

Medical billing SaaS recurring revenue model with low churn and high margins

This company is a developer of a SaaS business model medical billing software used by the behavioral health industry. It was founded in 1988, and acquired by the current owners in 2008, who are now desiring to have an exit plan in place to enable future retirement (one owner would like to exit within one year, the other is willing to stay on 2-3+ years).

This business is truly turn-key with strong, stable, long-term staff in place. During the first two months of onboarding a new client there is a fair amount of staff work involved with training and integrating the software with the client's systems and other software products. Once this is done, there is a very low level of ongoing staff time required beyond customization (which is billed for), and software updates. The software lease fees become a source of monthly recurring revenue.

This software is used in client clinics in 30 states and includes some larger healthcare systems that appreciate its enterprise-level functionality. Not only has the company had a very low level of client churn (less than 7% from 2010-2014), but it also has been attracting, on average, nine net new clients per year. The passage of several recent federal and state laws that impact insurance coverage and reimbursement for the healthcare niche this company serves bodes well for future demand.

- Recurring revenue SaaS model
- Low average annual client churn of 6.78%
- 2014 EBITDA Margin of 55%
- 5-year average annual net increase of 9 clients
- 5-year average annual revenue growth of 13%
- \$374,304 of revenue per employee
- \$206,705 of EBITDA per employee
- No current or past legal claims
- Includes newly developed cloud-based product
- One owner staying on 2-3+ years, the other up to 1 year
- Client niche will benefit from recent federal and state laws
- 27 year operating history

The company has experienced very high margins (EBITDA margins in 2014 was 55.22%), and produces high annual revenue per employee of \$374,304, as well as \$206,705 in EBITDA per employee. This would be a great acquisition for a complementary software provider (electronic health records, A/P, payroll, financial reporting, crm, or medical practice management).

Listing Number	1000010614	12 Months
Type of Business	Medical Billing Software	8/31/2015
Location	Western USA	Revenue
Year Founded	1988	\$2,837,065
FT Employees*	6	Seller Disc Earnings
PT Employees*	0	\$1,727,638
Why Selling	Exit plan / eventual retirement	EBITDA
Price	\$17,300,000	\$1,554,322
Seller Financing	No	

* Not including single primary owner

Benefits of This Business

Turn-key business with stable, cross-trained, long-term staff

The two sellers would like an exit plan in place but are not in a hurry. The technology-focused partner is willing to enter into a 2-3+ year employment contract, and the CEO will stay on for up to one year. Employees have been with the company for an average of 8.8 years, and, as remote staff, require little supervision.

Satisfied clients from throughout North America produce recurring revenue

Some training and customization work to integrate with other software systems is required when onboarding a new client, but afterwards there is a recurring revenue stream with limited support requirements. Average annual revenue by client from 2010-2014 was \$35,228, and the business has grown during that time from 45 to 77 clients. Clients are located throughout the USA.

Significant switching costs for clients contribute to high retention

A/R management is an integral part of clients' businesses, and this software manages that process. The software is integrated with clients' other systems, and organizational staff must be trained on its use. For the 5-year period of 2010 - 2014 average annual client retention has been 93%. Non-renewals are primarily from facility closures.

Recent government regulations will increase demand and funding in client sector

Several federal and state laws have been passed in the most recent seven years that should increase insurance coverage and funding for the healthcare niche this client serves. While this sector has grown by an annual rate of 3.4% in recent years, that rate may further increase due to new laws.

The business can be operated from any location

Staff members work remotely from different states, making the geographic location of the business immaterial from a management standpoint. Nearly all software installations and client training is done remotely. This business' average 2014 revenue of \$374,304 per employee, and EBITDA of \$206,705 provides evidence of the productivity achieved in this virtual environment.

Experience, reputation, and knowledge requirement are barriers to entry

Because of the highly specialized, rapidly changing nature of medical billing, the niche sector served, and regulatory and payor issues this is not an industry that it is easy for a new market entrant. Even if such a market entrant can develop quality functioning software, the lack of a reputation and track record would make it more difficult to secure clients.

