M&A UPDATE

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2016: The Year's M&A in Review

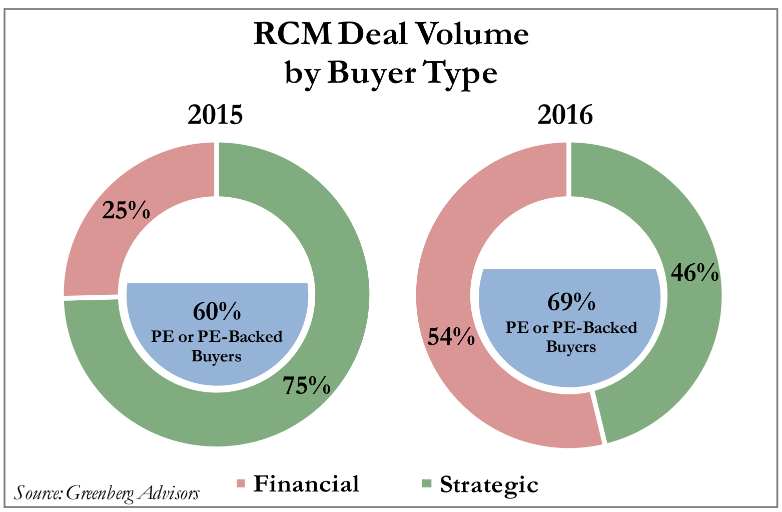
In 2016, we witnessed substantial M&A activity in both the RCM and ARM markets. The statistics and analysis featured below stems from our specialization and focus within these sectors, as well as our proprietary database, which contains M&A data, including valuation multiples, for completed transactions in RCM, ARM, and related markets.

The M&A Market in Revenue Cycle Management (RCM)

The market featured an abundance of activity in 2016 with $15.7 billion trading hands in RCM across 93 transactions. The breadth of sellers included service and IT companies throughout the Revenue Cycle with front-end offerings such as patient scheduling and patient access, to billing, coding, consulting, analytics and back-end solutions.

M&A Activity Reaches a New Peak – Building on a trend we highlighted in 1H 2016, the RCM M&A market continues to expand in terms of deal volume and value. Deal volume in 2016 was up 47% over 2015, while deal value has increased a whopping 314% over that same period. Along with many lower middle-market transactions, there were several "blockbuster" deals that grabbed headlines, including **Pamplona's** acquisition of **MedAssets** and **IBM Watson's** purchase of **Truven Health**. Capital continues to pour into the market as providers consolidate and increase their outsourcing of revenue cycle functions.

Financial Buyers "Out-Deal" Strategics – Over half (54%) of sellers in 2016 sold to financial sponsors compared to only 25% in 2015. Further, private equity or private equity-backed companies accounted for 69% of transactions in 2016 vs. 60% in 2015. The consolidation amongst vendors, as well as the overall growth of RCM firms, has attracted private equity firms as both platform investments and add-on acquisitions to create a more dynamic offering or to expand into new service lines or geographic areas.



Lower Middle-Market is Still King – The majority of deal activity occurred in the lower middle-market with 66% of deals trading at $25 million or below, consistent with 2015 activity. Potential sellers often wonder if their business is 'saleable' with annual revenue below $10 million, GA's data clearly indicates that the answer is an overwhelming "yes," as almost half of sellers in 2016 had revenue below $10 million. However, 2016 could also be categorized as the year of the "mega-deals" with multiple billion dollar deals closing. Therefore, while the percentage of transactions that traded for $100 million or greater was fairly stable from 2015 (14% in 2015 vs. 15% in 2016), the median transaction value of these deals was substantially higher in 2016.

(Continued on Page 2)

