

Industry Insights

April 30, 2019

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Innovations in Fintech Poised to Revolutionize Healthcare Payments

Banker Commentary by Jill Frew

The U.S. healthcare industry has been notoriously slow to embrace new payment systems and processes, largely due to the complexity that arises from regulatory and privacy requirements. Only 17% of consumers receive a medical bill electronically, despite over 70% preferring electronic statements. CAQH, a nonprofit alliance of health plans and trade associations, reported that the healthcare industry could save an additional \$450 million each year if the remaining manual claim payments are converted to an Automated Clearing House (ACH)... *Continued on p.2*



Weekly Commentary

Market Commentary by Matt O'Grady

Headline News

With spring break season ending it should be time for everyone to hunker down as we march towards summer. The first quarter always has its challenges with a myriad of holidays that can become enhanced by trends that are slow to develop.... *Continued on p.3*

Commentaries Banker Commentary by Jill Frew Continued from p. 1

U.S. healthcare spending is on track to hit \$6 trillion by 2027, nearly double 2018 levels, and payers and providers are seeking innovative solutions that streamline the payment process and enhance the consumer experience as out-of-pocket healthcare costs escalate. There has been a dramatic increase in both the percent of consumers enrolled in high-deductible plans (59% in 2008 versus 85% in 2018) and the average deductible (\$735 in 2008 versus \$1,573 in 2018). At the same time, consumers are used to Amazon-like experiences, and now expect similar ease of use from their healthcare billing and payment interactions. Price transparency tools, digital wallets such as Apple Pay, provider ratings, and social media recommendations are becoming the norm.

There are three basic financial transaction in healthcare, not including those made from patients to payers to continue health plan coverage.

1. The patient pays their copay before the physician provides service, typically via cash, check or payment card.
2. The physician's office in turn submits the claim to the payer, who settles the claim. This process typically takes many weeks, largely because payers send paper checks.
3. The patient pays their balance after being sent an Explanation of Benefits (EOB) statement by their insurer and an invoice by the provider.

Each of the above transactions remains cumbersome and confusing for all stakeholders – the consumer, payer and provider. By capitalizing on two key trends in the space — the digitization and consumerization of healthcare — innovative payment, software and processing companies are beginning to emerge, offering specific solutions that accommodate the shifting landscape. Traditional payments companies like Global Payments and Worldpay, and healthcare-specific providers like Zelis Payments, InstaMed, PatientCo and CarePayment, have already carved out a piece of the market. The biggest areas of opportunity for other players will include digital payments, SMS and other value-add solutions—i.e., mobile point-of-sale solutions, online payment portals and integrated check-ins.

Below is an overview of innovations occurring in the healthcare payments space and leading companies seeking to create a better experience for consumers, providers and payers.

- **Text-to-Pay** is expected to become an effective means of communicating billing information and increasing the likelihood of a patient making a payment. Companies targeting this market by enabling healthcare providers to communicate billing information directly to patients via text and allowing patients to make payments with a single-click option.
 - *Companies: SwervePay, RevSpring, ACI Worldwide*

Commentaries Banker Commentary by Jill Frew Continued from p. 2

- **Digital Solutions** allow healthcare companies to appeal to consumers while delivering a compelling ROI to payers and providers. If electronic transactions were to become the norm in the industry over today's paper processes, annual savings in overall administrative costs alone could amount to \$9.4 billion, according to a CAQH. Over 90% of providers are still receiving paper checks from one or more payers. Companies facilitating electronic payment via Electronic Remittance Advice (ERA), Electronic Funds Transfer (EFT) or virtual card are experiencing strong organic growth due to greater provider adoption.

 - *Companies: RedCard Systems, Change Healthcare, vPay*
- **Mobile Point-of-Sale (mPOS)** terminals enable providers to bring the payment process directly to the patient at the point of care. In addition, mPOS terminals offer the opportunity to eliminate or streamline redundant and cumbersome data collection processes.