A new cloud-based SaaS product has been developed which is included in the sale

This company's primary product, while SaaS, is installed on clients' servers and has been well received by clients over the years. However, with software increasingly being cloud-based about \$1.5 million of development time was used to create a cloud-based product. The company has one client that is using the new product and it has been well-received. This product now needs to be actively marketed.

Opportunities

Initiate an active sales and marketing campaign

Little has been done to market this business in recent years. Business is primarily generated by word of mouth from existing satisfied clients and picking up clinics that are affiliated with current clients. While this has resulted in an average annual increase in revenue of \$245,512 (about 13%) from 2009 - present, a buyer who wishes to grow at a higher rate could likely increase business further simply by pursuing marketing and sale activities including advertising, attending trade shows, email blasts, and making sales calls.

Increase Prices

This business has different pricing depending on the type of client. It has been gradually increasing prices for some types of clients but has been lax in increasing for others. Price increases should continue in the future on a regular basis. Will such a price increase cause client defection? Not likely - This business' monthly software lease payment is similar to what some of its competitors charge for maintenance AFTER they buy the software. For example, one competitor charges about \$1 million for each facility installed, and then about 20% of that for maintenance.

Continued revenue growth will naturally lead to higher margins

Because the primary cost in a software company is in creating and updating software, each additional sale tends to increase cash flow margins as variable expenses are low. Even with modest average annual revenue growth this business has seen a significant increase in EBITDA margins over the past five years. In 2010 its EBITDA margin was 37.53%, and it has gradually increased to 55.22% in 2014. At current growth rates current staff can likely handle growth for at least two years before additional staffing and its related expense will be needed.

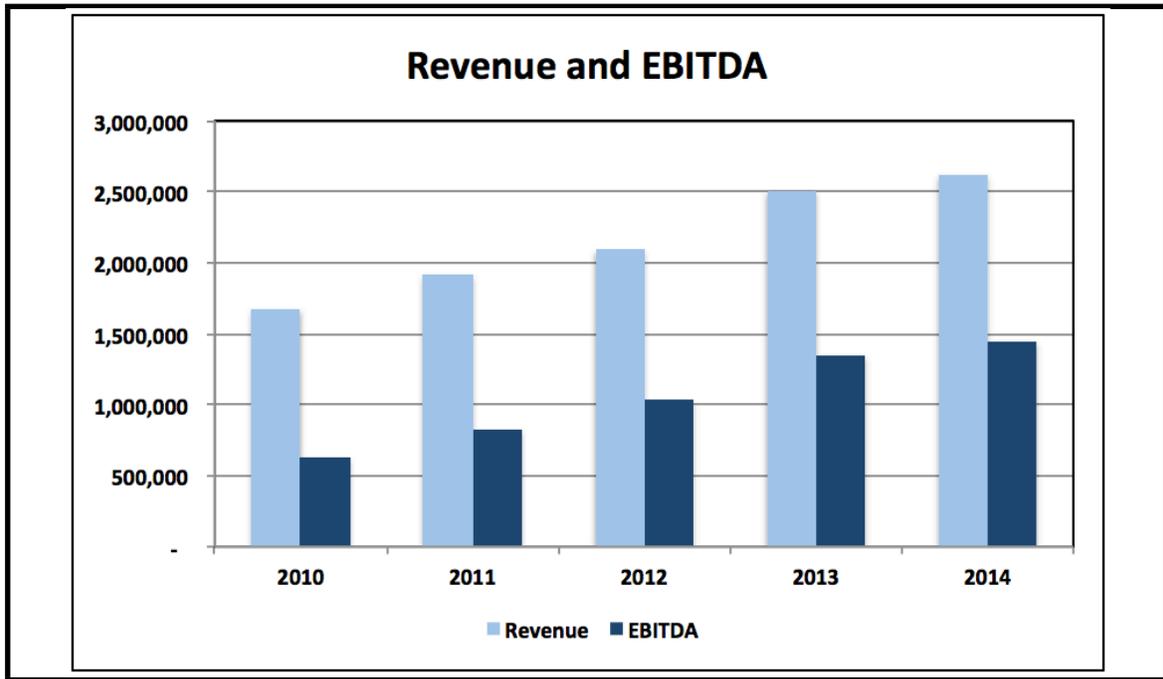
Offer an out-sourced billing service or consulting services

