

Industry Insights

May 22, 2019

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The New “Must-Have” Employee Benefit? Commentary on the Growing Demand for Fertility Benefits

Banker Commentary by Ryan Geczi

According to the CDC’s National Survey of Family Growth, up to one in eight couples will experience infertility, defined as one year of unsuccessful attempts at becoming pregnant or carrying a pregnancy to term. This exceeds the incidence rates of diabetes (9.4%), asthma (8.3%), and Alzheimer’s (4.4%). Despite the incidence rate, only 15 states mandate that insurers offer coverage for infertility treatments, creating an opportunity for employers to market fertility benefits as a meaningful point of differentiation... *Continued on p.2*



Weekly Commentary

Market Commentary by Matt O’Grady

Headline News

Another volatile week ended with just as much uncertainty with which it started, and some could make the argument that a little more uncertainty was created. With the trade war between the United States and China looking like it will be exacerbated, the U.S. made some other trade decisions last week involving Mexico, Canada, Europe, and Japan that should help counterbalance some of the economic concerns.... *Continued on p.3*

Commentaries *Banker Commentary by Ryan Geczi Continued from p. 1*

Around 65% of American companies currently offer fertility benefits to employees. Limited employer coverage for fertility treatment has existed for over 30 years, but companies have historically resisted offering coverage for more expensive procedures such as artificial insemination or in-vitro fertilization (IVF). Once a benefit nearly exclusive to Silicon Valley tech giants and Big 3 consultants due to the high cost (often in excess of \$20,000 per cycle), fertility treatment coverage that includes subsidies or full coverage IVF is becoming more powerful recruiting and retention tool in a competitive job market. For example, Starbucks was famously among the first companies to offer fertility coverage to hourly employees a few years ago.

Introduction of fertility benefits has been linked to improved employee retention, with nearly 90% of women who have IVF procedures reimbursed by their employer returning after maternity leave and over 60% expressing willingness to remain in a job for a longer period due to the coverage. The majority of women who receive reimbursement for IVF are obtaining coverage through their current employer, rather than not via their partner's employer. Additionally, access to fertility preservation, such as egg freezing, is a growing priority for millennial employees, with over 65% considering access to coverage when choosing a new employer. Personalization also caters to millennial employees, with a growing number of companies leveraging fertility and maternity apps and fertility

center partnerships to increase engagement and awareness for the benefit.

Fertility benefits can also support organizational diversity goals and a focus on women-friendly and LGBT-friendly initiatives. Willis Towers Watson's Maternity, Family and Fertility Survey illustrates that 70% of employers are prioritizing diversity initiatives when evaluating fertility benefits and over 80% of surveyed employers are expected to cover same-sex couples in 2019. Implementation of a fixed level of lifetime coverage is becoming more common, which removes pre-authorization programs and eligibility restrictions that might have previously restricted participation among same-sex couples and among heterosexual couples experiencing a miscarriage or other types impaired fecundity (inability to become pregnant or carry a pregnancy to term).

Although some standardization is observable in benefits packages, limitations to self-funding due to high costs have restricted many small companies from offering benefit packages comparable to a blue-chip employer like General Electric or Procter & Gamble. Even among large employers, significant variability in benefit levels across industries and among plan designs suggests that the market for fertility insurance is still nascent and fluid. A "market standard" in line with other health benefits (e.g., two dental cleanings and a PCP check-up covered annually) may still be several years away.

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

Obviously, both sides will do their best to “spin” the numbers to allay market concerns, but all investors really want is to move on from this dust up. Meanwhile the trade war between the U.S. and China will continue to cause more casualties, like Apple. Last week Apple suffered a significant drop in its share price, and at least some of that move can be directly linked to the trade war. When it comes to stocks, almost everyone has some exposure to Apple, so it's hard to ignore.

Moving away from trade, investors will continue to look for positive data points from earnings reports and economic releases. As the summer season sets in and the pace of the market slows down, investors will have more time to think between data points. The adage, “sell in May and go away” could be wise advice, based on the way this summer is starting to shape up. Of course, investors are still living tweet to tweet, so you never know what lies ahead.

Even though we promised not to mention Brexit anymore, it looks like things have continued to move further away from finding a resolution, and the possibility that Prime Minister May has finally run out of steam is becoming very real. Leaving this mess to a new Prime Minister could further complicate matters.

