transactions *and* the end-users and macro-environment in healthcare. We're nimble enough to put it together to the benefit of our clients, so we have.

Going forward, you'll hear from us more frequently with value-added content, closing announcements and the like. We're also here as a resource for you – don't hesitate to reach out if you can benefit from our counsel.

Until Next Quarter,


Billy Pritchard
Director



Thomas Dixon
Managing Director

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Considered / Included Public Companies



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II. M&A Activity | *Volume, Exits, Notable Deals*

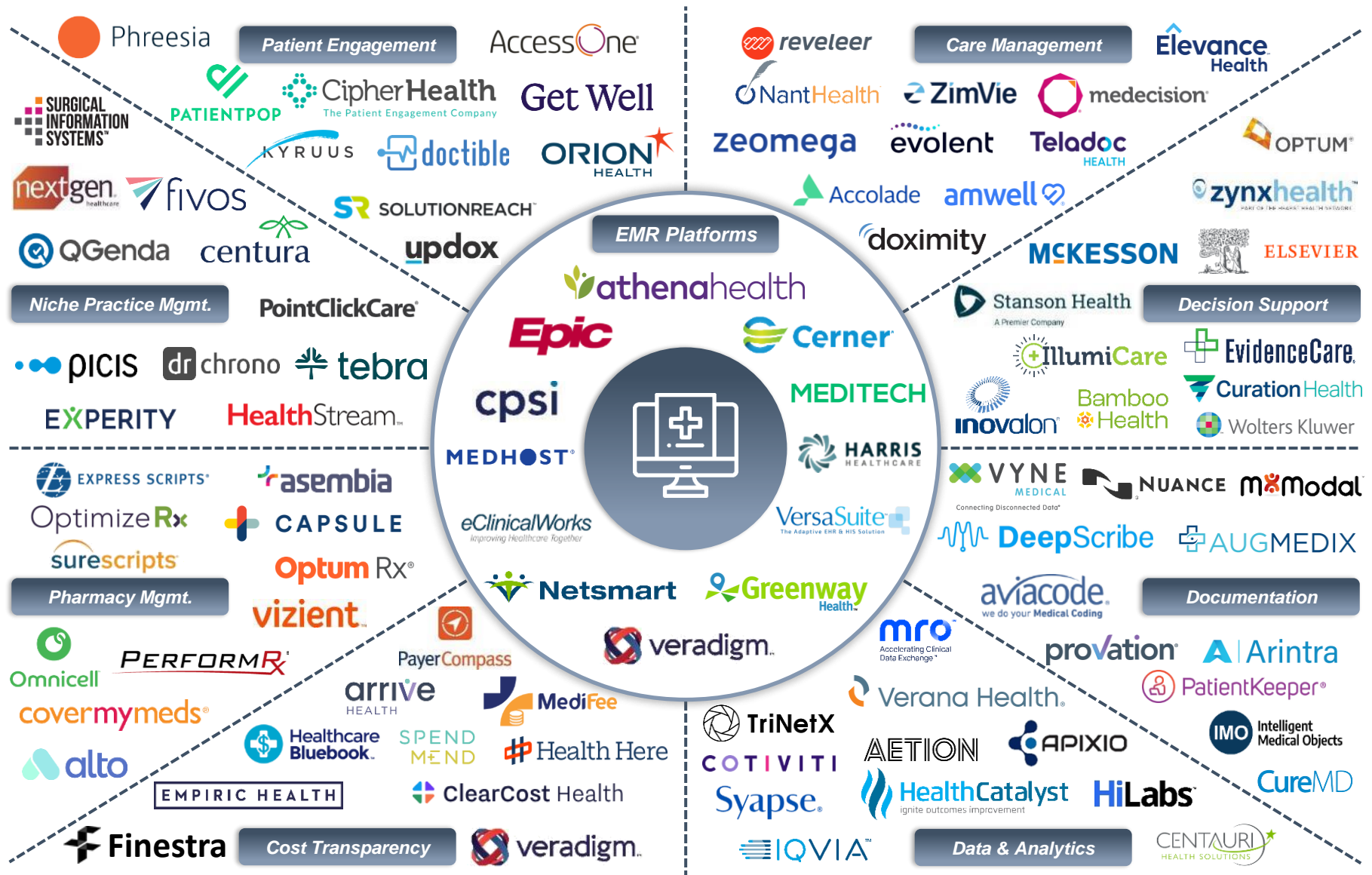
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Sector Maps | EMR Adjacent Technology



Sector Maps | Broader HIT Sectors

Revenue Cycle Management



TeleHealth



Life Sciences



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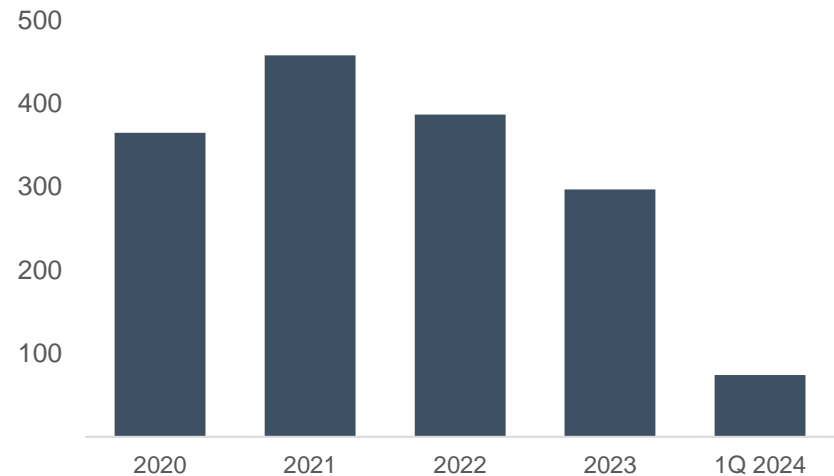
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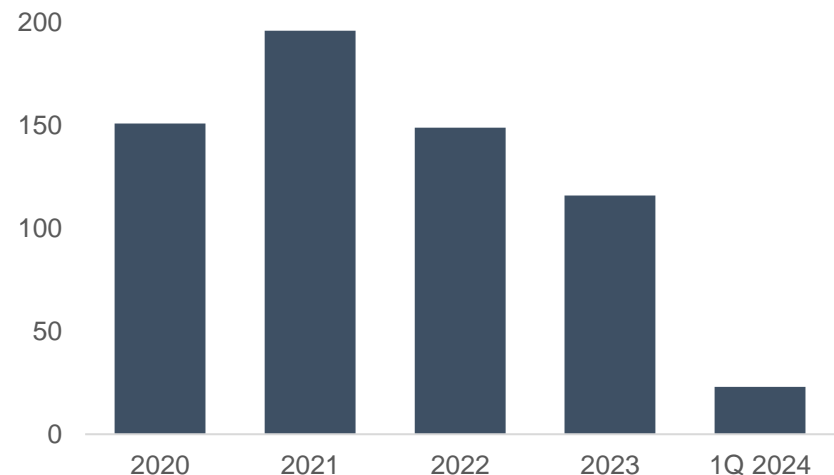
Commentary

