Health Care Information Technology: The Wall Street View

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CAIN BROTHERS

Agenda

Industry Overview

HCIT Industry Fundamentals

Future HCIT Growth Segments

HCIT Financing Environment

Conclusions/ Opportunities

HCIT Market Overview

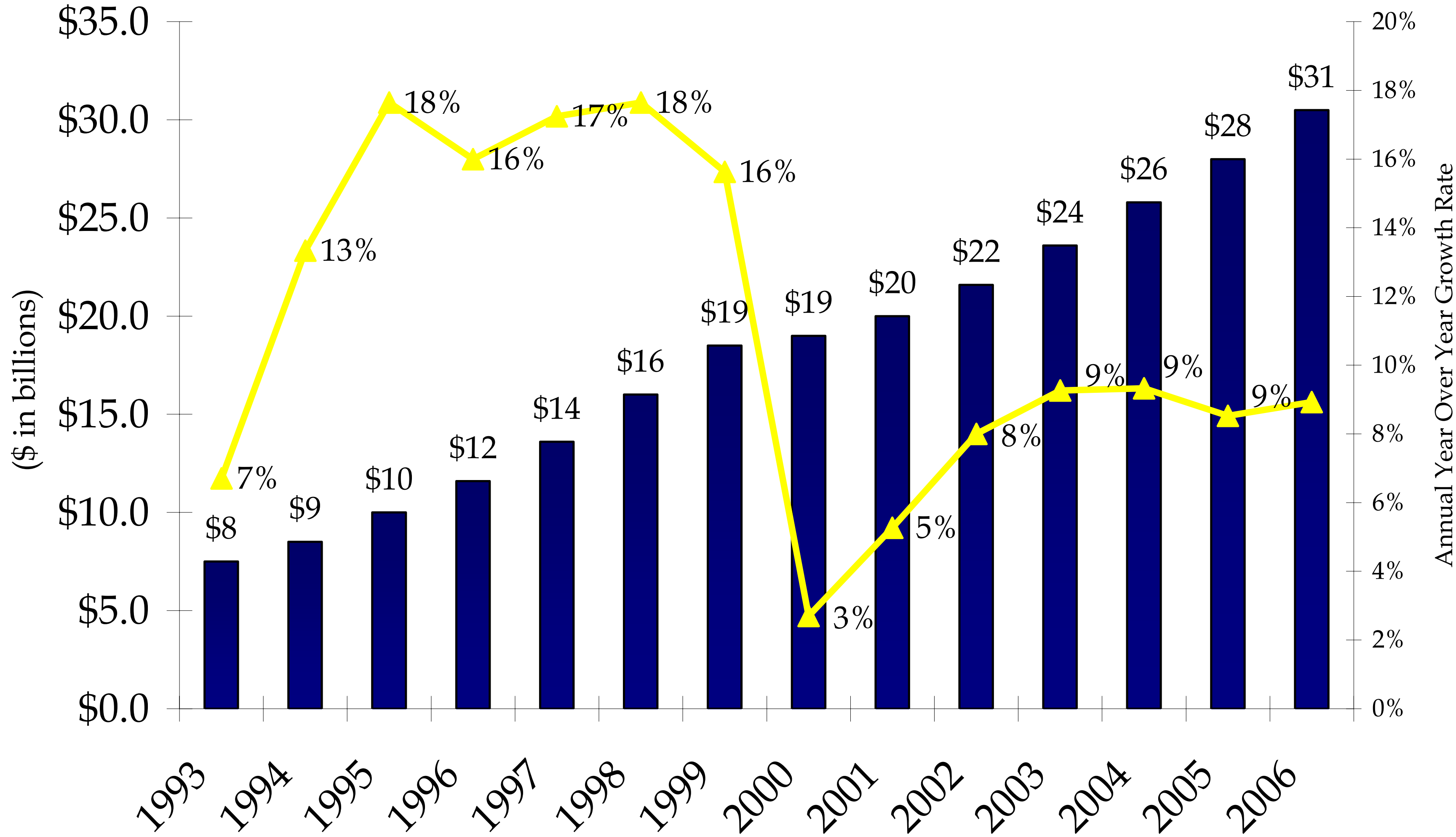
- Niche market
  - Revenue: $28 billion, $14 billion of which is spent by hospitals
  - Largest company (Cerner) represented 4% of HCIT spending
  - 2007 HIMSS conference had 700+ exhibitors

- Historical 8%-12% growth
  - Has been cyclical, recently becoming secular
    - Improvements in IT and health care create secularities
  - Prior cyclicality driven by IT (Y2K, HIPAA) and health care profitability trends

HCIT Spending Trends

Y2K Rebound to Steady, Near 10% Growth

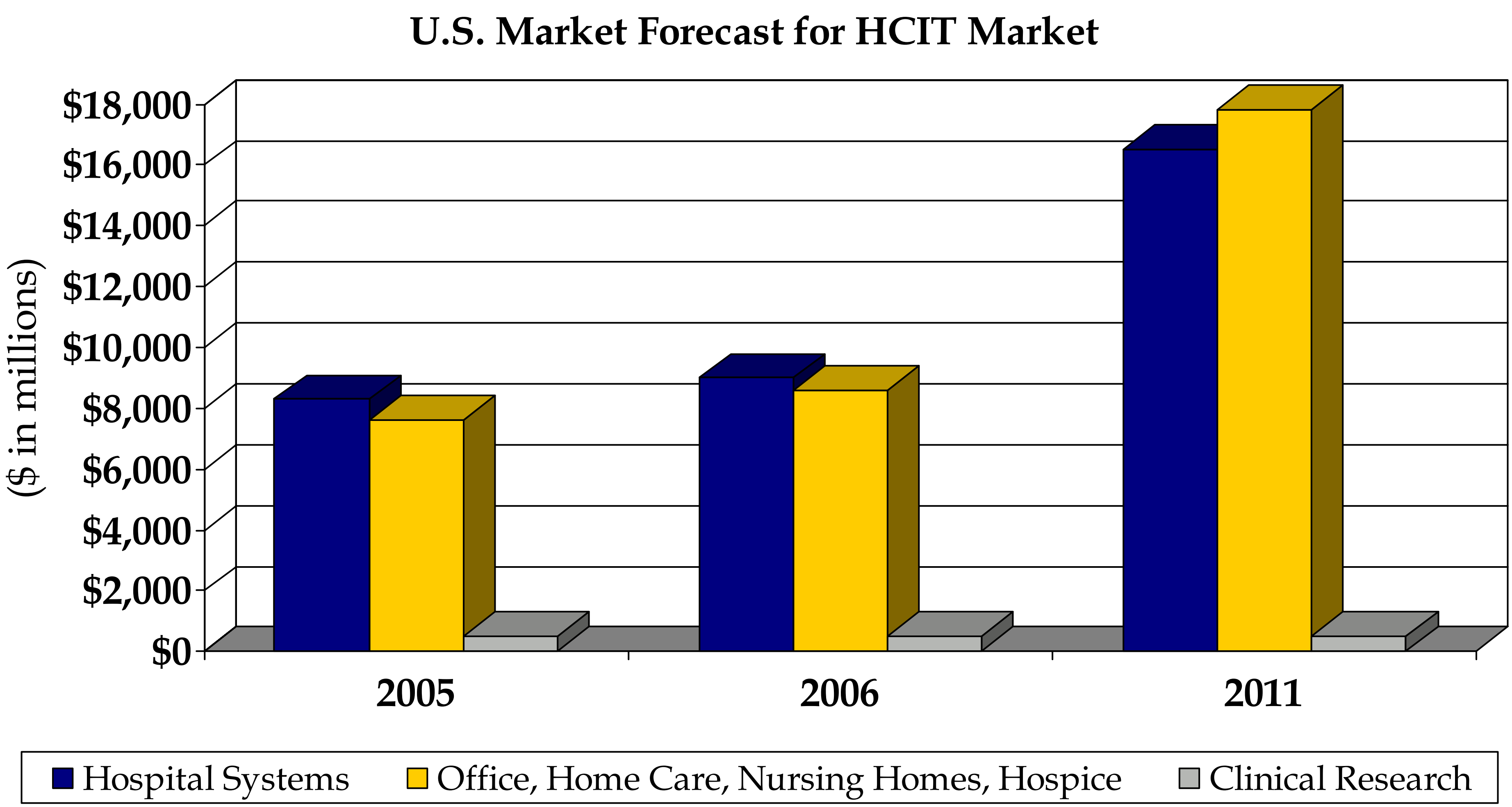
Healthcare IT Spending



Source: Sheldon I. Dorenfest and Associates, Ltd.