 - *Companies: Verifone, Ingenico Group, McKesson*
- **Online Portals & Payment Plans:** The percent of payments made via online member portals is rapidly increasing. In addition, adoption of automatic payments and payment plans has increased significantly in recent years. Online payment portals are meeting the needs of patients, increasing engagement, and, as a result, improving the probability of payment.

 - *Companies: InstaMed, AccessOne, BillingTree, Medfusion*
- **Ease of Use:** Recent surveys show that 60-70% of consumers are confused by their medical bills, and, as a result, they are less inclined to seek additional medical care, and/or are more inclined to ignore medical bills. Several emerging companies are tackling these challenges by improving consumer engagement and streamlining communications.

 - *Companies: Cedar, Simplee, Flywire, InBox Health*
- **EHR Integration:** Payment firms that can offer payment and billing solutions that are integrated directly into EHRs could quickly become leaders in the space. EHR integration eliminates double entry, allows for real time data exchange, improves staff productivity and improves the patient experience.

 - *Companies: FormFast, Redox, Salucro, HealthPay24 (Invoice Cloud)*

Commentaries *Market Commentary by Matt O'Grady Continued from p. 1*

Every year starts with recollections about how the prior year ended and prognostications of we should expect for the new year. The broad themes normally unfold as predicated, but the timing of when they occur always seems to shift; and often the timing can be as important as the event itself.

If you recall, we ended the year with a significant amount of market uncertainty. As the first quarter has played out, investors found some clarity, largely provided by the Federal Reserve. Investors have also seen enough actual results to feel confident about the rest of the year.

For now, recession concerns have subsided and to such an extent that the market is pricing in a 60% chance for a quarter-point rate hike before year-end. Obviously, a lot can happen between now and then, but earnings and economic releases continue to generate optimism.

Of course, major events like the trade war between the United States and China still loom. This week both sides are meeting face to face in Beijing to continue negotiations. For now, it seems like these discussions are centered on the checks and balances provisions within the deal. Recent public comments from President Xi suggest that he is willing to accept the core principles that we have previously outlined. As with any superpower, there are multiple flashpoints that could derail this process. Relations between the U.S. and China have been under strain for multiple reasons. For example: intellectual espionage issues (like Huawei), the South China Sea, North Korea, and Iranian Oil. As you can see, these are not minor issues, and any one of them could be detrimental to finalizing a meaningful trade deal.

Away from trade, it was a relatively quiet week, other than the normal political news from Washington, D.C. We will see if this can continue, when President Trump meets with Democratic leaders later this week to discuss the budget and infrastructure.

Economic Releases

Last week's reports were as advertised. A major focus was 1Q GDP, which exceeded expectations. Sifting through the details, it appears that inventories increased ahead of some trade related supply chain concerns. If you were to look a little closer at GDP ex inventories, you would see a lower GDP number. GDP ex inventories captures "final sales" and is a better barometer for real GDP.

This week investors will be focused on the following reports: Personal Spending, Consumer Confidence, FOMC rate decision (nothing expected), Durable goods, Change in Non-Farm Payrolls, and Unemployment.

Market News and Numbers

The stock market finished somewhat flat last week as the DJIA closed 26,543. As earnings rolled in, most beat expectations, but some big names like 3M disappointed. Technology stocks pushed the S&P higher, but investors seem to be cautious as the growth rates for companies like Amazon have shown signs of normalizing. The psychology of the market's expectations never ceases to amaze me, but you would think double digit growth forecasts that far exceed inflation should be optimistically received. The flip side is understanding what has already been "priced in" and what has not. Clearly, some of this bull market was way out in front with regard to growth.

The Treasury market ended the week with the 10-year bond closing at a 2.515%, which was seven basis points lower. With the Fed leaning closer to an increase than a decrease this move could be the backside to the technical factors that led to the rally earlier in the month.

