



Healthcare M&A Checkup – Q3'16

Is Revenue Cycle Ready for Value Based Care?

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Summary of Recent Industry Developments

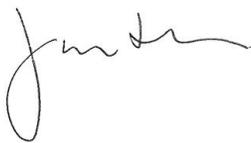
Intrepid's Healthcare Group is dedicated to helping a variety of middle-market companies realize their financing and M&A objectives and achieve considerable growth and liquidity. We remain active in the healthcare marketplace and most recently advised:

- Software deployment services firm Avaap on its growth recapitalization from New Mainstream Capital
- Healthcare upholstery distributor C.F. Stinson on its recapitalization with BV Investment Partners
- Tissue harvesting business Science Care on its majority investment from American Capital Equity

In the newsletter, we highlight other recent developments in the healthcare industry and share our thoughts on the rapidly consolidating sectors in which we focus. We describe the significance of some of the most transformative transactions to be announced in the past few months.

One of the more astonishing industry developments that we are focusing on is the revenue cycle management industry's response to the broad shift towards value-based care.

Thank you,



Jonathan Bluth

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Head of the Healthcare Group

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In This Issue

- Is Revenue Cycle Ready for Value Based Care? - A Proprietary Intrepid Survey Reveals Surprising Results
- Review of Recent Transformative Transactions
- A Selection of Intrepid's Recent Healthcare Experience

Read our Banker Insights

- Potential Blocking of Health Plan Deals Could Spur Silo-Expanding M&A Strategies
- Why Business Is Good For Self-Pay Management Companies



Is Revenue Cycle Ready for Value Based Care?

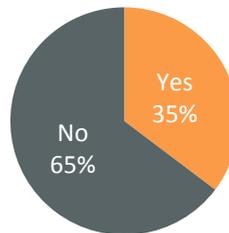
Despite the healthcare industry's shift from volume-based reimbursement to more risk-bearing value-based care (VBC) payment models, few revenue cycle management (RCM) companies are developing solutions or selling work related to these new payment models, even though they are helping their clients transition to this new and potentially cannibalizing form of payment. The Affordable Care Act (ACA) set in place a transition from legacy payment models that historically rewarded providers for the quantity of activities they performed to payment structures that reward better value, in terms of cost, quality and outcomes measures. According to a *HealthLeaders Media* survey, 72% of surveyed health executives said that the industry will switch from volume to value.¹ But, it does not appear that RCM companies are ready.

The emerging shift to a new payment model could prove to be a major hurdle for RCM companies that currently generate revenue by processing claims retrospectively for a percentage of dollars collected. Consistent with VBC, many providers in the future will receive payments prior to service in the form of bundled reimbursements or per member, per month capitations. Additionally, retrospective submissions of quality metrics could allow for quality-linked cash bonuses or penalties.

“While the majority of reimbursement is still fee-for-service, the future is clearly value-based payment,” responded Allen Sugerman, Chief Financial Officer of Patient Accounts Services. “There is significant opportunity for a RCM company to develop the technology and expertise to be at the forefront of the RCM industry.”

In an effort to quantify where RCM companies stand with respect to assisting their clients with these changes, Intrepid's Healthcare team surveyed RCM companies nationally and compiled the results. Nearly 25 RCM companies participated in the survey, responding to questions about how they might be preparing for or participating in the shift to VBC.

Less than 40% of RCM companies surveyed currently market any products for provider clients that would help them process capitated or bundled payments. Similarly, less than 30% of RCM vendors have assisted any provider clients with adjudicating shared savings programs, of which 60% had not yet processed any shared savings payments.

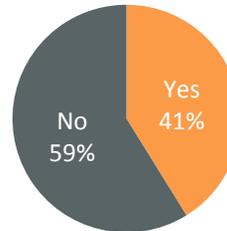


Do you currently market any products that help process capitated or bundled payments?



Is Revenue Cycle Ready for Value Based Care? *(cont'd)*

While the overwhelming majority of RCM companies are not preparing for the industry shift, 59% of RCM companies reported that they had sold services to a provider client to help them process capitated or bundled payments in response to client's requests.

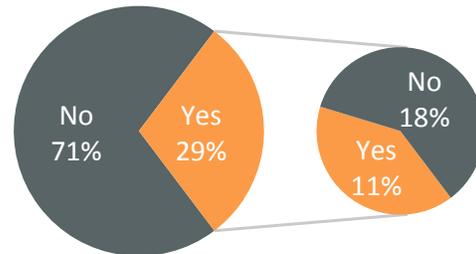


Are you currently developing any products that would help clients process capitated or bundled payments?