HCIT Spending Across Different Sectors

Non-Hospital Spending Likely to Grow Fastest



Source: Healthcare Information Systems report, BBC Research.

2007 HIMSS Themes – Cain Brothers' View

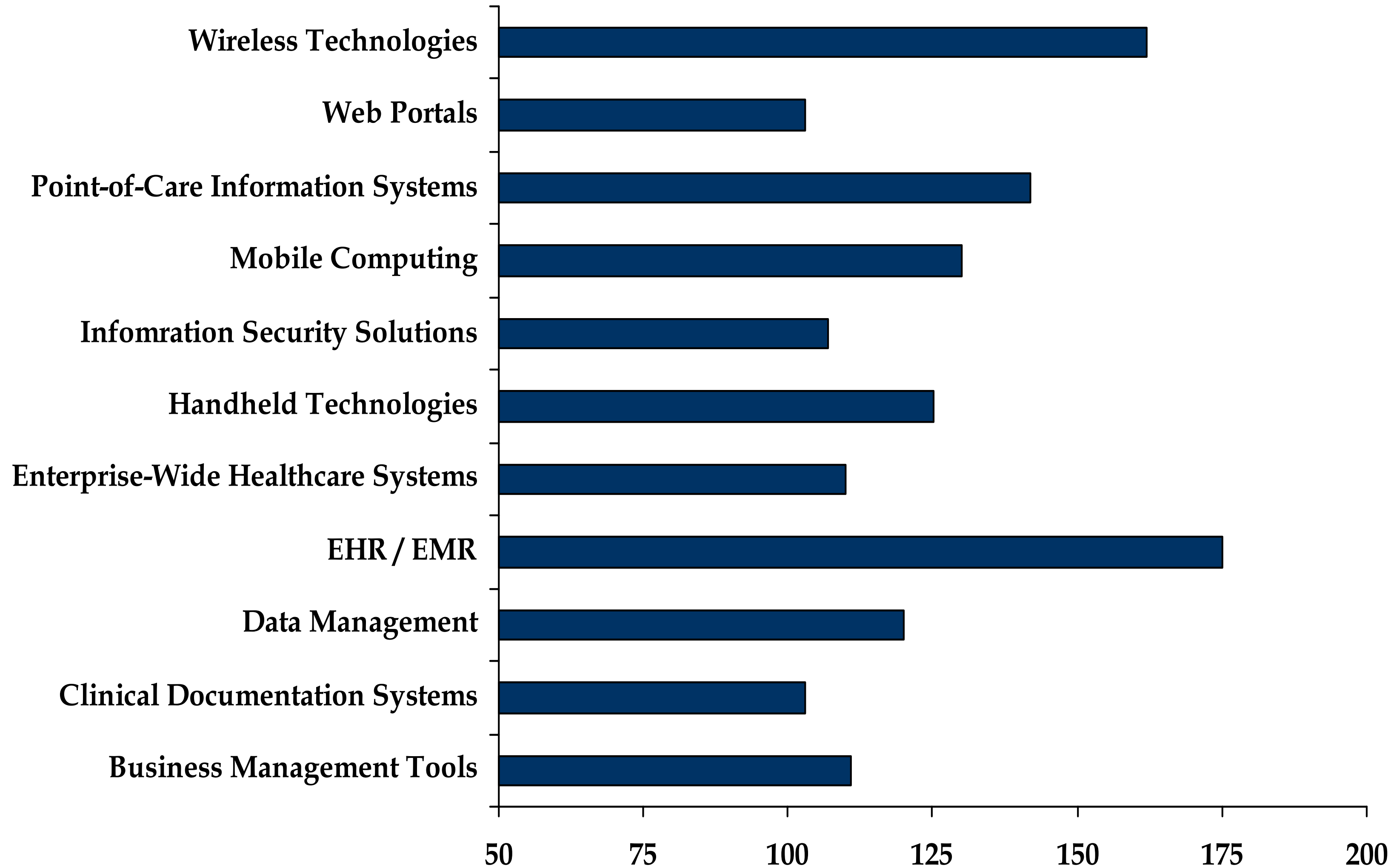
1. Interoperability (Standards-based data sharing and integration)
   - IHE (Integrating the Healthcare Enterprise)
2. Increasing Presence of large IT companies
   - Moving further toward application domain
3. Increasing Presence of Medical Device companies (PACS, etc.)
   - More data to be integrated across healthcare continuum
4. Electronic Health Records / Personal Health Records
   - Setting the stage for increased clinical data integration utility
   - PHR: Clinician input vs. patient self-reported ?

Focus on Standards Removes Historical HCIT Obstacles

HIMSS Vendor Market Comparisons

A Sampling of Top Vendors Counts by Product Category

(Based on self-reported vendor product category assessments)