The geopolitical issues in the Middle East continue to linger as Secretary of State Pompeo made some impromptu visits to European allies last week regarding Iran. The President has indicated that he's not looking for a military conflict with Iran, but he did make plans to mobilize 120,000 troops just to be safe.

Economic Releases

Last week's reports didn't have any real surprises as the data continues to support the Fed's patient approach. Of interesting note, the birthrate in the United States dropped to a 32-year low, which has some investors concerned about the balance between working adults and retired adults growing beyond

sustainability. With life expectancy continuing to improve, courtesy of medical advancements, it won't be long before investors revisit the longevity of entitlement programs like Social Security and Medicare.

This week investors will be focused on the following reports: FOMC minutes, Existing Home Sales, Initial Jobless Claims, Durable Goods, Capital Goods, and New Home Sales.

Market News and Numbers

The stock market finished the week on the plus side. The DJIA closed at 25,764, which was an increase of 0.69%. Trade concerns and the direction of the Federal Reserve continue to dominate the volatility of the market. Investors are trying to decide how these issues will impact the economy and whether this expansion still has some room to run. This week stock investors will get a heavy dose of retail sales related earnings that could shape this debate.

The Treasury market continued to provide shelter from the equity market storm. The 10-year bond rate dropped almost eight basis points to close at a 2.392%. For now, the Treasury market will continue to react to stock market volatility and the expectations of what the Federal Reserve will do next. Bond investors are stuck on two different thoughts right now: some think the Fed could do nothing, while others think the Fed could cut the overnight lending rate by 50 basis points. Some of this debate is tied to recent comments by former Fed Chairman Alan Greenspan. Even at 93 years old his comments carry some weight. His latest revolves around real inflation and whether it's actually 2%. The argument is, if real inflation is closer to zero, then investors are not being properly compensated for buying longer-term bonds; and the only way to balance that out is to cut rates. This storyline bears monitoring as it plays out, but it also illustrates why traders trade and economist pontificate.

Commentaries Market Commentary by Matt O'Grady Continued from p. 3

The municipal bond market is still feeling its oats. Cash continues to flood in, and rates continue to move lower. Fund flows had their nineteenth straight week of positive cash flow. ICI reported \$2 billion, and Lipper reported \$1.3 billion. Rates reflected this strength, and MMD came down another three basis points with the 30-year AAA rate closing at 2.40%. SIFMA and the RBI also improved and closed respectively at 1.35% and 4.05%.

Even with a decent calendar last week, new issues were easily put away, and many enjoyed heavy oversubscription. This week's negotiated calendar stands at approximately \$5.6 billion.

Oil finished the week higher. WTI futures closed on Friday at \$62.76.

What Deals Got Placed

In Pennsylvania, UPMC issued \$726 million of new debt. The bonds were rated A+ by S&P, A1 by Moody's and A+ by Fitch. The longest term came in 2039 with a 4.00% coupon to yield a 3.01% (+77).

In Missouri, Mosaic Health System borrowed \$228 million in new debt. The bonds were rated A1 by Moody's and AA- by Fitch. The longest term came in 2054 with a 4.00% coupon to yield a 3.26% (+87).

In Virginia, Howard Hughes borrowed \$52 million in zero coupon bonds. The bonds were rated Aaa by Moody's and AAA by S&P. They were priced to yield 3.38% (+95).

In Senior Living, Carpenter's Home Estates in Florida borrowed \$32 million in new debt. The bonds were rated BBB- by Fitch. The longest term came in 2055 with a 5.00% coupon to yield a 3.52% (+116).