- **2024 VC deal volume to-date is stagnant vs. 2023, while PE volume is down 20%+, driven by:**
 - Increased borrowing costs/higher interest rates
 - Crowd out by strategics (for PEs and VCs) and VCs (for healthcare-focused PEs)
 - A higher bar for underwriting, reflecting recession fears and lessons learned from a once frothy market
 - Narrow, thematic concentration in VC by large funds
- **Nevertheless, forces propping up the market could – eventually – create a bounce back:**
 - Stresses in the provider ecosystem (e.g., labor costs, care management, billing complexities) mandate automation and efficiencies
 - Heating up of the biotech/biopharma sectors is having a spillover effect on tangential healthcare tech
 - Perceived headline risk of investing directly in providers is driving some healthcare PEs into other sectors (e.g., HIT)
 - Record levels of dry powder – US PE fund managers are sitting on \$100 B, earmarked for healthcare services, and 2023 was a record fundraising year for healthcare-focused fund managers
 - Historically strong performance of HIT investments in the private markets
- **There is also a shortage of (relative to demand and available capital) high quality HIT assets in-market, returning some measure power to sellers of HIT companies with strong fundamentals (e.g., growth, profitability, market positioning)**

VC Deal Activity



PE Deal Activity

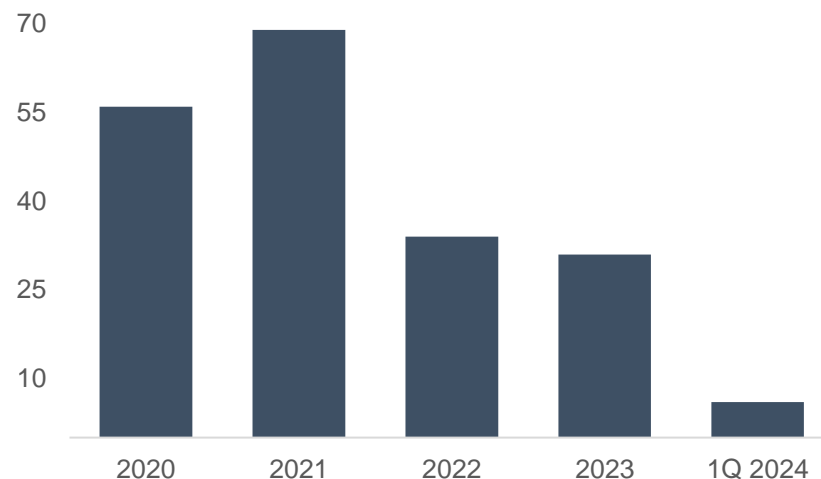


M&A Activity | Exits

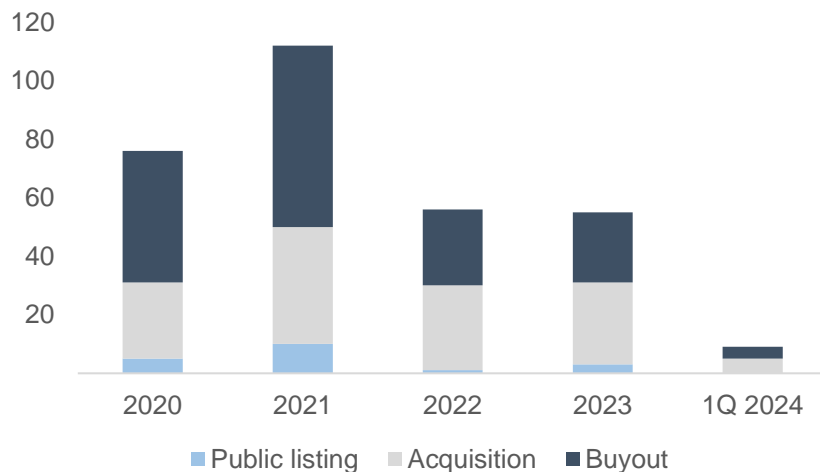
Commentary

- Like deal volume, exit activity is off to a sluggish start in 2024, on pace to be down by more than 30% for the year, and reflecting
 - A closed IPO window
 - Gaps between original underwriting and current market valuations
- Counter-balancing forces could cause acceleration of exit activity as 2024 progresses, given
 - Signs the IPO window is opening in some subsectors (e.g., biotech/biopharma)
 - A potential for reduced interest rates in the back-half of the year
 - Natural investment cycles/inflection points for mature positions, creating pressure to reset capital structure

