

A LETTER FROM THE CEO

KEITH R. DUNLEAVY, M.D.



Dear Fellow Stockholders,

The entire healthcare industry is undergoing a dramatic transformation from volume-based models to value-based models. After countless years of being focused on “how many,” the industry’s attention has increasingly turned to focus on “how well.” Did the surgical procedure occur without complications? Did the medication work better than its alternatives? Is the health of the patient improving? Did the quality-adjusted cost of care improve? Although the situations vary across the ecosystem – from health plans, provider systems, and pharmaceutical companies – to diagnostics companies and device manufacturers – a commonality stands out: to determine value and improve upon it, data – and the ability to aggregate, analyze, derive insights from it, and apply those insights to drive impact – is essential to understanding and improving healthcare.

It is a commitment to succeeding in this important mission that drives us. Behind the scenes, Inovalon is empowering the healthcare industry’s effort to better understand patients’ disease burdens, decrease emergency room visits, shorten hospital stays, lower readmission rates, accelerate drug development, improve the costs and outcomes associated with complex diseases, and select the right treatment for the right patient at the right time. Inovalon’s platforms enable our clients to gain better insights, achieve improved clinical outcomes, and realize greater financial performance, which in turn impacts millions of patients’ lives.

During 2016, the Company remained focused on its long-term vision to be the leading provider of cloud-based platforms empowering value-based care across the healthcare ecosystem. And while the Company did not achieve its original financial goals for the year, Inovalon made tremendous progress deepening its datasets, expanding its connectivity reach, advancing its compute capabilities, and delivering highly meaningful and differentiated value to its clients. Reflecting the great work of so many associates, our dedicated focus during the year resulted in an increased sophistication of connectivity, data, and compute environment architecture and accelerating product development. Together, while not readily evident in the financial performance of the year, this drove many notable advancements for the Company which are seen as paying meaningful dividends for years to come.

By the end of 2016, the Company’s advancements in connectivity capabilities surged with a 446% increase in providers (to more than 100,000) having real-time Electronic Health Record (EHR) system connectivity directly with the Inovalon platform. In parallel, by the close of the fourth quarter, Inovalon’s MORE² Registry[®] dataset grew substantially to contain more than 150 million unique patients and 13.3 billion medical events, representing a year-over-year increase of 15% and 21%, respectively, the fastest growth rate of these metrics since the third quarter of 2014. The Company advanced its real-time compute environment to a highly sophisticated active-active-active multi-cloud containerized compute architecture, strengthening Inovalon’s leadership role in driving on-demand transactional analytics applications. Further still, during 2016 initiatives focused on product modularity, data visualization, and client-cloud-access (CCA) functionality drove multiple next-generation platform version launches across the Inovalon product portfolio.

Altogether, the advancements in our connectivity, dataset depth, compute sophistication, product design, and the work of our tireless and truly amazing associates, empowered client count expansion, deepened our market differentiation, and increased adoption of several leading-edge product launches within the market. Together with our Avalere colleagues, the Outcomes Based Contracting (OBC) platform for the pharmaceutical industry gained meaningful traction during the year, as did the launch of our post-acute care platform for the provider marketplace. These successful launches continued to advance the Company’s focus on expanding into large market adjacencies. Further, combined with accelerating efficiencies enabled through both technological and process advancements, these launches bode well for increasing Company growth and profitability ahead.

Rounding out the year’s strategic initiatives, in October 2016 we acquired Creehan & Company, the industry’s leading provider of Software-as-a-Service (SaaS) and on-premise enterprise-wide software application platforms for the specialty pharmacy market. This complex segment of the healthcare market benefits greatly from a data-focused approach, as the mutual goal of all parties is to achieve greater quality, outcomes and financial performance. The vital nature of this large and growing market segment, coupled with significant data and technology synergies with Inovalon’s platforms and client base, makes the combination of Creehan & Company with Inovalon an exciting and powerful addition, already yielding meaningful results by year’s end.

It is Inovalon’s core belief that the application of data and its analysis will have a transformative impact on the healthcare industry – empowering the critical shift from volume-based to value-based models of care. The Company is resolute in its strategy to invest in long-term business success and balance innovation, growth and profitability to maintain sustainable competitive differentiation within the marketplace, meaningful value for clients, and profitable growth for stockholders.

We look forward to reporting on our progress and sincerely appreciate your interest and support as stockholders.

Kind regards,

A handwritten signature in black ink, appearing to read "Keith R. Dunleavy". The signature is fluid and cursive, written over a white background.

KEITH R. DUNLEAVY, M.D.
Chief Executive Officer &
Chairman of the Board
April, 2017