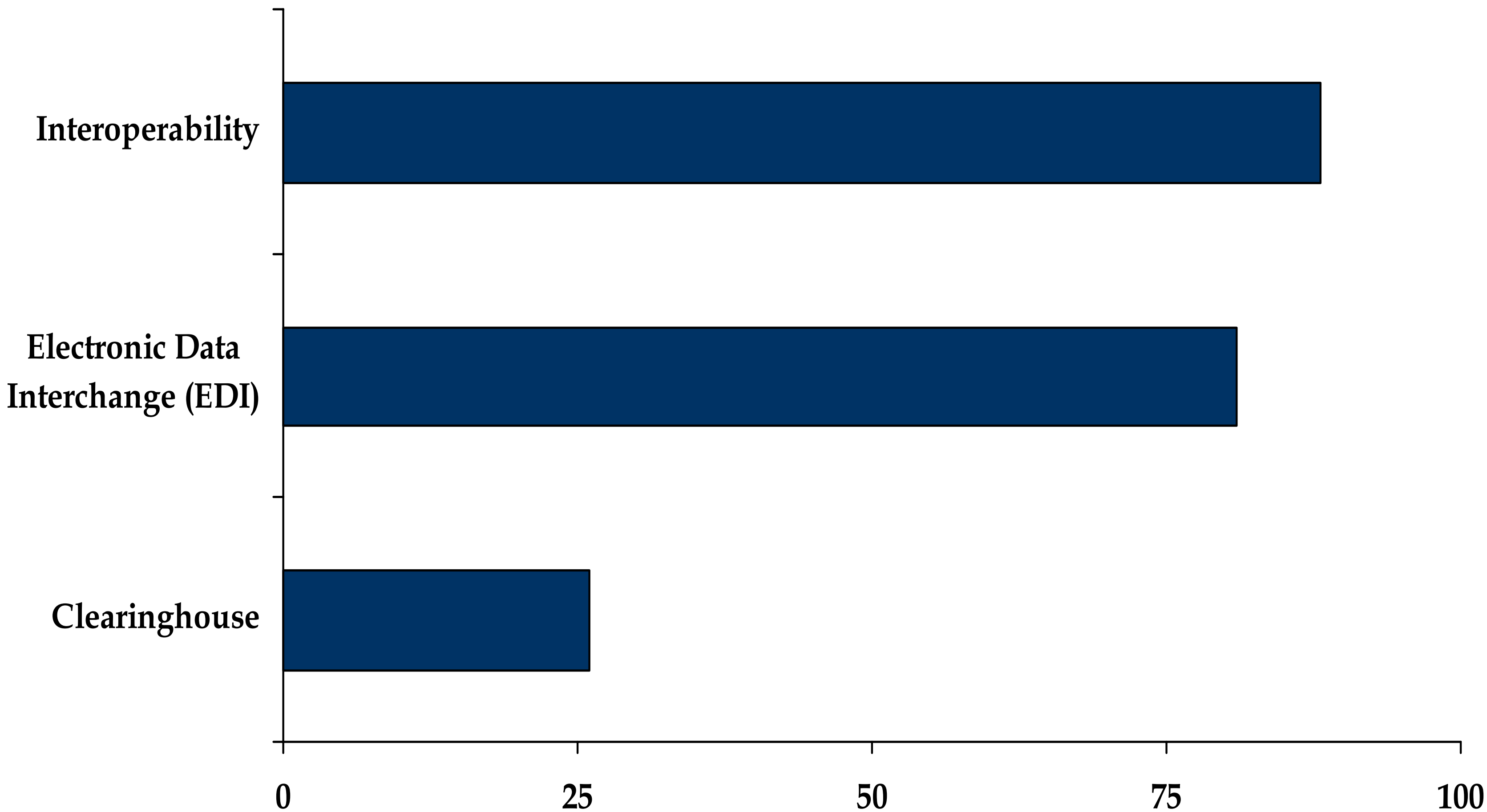


Source: 2007 HIMSS Resource Guide, Cain Brothers' estimates.

HIMSS Vendor Market Comparisons

The Next Generation of "Connectivity"?

(Based on self-reported vendor product category assessments)

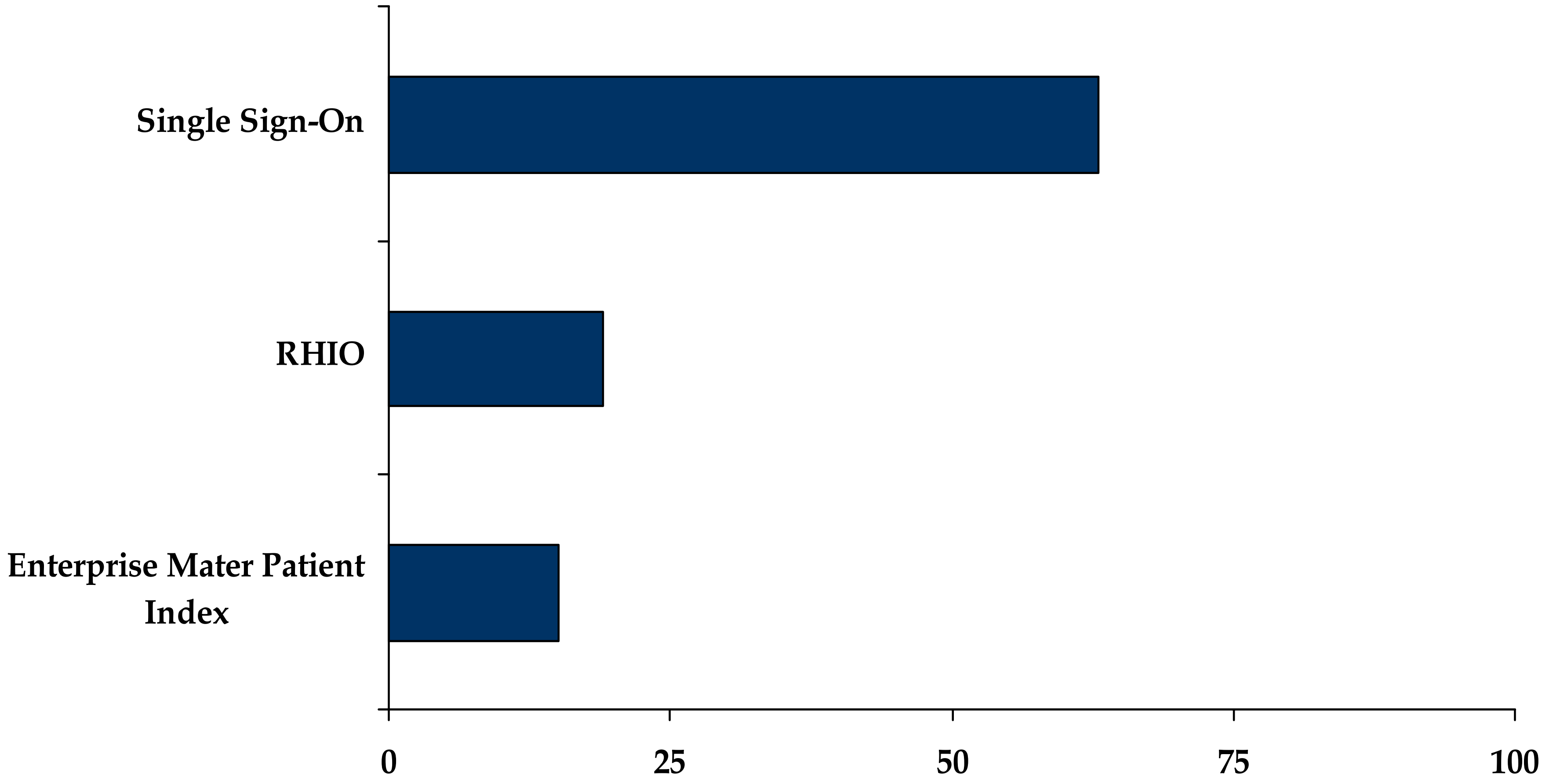


Source: 2007 HIMSS Resource Guide, Cain Brothers' estimates.

HIMSS Vendor Market Comparisons

Evaluating the Maturity of Integrated Clinical Data Accessibility

(Based on self-reported vendor product category assessments)

