To Go or Grow?
MTSO M&A

Selling or Purchasing an MTSO

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Overview

- Part I (15-20 minutes)
  - Understanding the MTSO Market Place
  - Questions
- Part II (30-40 minutes)
  - Understanding the M&A Process
  - Questions

The MTSO Market Place

- Who Are the MTSO Buyers?
- What Are They Paying?
  - AHDI interprets Sherman Anti-Trust Regulations as prohibiting this discussion. Contact me privately to discuss.
- What Are the Terms?

MTSO Buyers

- Strategic Buyers
  - US and cross border MTSOs
  - US and cross border healthcare IT companies
- Financial Buyers
  - Private equity groups
    - With existing MTSO platforms
    - Entrants into the Healthcare IT space
- Individuals
  - Owner/Operator Entrepreneurs.
  - MTs looking to own/operate

Sample MTSOs With PEG Sponsors

- Accentus
- Cbay Systems Ltd.
- Etransmedia Technology
- HealthScribe
- Heartland Information Services
- iMEDX
- Infrahealth
- Precyse
- Spheris
- Transolutions
- WebmedX

MTSO VALUATIONS

- Size Matters
  - Under 1M: a little lower
  - 2M-20M: a little higher
- Customer Base Matters—Acute care higher than clinic
- Central Issue: How strong is the customer relationship and is it a profitable one for the MTSO?

MTSO VALUATIONS (Continued)

- Revenue Multiples
- Gross Profit Multiples
- Ebitda Multiples
- SDE Multiples

- Transcend reports paying the following Ebitda Multiples for Large MTSO acquisitions
  - 8-9X Trailing twelve months ebitda
  - 6-7X Current ebitda run rate
  - 4-6X ebitda after synergies are achieved
  - 1-1.2 x revenue

- The Buyer's Need to Acquire Matters—a Lot!

Deal Terms

- Mostly Asset, ccassionally Stock Deal
- Cash Down generally 50%; occasionally all cash.
- Sometimes Stock as Partial Payment
- Earnout for up to 50% of Deal and Most Certainly on Any Run Rate Portion
- Paper—Perhaps, but Not Generally
- Employment Contract for CEO
  - Probable if Private Equity
  - Perhaps if Strategic.

Earn Out Example

- Total Purchase Price $300,000
- Down Payment at Closing $150,000
- Balance Paid as Earn-out over 12 Months

  $150,000/12= Monthly Payments of $12,500

  Monthly payment assumes and is contingent upon achieving next 12 months of revenue of $428,571—or $35,714 monthly. Thus the monthly earnout payment is set at 36% of revenue and shall be 36% of revenue up or down of the target payment of $12,500.

QUESTIONS REGARDING The MTSO Marketplace

The Buyers

- Strategic, Financial and Individual

The Deal Terms

- Asset v Stock
- Cash Down
- Payment with Stock
- Earnouts
- Notes (Financing the buyer's purchase)
- Employment Contracts

The M&A Process

- Packaging to Sell
- Pricing to Sell
- Marketing
- The Modified Auction
- The LOI
- Due Diligence
- The Purchase Agreement
- Closing

Packaging the Deal
(The First Two Weeks)

- Document Preparation
  - The Confidential Memorandum
  - The Blind Profile
  - The Confidentiality Agreement

Packaging the Deal
(Continued)

- Documentation Delivery (See Marketing)
  - Blind profile
  - Confidentiality agreement
  - Confidential memorandum
- Document Preparation Cost

Pricing the Deal

- Internal Expectations Determined During the Documentation Preparation
- Financial vs. Strategic Pricing
- Communicating Market Realities not Exact Pricing
- Methodology for determining FMV Expectations:
  - Comparable Sales Metrics: Price to Rev/ Price to GP/ Price to Profit
  - Better Terms=Higher Price

Marketing
(3-12 Months)

- The Proprietary Deal vs. the Auction
- Building the Database
  - Strategic buyers
  - Financial buyers
- Emailing the Database
- Posting at Deal Sites
- Personal Phone Calls
- Resourcefulness, Diligence & Perseverance

The Modified Auction

- The Dance—to create a sense of urgency without manipulation
- Using Confidentiality to your Advantage
- Never Fabricate, Always be Vague

The Letter of Intent

- When to move from providing information to soliciting LOIs or term sheets?
- Whenever the timing seems right but ideally when more than one party is prepared to do so
- The buyer wants vagueness, seller details
- Leverage before LOI is with seller, afterward with buyer

LOI Deal Terms

- Stock or Asset
- Cash/Stock/Paper
- The Earnout
- Employment Contracts
- Assets Being Sold
- Accounts Receivable
- Working Capital Adjustments
- Purchase Agreement Due Date
- Reverse Breakup Fees
- Closing Date

Due Diligence

- Varies from Buyer to Buyer
- Thoroughness is in proportion to Cash Invested
- Financial Due Diligence
- MT Due Diligence—IC vs. FTE
- Customer Due Diligence—are the contracts in jeopardy of being lost?
- Vendor Due Diligence—i.e. platform/technology and licenses/contracts

The Purchase Agreement

- Surprises in Proportion to LOI Thoroughness
- Draft Due a Couple of Weeks Before Close

The Closing

- Sixty to Ninety Days After LOI
- Virtual
- The Staff that Stay
  - Unlike other M&A deals, for the MTSO, the account managers and MTs are more important than the upper management.
- Payday—Funds Wired to Your Account!

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Broker Fees

- Packaging and Marketing Fee
- Monthly or Quarterly Retainer
- Success Fee—x% of Sales Price
- Marketing/Retainers Credited Against Success Fee

Unconditional Guarantee

- We believe we need to earn your business anew every daily.
- Therefore we always give an unconditional right to cancel at anytime, for any or no reason.

Active Buyer Database

- All US PEGS
- MTSO database of approx 700 MTSOs/healthcare IT
- Because we're so active in the MTSO marketplace, daily we're pursued by hungry MTSO buyers looking for our assistance with their acquisition strategy
- Very active buyers from US & India and occasionally the UK
- Association for Healthcare Documentation Integrity (AHDI) Membership

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