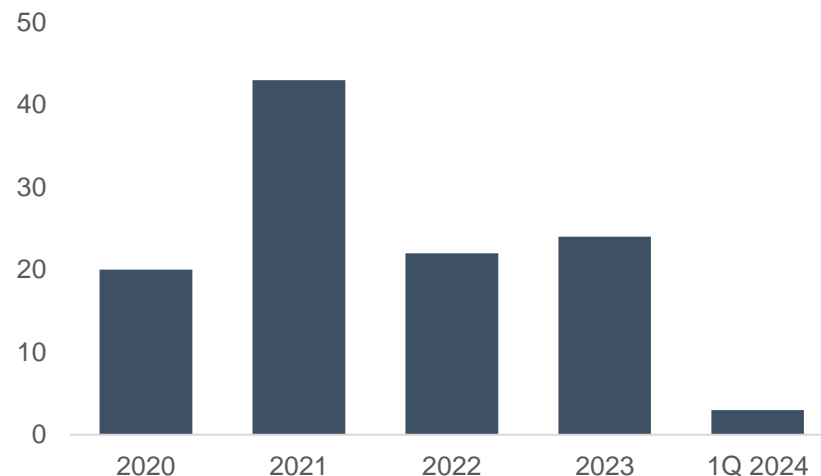
VC Exit Activity



All Exits by Type



PE Exit Activity



M&A Activity | Notable Recent Transactions








Date	Target	Acquirer	Deal Size	Commentary
24-Jun-24	 Model N	 VISTA	\$1.25B	Model N, leader in revenue optimization and compliance for pharmaceutical, medtech, and high-tech innovators, was acquired by Vista Equity Partners for \$1.25 Billion.
30-Apr-24	 COTIVITI	 KKR	\$2.8B	Cotiviti, enabling healthcare organizations to deliver better care at lower cost through advanced technology and data analytics, was acquired by KKR for \$2.8 Billion.
27-Feb-24	 ScienceIO	 veradigm.	N/A	ScienceIO, developer of biomedical language platform designed to transform unstructured biomedical data into contextualized information, was acquired by Veradigm for an undisclosed amount.
05-Feb-24	 VigiLanz. <small>An Inovalon solution</small>	 inovalon®	N/A	VigiLanz, developer of clinical surveillance platform intended to perform meaningful data analysis across an entire hospital, was acquired by Inovalon Holdings, via its financial sponsor Nordic Capital, 22C Capital, and Insight Partners, through an LBO for an undisclosed amount.
01-Feb-24	 AVANTHC <small>powered by REAL CHEMISTRY</small>	 REAL CHEMISTRY	N/A	Avant Healthcare, operator of a medical communications company intended to serve healthcare providers, was acquired by Real Chemistry, via its financial sponsor New Mountain Capital, through an LBO for an undisclosed amount.
25-Jan-24	 Procure <small>SOLUTIONS</small>	 Roper <small>TECHNOLOGIES</small>	\$1.86B	Procure Software, a developer of childcare management software intended for preschools, daycare centers, after-school programs, camps, and child-centered businesses, was acquired by Roper Technologies for \$1.86 Billion.
20-Jan-24	 healthPRIME <small>Created by physicians. for physicians</small>	 AQUILINE <small>CAPITAL PARTNERS LLC</small>	\$237M	Health Prime, provider of medical back-office billing service intended to improve the health of clients' practices and the patients they serve, was acquired by Aquiline Capital Partners for \$237 million.

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Buyer Landscape | Notable PE Investors



Portfolio Companies



NEW MOUNTAIN CAPITAL LLC

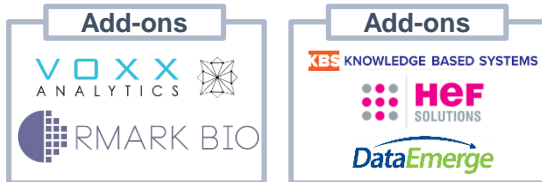
Portfolio Companies



Portfolio Companies



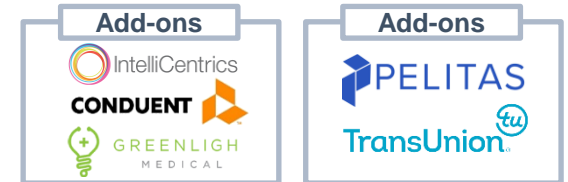
Portfolio Companies



Portfolio Companies



Portfolio Companies



Buyer Landscape | Notable Strategic Buyers



Recent Acquisitions



Recent Acquisitions



Recent Acquisitions



Recent Acquisitions



Recent Acquisitions



Recent Acquisitions



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Valuation & Operating Metrics | Valuation Drivers

Founders' Valuation Scorecard isolates the most important quantitative and qualitative factors that impact valuation multiples for software businesses in the Healthcare IT sector

		1.0x	2.0x	3.0x	4.0x	5.0x	Factors Influencing Revenue Multiple	6.0x	7.0x	8.0x	9.0x	10.0x+
Quantitative Factors	Financial Preparedness	Consistent reporting; ability to analyze at the customer level; GAAP; proof of cash → quality of earnings + full audit is likely with investors										
	ARR	< \$5 million				Customer profile, vertical/horizontal, ACV, sales cycle				> \$10 million		
	YOY Growth Rate	< 10%				Historical growth trends, growth compared to peers				> 50%		
	Rule of 40	< 40%				Year-over-year revenue growth rate (%) + profit margin (%)				> 40%		
	Total Addressable Market	< \$1 billion				End market dynamics, competition, switching costs				> \$ 1 billion		
	Net Revenue Retention	< 90%				Public benchmarks, upgrades/downgrades, scale factor				> 100%		
	Gross Revenue Retention	< 80%				Public benchmarks, pricing vs. product, cohort analysis				> 90%		
	Gross Margin	< 75%				Fully burdened, end market dependent, scalability				> 85%		
	CAC Payback Period	> 12 months				Impact of dialing spend up/down, channel analysis				< 12 months		
	LTV:CAC Ratio	< 3:1				Balancing S&M spend but demonstrating return is key				> 3:1		
	Avg. Contract Length	< 12 months				Predictability of revenues and stickiness of customers				> 12 months		
Qualitative Factors	Management Team	Must understand your gaps and have clear delineation of responsibilities → self-assess strengths/weaknesses to highlight areas for investment										
	Product Adoption/Usage	Track/present usage stats; understand use cases and patterns across modules/cohorts → usage equates to stickiness in the minds of investors										
	Payments Opportunity	Opportunity to integrate payments into a proprietary, sticky solution → significantly increases scalability, retention, and expansion levers										
	Competitive Position	Understand the landscape, why you win/lose, differentiation, blue ocean vs. red ocean → consider roll-up opportunity to scale										
	IP/Technology Debt	Contracted development is accepted; understand short cuts taken and potential deficiencies → assess third-party dependencies, risks, & “what ifs”										
	Process Documentation	Be able to communicate & show methodologies, onboarding processes (employees and customers), retention strategies, etc.										
	Talent Retention	Maintain a ranking of all employees and understand where each shines → consider warrants, profits interest, M&A and stay bonuses										
	Point Solution vs SOR	Systems of record drive stickiness and a moat against competition										