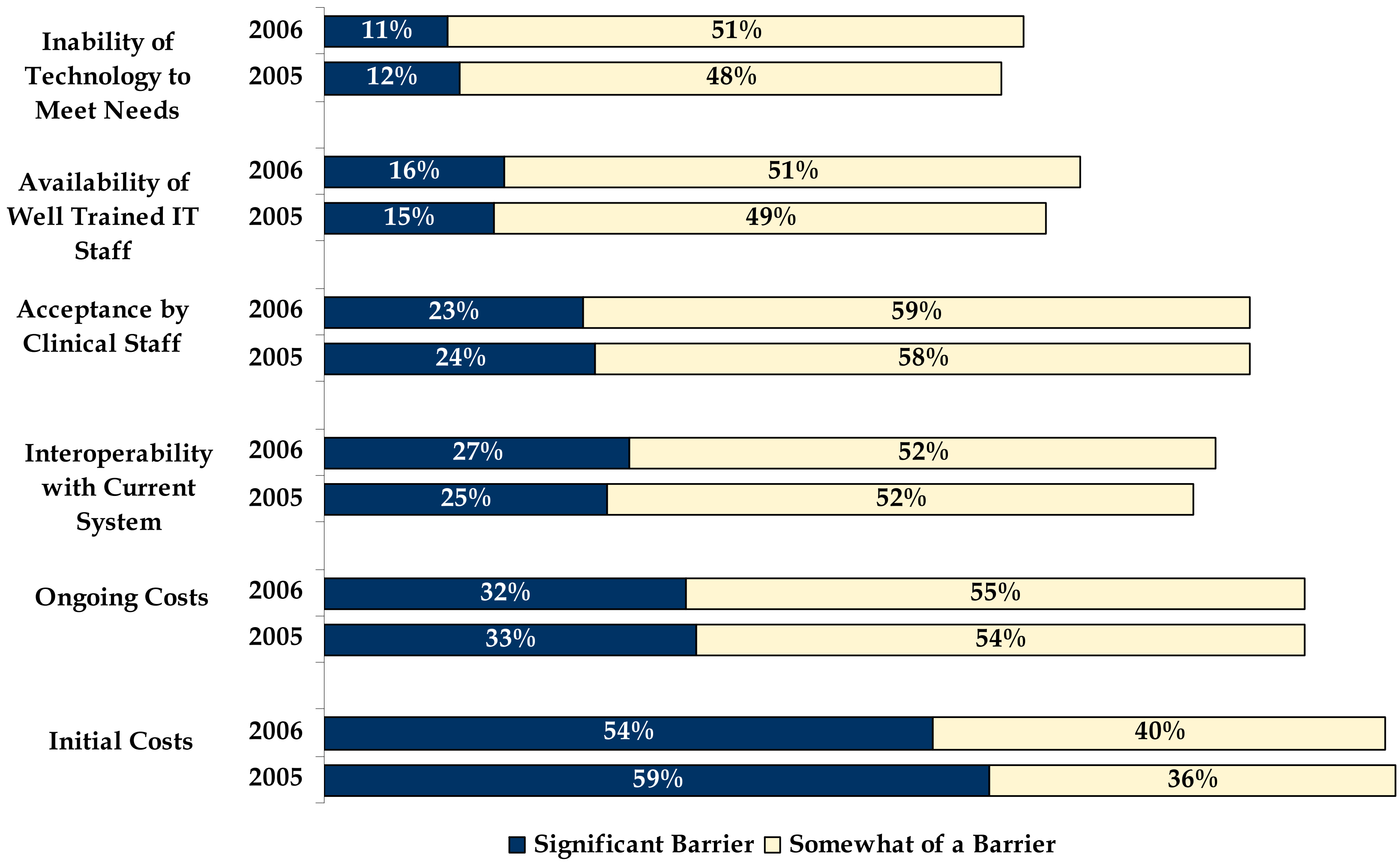


Source: 2007 HIMSS Resource Guide, Cain Brothers' estimates.

Factors Impacting HCIT Adoption

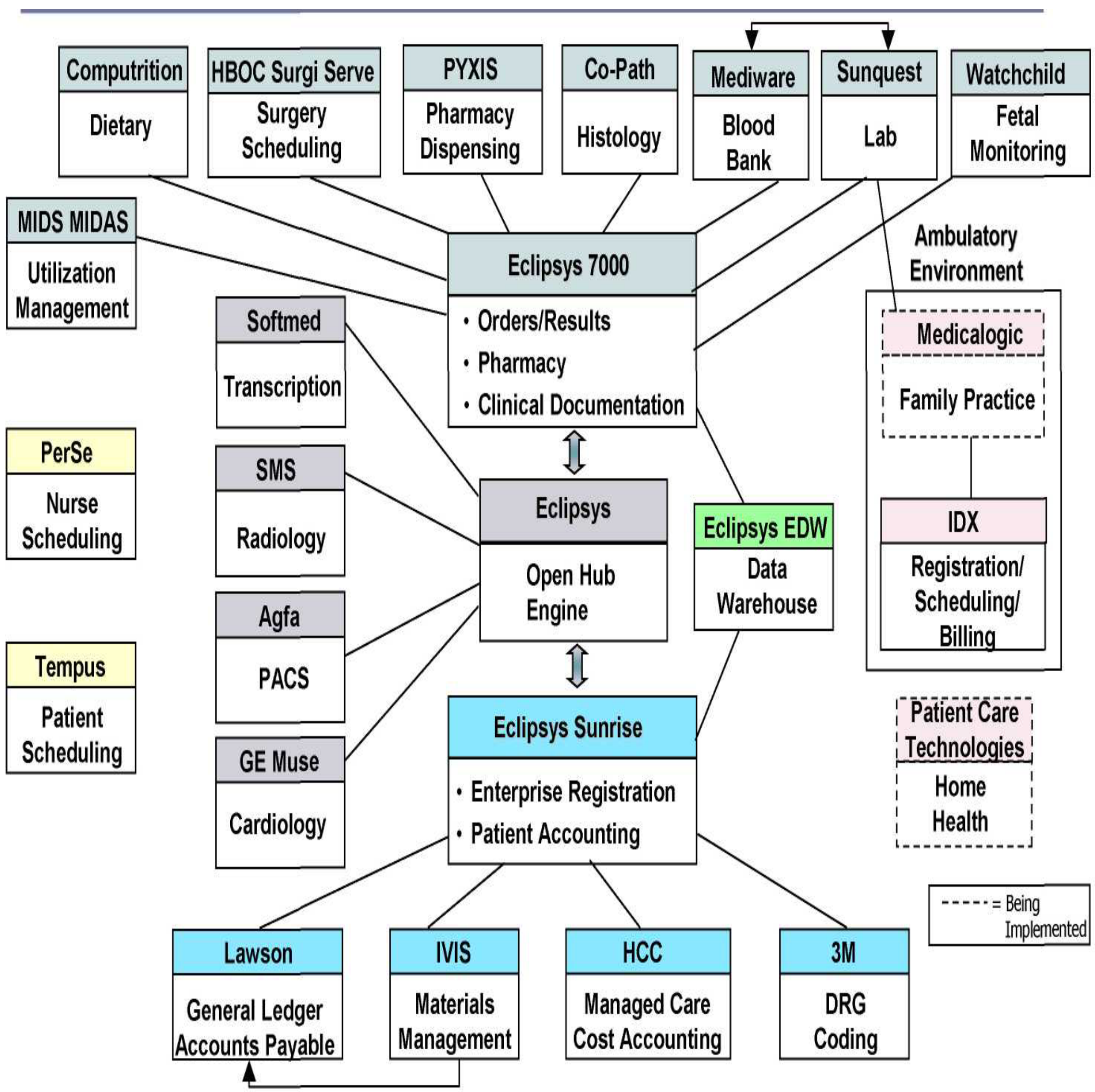
Hospitals continue to report cost as greatest barrier to IT adoption

Percent of Hospitals Indicating Barrier is a "Significant Barrier" or "Somewhat of a Barrier"



Source: American Hospital Association, Hospital Use of Information Technology Report, Feb. 2007.