Many health care providers choose to outsource A/R or revenue cycle management to third parties. Some find that their A/R collections increase when a third-party company with deep expertise takes over even when using the same software due to the singular focus, and keeping up with industry, regulatory, and payor changes. Offering this as an optional service may lead to additional clients and higher revenue. Given that its current clients are not third-party services using this company's software to service providers, but rather providers themselves there would not be a risk of cannibalizing current business. Current staff could also be rented out as contract CFOs for clients when they have capacity.

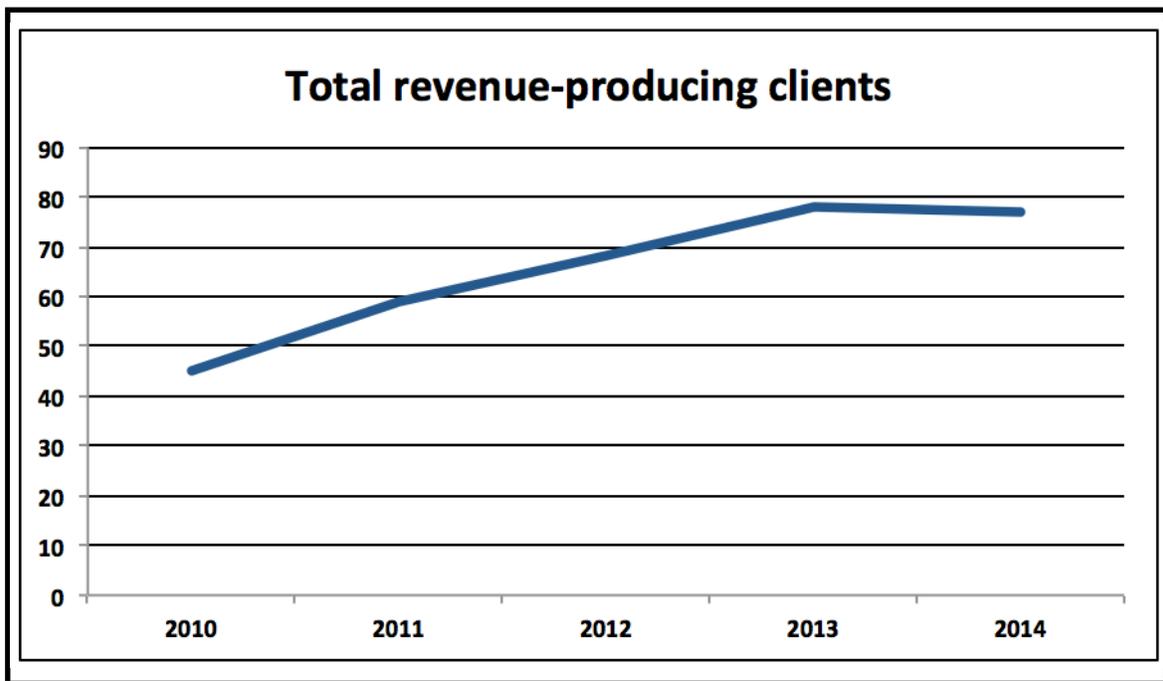
Actively market the newly developed cloud-based version of software

While this company's clients are very happy with its server installed software and have initially declined switching to the company's new cloud-based product, this cloud-based product will likely offer a great platform for new clients. The new client that did start using the cloud version last year has been very satisfied. This new product may offer a stronger future growth opportunity due to further standardization and updates implemented at the cloud-server level, which may lead to greater future profitability.

