24th Annual Health Sciences Tax Conference

Mergers, acquisitions, joint ventures and other transactions: trends and issues

December 8, 2014
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Health care delivery today

- Opaque paradigm
- Periodic measurement
- Treatment of disease
- Providers have control

Source: EY
Increasing usage of technologies

Life sciences companies, tech start-ups and providers are leveraging the use of smart phones to provide remote monitoring to patients worldwide.
Health care delivery tomorrow

- Transparent paradigm
- Continuous monitoring
- Prevention, behavior
- Patients have control
- Next frontier in personalized medicine

Source: EY
Health care transaction trends

The transactions they are pursuing involve much more than just increasing scale, which raises the stakes for effective due diligence, valuation and integration.

- Alliances and mergers between care delivery, research and financial partners to create coordinated care networks that provide at-risk population health management to employers and consumers.
Emerging trends in health care

- Provider
  - Transitioning to value-based medicine
  - Continued migration of health care services to lower-cost settings of care
  - Hospital services outsourcing
  - Convergence and consolidation across the value chain (and with non-traditional players) – joint venture (JV) and mergers and acquisitions (M&A)
  - Looming resourcing and access to care issues
  - Increased centralization and business-led decision-making within providers
  - Ongoing capital stresses in smaller and not-for-profit provider segment
  - Continued investment in health care information technology

- Payer
  - Evolving dynamics of employer-sponsored health insurance
  - Adoption of public and private exchanges
  - Challenges and opportunities from the expanded government role in health care
  - Convergence with provider
  - Healthcare Information Technology (HCIT) and analytics

- Patient
  - Increased consumer decision-making with high-deductible health care plans and greater patient awareness and engagement
  - Personalized diagnostics and health care delivery
Global health care
M&A trends in health care

Deal value and volume trend

Volume by buyer type – last 12 months

Value by buyer type – last 12 months

Strategic deals trend

Financial deals trend

Source: Capital IQ; LTM as of August 31, 2014
New trends in health care

Health care represents approximately 15% of private equity (PE) transactions in a given year and investments are often trying to capitalize on sector trends and new business models.
Health care trading comparables

Sector analysis

Comparable company valuation analysis by subsector (enterprise value/2014 estimated earnings before interest, taxes, depreciation and amortization (EBITDA))

Health care information technology continues to enjoy premium valuations relative to other health care services subsectors.

Source: Capital IQ as of August 31, 2014
New trends in health care

**Trend #1:** The transition to value-based reimbursement is disrupting the health care business model

Although the health insurance exchange provisions of the Affordable Care Act have received more attention, the provisions that accelerate the transition to value-based reimbursement will have a significantly more disruptive effect on the US health care business model.
New trends in health care

**Trend #1:** This transition is forcing the actors in the health care ecosystem to become co-dependents vs. competitors

![Diagram illustrating the ecosystem of health care partners and the sharing of health outcome accountability, revenue sharing, financial risk sharing, compliance and regulatory risk sharing, ops disruption/failure risk sharing, functionality, security and data requirements, intellectual property sharing, and research partners.]
New trends in health care

**Trend #1**: You can expect to see more novel transactions as these actors experiment with different partnerships to build and acquire the capabilities they need.

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Examples of disruptive transactions to create codependency

- Health plans and health systems are aligning to pool data and develop population health management capabilities designed to reduce health care consumption.
- Managed service providers, technology vendors and health care providers are aligning to integrate mobile health devices, monitoring technologies and predictive analytics into the continuum of care.
- Retailers, health plans and health care providers are aligning to transform the patient experience.
## Representative health care strategic activity

### Commercial and alliance

<table>
<thead>
<tr>
<th>Selected key themes</th>
<th>Commercial</th>
<th>Alliance</th>
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<td>Cost cutting</td>
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### Risk

- Lower

### Control

- Lower

### Stakeholder potential

- Lower
Representative health care strategic activity
JV and PE

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| Risk                                 | Medium to higher                        |                                         |
| Control                              | Lower to medium                         |                                         |
| Stakeholder potential                | Lower to higher                         |                                         |
## Representative health care strategic activity

### M&A

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<th>Amsurg</th>
<th>Aetna</th>
<th>CHS Community Health Systems</th>
<th>Tenet</th>
<th>DaVita</th>
<th>Baylor Health Care System</th>
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<td>Sheridan</td>
<td>Coventry Health Care</td>
<td>Health Management Associates</td>
<td>Vanguard Health Systems</td>
<td>HealthCare Partners Medical Group and Affiliated Physicians</td>
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### Risk
- Higher

### Control
- Highest

### Stakeholder potential
- Highest
New trends in health care

Trend #2: Health care delivery continues to shift to lower-cost settings
New trends in health care

Trend #2: Cost differentials across setting of care will continue to drive this phenomenon

Cost comparison for three common treatments among outpatient facility types

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<th>Facility Type</th>
<th>Cost Comparison</th>
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<td>Emergency departments</td>
<td>$570</td>
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<td>Physician offices</td>
<td>$166</td>
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<tr>
<td>Urgent care centers</td>
<td>$156</td>
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<tr>
<td>Retail clinics</td>
<td>$110</td>
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</table>

Cost comparison among inpatient facility types

<table>
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<th>Cost Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>$1,479</td>
</tr>
<tr>
<td>Skilled nursing facility care</td>
<td>$303</td>
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<tr>
<td>Hospice care</td>
<td>$135</td>
</tr>
<tr>
<td>Home care</td>
<td>$50</td>
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Case studies
Questions?
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