M&A UPDATE

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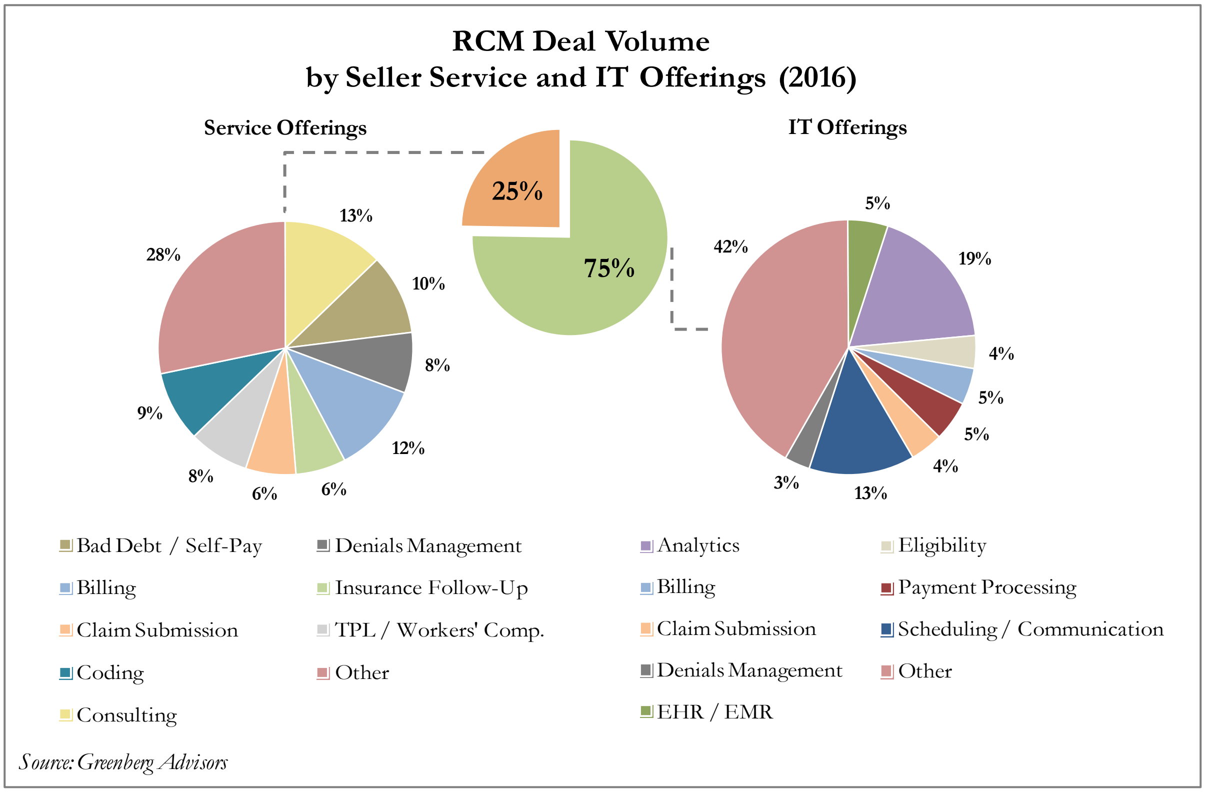
Technology Continues to Attract – As also noted in our 1H 2016 analysis, buyers aggressively targeted RCM companies that offer either SaaS-based solutions or tech-enabled services. These technologies, while typically outward facing, can also be used internally as a way to streamline processes, drive efficiencies, and reduce manual labor. These solutions often lead to increased profitability and companies offering them command higher multiples in the market. Approximately 75% of sellers offered a technology component, of which 36% also offered non-IT services. The most common technology offerings in 2016 were in Analytics, Patient Scheduling and Communication, and EHR/EMR.



Deal Multiples Are Up – The median EBITDA multiple rose 38% in 2016. We attribute this sharp increase to the prevalence of blockbuster deals and sellers with technology offerings. In addition, buyers seeking other unique differentiators have proven their willingness to pay premium values, which has further driven up the multiples.

Closing Thoughts – We expect these trends to continue to fuel deal activity in 2017. Even with the future of the Affordable Care Act in question, vendors will need to meet increased client needs in an evolving market.

(Continued on Page 3)

M&A UPDATE

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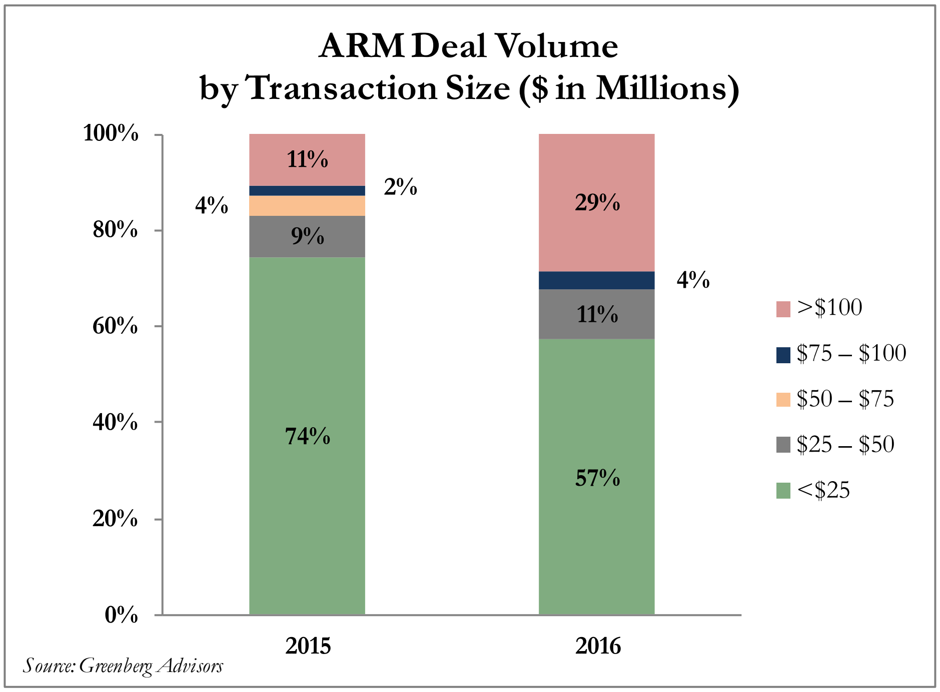
The M&A Market in Accounts Receivable Management (ARM)

The 28 deals that closed in 2016 represented over $3.7 billion in deal value (an 8% increase from 2015). As expected, the median deal value rose almost 100% in 2016 as consolidation continues to occur within the debt collection industry, resulting in much larger companies.