Solid Year-Over-Year Growth



Revenue & EBITDA



Total revenue-producing clients by year

Differentiation of Software

Following are few key strengths / differentiation of this company's software:

1. This is true enterprise-level software. Some clients offer multiple lines of care within the behavioral health continuum, and appreciate that this software can accommodate this under one umbrella. For example, some offer residential treatment, pure clinic operations, and run quasi-educational institutions providing psychotherapy services. This software accommodates all of this, whereas some competitors choose to focus on just "clinic" or "professional component" billing and accounts receivable management.
2. The software captures intake and census development information which can help with operations management and marketing.
3. Unlike many billing software programs, can be easily customized to interface with a variety of other ancillary software (i.e. pharmacy and lab software), leading to more efficient and integrated operations.
4. Customizable billing formats are assignable to each payer.

New Laws and M&A Should Drive Demand

A variety of federal and state legal / regulatory changes over the past seven years bode well for growth in the Behavioral Health industry including: The Mental Health Parity and Addiction Equity Act (MHPAEA), The Medicare Improvements for Patients and Providers Act (MIPPA), The Patient Protection and Affordable Care Act (ACA), The Protecting Access to Medicare Act of 2014, and an abundance of state laws. Many of these laws require significantly increased government and/or private insurance coverage for Behavioral Health, don't allow insurers to discriminate on deductibles or caps for behavioral health compared to general medicine, and increase access to Behavioral Health. From 2010-2015 average annual growth in Behavioral Health was 3.4%, significantly outpacing the change in overall inflation during that time (an average of about 1.5% per annum change in the CPI-U).

From 2000-2014 there were 38 mergers or acquisitions identified in the Behavioral Health space. Consolidation is expected to continue and in turn drive demand for this business' Enterprise-level software. With 5-year average revenue growth of 13%+, the regulatory changes and M&A activity may continue to drive double-digit growth.

About 6% of the US Population Suffers From A Seriously Debilitating Mental Illness

Financial

Year	2010	2011	2012	2013	2014	12 Mos Ending 8/31/15
Sales	\$1,677,311	\$1,918,401	\$2,090,747	\$2,507,241	\$2,620,130	\$2,837,065
Cost of Goods Sold						\$0
Gross Profit	\$1,677,311	\$1,918,401	\$2,090,747	\$2,507,241	\$2,620,130	\$2,837,065
Depreciation				(\$960)	(\$256)	(\$540)
Amortization						\$0
Sales General & Admin	(\$1,047,751)	(\$1,090,348)	(\$1,060,925)	(\$1,161,788)	(\$1,173,195)	(\$1,282,743)
Net Operating Profit	\$629,560	\$828,053	\$1,029,822	\$1,344,493	\$1,446,679	\$1,553,782
Interest Expense			(\$9)			\$0
Interest Income						\$673
Other Financial Income						\$234
Profit After Financial Items	\$629,560	\$828,053	\$1,029,813	\$1,344,493	\$1,446,679	\$1,554,689
Exceptional Expense						\$0
Profit Before Tax	\$629,560	\$828,053	\$1,029,813	\$1,344,493	\$1,446,679	\$1,554,689
Tax						\$0
Net Profit After Tax (NPAT)	\$629,560	\$828,053	\$1,029,813	\$1,344,493	\$1,446,679	\$1,554,689
EBITDA	\$629,560	\$828,053	\$1,029,822	\$1,345,453	\$1,446,935	\$1,554,322
Capital Expenditures						\$0
Estimated Fed & State Tax						\$0
Operating Free Cash Flow	\$629,560	\$828,053	\$1,029,822	\$1,345,453	\$1,446,935	\$1,554,322
EBITDA	\$629,560	\$828,053	\$1,029,822	\$1,345,453	\$1,446,935	\$1,554,322
Market Rate of Owner Salary	\$173,320	\$173,320	\$173,320	\$173,320	\$173,320	\$173,316
Seller Discretion. Earnings	\$802,880	\$1,001,373	\$1,203,142	\$1,518,773	\$1,620,255	\$1,727,638