Valuation & Operating Metrics | HIT Sub-Sectors

Founders Healthcare IT (“HIT”) Index is comprised of three HIT Sub-Sectors. These sets of public comparable companies are defined according to their end-customers, which tend to drive the revenue model and therefore correlate to valuation

Provider Tech

Technology that supports the operations, clinical workflows, and delivery of patient services by healthcare providers, including EHR systems, patient management software, RCM, and other digital solutions that enhance healthcare services

Customer Base:



Health
Systems



Hospitals



Physician
Practices

Market Participants:



Payor Tech

Technology that supports delivery of services by healthcare payers such as insurance companies, health plans, and employers, including care management software, benefits technology, and other solutions supporting the accuracy of healthcare-related transactions

Customer Base:



Health
Insurance
Plans



Employers

Market Participants:



Life Sciences Tech

Technology that aids in the research, development, and delivery of pharmaceutical products and services, including clinical trial management systems, drug discovery platforms, patient recruitment, and other solutions supporting the life sciences industry

Customer Base:



Drug
Discovery



Life Sciences



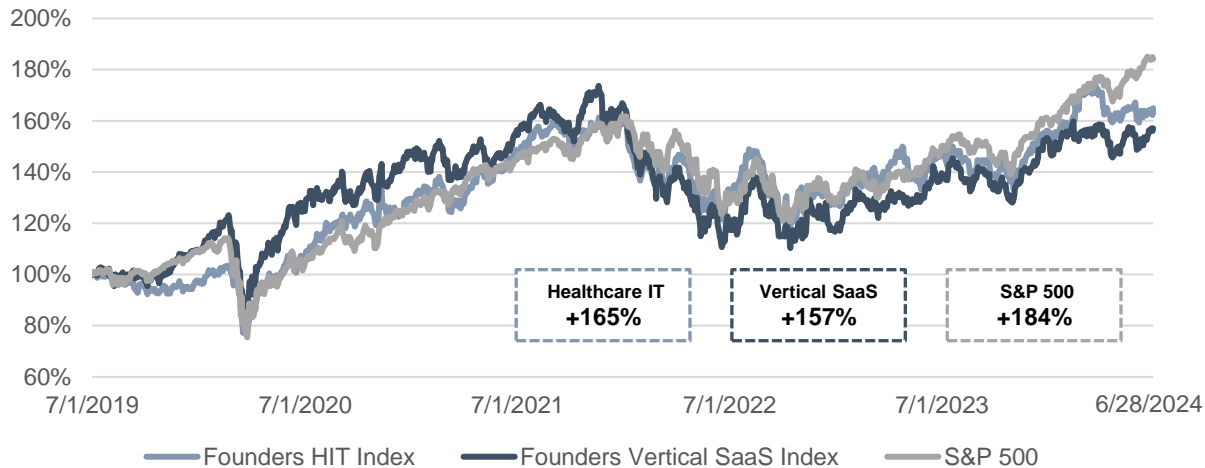
Pharma
Manufacturers

Market Participants:



Valuation & Operating Metrics | HIT vs Broader Market

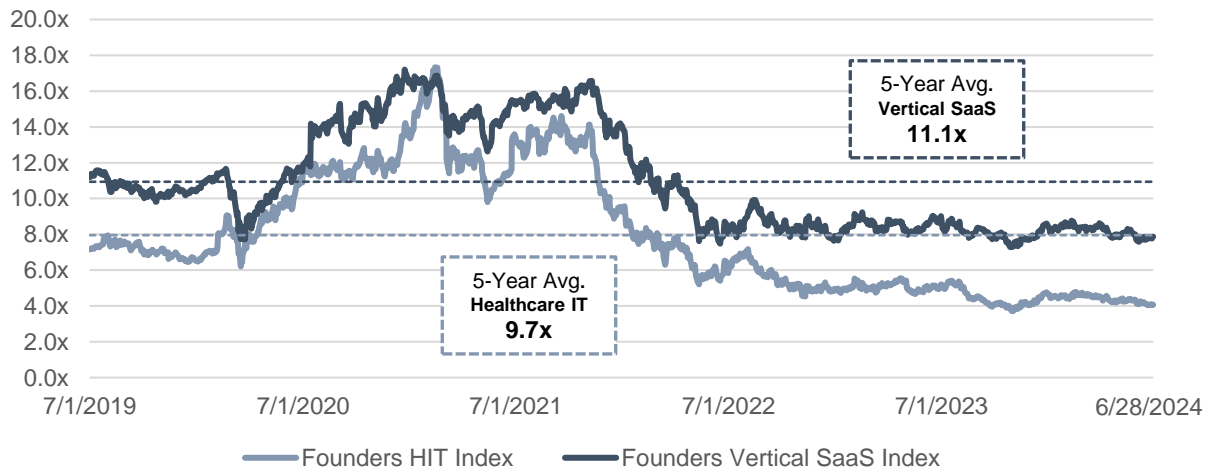
S&P vs Software: Public Company Stock Performance (5 years)



Market Insights

- Following a period of strong performance during the COVID-19 pandemic, the healthcare technology market has underperformed broader public markets since the beginning of 2022
- The S&P 500's recent performance is due in large part to Nvidia which accounted for 31% of the index's 1H24 returns. The S&P is outpacing Founders HIT Index and the broader Founders Vertical Software Index, neither of which include the pace-setting AI chip manufacturer

HIT vs Vertical Software: Public Company Valuation Ratios (5 years)