What's on Deck

ALLINA HEALTH SYSTEM TAXABLE BONDS SERIES 2019 **CORPORATE CUSIP**	05/22	300,000 Aa3 / AA- / AA
UAB MEDICINE FINANCE AUTHORITY REVENUE BONDS, SERIES 2019B SERIAL: 2027-2039 TERM: 2044, 2048	05/22	103,255 Aa3 / AA- /
LANCASTER COUNTY HOSPITAL AUTHORITY HEALTHCARE FACILITIES REVENUE BONDS, SERIES 2019A&B (MORAVIAN MANORS, INC. PROJECT)	05/22	29,560 NR / NR / BB+

Market Indices

Equity Indices Information as of May 17, 2019

Index	Close	Returns			Returns	
		52 Week	Weekly		52 Week	Weekly
DJIA	25,764	3.0%	(0.7%)	Acute Care	4.1%	(0.4%)
S&P 500	2,860	4.6%	(0.8%)	Alternate Site Services	(13.7%)	(2.3%)
NASDAQ	7,816	5.7%	(1.3%)	Diagnostics	1.8%	(1.8%)
Russell 2000	1,536	(6.2%)	(2.4%)	Distribution	(14.0%)	(3.3%)
NYSE Healthcare	15,527	7.1%	(0.6%)	Healthcare IT	15.8%	(2.0%)
				Healthcare REITs	23.7%	2.1%
				Managed Care	2.7%	(0.1%)
				Medical Technology	4.1%	(1.1%)
				Outsourced Services	(17.2%)	(2.6%)
				Pharma Services	2.6%	(0.5%)
				Pharmacy Services	(28.6%)	(2.5%)
				Post-Acute Care	15.2%	(0.8%)

Source: Cain Brothers, Bloomberg and Capital IQ.

Tax-Exempt Debt Information as of May 17, 2019

	Current (%)	One Week Ago (%)	One Year Ago (%)
A-rated Tax-Exempt Hospital Bonds (30-Yr)	2.95%	2.98%	3.60%
AA Tax-Exempt Hospital Bonds (30-Yr)	2.85%	2.88%	3.35%
SIFMA (Variable Rate Demand Notes)	1.35%	1.59%	1.51%
Revenue Bond Index	4.05%	4.11%	4.37%
SIFMA/1 Month LIBOR	55.33%	64.90%	78.70%
RBI/30 Yr Treasury (%)	143.62%	142.21%	140.78%
30-Year Floating to Fixed Swap (81% LIBOR)	2.04%	2.12%	2.47%

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

Tax-Exempt Healthcare Issuance Information as of May 17, 2019

Borrower	Par (\$MM)	State	Rating	Maturity	Coupon	Yield to Call	Yield to Mat.	AAA
University of Pittsburgh Medical Center	726,650	PA	A1 / A+ / A+	2039	4.00%	3.01%	3.41%	2.40%
Mosaic Health System	228,975	MO	A1 / NR / AA-	2054	4.00%	3.26%	3.69%	2.40%
Carpenter's Home Estates, Inc. Project	32,800	FL	NR / NR / BBB-	2055	5.00%	3.52%	4.39%	2.40%
Wesley Homes Des Moines LLC	11,750	WA	NR / NR / NR	2051	5.75%	5.75%	N/A	2.40%
Total	\$ 1,000,175							

Source: Cain Brothers, Bloomberg and Capital IQ.

Transaction Activity, Week of May 20, 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>	
5/17/2019	InstaMed	JPMorgan Chase	\$575.0	NA	NA	Healthcare technology company that specializes in healthcare payments
5/17/2019	Southern Ear, Nose, Throat and Allergy Partners	Shore Capital Partners	NA	NA	NA	Independent ear, nose and throat and stand alone allergy practices across the Southeast
5/16/2019	AccentCare (Oak Hill Capital Partners)	Advent International	NA	NA	NA	Post-acute healthcare provider that serves health systems, physician practices and managed care organizations
5/16/2019	Vertical Health	Remedy Health Media (Topspin Partners)	NA	NA	NA	Publisher serving patients and healthcare professionals in the diabetes, mental health, back pain, and pain management areas
5/14/2019	CrossRoads Extremity Systems	HealthpointCapital	NA	NA	NA	Foot & ankle implant systems and services
5/13/2019	Lucidity (Sustineo Ventures)	Health Carousel	NA	NA	NA	Technology platform that connects physicians seeking part-time or temporary work directly with medical practices looking to fill open shifts

