

Microsoft Acquires Sentillion

Continued Momentum in the Healthcare IT Vertical

Microsoft's (MSFT) recent acquisition of Sentillion, a leading provider of enterprise single sign-on (ESSO) technologies to the Healthcare industry, demonstrates the company's continued focus on the Healthcare vertical. While some believe that MSFT's 2006 acquisition of Azyxxi, since rebranded Amalga Unified Intelligence System (UIS), has not succeeded as once anticipated, the Sentillion acquisition represents a big step forward. Sentillion will enable MSFT to leverage its installed hospital customer base as well as further penetrate the Healthcare provider market by offering real-time data aggregation of multiple disparate legacy systems. Sentillion's technology, which was validated by MSFT via a licensing agreement in June 2009, will complement MSFT's Amalga UIS platform and will be incorporated into MSFT's Health Solutions Group.

Earlier this year the American Recovery and Reinvestment Act (ARRA) earmarked \$19 billion for the adoption and integration of electronic medical records (EMRs) with clinical information systems, and MSFT had not been well-positioned to capitalize on the near-term Federal Government stimulus program. The Sentillion acquisition increases the breadth of products that MSFT will offer to the Healthcare provider market by enabling the company to offer the necessary HIPAA-compliant security and identification software that will be essential for the adoption of EMRs. With the acquisition of the leading pure-play ESSO player, we expect other enterprise software vendors to reevaluate their current presence in the space, which in turn could further fuel consolidation.

Transaction Highlights

- On December 10, 2009, MSFT announced its intention to acquire ESSO, context management and identity management technology vendor Sentillion for an undisclosed sum.
- Sentillion is profitable and growing with a solid customer base in the Healthcare vertical and a sterling industry reputation. Furthermore, Sentillion had raised approximately \$29 million in VC funding from firms

including Intersouth Partners, Dresdner Kleinwort Capital, Polaris Venture Partners, Merrill Lynch Capital Partners and others. Given that the company didn't need to sell and the fact that current HIT public company valuations are robust (in excess of 3x LTM revenue and 13x LTM EBITDA), we believe that MSFT paid a significant premium for Sentillion.

- The company will operate from its Andover office as a wholly owned MSFT subsidiary, with CEO Rob Seliger reporting directly to Peter Neupert, Corporate Vice President of Microsoft's Health Solutions Group.
- The transaction is expected to close in early 2010.

Synergies

- Sentillion has had a longstanding relationship with MSFT and had signed an agreement in June to incorporate Sentillion's ESSO and context management solutions into its Amalga Unified Intelligence System, a Healthcare-focused enterprise data aggregation platform. Because of the existing partnership, there is likely minimal product redundancy and joint customers should be placated by the familiar relationship with the acquiring company.
- The merger allows MSFT to leverage Sentillion's domain expertise in context sharing with Microsoft's R&D capabilities to create an integrated best-of-breed technology platform. This level of innovation was not fully exploitable under the existing licensing arrangement.
- For Healthcare providers to readily adopt and derive maximum value from the Amalga UIS platform, it needs to become an intrinsic part of the workflows that drive the patient care delivery process. As part of MSFT, Sentillion will help customers maximize value from Amalga UIS and achieve the desired levels of integration.

Member of:



Argentina • Australia • Belgium • Brazil • Bulgaria • Canada • Chile • China (incl. Hong Kong) • Colombia • Czech Republic • Denmark • Estonia • Finland • France • Germany • Hungary • India • Ireland • Israel • Italy • Japan • Latvia • Lithuania • Mexico • Netherlands • Norway • Poland • Romania • Saudi Arabia • Serbia • Singapore • Slovakia • Slovenia • South Africa • Spain • Sweden • Switzerland • Thailand • Tunisia • Turkey • UK • USA: Atlanta • Boston • Chicago • Cleveland • Dallas • Jacksonville • Miami • New York • Philadelphia • Richmond • Seattle