IT Fragmentation Within the Hospital



- Dozens of significant applications
- Millions in capital investment
- Average task requires log-in and info from 6 disparate applications
- Further fragmentation related to in-house customization

Historical Obstacles & Enablers to HCIT

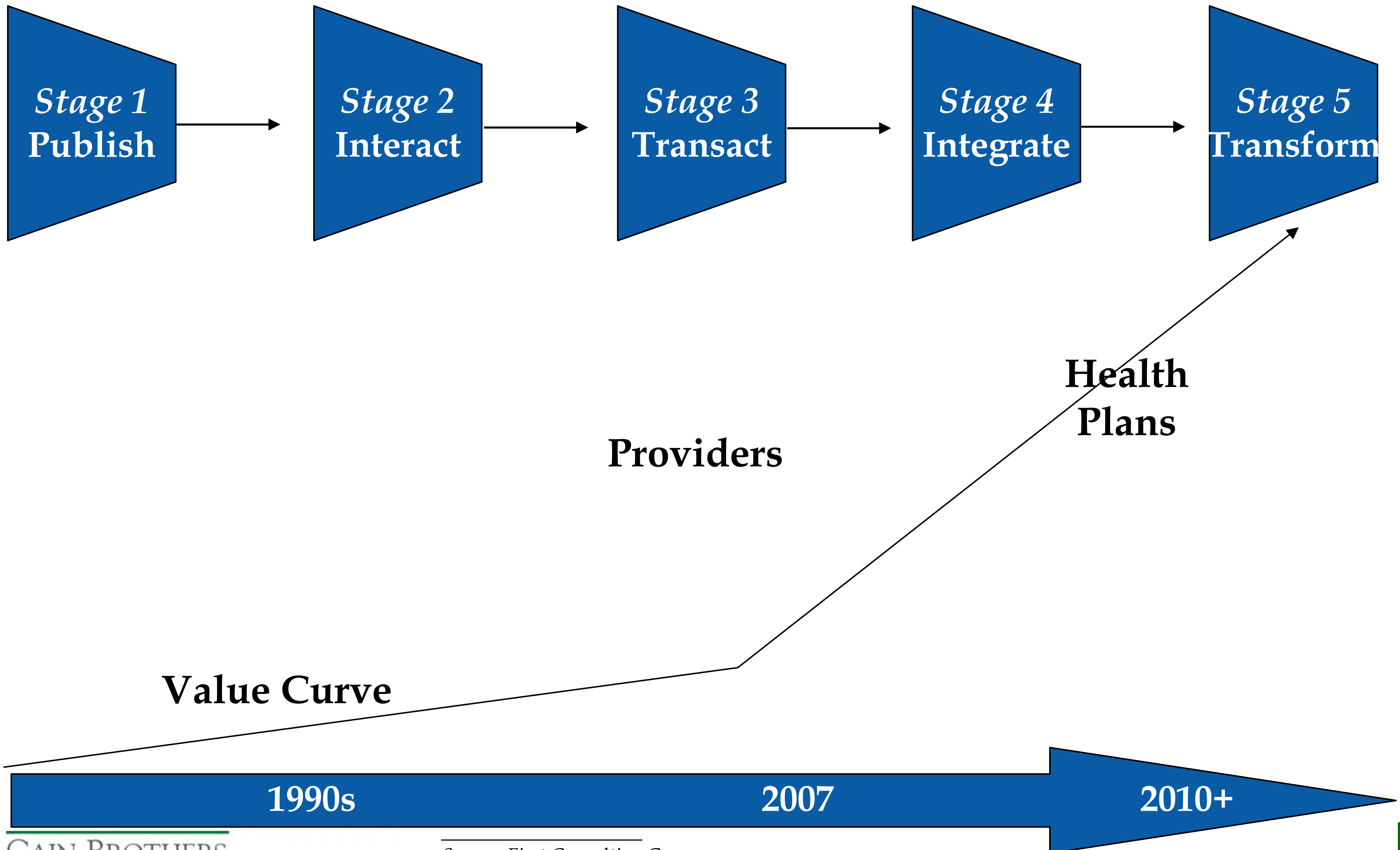
Then

Now / Future

The U.S. Banking System: Enablers of Electronic Evolution	The U.S. Health Care System: Obstacles to Electronic Evolution	The U.S. Health Care System: Addressing the Obstacles
Industry-wide standards	Minimal industry-wide standards	HL7, HIPAA, IHE, DICOM
Single regulatory body (Federal Reserve)	Several regulatory bodies	NHIN – type projects, CCHIT
Modest consumer movement between banks	Constant consumer movement between providers	Consumer-centric data rather than episodic
Unique consumer identifier (account #)	No unique patient identifier	Mapping systems / local storage and secure identifiers
Limited relevant (objective) data	Extensive relevant (subjective) information	Expanded breadth of standards (e.g. MEDCIN®)
All inclusive data repository	Incomplete data repository	Linkage within and across health networks – RHIOs
Widespread access to data repositories	Limited access to data repositories	Improved interoperability capabilities
Data security standards (PIN #)	Minimal data security standards	Single sign-on context management, Biometrics

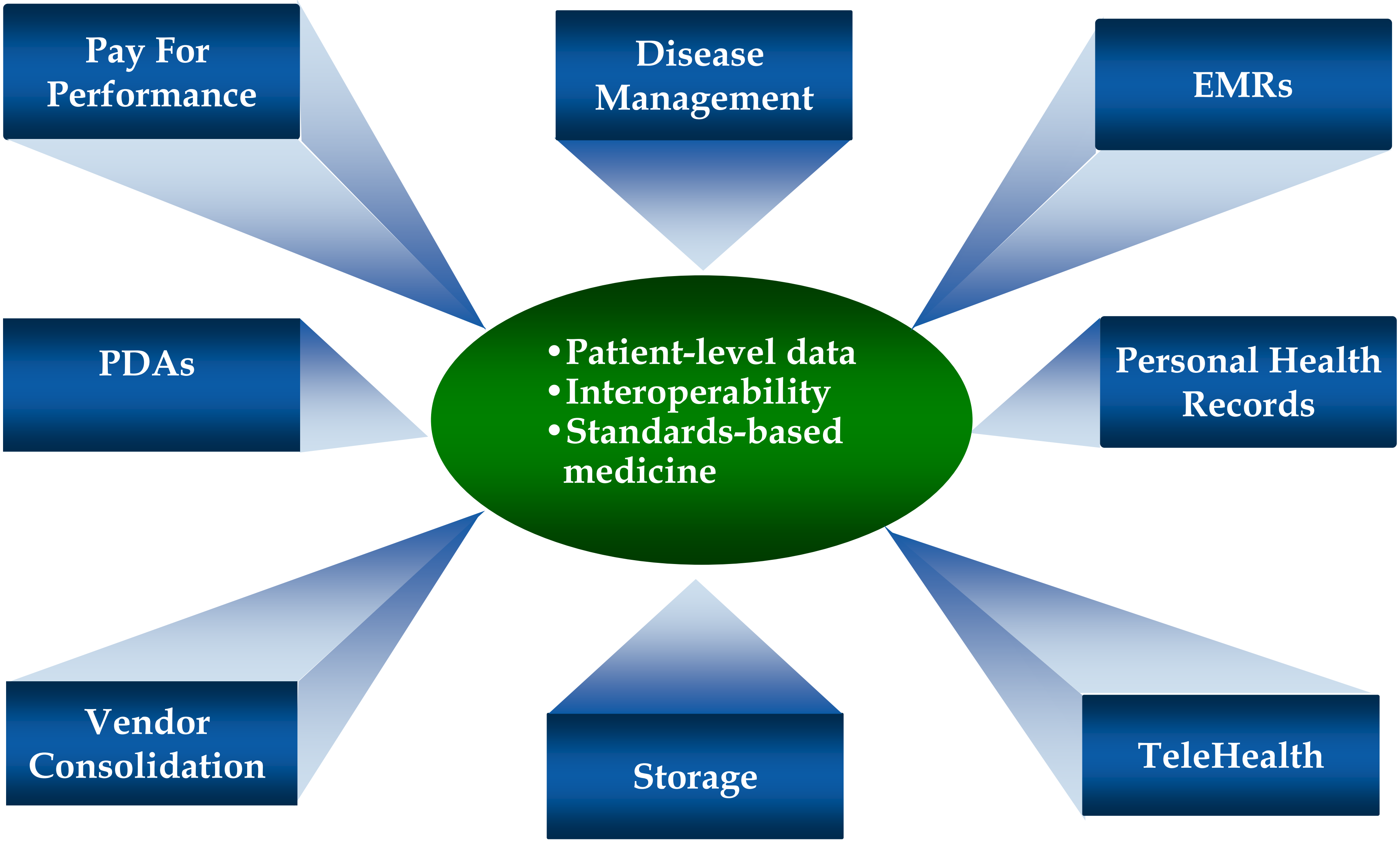
Typical Evolution of IT in an Industry

Impact on operating efficiency increases as IT is used to Transform



Source: First Consulting Group.