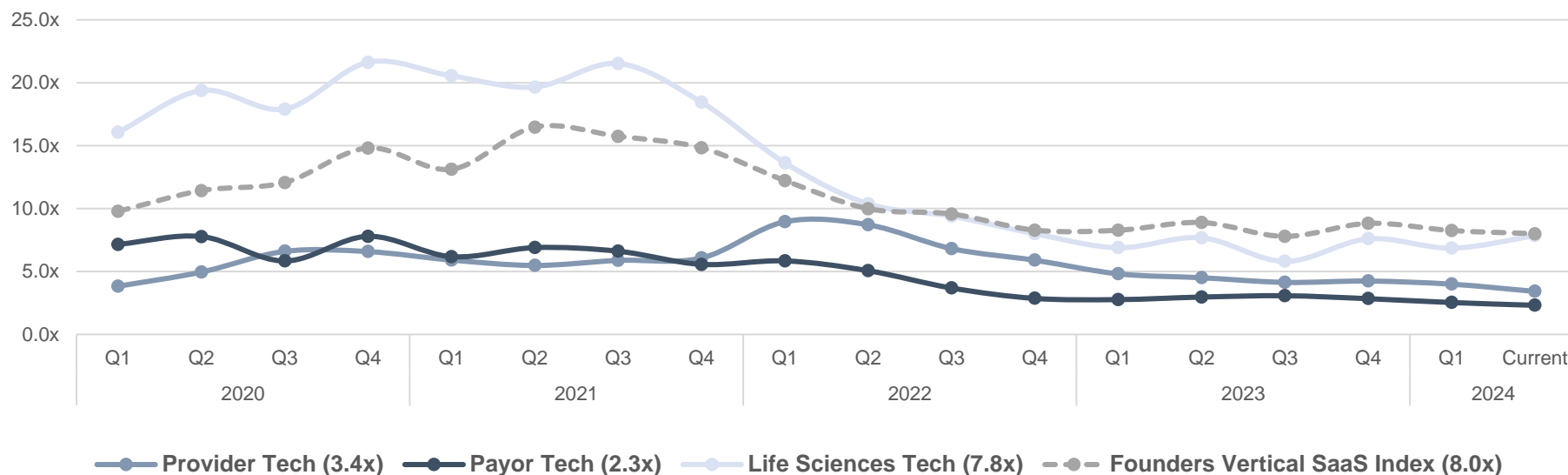


Market Insights

- Publicly traded healthcare technology companies traded at a premium throughout the COVID-pandemic, but valuations have continued to decline since late 2021
- The run-up and subsequent decline of public company HIT valuations was more pronounced relative to the broader Vertical Software landscape
- While both public company indices currently trade below 2019 levels, private companies with the right financial profile continue to attract premium valuations

Valuation & Operating Metrics | Sub-Sector Valuation

Sub-Sector Valuation Trends | Quarterly Enterprise Value / Revenue Multiples



Market Insights

- All sub-sectors currently trade at a discount, relative to Vertical SaaS. Provider and Payor Tech trade at a deep discount relative to Vertical SaaS
- Life Sciences Tech (software serving biopharma and life sciences companies, delivering value in the drug/device development process) continue to trade higher than Provider and Payor Tech categories. This sector benefits from a deep-pocketed customer base with a tendency for long-term contracts, due to the long-term nature of drug development projects
- The Payor Tech category has traded between 2.0-3.0x revenue for the last six quarters. HealthEquity (NAS:HQY) is the bellwether in this cohort and trades at nearly 8.0x revenue, while the remaining constituents average below 2.0x revenue
- Lower public market valuations have created opportunities for notable take-private transactions in the HIT space, such as Vista Equity Partners' acquisition of Model N in June 2024 and Thoma Bravo's acquisition of NextGen Healthcare in November 2023

Valuation & Operating Metrics | Provider Tech

Included Public Comps

doximity

evolent
HEALTH

GeneDx

HealthCatalyst

HealthStream

iRHYTHM

nrc
HEALTH

Omnicell

Phreesia

PREMIER

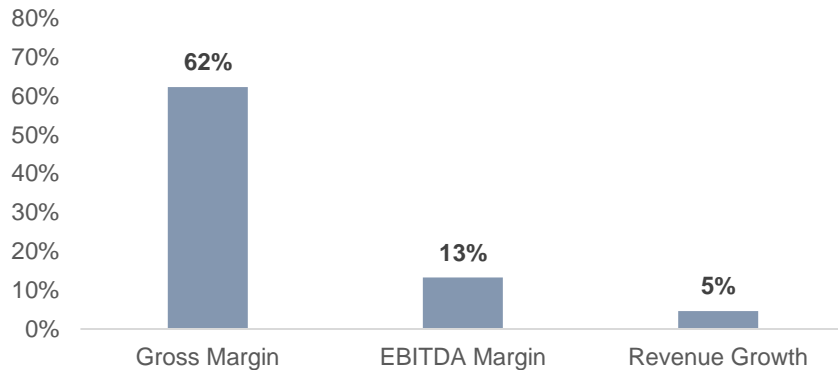
R1

TruBridge

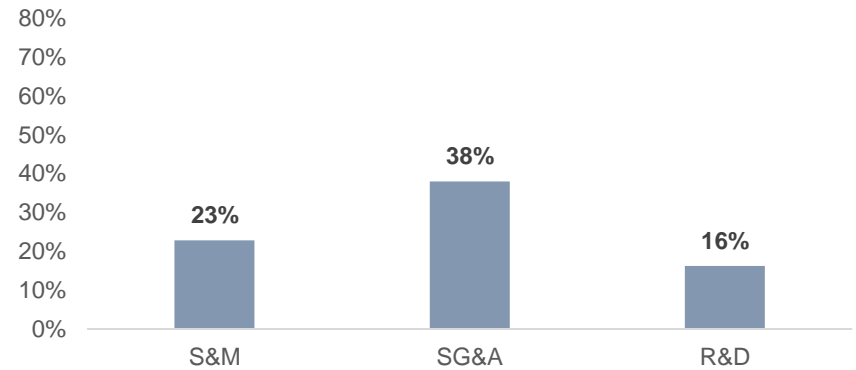
veradigm

Wolters Kluwer

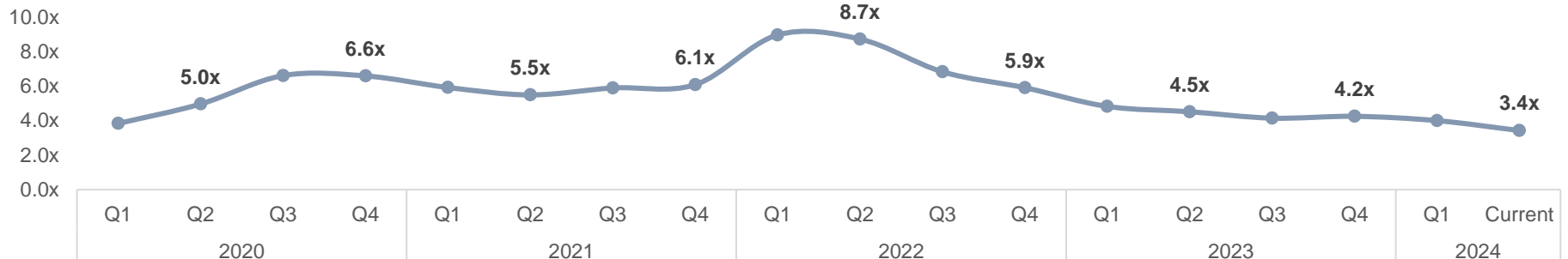
Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)