Any financial or operating information relating to the company was prepared by, or from figures, documentation and information supplied by the Seller. Codiligent LLC, its principals, and employees can not guarantee the accuracy, completeness, quality, or reliability of information, financial data, or assumptions provided. A buyer should not rely on Codiligent LLC, its principals, or employees for any investigation, interpretation, or opinion as to the accuracy, completeness, quality, or reliability of said information. A buyer should conduct its own independent investigation and evaluation of this business opportunity, ascertain the accuracy, quality, reliability, and completeness of information provided, and assumptions used, and develop and rely on independently developed projections. Codiligent LLC, its principals, and employees shall neither be responsible for the accuracy, completeness, quality, or reliability of information, financial data, assumptions used, or projections provided, nor shall it be responsible for Buyer relying on said information and data.

Market Comparable Value

		Multiple	Value Estimate	Value Adjusted For Deal Structure*	Weighting	Weighted Value
Revenue	\$2,620,130	1.720	\$4,506,624	\$4,506,624	2%	\$90,132
Gross Profit	\$2,620,130	2.530	\$6,628,929	\$6,628,929	3%	\$198,868
SDE	\$1,620,255	9.990	\$16,186,347	\$74,272,489	5%	\$809,317
EBITDA	\$1,446,935	12.470	\$18,043,279	\$18,043,279	90%	\$16,238,952
Total weighed value						\$17,337,269

* Deal Structure Adjustments (as of 8/31/15)

Cash & Deposits will be retained by Seller	\$0
Marketable Securities are N/A	\$0
Inventory is N/A	\$0
Accounts Receivables will be retained by Seller	\$0
FF&E will transfer to Buyer	\$0
Real Property is N/A	\$0
PrePaid Expenses will be Seller's property	\$0
Current Liabilities are Seller's Obligation	\$0
Total Deal Structure Adjustments	\$0

BUYER REGISTRATION FOR CODILIGENT LISTING #1000010614

Thank you for inquiring about Codiligent listing #1000010614.

Confidentiality in this transaction is of utmost importance. A more comprehensive package of confidential information is available to qualified buyers who complete and submit the following forms to Codiligent LLC. You are welcome to submit an alternate certified personal financial statement in place of using the provided form.

Please submit these forms by email: e@codiligent.com or Fax: 888-324-5888

Name:	<input type="text"/>	Company:	<input type="text"/>
Email:	<input type="text"/>	Address:	<input type="text"/>
Phone:	<input type="text"/>	City, State, Zip:	<input type="text"/>
Mobile Phone:	<input type="text"/>	Website:	<input type="text"/>

Are you an owner, director, shareholder, manager, employee, advisor, or consultant to any other businesses in this business' industry? YES or NO (please circle one)

If you answered "Yes" to the last question, name the business(es) and describe your affiliation:

Please describe your career background in 2-3 sentences:

What's the source of your down payment:

What is the minimum average annual return on equity that you require? %

What are your top acquisition criteria?

1	<input type="text"/>
2	<input type="text"/>
3	<input type="text"/>
4	<input type="text"/>

What is most appealing about this business based on information you have already reviewed?

What concerns do you have about this business based on the information you have thus far?

What businesses / industries or geographic locations are of interest for an acquisition?

Businesses / Industries:	<input type="text"/>
Geographic Locations:	<input type="text"/>

CONFIDENTIALITY AGREEMENT FOR CODILIGENT LISTING 100010614

THIS IS NOT AN AGENCY AGREEMENT

Neither this agreement nor any other communications between Codiligent LLC and you will establish a Principal-Agent Relationship, unless explicitly stated in writing. Codiligent LLC represents the Seller. Nothing in this agreement shall be construed to create a Principal-Agent Relationship between you and Codiligent LLC. You agree and acknowledge that you will engage professional advisors as you deem necessary and appropriate in connection with a potential acquisition, and that Codiligent LLC is only providing you with certain information. You agree and confirm that you have neither engaged Codiligent LLC to provide any advice to you about an acquisition, nor will you rely on information provided by Codiligent LLC in making a purchase decision. Codiligent LLC makes no representation or warranty, express or implied, as to the truth, accuracy, or completeness of any information provided to Codiligent LLC by the Seller. You further agree that you have not established a Principal-Agent relationship with Codiligent LLC.