2007 Top HCIT Trends



Source: Healthcare Informatics, February 2007

"Perfect Storm" Accelerates HCIT Opportunity

Government / Regulatory

- Leapfrog/IOM study started it all in 1999
- Increased Discussion across Capital Hill
- NHIN – Endorsing Interoperability
- CCHIT – establishing credibility

Health Care

- Focus on IT as a workflow enabler*
- EMR focus vs. upgrading clinical systems *
- Pay-for-performance incentivizes IT usage
  - Standards based medicine /outcomes

Technology

- HL7 / HIPAA / DICOM and other standards are creating a foundation for interoperability
- Security cost/function improvements help overcome key barriers
- Storage/processing cost reductions broaden HCIT accessibility
- Remote hosting and wireless IT enhance scale economies and enable necessary ubiquity

$2 Trillion Industry

Increased HCIT Demand

Source: 2006 HIMSS Leadership Survey.

Tomorrow's HCIT Focus

- Clinical information systems: CPOE to EHR / data warehousing
  - Department-specific apps (e.g. PACs, ICU, ER, OR, Cardiology)
  - Standards-based medicine and IT-based workflow management
- Interoperability/Connectivity – RHIOs and beyond
  - Workflow driven data integration
- Revenue cycle management (recapturing 25% of health care costs)
  - Many points in the cycle to be addressed with new approaches
- Payor information systems & services
  - Operations throughput / contract management
  - Consumer Directed Healthcare (CDHP)
  - Standardized-based medicine: DM, CM, UM, P4P
- Consumer-Driven Business models
  - Personal health management

Source: HIMSS Resource Guide, Cain Brothers' estimates.

Revenue Cycle Management Overview

- Historically centered around claims submission / EDI vendors
- Increasing complexity of payment and care models changes points of value add
  - Managed care rules
  - Government payors
  - HSAs / collections of patient co-pays
- Technology changing workflow enables major transformations
  - Charge capture and / or coding closer to the point of care
  - Modeling / understanding profitability pro-actively

RCM Business Model Differentiators

Target Customers

- Hospital
- Physician Group
- Payor

Point of Entry in Revenue Cycle

- Charge capture at point of care
- Claim creation / coding
- Financial intermediary
- Payor receipt and analysis
- Collections Reconciliation

Delivery Method

- Software / IT-based
- Web-based tool
- ASP hosted software
- Service / consulting based (workflow re-engineering)
- Software as a Service (SaaS)

Evolution of HCIT Connectivity

1990

- Billing
- Episodic Clinicals
- Output to paper
- Best of Breed
- Enterprise-wide
  - Single vendor
- EDI clearing house
  - Many to many
  - Electronic transmission

2000

- Interoperability Begins
- Best of Breed returns
- Multi-format data
  - Electronic
  - Scanned

2010+

- Patient centric
- More contextual integration
- Access to disparate data sources / formats

Improved Data Integration Expands Benefits

Physician Claims

Hospital Claims

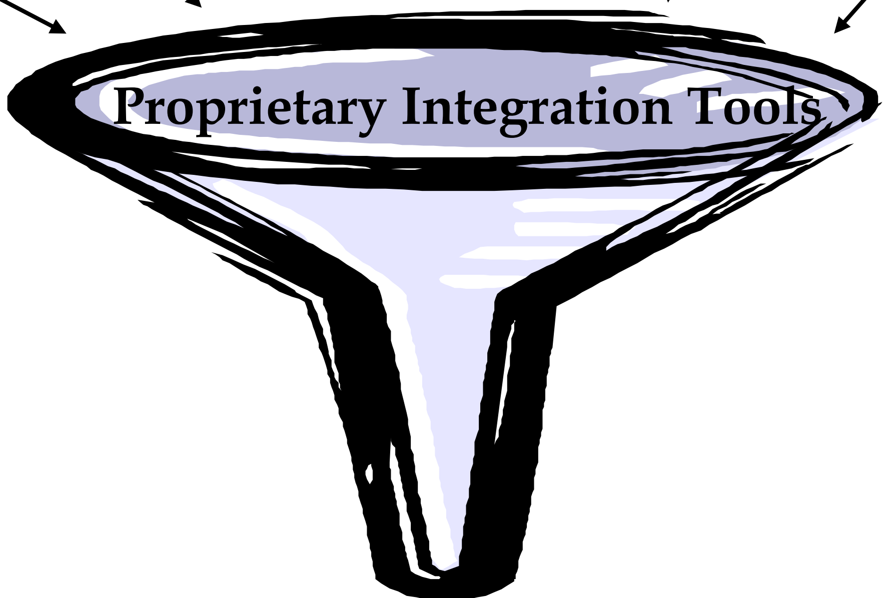
Pharmacy Claims

Lab Results

Images

Transcribed Notes

Patient Notes



Disease Management (Clinical Protocols)

RHIO (Multi-System Access)

MA HCC Coding (Clinical Notes)

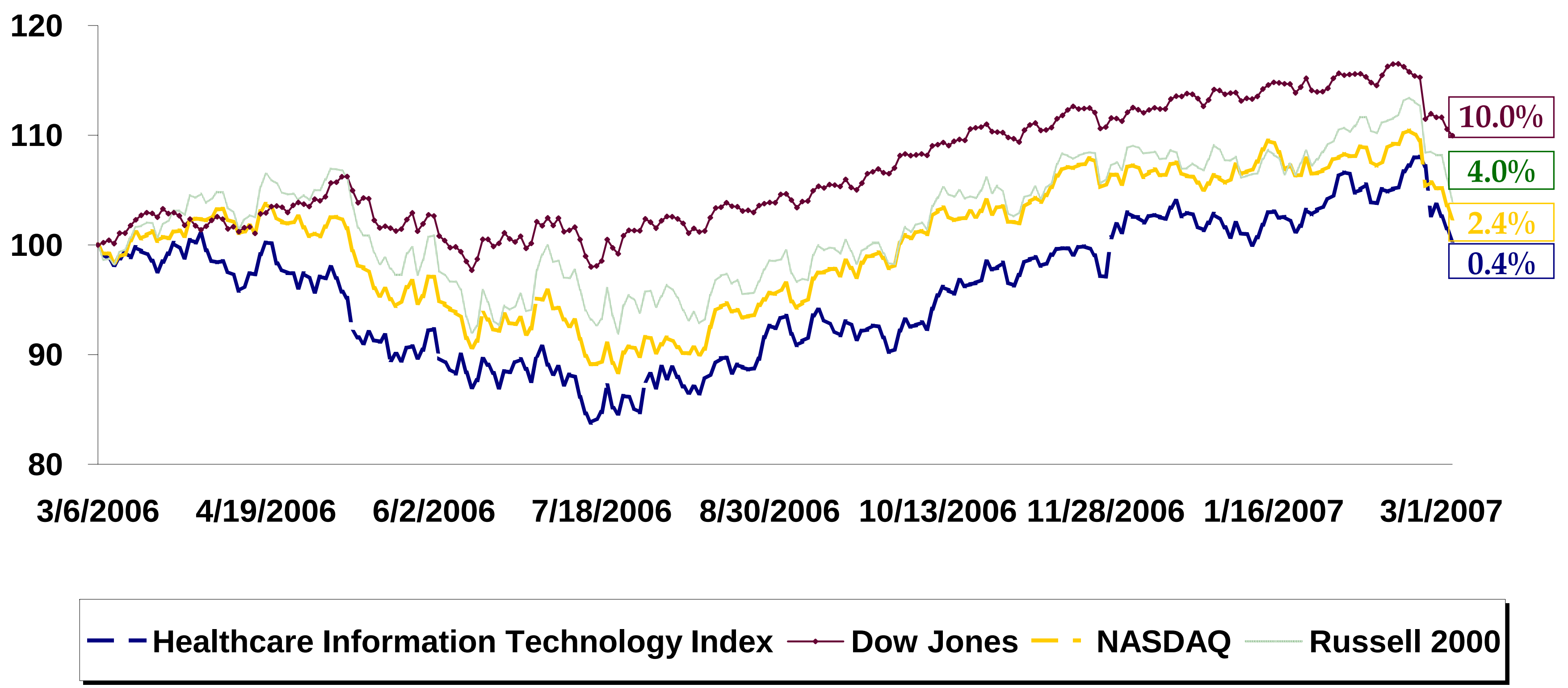
Pay-for-Performance Platform (Structured Dictation Data Access)