The municipal bond market is getting a turn in the spotlight. Tax season has generated specific storylines. SIFMA increased 26 basis points to 2.30%. Meanwhile, the more

Commentaries Market Commentary by Matt O'Grady Continued from p. 4

interesting storyline continues to be the record influx of cash. Tax-exempt mutual funds finished their sixteenth straight week of positive cash receipts. ICI reported \$984 million, and Lipper reported \$1.6 billion. Year to date tax-exempt mutual funds have already received more new cash than they normally do for an entire year!

Obviously, all this cash is further exacerbating the supply and demand dynamics that were already under pressure. Besides lower interest rates and a flatter yield curve, this flood of cash is causing investors to reconsider their credit requirements. Investment grade funds in particular are "reaching" for additional yield in their quest for alpha.

From a rate perspective tax free rates are chugging back towards all-time lows. Last week the MMD scale was lowered by 14 basis points on the long to close at a 2.55% in 2049. The RBI also saw a similar rate move as the index closed at a 4.27%, which was a six-basis point move.

This week's negotiated new issue calendar is just under \$3 billion.

Oil finished the week lower as WTI futures closed on Friday at \$63.30.

What Deals Got Placed

In Michigan, Henry Ford Health System borrowed \$227 million of new debt. The bonds were rated A2 by Moody's and A by S&P. The longest 5.00% coupon came in 2048 to yield a 3.18%, while the longest 4.00% coupon came in 2050 to yield a 3.54% (+92).

Senior living had two small deals sneak onto the calendar. In Indiana another tax credit assisted living waiver deal came for Vivera Senior Living. The deal was non-rated with the longest term in 2039 coming as a par bond to yield 5.625% (+300).

In Florida, Sawgrass Grand Senior Living came as a 142(D) start-up development deal. The bonds were non-rated and used a single term in 2049 7.00% coupon priced at par (+438).

What's on Deck

This week's calendar does not have any healthcare or senior living scheduled to price.

Market Indices

Equity Indices Information as of April 26, 2019

	Current (%)	One Week Ago (%)	One Year Ago (%)
A-rated Tax-Exempt Hospital Bonds (30-Yr)	3.28%	3.30%	3.70%
AA Tax-Exempt Hospital Bonds (30-Yr)	3.13%	3.15%	3.45%
SIFMA (Variable Rate Demand Notes)	2.30%	2.04%	1.81%
Revenue Bond Index	4.27%	4.33%	4.35%
SIFMA/1 Month LIBOR	92.74%	81.93%	95.42%
RBI/30 Yr Treasury (%)	146.23%	146.28%	138.28%
30-Year Floating to Fixed Swap (81% LIBOR)	2.16%	2.20%	2.48%

Source: Cain Brothers, Bloomberg and Capital IQ.

Tax-Exempt Debt Information as of April 26, 2019

	Current (%)	One Week Ago (%)	One Year Ago (%)
A-rated Tax-Exempt Hospital Bonds (30-Yr)	3.28%	3.30%	3.70%
AA Tax-Exempt Hospital Bonds (30-Yr)	3.13%	3.15%	3.45%
SIFMA (Variable Rate Demand Notes)	2.30%	2.04%	1.81%
Revenue Bond Index	4.27%	4.33%	4.35%
SIFMA/1 Month LIBOR	92.74%	81.93%	95.42%
RBI/30 Yr Treasury (%)	146.23%	146.28%	138.28%
30-Year Floating to Fixed Swap (81% LIBOR)	2.16%	2.20%	2.48%

Source: Cain Brothers. Note: SIFMA, RBI & 30-Yr. Treasury are as of prior Thursday close

Tax-Exempt Healthcare Issuance Information as of April 26, 2019

Borrower	Par (\$MM)	State	Rating	Maturity	Coupon	Yield to Call	Yield to Mat.	AAA
Henry Ford Health System	227,910	MI	A2 / A / NR	2050	4.00%	3.54%	3.78%	2.55%
Advocate Health Care Network	36,535	IL	Aa3 / AA / AA	2030	5.00%	2.37%	N/A	2.55%
Sawgrass Grand Senior Living Project	35,800	FL	NR / NR / NR	2049	7.00%	7.00%	N/A	2.55%
Total	\$ 300,245							

Source: Cain Brothers, Bloomberg and Capital IQ.