TM Capital Commentary

Industry pundits view the ESSO market as a maturing niche primarily driven by high password-related help desk costs and the need for shared workstation support. To a certain extent, we agree with this assessment. In fact, there was significant interest in ESSO in the early/mid 2000's, resulting in substantial M&A activity (i.e multiple acquisitions by EMC, as well as both Oracle and Sun Microsystems separately during this period). Historically, ESSO was viewed as a sub-component of the eSecurity sector and the technology had broad, horizontal applications. However, what makes Sentillion special is that it has applied its robust ESSO solution specifically to the Healthcare vertical and, as a result, has developed valuable domain expertise for a number of reasons. Improved user convenience is the most widely outspoken need, especially in the Healthcare vertical. One of the major criticisms of IT in the Healthcare setting is that the systems used by the professionals in the sector are too disparate to be effectively leveraged. Numerous vendors offer multiple databases featuring patient data, each one requiring unique log-in credentials. As such, it is common for Healthcare providers to omit information or misdiagnose patients simply because the necessary patient information was too inconvenient to access. Sentillion's product suite addresses this challenge while improving user experience in accessing IT systems, enforcing security policies around authentication and facilitating regulatory compliance.

Gartner estimates that the ESSO market was approximately \$156 million in 2008 and grew at a rate of 10% over 2007, and MSFT will further accelerate the distribution of Sentillion's technologies to the broader \$2.6 trillion Healthcare market. Within this market, Sentillion is widely viewed as the vendor to beat in Healthcare ESSO, providing increasingly

differentiated approaches to address the unique needs of the Healthcare industry, and responding to the increased attention the industry is receiving on the U.S. national stage. Sentillion's industry focus gives it a strategic advantage over its competition in areas where industry policy, terminology and Healthcare-specific use cases dominate the customers' needs.

Sentillion's products have won numerous *Best in KLAS* awards and are well respected throughout the industry. The company has also been listed as a challenger in Gartner's Magic Quadrant for ESSO. Backing up this reputation is Sentillion's senior management team which possesses strong technical backgrounds as former R&D managers and chief architects of Hewlett-Packard's Medical Product Group. With the support of MSFT's vast resources, the company can further promote product development and expand into new geographies and markets that otherwise would have taken significant time and resources to reach organically.

Industry Implications of the Transaction

The deal will help Microsoft accelerate its Healthcare product roadmap and capitalize on the adoption of EMRs and the increasing need to integrate the disparate clinical systems inherent in today's Healthcare system. It will also encourage other technology incumbents such as Oracle and SAP to reexamine their existing Healthcare IT partnerships as potential acquisition opportunities. Oracle and SAP both have well established track records in the identity and access management (IAM) space and could look to build their Healthcare vertical focus. Oracle (independently and through its acquisition of Sun Microsystems) has made a number of bets in the ESSO space already, so we would not expect them to make another acquisition in this area. Rather, it will be

Representative M&A Transactions in IAM/ESSO

Date Announced	Target	Acquiror
12/10/09	Sentillion	Microsoft
02/19/09	Fortefi	Novell
11/12/08	Eurekify	CA
10/07/08	IDFocus	CA
04/07/08	M-Tech Information Technology	Hitachi
03/11/08	Encenture	IBM
02/29/08	Sxip Access Division	Ping Identity
09/20/05	Enatel	Bull Evidian
07/26/05	Protocom Development Systems	ActivCard (ActivIdentity)
03/28/05	Oblix	Oracle
01/10/05	Calendra	BMC

interesting to see how they decide to attack the Healthcare vertical by tailoring their existing solutions towards this market. SAP, for example, could potentially acquire a company like Secude, a niche IAM/ESSO vendor with whom it has an existing partnership agreement. BMC, who has fallen behind the curve in terms of its presence in IAM and ESSO, may look to make a comeback via acquisition.

Overall, MSFT's acquisition of Sentillion directly challenges its peers and will likely spur additional activity in both the ESSO niche and the HIT space as a whole. Sentillion will continue to face competition in the Healthcare industry from enterprise software vendors including EMC, CA, IBM, Oracle, Imprivata, Novell and Passlogix. Additionally, many players currently sitting on the outside of the industry looking in are partnered with pure-play vendors like Imprivata and Passlogix. We expect that some of these partnerships will turn into

acquisitions in the near future. Going forward, acquirors interested in building a presence in the HIT sector must be willing to think strategically if they intend to consummate transactions that satisfy the robust valuation expectations that we have been seeing in this space. We have been waiting for one of the major enterprise software vendors to make a marquee acquisition in the HIT space, and while this is a significant transaction for the sector, we do not believe that it will trigger acquisitions of the broader HIT systems players (i.e. Allscripts, Cerner, Eclipsys, etc.), as the market valuations for these players remain very difficult to justify. However, it does show that strategic acquisitions can get done in this challenging market environment.