TPA Cost Containment (Doc-driven rules)

HCIT Stock Price Performance

Cain Brothers' HCIT index has slightly under performed the Dow Jones and Russell 2000 over the last twelve months

Indexed to 100 as of March 5, 2006



Source: Capital IQ, as of March 5, 2007.

HCIT Financing Market

The financing market for HCIT transactions is showing signs of strength

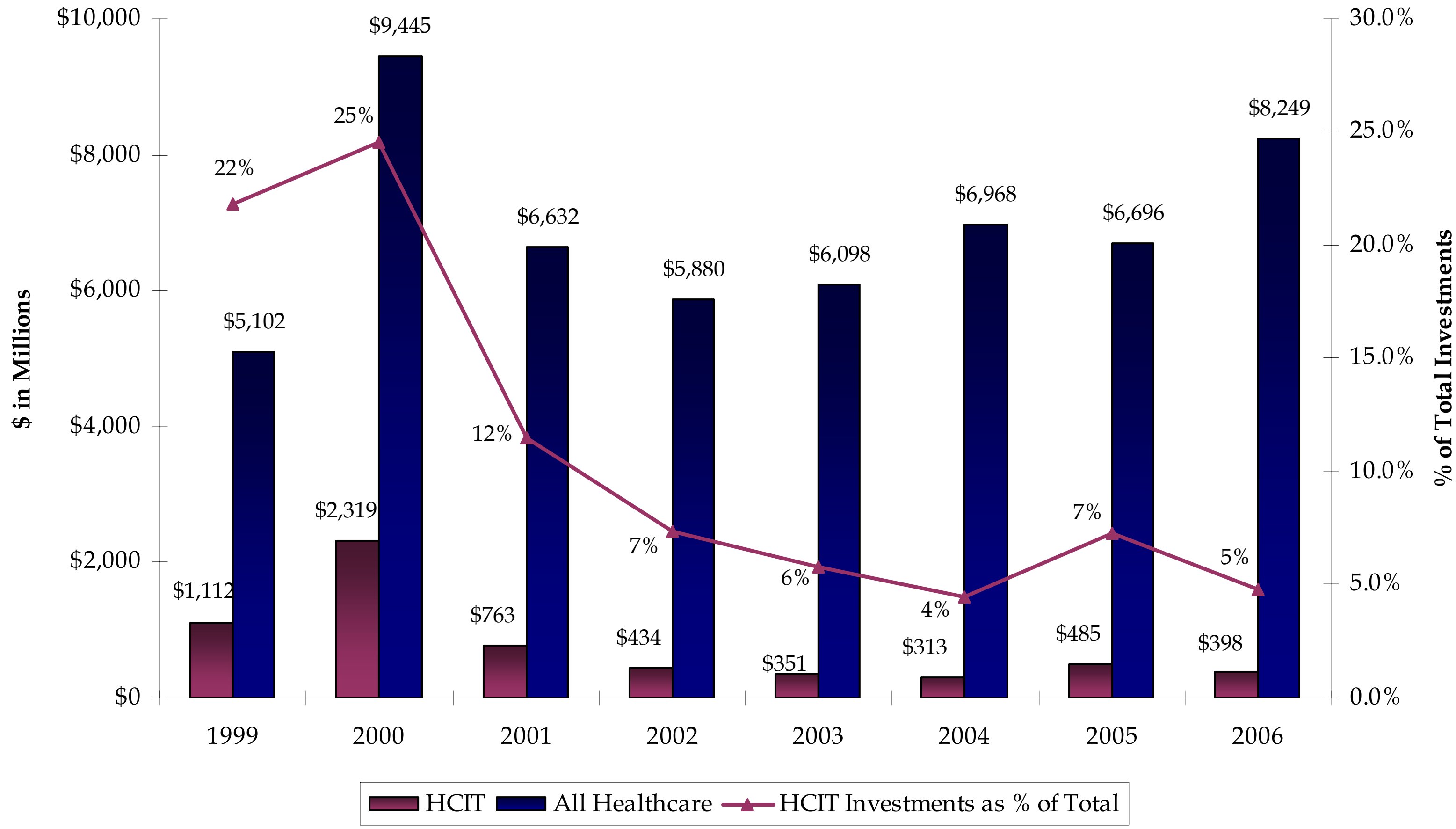
- From 2001-2005, there were approximately 6 true HCIT IPOs
- There could be 4-6 HCIT IPOs over the next 12 months
- Companies meaningfully more seasoned than prior IPO "wave"

Recent HCIT IPOs

Pricing Date	Issuer	Equity Market Cap ($ in mm)	% Change Current Price to Offer Price
12/13/06	MEDecision	$104.6	(30.0%)
04/05/06	Visicu Inc	233.8	(54.8%)
09/29/05	WebMD Health Corp	2,982.1	200.6%
02/09/05	Emageon Inc	238.8	(13.2%)

Source: IPO Monitor, as of March 5, 2007.