Transaction Activity, Week of April 29, 2019

M&A Activity

<u>Announced</u>	<u>Target</u>	<u>Acquirer</u>	<u>Ent. Value</u>	<u>Enterprise Value/</u>		<u>Description</u>
				<u>LTM Rev.</u>	<u>LTM EBITDA</u>	
4/25/2019	Franco Signor	BV Investment Partners	NA	NA	NA	Provider of medicare secondary payer compliance solutions to self-insured companies, insurers, and third party administrators
4/25/2019	Angels of Care	Varsity Healthcare Partners	NA	NA	NA	Provider of home health services to pediatric patients with complex medical conditions
4/24/2019	Get Real Health	CPSI	\$25.0	NA	NA	Technology solutions to improve patient outcomes and engagement strategies with care providers

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Public Offering Activity

NONE

Source: IPO Monitor, Capital IQ, Mergermarket, PE HUB and press releases.

Private Placement Activity - Equity

<u>Date</u>	<u>Company</u>	<u>Investor(s)</u>	<u>Type</u>	<u>Amount</u>	<u>Description</u>
4/24/2019	Forefront Telecare	Boston Millennia Partners	Growth Equity	\$15.0	Provider of behavioral services via telehealth
4/23/2019	NorthStar Medical Technologies	Oberland Capital Management	Equity	\$100.0	Distributor of radioisotopes used for medical imaging and therapy

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Healthcare News

Anthem Raises Outlook Amid Concerns Over Political Environment

Anthem Inc. raised its 2019 earnings outlook after its profit rose in the first quarter, continuing a trend of strong managed-care results despite investors' concern about policy issues, including some Democrats' discussion of universal government coverage. The insurer said it now expects per-share profit to be greater than \$18.27 for 2019, up from its previous forecast of greater than \$18. Analysts polled by Refinitiv expect full-year earnings of \$17.88 a share. Profit rose 18% in the first quarter, lifted by higher revenue from solid membership growth and lower selling, general and administrative expenses. (Wall Street Journal, 4/24)

<https://www.wsj.com/articles/anthem-raises-outlook-despite-concerns-over-political-environment-11556125302>

CVS Will Bring Hundreds of SmileDirectClub Shops to Its Stores

CVS Health is about to make it easier to straighten your teeth. The drugstore chain will open "hundreds" of SmileDirectClub locations inside its stores this year, with plans to open more than 1,000 locations over the next two years, the company announced Thursday. Called a SmileShop, customers can receive a 3D scan of their teeth that will be used to create a pair of invisible braces. CNBC reported in January that CVS was running a pilot with SmileDirectClub to fit people for clear braces inside its drugstores. At the time, the idea was being tried out at just six CVS locations. The pilot grew to 13 locations, with the test performing so well that CVS decided to expand it. (CNBC, 4/25)

<https://www.cnbc.com/2019/04/25/cvs-is-opening-up-hundreds-of-smiledirectclub-shops-in-its-stores.html>

Healthcare News *Continued from p.8*

Most Americans Don't Want Congress to Overhaul Healthcare

As Democrats and Republicans battle over which health care proposal should replace the Affordable Care Act, a majority of Americans say they don't think Congress should revamp the entire U.S. health care system, according to a new Kaiser Family Foundation poll. Instead, voters would rather see lawmakers focus on a handful of changes, like protecting pre-existing conditions and tackling rising prescription costs and surprise medical bills. (CNBC, 4/25)

<https://www.cnn.com/2019/04/24/most-americans-dont-want-congress-overhaul-health-care-system-obamacare.html>