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

Transaction Activity, Week of May 20, 2019

Public Offering Activity

<u>Date</u>	<u>Issuer (Ticker)</u>	<u>Underwriter(s)</u>	<u>Offer Price</u>	<u>Amt Offered</u>	<u>Current / Offer</u>	<u>Market Cap.</u>	<u>Description</u>
IPO 5/17/2019	Avantor (AVTR) (New Mountain Capital)	GS, JPM (joint-book), KBCM and others (co-managers)	\$14.00	\$2,870.0	4%	\$2,972.5	Manufacturer of performance materials and chemicals for pharmaceutical, biopharma, laboratory, research and electronics applications

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>
5/15/2019	Boston Health Economics	Silversmith Capital Partners and Leerink Transformation Partners	Minority Growth	\$78.0	Healthcare analytics
5/15/2019	Solera Health	HCSC Ventures	Series C	\$42.0	Integrated benefit network that connects patients, payers and physicians with community organizations and digital therapeutics providers

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

Healthcare News

Tariffs, Consolidation Hitting Construction in Healthcare

The escalating trade wars are weighing on healthcare construction. New or growing U.S. tariffs on goods produced outside the country were a major driver of an “exponential” increase in material costs over the past year, particularly metals, construction and design executives said in conversations and responses to the 2019 Modern Healthcare Construction and Design Survey. In some cases, they have had to delay projects, companies relayed through the survey of 110 construction management, architecture, development, design and general contracting firms. The price of steel, for instance, has gone up 10% to 18% in some markets over the past year, which can significantly add to a project’s costs. Healthcare providers have been asking the construction firm if they should raise money in the capital markets, put in preemptive orders for building materials before tariffs increase, delay projects or alter designs to minimize costs. Nearly half of the respondents said supply costs were the biggest challenge, followed by regulatory barriers and less demand due to providers’ financial constraints. The escalation of construction supply costs is yet another ball that healthcare providers must juggle as they endure other costly changes, such as implementing new electronic health record systems; dealing with drug shortages and lower reimbursement levels; and maintaining aging infrastructure. (Modern Healthcare, 5/18)
<https://www.modernhealthcare.com/providers/tariffs-consolidation-hitting-construction-healthcare>

Health Insurance Inflation Hits Highest Point in Five Years

The health insurance inflation rate hit a five-year peak in April, possibly because managed care is rising. The Consumer Price Index for health insurance in April spiked 10.7% over the previous 12 months—the largest increase since at least April 2014, according to a Modern Healthcare analysis of the U.S. Bureau of Labor Statistics’ unadjusted monthly Consumer Price Index data. In contrast, the other categories that make up the medical care services index—professional services and hospital and related services—rose 0.4% and 1.4% in April, respectively. The CPI for medical care services in April rose 2.3%, while overall inflation increased 2% year over year. The likely reason health insurance inflation is rising is because of growth in managed care, including Medicare Advantage, Medicaid managed care and commercial insurance, according to Paul Hughes-Cromwick, an economist at Altarum. He noted that added administrative costs increase insurance price growth. Hughes-Cromwick said the increase in the health insurance index could also be driven by the fact that insurers’ medical loss ratios may be decreasing as high premiums, particular in the individual health insurance exchanges, exceeded anticipated claims. (Modern Healthcare, 5/20)
<https://www.modernhealthcare.com/insurance/health-insurance-inflation-hits-highest-point-five-years>

Healthcare News *Continued from p.8*

Opioid Prescriptions Drop Sharply Among State Workers

The agency that manages health care for California's massive state workforce is reporting a major reduction in opioid prescriptions, reflecting a national trend of physicians cutting back on the addictive drugs. Insurance claims for opioids, which are prescribed to help people manage pain, decreased almost 19% in a single year among the 1.5 million Californians served by the California Public Employees' Retirement System. CalPERS manages health benefits for employees and retirees of state and local agencies and public schools, and their families. Most notably, doctors reduced the daily dose and duration of opioid treatment: The number of new users who were prescribed large doses dropped 85% in the first half of 2018 compared with the same period in 2017, while new users prescribed more than a week's supply dropped 73%, according to new CalPERS data. "These reductions are substantial," said Beth McGinty, an associate professor in the Department of Health Policy and Management at the Johns Hopkins Bloomberg School of Public Health. "They signal a reduction in the overprescribing practices that have driven the opioid epidemic in the U.S." What's unclear, however, is how the reductions in prescriptions are affecting patients' pain, she said. (Kaiser Health News, 5/20)