"While the majority of reimbursement is still fee-for-service, the future is clearly value-based payment," responded Allen Sugerman, Chief Financial Officer of Patient Accounts Services. "There is significant opportunity for a RCM company to develop the technology and expertise to be at the forefront of the RCM industry." While on the surface it may seem that RCM companies are falling behind the national trend towards VBC because they are not broadly marketing for capitated and bundled programs, the vast majority are still providing their clients with the necessary services to adapt to the evolving payment landscape.

Have you assisted with adjudicating shared savings programs?

If so, did any receive shared savings payments?



The imminence of VBC payment models in healthcare will eventually require traditional RCM vendors to make a fundamental shift in their business or risk losing clients to more progressive competitors.

¹ "Industry Survey 2014: Forging Healthcare's New Financial Foundation." *HealthcareLeaders Media*. January 2014.



Recent Healthcare Industry Transactions

McKesson Sells Its Technology Solutions Business to Change Healthcare

McKesson carved out and merged its McKesson Technology Solutions business into a newly formed partnership with Change Healthcare. McKesson retained RelayHealth and its Enterprise Information Solutions from its original Technology Solutions division but will now return to its original core competencies as a supplies distribution and oncology practice management company. Change Healthcare will contribute all of its businesses to the new company, with the exception of its pharmacy switch and prescription routing business, which will be owned separately by the current Change Healthcare stockholders (Blackstone and Hellman & Friedman). The new company will have a pro-forma combined total annual revenue of \$3.4 billion.



Abbott's Acquisition of Alere Heading to Mediation Following Murky Due Diligence

After originally announcing its intention to acquire Alere for 5.8 billion in February 2016, in an effort to better position Abbott as the leader in point-of-care diagnostics, Abbott became hesitant after multiple federal probes delayed Alere's ability to complete important regulatory filings on time. Based on concerns about the accuracy of financial information provided by Alere, Abbott requested to terminate the deal, offering to pay a \$30 million to \$50 million breakup fee. Alere rejected the request to terminate and continues to pursue all avenues to complete the transaction.



Envision Healthcare to Merge with Amsurg Corp., Creating a Healthcare Services Behemoth

Envision Healthcare acquired Amsurg for \$4.4 billion to create one of the most broadly-focused physician practice management platforms, spanning from pre-hospital, acute, and outpatient care to post-acute, with complementary strengths as a physician-led, patient-focused healthcare services organization. This transaction marks another massive consolidation in the provider sector, where hospitals and physician groups are banding together across the country to gain better leverage in negotiations with health insurers. All the while, physician services organizations are also consolidating to gain greater influence over hospital groups, who themselves are increasingly contemplating paths toward reducing the number of vendors used for outsourcing clinical services.



Quintiles Acquires IMS Health in Successful Healthcare Analytics Megamerger

Quintiles is acquiring IMS Health for \$13.5 billion, of which 65% is stock. IMS Health tracks prescriptions, medical claims, and electronic records and sells the data, while Quintiles is a contract research organization that offers a range of services focused on pharmaceutical product development, including clinical-trial design. According to the company press release, Ari Bousbib, Chairman and CEO of IMS Health, said: "Together, our solutions will enable differentiation in the CRO market, advance real-world evidence capabilities, and deliver comprehensive commercial solutions for our clients." The combined entity will create an information pool for pharma companies under pressure to limit costs and improve research efficiency. The merged corporation will operate under the name Quintiles IMS Holdings.





Select Healthcare Transaction Experience


 a portfolio company of

 has sold the brand

 to

Advisor to Enaltus


 has received a majority investment from

Advisor to Science Care


 has completed a growth recapitalization with

Advisor to Avaap


 has completed a recapitalization with

Advisor to C.F. Stinson


 has been acquired by

Advisor to IAMG*


 has acquired

Advisor to MiraMed*


 has been acquired by

Advisor to Primary Critical Care*


 has been acquired by

Advisor to CRT Medical Systems*


 has received a growth equity investment from

Advisor to Envy Medical


 has been acquired by

Advisor to Autism Spectrum Therapies

The Specialty Pharmacy Division of

 has been acquired by
 Modern HC Pharmacy, Inc.
 a portfolio company of

Advisor to A-Med Health Care


 has been acquired by

Advisor to Newport Medical

*Represents transactions executed by principals of Intrepid while at previous securities firms.





Healthcare Team

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About Intrepid's Healthcare Group

Intrepid's Healthcare group is dedicated to providing strategic advice in capital raises and mergers and acquisitions across a broad range of healthcare sectors, including behavioral health, devices, hospitals, IT, pharmacy, physician practice management, post-acute care, and revenue cycle management. Our team maintains extensive relationships with strategic buyers and institutional investors across these sectors.

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