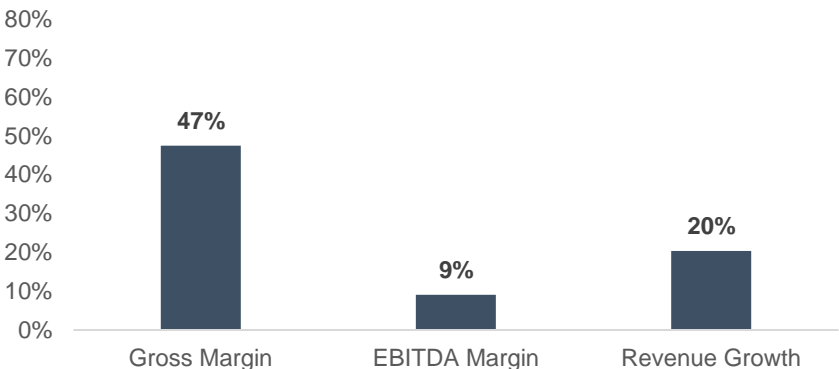


Valuation & Operating Metrics | Payor Tech

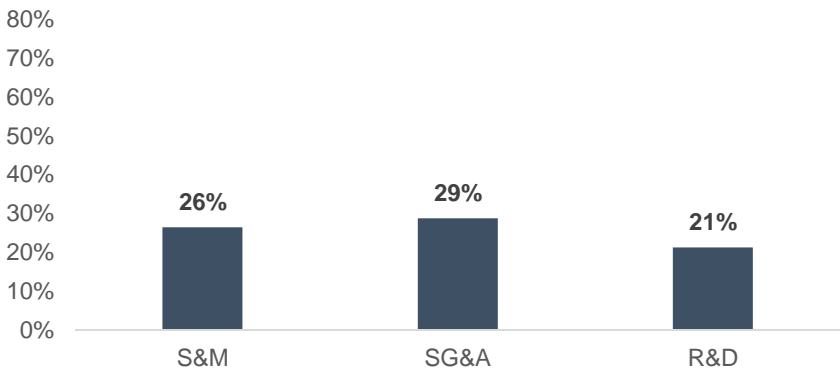
Included Public Comps



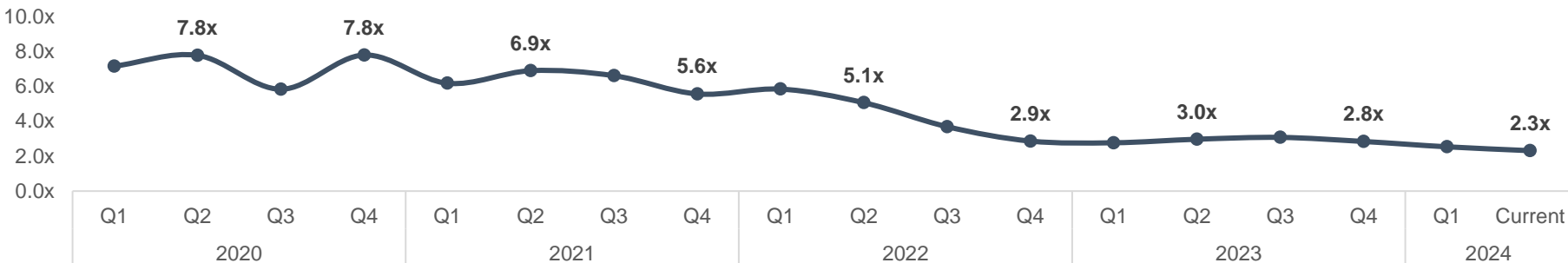
Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)



Valuation & Operating Metrics | Life Sciences Tech

Included Public Comps

biodesix

CERTARA

DEFINITIVE
HEALTHCARE

Exscientia

IQVIA™

OptimizeRx

Schrödinger

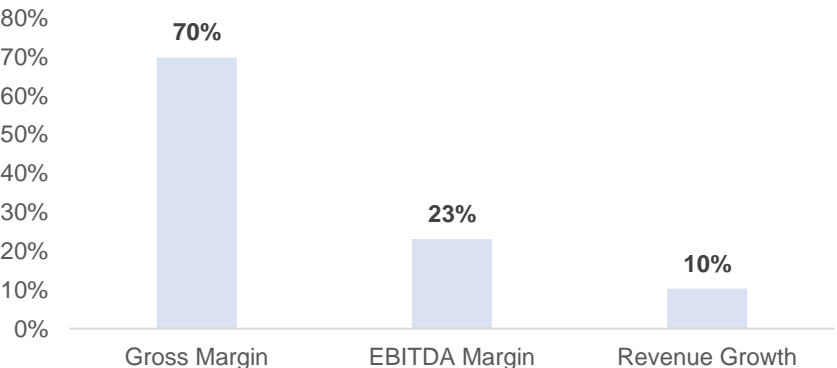
SimulationsPlus

SOPHiA
GENETICS™

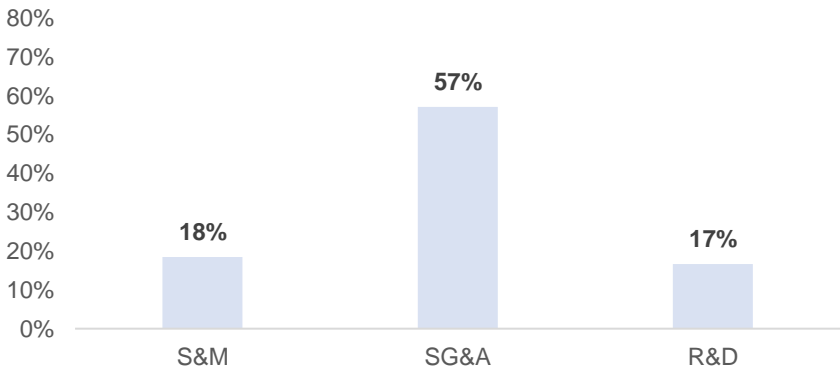
veeva

Wolters Kluwer

Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)