CONFIDENTIALITY

This Agreement is made between the undersigned individually, and any business entity in which the individual is employed by, an officer of, or has a financial interest in, as well as any such entity's officers, directors, employees, agents and advisors ("The Buyer") and Codiligent LLC for the benefit of Codiligent LLC and the owner ("The Seller") of the number-designated business listed above ("The Business") of which information is being requested.

In consideration of the disclosure of confidential information regarding The Business by Codiligent LLC to Buyer, it is understood and agreed that:

1. Confidential Information is defined as: all information received by The Buyer from Codiligent LLC or The Seller now and in the course of future investigations or due diligence, which is not available to the general public. This confidential information includes all oral, written, or electronic data inclusive of, but not limited to, records, reports, analyses, photos, plans, financial statements, policies, procedures, ideas, customers, samples, notes, and studies. Anything prepared by Codiligent LLC, The Seller, or another party pertaining to The Business is to be considered Confidential Information unless explicitly stated in writing otherwise by Codiligent LLC or The Seller. If there is any reasonable doubt whether anything is, or may be Confidential Information, it is.
2. The Buyer will not disclose any Confidential Information or make known by confirmation, that this company, division, or product line is for sale or that financing is being sought, either before or after termination of investigations or negotiations to any person or organization not authorized in this agreement.
3. Without specific prior written approval of Codiligent LLC or The Seller, The Buyer shall not provide any Confidential Information to any broker, intermediary, lending institution, prospective equity partner, syndication member, investor, or other financing source. If disclosure to such parties is desired, Codiligent LLC may require the execution of a separate confidentiality agreement with those parties.
4. The Buyer will not contact the The Seller's employees, customers, suppliers, competitors, accountants, bankers, or attorneys to discuss The Business or seek information about it, without written permission from Codiligent LLC or The Seller.
5. The Buyer will not contact The Seller directly unless authorized by Codiligent LLC.
6. All Confidential Information provided by Codiligent LLC or The Seller to The Buyer shall be used solely for the evaluation of a potential acquisition or financing decision, and shall not be used for any other purpose.
7. All Confidential Information shall be promptly returned or destroyed, as directed by Codiligent LLC or The Seller.
8. The Buyer shall not enter into any agreement for the purchase of stock or assets of any companies about which Codiligent LLC furnished information to The Buyer, unless said agreement contains an acknowledgement that Codiligent LLC is the procuring cause of such agreement and Codiligent LLC is entitled to a commission as agreed upon by such company and Codiligent LLC.

Dated at _____ am/pm this _____ day of _____ 20__.

Name (printed): _____ Phone: _____

Address: _____

Signature: _____

CERTIFIED STATEMENT OF PERSONAL WORTH AND INCOME

Name (printed): _____ Date: _____

Address: _____ Phone: _____

I certify that the following information is true & accurate (please sign) _____

ASSETS

AMOUNT IN US\$

Cash on Hand
US Government Securities
Other Stocks & Bonds
IRAs & Tax Deferred Retirement Accounts
Accounts, Loans & Notes Receivables
Cash Surrender Value of Life Insurance
Real Estate
Equity in Business Owned
Automobiles
Plane, Boat, RV, Motorcycle
Household Furnishings and Personal Effects
Other Assets

TOTAL ASSETS

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LIABILITIES & NET WORTH

AMOUNT IN US\$

Credit Card Debt
Line of Credit Balance
Notes Payable
Auto Loans
Liens on Real Estate
Plane, Boat, RV, Motorcycle Loan
Other Liabilities

TOTAL LIABILITIES

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TOTAL NET WORTH (ASSETS - LIABILITIES)

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SOURCE OF INCOME

AMOUNT IN US\$

Salary
Bonus & Commissions
Dividends & Interest Income
Business Income
Real Estate Income, Royalties
Other Income

TOTAL INCOME

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