Jon Krieger
Head of Healthcare IT Investment Banking
jkrieger@tmcapital.com | 212.809.1413

TMCC's Healthcare Focused ESSO Vendor Watchlist

VENDOR TM CAPITAL COMMENTARY

CA	Offers ESSO as part of a broader IAM suite. The company has large ESSO implementations and typically relies on its direct channel and global SI partnership network to drive sales.
IBM	Has made significant progress assimilating Encentuate's product suite which has been rebranded <i>IBM Tivoli Access Manager for ESSO</i> . The product now has a stronger global distribution, integration and support network that it lacked under Encentuate.
Oracle	A long-time player in the IAM market, Oracle has shifted towards serving heterogeneous clients rather than Oracle-only shops. The Sun acquisition will significantly enhance the company's IAM product suite.
Imprivata	Solid customer base as a result of its strong reseller network and reputation for easy integration/implementation. Despite global customer growth, the company is VC-backed and unprofitable, though its immediate viability is not in jeopardy.
Novell	Once serving as a VAR for ActivIdentity's <i>SecureLogin</i> , the company recently entered into a license agreement that will lead to a stronger product suite that remains attractively priced. Novell has significantly increased its seat count in 2009 with several customer wins.
Passlogix	Success due in part to its reseller relationship with Oracle and demonstrated product scalability. The company recently stole a piece of market share from IBM and now has several very large implementations.
Courion	Well established, VC-backed IAM vendor focused on user provisioning, password, compliance and role management. Winner of several <i>Best Deployment Scenario Awards</i> and <i>eWeek's Product to Watch Award</i> . Focused on Healthcare and Pharmaceutical verticals.

TM Capital Corp. Disclaimer

The information and opinions in this report were prepared by TM Capital Corp. ("TM"). The information herein is believed by TM to be reliable but TM makes no representation as to the accuracy or completeness of such information. There is no guarantee that the views and opinions expressed in this communication will come to pass. TM may provide, may have provided or may seek to provide M&A advisory services to one or more companies mentioned herein. In addition, employees of TM may have purchased or may purchase securities in one or more companies mentioned in this report. Opinions, estimates and analyses in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of TM and are subject to change without notice. TM has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, estimate, forecast or analysis set forth herein, changes or subsequently becomes inaccurate. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.

About TM Capital Corp.

TM Capital Corp. is an independent investment banking firm based in New York, Boston and Atlanta, which has completed over 200 mergers, acquisitions and financings with a combined value in excess of \$11 billion for its global roster of clients. For 20 years, TM Capital has provided a range of services to its public and private company clients, including: executing exclusive sales and divestitures; identifying and negotiating value-enhancing acquisitions; arranging debt and equity financings for acquisitions, growth capital and recapitalizations; negotiating complex financial restructurings; advising in connection with contested takeovers; providing fairness opinions and valuations; and investing as principal where TM's expertise and capital can be a catalyst for value creation. TM Capital is a member firm of M&A International Inc., the world's leading alliance of mid-market investment banks with over 600 professionals in 45 offices spanning 42 countries. In 2008, member firms closed 258 transactions worth more than \$16.9 billion. For more information, visit www.tmcapital.com.

M&A Advisory on a Global Scale



With 45 offices in 42 countries in the Americas, Europe, Africa and Asia-Pacific, TM Capital and its M&A International Inc. partner firms provide you with a world of opportunity in today's global M&A market.

New York

One Battery Park Plaza
24th Floor
New York, NY 10004
Tel: (212) 809-1360

Boston

100 Lowder Brook Drive
Suite 1400
Westwood, MA 02090
Tel: (781) 320-3200

Atlanta

Fifteen Piedmont Center NE
Suite 1010
Atlanta, GA 30305
Tel: (404) 995-6230