<https://khn.org/news/opioid-prescriptions-drop-sharply-among-state-workers/>

Why Missouri's The Last Holdout on A Statewide Rx Monitoring Program

Missouri retained its lonely title as the only state without a statewide prescription drug monitoring program — for the seventh year in a row — after the legislative session ended Friday. Patient advocates, politicians, experts and members of the medical community had hoped this would finally be the year Missouri would create a statewide electronic database designed to help spot the abuse of prescription drugs. After all, Republican Gov. Mike Parson had pushed for it and, more important, its longtime opponent was no longer in office to block it. But, because of ongoing fears about privacy violations tangled up with gun control, the bill never got a full Senate vote. And finance site WalletHub last week ranked Missouri third worst in the country for its drug use based on a review of arrests, overdose rates, opioid prescriptions and other measures. Katie Reichard, a lobbyist with Missouri Primary Care Association who has been working in and around the Missouri legislature for almost 15 years and previously pushed for the issue, said this proposal has bedeviled the state capital as none other while the opioid crisis continues to rage nationwide. (Kaiser Health News, 5/20)

<https://khn.org/news/why-missouris-the-last-holdout-on-a-statewide-rx-monitoring-program/>

Healthcare News *Continued from p.9*

White House Wants Patients to Know Health-Care Prices Up Front

The Trump administration has been working behind the scenes for months on a strategy to force greater price disclosure across much of the \$3.5 trillion health-care industry. The push relies on existing administrative tools, according to people familiar with the discussions. Those include Labor Department powers under the law that sets minimum standards for private-industry health plans and current hospital-payment rules under Medicare. The administration is strongly interested in forcing insurers to publicize the negotiated rates they pay for services, the people said. The requirement could affect insurers providing coverage in the private-employer market, where about 158 million people get their health insurance. The White House also wants doctors and hospitals to give patients their total price of care before they get services or treatment whether or not the health-care provider is in the patient's insurance network, said the people familiar with the discussions. The initiatives are expected to go beyond an earlier proposal to require hospitals, doctors and other medical providers to publicly disclose the secretly negotiated prices they charge insurance companies for services, according to people familiar with the discussions. (The Wall Street Journal, 5/15)

<https://www.wsj.com/articles/white-house-pushes-for-more-transparency-on-health-care-prices-11557945220>

EHR Training is Biggest Predictor of User Satisfaction, Experts Say

A new study published in the Journal of Clinical Informatics takes aim at the notion that lackluster user experience is an essential part of electronic health record usage. Instead, it emphasizes the importance of thoughtful education and training processes, sensitive to the unique needs of physicians and nurses, to enabling increased EHR satisfaction. The study, from KLAS' Arch Collaborative, which comprises academics, providers and other informatics experts, polled more than 72,000 clinicians at more than 150 hospitals and health systems nationwide. "Despite decades of effort and billions of dollars of investment, the EHR has not lived up to its potential to improve care, reduce costs, or revolutionize the experience for caregivers," researchers write. "Many people point to poor technical usability as a root cause of these failings." After speaking to those tens of thousands of clinicians – which included nurses, residents and other providers – the Arch Collaborative researchers found "critical gaps in users' understanding of how to optimize their EHR." Their takeaway? "We as an industry have an opportunity to improve EHR adoption by investing in EHR learning and personalization support for caregivers. If health care organizations offered higher-quality educational opportunities for their care providers – and if providers were expected to develop greater mastery of EHR functionality – many of the current EHR challenges would be ameliorated." (Healthcare IT News, 5/17)

<https://www.healthcareitnews.com/news/ehr-training-biggest-predictor-user-satisfaction-experts-say>

Cain Brothers' Transactions

Ridgemont EQUITY PARTNERS

Has formed a strategic partnership with



SPEECH | PSYCH | BEHAVIOR

BUYSIDE M&A ADVISORY
April 2019



ARSENAL
CAPITAL PARTNERS

Has acquired



BUYSIDE M&A ADVISORY
May 2019

SW Holdings
SussexWire **MAROX**

A portfolio company of



ARGOSY PRIVATE EQUITY

Has been acquired by



A portfolio company of



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
All About Your Dentistry. For Less.

Has been recapitalized by



abry partners

SELLSIDE M&A ADVISORY
January 2019

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