Action at Both Ends of the Market – The majority of deals (57%) that closed in 2016 were under $25 million in value, however, 29% of the transactions were completed for over $100 million. This wide range demonstrates the diverse interest in both the lower-end of the market, where in most cases, strategic entities acquire companies in an effort to gain access to new markets or clients, and the upper-end of the market such as Alorica's acquisition of EGS.



Dept. Of Ed. will Create M&A – ARM firms that operate within the Education sector accounted for 21% of the transactions in 2016. We expect that the recent announcement from the Dept. of Education will lead to an increase of M&A activity within this market as the veil of uncertainty has been removed. The announcement will yield opportunities for those looking to sell, whether they were one of the "chosen" companies or not.

Consolidation Begets Consolidation – Two of the more active sectors are the financial and healthcare markets, with 54% and 46% of sellers operating in these markets. This is the direct result of consolidation amongst creditors and providers as well as increased regulatory oversight. With respect to the mergers happening at the creditor and provider level, this is forcing vendors to grow to meet increased demands. Further, the regulatory environment is causing financial institutions and healthcare providers to reduce the number of vendors they utilize, which is intended to provide them with greater oversight and therefore less exposure to risk.

(Continued on Page 4)

M&A UPDATE

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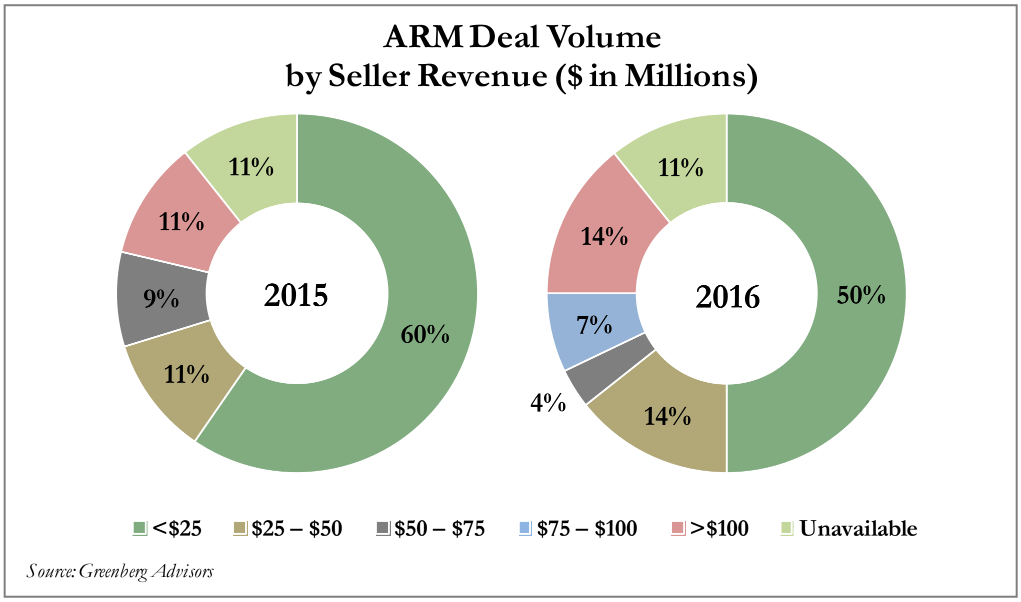
Larger Sellers = Higher Valuations – The environment described above is creating larger entities, with the median seller revenue increasing 70% from 2015 to 2016. These larger companies often trade at higher multiples as evidenced by the fact that the median EBITDA multiple rose 8% from 2015 to 2016. We expect the industry consolidation to continue, and firms with demonstrable key differentiators (i.e. technology, market niche, unique processes, etc.) will receive the most competitive offers.



Financial Buyers Seek Investment – The reshaping of the collection industry has attracted more financial buyers. Financial sponsors accounted for 25% of the buyers in 2016 compared to only 11% in 2015. With debt collection firms growing in aggregate size, they are attracting the attention of private equity firms and other institutional investors because they now meet their minimum thresholds for investment. We expect that financial buyers will continue to invest in these companies with strong track records of growth, healthy pipelines, and an emphasis on compliance.

Closing Thoughts – The debt collection industry faced its share of challenges in 2016, most notably in the way of continued regulatory headwinds and compliance standards. However, we see ample M&A opportunities for those that have invested heavily in compliance. For those that haven't, there are still many opportunities to become a part of a larger organization and de-risk while realizing the value of the business today. We hope that 2017 will bring reduced regulatory scrutiny to the ARM industry, given the incoming administration, and further M&A opportunities.

Contact us to learn more about our current engagements, to discuss your plans or interests, or to learn more about the data contained in this M&A Update.

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