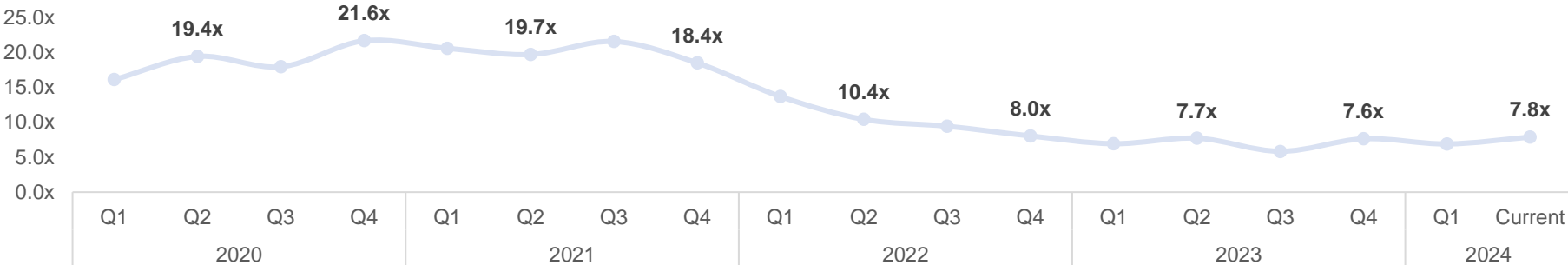


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Voices from the Field | Q1 Earnings Call Themes (1/2)



AI Use Cases are Emerging

- Untenable administrative burden, shouldered by clinicians
- Lack of digitization of US healthcare → low hanging fruit for tech ROI
- Inherent risk of human error in healthcare
- Social pressure for HIT players to show adaptation/progress on the AI front

Voices from the Field

“Our . . . survey of 322 AI-using doctors predicted that, in a few years, AI will save them each 13 hours per week, 6 in their EHR and 7 in . . . office work.”

- JEFFREY TANGNEY, CEO, DOXIMITY

“I’m pleased to share that we continue investing in the [AI] opportunity . . . we believe that there is a significant opportunity to reduce the cost for . . . case review, while maintaining or even enhancing . . . quality As additional benefit of our AI investments, we expect we’d be able to redeploy our human capital pool to higher-value work”

- SETH BLACKLEY, CEO, EVOLENT

“[We] apply machine learning models to automate clinical appeals and reduce payment timelines. We . . . apply models to validate certain charges and reimbursement levels for underpaid claims. These examples scratch the surface on the potential for the application of . . . AI”

- LEE RIVAS, CEO, R1 RCM



The Change Healthcare Earthquake Continues to Deliver Aftershocks

- Change Healthcare’s dominant position
- Providers’ and vendors’ reliance on Change Healthcare services for rev cycle (old world), visibility into value-based contracts (new world) and care management strategy (new world)


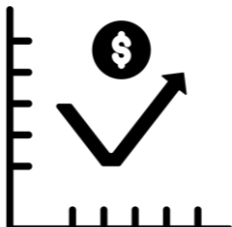

“the clearing house outage continued to affect our April volumes, and we haven’t digested the full impact, given our claims lag”

- JIM HEAD, CFO, MULTIPLAN

“DSO as of March 31 also reflects an increase in working capital, due to the situation at Change Healthcare. . . , for those providers who submit their claims through Change, . . . payment and collection cycles were elongated As those systems slowly return to normal, those cycles are improving.”

- MARK LIVINGSTON, CFO, PROGYNY

Voices from the Field | Q1 Earnings Call Themes (2/2)

Theme	Drivers	Voices from the Field
 <p>It's the Economy MA, Stupid</p>	<ul style="list-style-type: none"> Continued growth of Medicare-eligible population Dramatically skewed US healthcare spending, later in life Growth of Medicare Advantage vs. traditional Medicare, driven by aggressive plan marketing/rich benefits, employer benefits migration and broker networks 	<p><i>"With respect to recent managed care industry trends, carriers have publicly commented on several sources of financial pressures, which include increased . . . utilization within their Medicare books, a tightening regulatory environment, STARS . . . changes, the Inflation Reduction Act and lower than expected 2025 reimbursement rates from CMS to name a few. . . . These developments make the eHealth consumer value proposition more important than ever."</i></p> <p>- FRAN SOISTMAN, CEO EHEALTH</p>
 <p>Biotech & Biopharma Funding is Bouncing Back</p>	<ul style="list-style-type: none"> Biotech/biopharma industry growth Thawing M&A and IPO markets Innovation attracting dollars (e.g., weight loss, AI, cell & gene) Cautious optimism regarding interest rates 	<p><i>"Our qualified pipeline grew double digits, vs. prior year First quarter EBP funding was \$47.1 B, which is more than triple the funding of Q1 last year."</i></p> <p>- ARI BOUSBIB, CEO, IQVIA</p> <p><i>"I think those biopharmaceutical companies that have completed some of those fundraising efforts, they're . . . on the horizon. They are going to be targets for us moving forward."</i></p> <p>- SCOTT HUTTON, CEO, BIODESIX</p>
 <p>The Provider Tech End-User Market is Stressed; Winners Will Help Allay Stress</p>	<ul style="list-style-type: none"> Escalating labor costs Supply cost inflation Increased borrowing costs [for health systems] Downward pressure on payor reimbursement Volume migration to lower cost settings 	<p><i>"I see a bit more duress in the skilled nursing market. A few more acute care systems are known in the public to be under financial stress"</i></p> <p>- BOBBY FRIST, CEO, HEALTHSTREAM</p> <p><i>"our solution is resonating in the market, as many hospitals suffer from vendor fatigue and seek a unified solution like ours. Their desire for simplified tech stacks often leads to hospitals favoring . . . vendors with broader portfolios."</i></p> <p>- CHRIS FOWLER, CEO, TRUBRIDGE</p>

Voices from the Field | October 2024 Technology Summit

Founders is preparing to host its tenth annual Technology Summit, Silicon Y'all, October 21st – 23rd at the Renaissance Ross Bridge Resort and Spa in Birmingham, AL. Silicon Y'all is an invitation-only event of technology CEOs and leading private equity companies. Over three days, participants engage in meaningful discussions about growth, value, and current industry trends while enjoying delicious food, scenic views, and true Southern charm and hospitality Birmingham has to offer.