Venture Capital Investment in HCIT

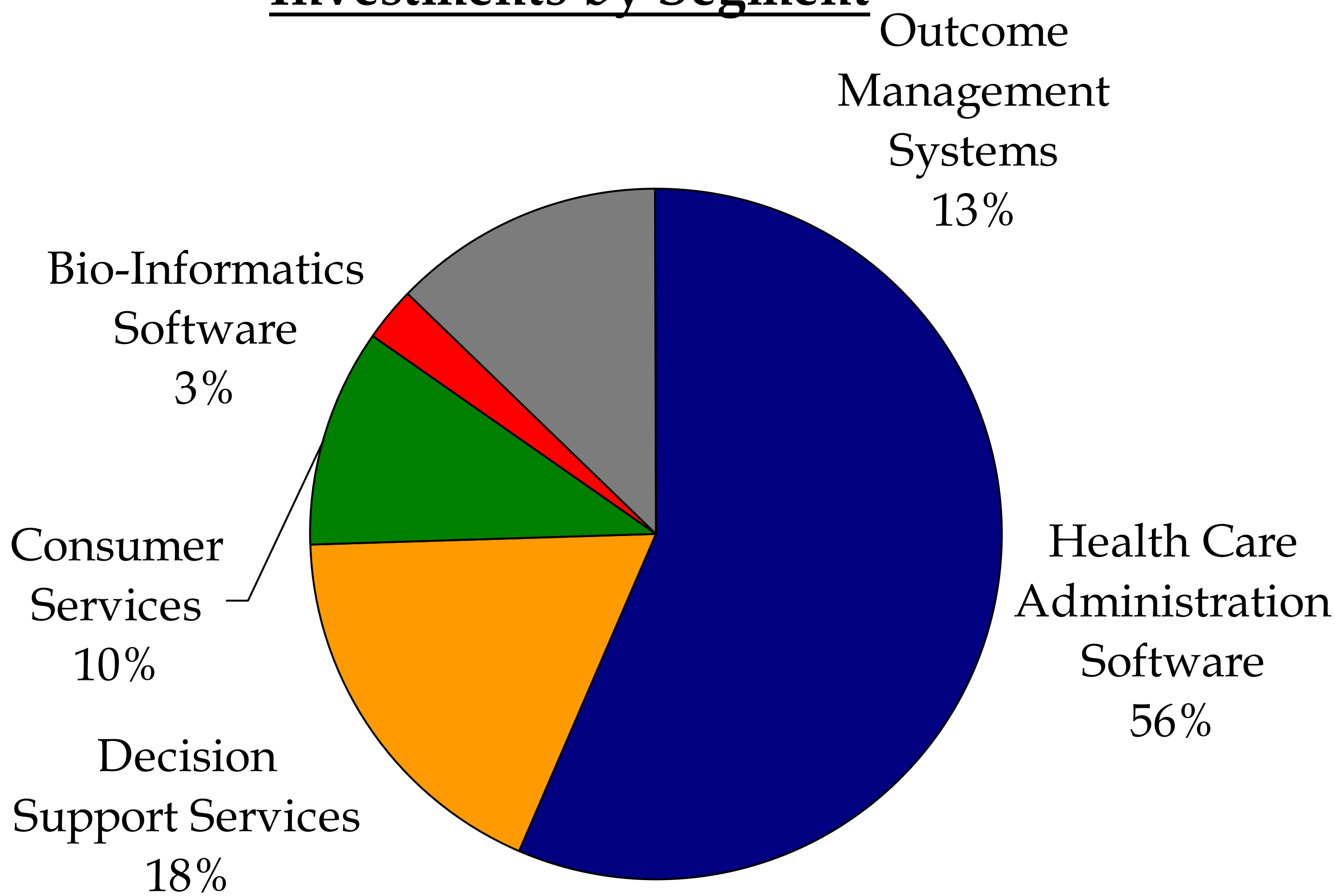


Source: Venture Source as of January 1, 2007.

HCIT Venture Capital Market

Over the last 18 months approximately 40 venture capital deals done in HCIT, raising nearly $620 million

Investments by Segment



Source: Venture Source as of March 5, 2007.

HCIT Venture Capital Market

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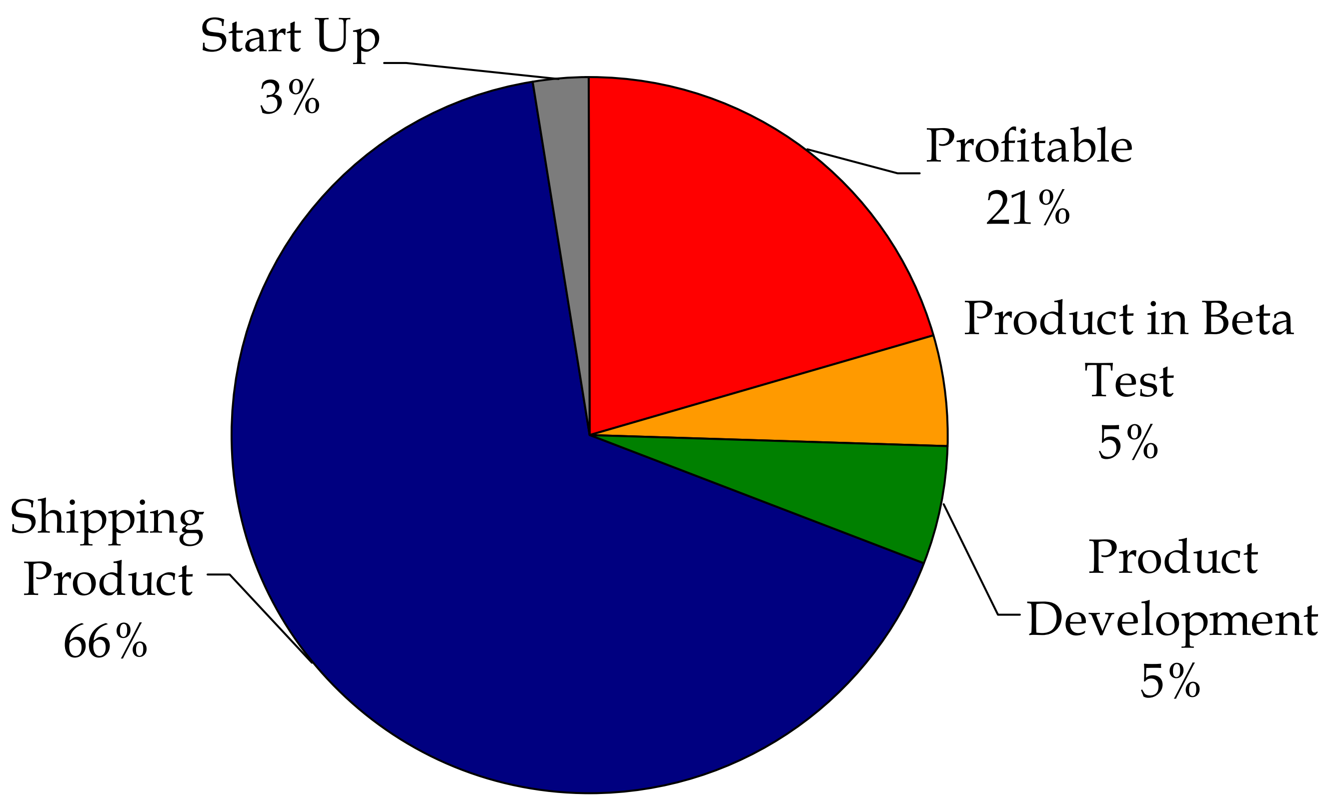
Investments by Stage of Development



Source: Venture Source as of March 5, 2007.

HCIT M&A Activity is Growing

- M&A activity rose significantly in 2005 and again in 2006
  - Nearly 60 transactions announced in 2006 vs. 34 in 2005 and 26 in 2004

- Notable transactions completed in the last 18 months:
  - McKesson / Per Se Technologies
  - Sage Software / Emdeon Practice Services
  - TriZetto / QCSI
  - DST Systems / Amisys Synertech
  - General Atlantic / Emdeon
  - McKesson / RelayHealth
  - Allscripts Healthcare Solution / A4 Health Systems
  - GE Healthcare / IDX Systems

Source: Capital IQ and company filings and press releases.

Conclusions

1. In case there was any question, Best Of Breed is here to stay
   - Best-in class, department level, category-specific applications
     - "spaghetti" diagram remains, functionally streamlined
2. The "New Connectivity" offers many new HCIT strategies
   - Standards pervasiveness enables data access, integration, and analysis leading to paradigm changing improvements in care cost and quality
     - Disease Management, Pay for Performance
3. Significant IT "gaps" across healthcare continuum remain
   - In part, this is driven by differing business priorities

Source: HIMSS Resource Guide, Cain Brothers' estimates.

<u>Cain Brothers House Calls</u>

Questions?

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