How FHIR 4 Will Drive Interoperability Progress in Healthcare

On January 2, Health Level Seven debuted the new version of its interoperability specification. Many CIOs and technologists in healthcare have been awaiting the fourth iteration of the Fast Healthcare Interoperability Resources standard – FHIR 4, for short – because future changes now will be backward compatible. “Applications that implement the normative parts of R4 no longer risk being non-conformant to the standard,” said FHIR Product Director Grahame Grieve on the FHIR blog. Grieve also said that, in addition to the base platform, several key pieces of FHIR also now are normative, including the RESTful API, the XML and JSON formats, the terminology layer, the conformance framework and its Patient and Observation resources. (Healthcare IT News, 4/25)

<https://www.healthcareitnews.com/news/how-fhir-4-will-drive-interoperability-progress-healthcare>

Healthcare News *Continued from p.9*

Cancer-Drug Giant Roche Loses Edge as Rivals Grow

Many pharmaceutical companies expect cancer treatments to drive growth in the coming years. One notable exception: the world's largest cancer-drug maker. Switzerland's Roche Holding AG has enjoyed almost two decades as an unrivaled force in oncology. Now, with more companies piling into the space and its top-selling drugs losing sales to lower-cost copies, that is about to change. Roche's cancer franchise generated double the sales of its nearest competitor in 2018 but is expected to shrink over the next few years. Companies with little or no history in cancer drugs are now posing competition. And the pending combination of Celgene Corp. and Bristol-Myers Squibb Co. is set to create a rival that will soon knock Roche off its top spot. (Wall Street Journal, 4/28)

<https://www.wsj.com/articles/cancer-drug-giant-roche-loses-edge-as-rivals-grow-11556449201>

Healthcare Mergers Were Down A Bit in Q1

When Highmark and Geisinger announced plans to work together last fall, they didn't call it a merger or an acquisition. Instead, they said, it was a "strategic partnership." Geisinger similarly used creative terms for a partnership with Highmark announced last month they referred to as a new "joint venture community-based clinical network." These looser, integrated partnership structures are becoming more common in the world of mergers and acquisitions as organizations seek ways to maintain their independence while combining resources to better serve their markets, according to a recently released report from Kaufman Hall. It also sometimes leads to organizations to more tightly integrate later on. (FierceHealthcare, 4/29)

<https://www.fiercehealthcare.com/hospitals-health-systems/healthcare-mergers-steady-q1-but-watch-for-looser-partnerships-to-gain>

Cain Brothers' Transactions

SW Holdings
SussexWire **MAROX**

A portfolio company of
ARGOSY PRIVATE EQUITY

Has been acquired by

MW
INDUSTRIES

A portfolio company of
A
AMERICAN SECURITIES
SELLSIDE M&A ADVISORY
April 2019

Primary Health
Medical Group

Has received an investment from

Blue Cross of Idaho

FINANCIAL ADVISORY
April 2019

alacare
HOME HEALTH & HOSPICE

Has agreed to be acquired by

Encompass Health

SELLSIDE M&A ADVISORY
Pending

Centerbridge

Has acquired

CIVITAS SOLUTIONS

BUYSIDE M&A ADVISORY
March 2019

Centerbridge

Has acquired

CIVITAS SOLUTIONS

\$1,180,000,000
Senior Secured
Credit Facilities

JOINT LEAD ARRANGER &
JOINT BOOKRUNNER
March 2019

Onlife
HEALTH

A subsidiary of

of Tennessee

CAMBIA
HEALTH SOLUTIONS

Has been acquired by

GUIDEWELL

SELLSIDE M&A ADVISORY
February 2019

DR DENTAL
Atul Khand, DDS, Dentistry, PLLC, PC

Has been recapitalized by

abry partners

SELLSIDE M&A ADVISORY
January 2019

MISSION HEALTH

Has been acquired by

HCA

SELLSIDE M&A ADVISORY
January 2019

Morgan Stanley Capital Partners

Has acquired

clarity

A portfolio company of

NORTH BRIDGE
growth equity

BUYSIDE M&A ADVISORY
January 2019

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