We plan to launch registration and begin curating invitations in April and invite you to join the 2024 waitlist and learn more about Silicon Y'all [HERE](#).



Learn from top entrepreneurs in the tech world who have created substantial wealth for themselves and their shareholders



Network with other executives and entrepreneurs amidst the scenic beauty, rich heritage, and friendly Southern Hospitality that Birmingham has to offer



Enjoy the finest southern cuisine and tradition during the Technology Summit, while you socialize with industry peers



Hear from keynote speakers as they provide first-hand accounts of their experiences, both missteps and successes



Engage with private equity groups and strategic acquirers that are focused on SaaS and Internet businesses

SY

SILICON Y'ALL



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About Us | Founders Advisors Healthcare Tech Team

Deal Execution Team



Billy Prichard
Director

- 7 years' investment banking experience on Founders tech team
- Co-leads Founders cross-practice healthcare tech team
- Buy-side M&A experience in healthcare provider sector
- University of Alabama JD-MBA



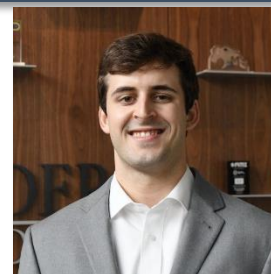
Thomas Dixon
Managing Director

- Buy-side M&A experience at 4 PE-backed healthcare platforms
- Co-leads Founders cross-practice healthcare tech team
- Former principal at top-5 healthcare consulting firm
- University of Minnesota MBA



Chris Weingartner
Managing Director

- 10 years' investment banking experience on Founders tech team
- Past healthcare experience at Inspirus and Optum
- Past VC experience
- Vanderbilt University MBA



Swede Umbach
Associate

- 4 years' investment banking experience on Founders tech team
- Big 4 accounting experience
- University of Mississippi Masters of Accountancy & Data Analytics



Braxton Eubanks
Analyst

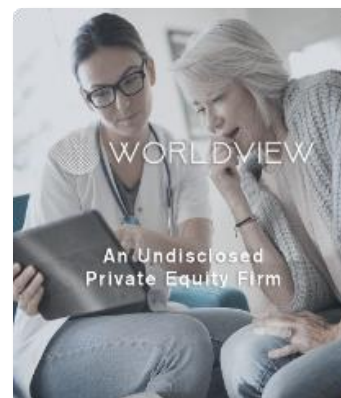
- 1 year in investment banking on Founders healthcare team
- Southern Methodist University MS in Finance

Select Founders Healthcare Tech Transactions

Current Engagement

Project GeauxTide

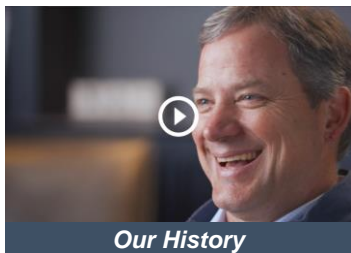
Clinical Decision Support Software



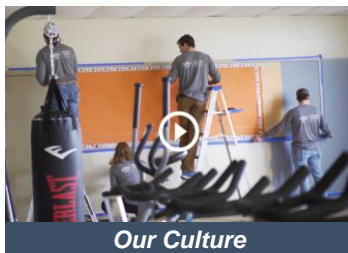
About Us | Founders Advisors Overview

FIRM OVERVIEW

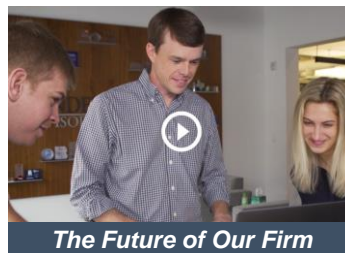
Founders is a mergers, acquisitions, and strategic advisory services firm that has served middle-market companies since 2003. With a nationwide footprint, we pride ourselves in employing a values based and highly personalized relational approach through our five industry-focused advisory teams. Today, Founders employs over 45 professionals and has offices in Birmingham, AL (headquarters) and Dallas, TX, and Nashville, TN.



Our History



Our Culture



The Future of Our Firm

OUR WHEELHOUSE

The majority of our clients are founder-owned and operated companies across five industry groups that collaborate together. We listen to our clients and take the time to truly understand each client's unique situation and desired outcomes. Founders has been a trusted advisor to hundreds of middle market business owners, supporting their growth through tailored financing structures and ownership transition transactions

CAPABILITIES & FIRM HIGHLIGHTS



Sell-Side
Advisory



Strategic
Advisory



Capital
Raises



Targeted
Buyside



Spin-Offs /
Divestitures

\$55B+

Founders Managing
Directors' Transacted
Enterprise Value*

100+

Founders' Completed
Engagements
Since 2013

21%

Average Increase in
Initial Bid to Closing

Industries Covered

Business Services

Technology

Consumer

Healthcare

Industrials

PURPOSE

Be Servant Leaders who
value relationships and
results

FIRM VALUES

ORDER

Maintain focus on doing the right things at the
right time

SERVICE

Go the extra mile for our clients, co-workers, &
community

GROWTH

Reflect, evaluate, and plan for improvement

EXCELLENCE

All we do, we do well

HEALTH

Be and stay healthy, personally, and as a team

COMMUNITY

Be team-focused; we're better together

FOUNDERS

ADVISORS

BIRMINGHAM | DALLAS | NASHVILLE

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