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Opportunities in an Evolving Market

**2019 Health Care & Life Sciences
Investment Outlook**

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Contents

Introduction	2
Disruption intensifies	2
— Midterms shine a spotlight on health care	
— Vertical transactions gain momentum	
— Nontraditional players make dramatic entries	
— Upstream health interventions gain legitimacy	
— Technology helps consumerism become a reality	
2019 Investment projections	6
<i>The new frontier</i>	
— Health care information technology spans the care spectrum	
— Care management solutions for risk-bearing providers driven by value-based care	
<i>The scale seekers</i>	
— Home health care makes headway with reimbursement	
— Retail-centric medical groups tied to self-pay trend	
— Primary care physician medical groups adapt to changing roles	
— Specialty physician medical groups driven by market factors	
<i>The foundation</i>	
— Health plans see growth in managed care	
— Hospitals explore reinvention	
Conclusion	10
Appendix: Investment Outlook Data Breakdown (Market Overview and Subsectors)	12

2019 KPMG/Leavitt Partners' Health Care and Life Sciences Investment Survey Methodology

For the second consecutive year, KPMG and Leavitt Partners conducted a self-administered online survey of health care and life sciences investment professionals from September 17, 2018 to October 21, 2018. A total of 233 respondents began the survey and the survey was completed by 175. Survey invitations were sent to business contacts selected by Leavitt Equity Partners (LEP) and KPMG Deal Advisory Practice partners and principals. Respondents were asked to select up to three subsectors in which they have particular expertise. They were then asked a series of detailed questions about the selected subsectors. As such, each subsector-specific question has a different sample size, varying from 37 to 61. The margin of error varies for each question, ranging from a low of six percent up to a high of fourteen percent at a 90 percent confidence level. The data are not weighted. The full questionnaire can be accessed here: https://shwca.se/2019_investment_survey. For more information about the methodology, please contact Kerstin Edwards at kerstin.edwards@leavittpartners.com.

Executive Summary

Analysis of the 2019 KPMG/Leavitt Partners Health Care and Life Sciences Investment Survey sheds light on how key disruptors, prevailing market trends and evolving policies will impact the 2019 investment arena.

We asked investment professionals to answer questions about several health care subsectors in which they have expertise. Upon examining the data, we divided the subsectors into three categories based on level of investment interest: *the new frontier* (highest investment interest), *the scale seekers* (moderate investment interest), and *the foundation* (lowest investment interest).

The new frontier



Health care information technology (HIT) and care management solutions for risk-bearing providers, which include many businesses that are emerging or growing in utilization, received the highest level of investment interest by survey respondents.

The scale seekers



Home health, retail-centric medical groups, primary care physician medical groups, and specialty physician medical groups, which have the opportunity to drive down their operational costs with consolidation and scale, garnered a moderate level of investment interest from survey respondents.

The foundation



Health plans and hospitals, which are the necessary traditional pillars of the health care industry and are searching for new ways to transform themselves in an evolving health care ecosystem, had the lowest level of investment interest by survey respondents.

The purpose of this paper is to help discerning investors better understand opportunities amid the evolving forces at play in the health care and life sciences industry.

Introduction

A number of accelerating forces are magnifying the complexity of the health care and life sciences industry. With a divided Congress after the midterm elections and ongoing political and legal uncertainty around the ACA, large-scale health care reform legislation is unlikely over the next two years.

At the same time, the pressure on payers and providers to reduce prices, be more transparent with treatment costs, and provide evidence of value and outcome continues to drive change throughout the commercial health care sector.

The industry seems committed to value-based care, which will continue to evolve as payers and providers shift away from fee-for-service payment and delivery models. Additionally, patients are paying more for their health care out-of-pocket, which is fueling the drive to lower-cost, more convenient, higher-value sites of care.

And yet, despite uncertainty about what the industry will look like in ten years, we believe that the health care and life sciences industry is more resilient than many others, mostly due to reliable demand for patient care by an aging population with a significant and growing disease burden. As reflected in the survey data, we expect to see growth in subsectors like health care information technology (HIT), care management solutions, and home health care services – which support the industry’s evolution toward more accessible and lower-cost delivery sites, pricing transparency, and value-based care.

50% of survey respondents believe the health care market is in a bubble; 25% believe there are moderate to strong fundamentals.

Disruption intensifies

The disruptive forces that we believe will have the biggest impact on health care investing activity in 2019 appear below. Investors should take these developments into account as they make decisions, bearing in mind that disruption can increase both opportunity and risk.

Midterms shine a spotlight on health care

Midterm election exit polls showed that more than 40 percent of voters cited health care as the driving issue of their vote,ⁱ nearly twice that of any other issue. Seven out of ten voters indicated they want to see major changes to the health care system.ⁱⁱ This increased attention to cost and access issues will likely become even more intense due to the recent ACA decision in *Texas v. United States*.ⁱⁱⁱ

Bipartisan action on a limited number of initiatives, such as drug pricing, the practice of “surprise billing” for out-of-network services assumed to be in-network, and perhaps incremental moves toward value-based care, is still possible; however, the political aftershocks of the ACA lawsuit will complicate collaboration between Republicans and Democrats, forcing more competition for advantage on politically nuanced issues, such as market stabilization and protection for pre-existing conditions. Further, members of Congress from both parties will invariably view health care issues through the lens of the 2020 elections, which will heighten the political rhetoric on polarizing issues and likely impede progress on substantive legislation.

48% of respondents to the survey (conducted before the midterm elections) thought the elections would have no impact on investment activity.

Vertical transactions gain momentum

The merger between CVS and Aetna may be a harbinger of more vertical merger activity. It is conceivable that other health insurers and retail providers will seek similar synergies, and that health plans will further integrate health care organizations into their operations to leverage scale and improve competitiveness. The benefits of these mergers are particularly significant for subsectors that aim to provide quality care at a lower cost like care management and home health, as many observers believe that modes of alternative care will eventually be integrated into one connected delivery network.

72% of survey respondents believe traditional health care entity mergers will increase investment activity in 2019.

Nontraditional players make dramatic entries

High-profile joint ventures like the one between Amazon, Berkshire Hathaway, and JP Morgan (ABJ) have captured the imagination of the health care industry. It is important to note, however, that large technology companies aren't the only ones causing disruption. Several start-up and niche technology companies are bringing unique assets and capabilities to the industry that traditional health care players may lack. The infusion of advanced analytics and data-sharing capabilities by these disruptors will be critical for subsectors that drive alternative care delivery methods, like care management and HIT. And yet, technology disruptors could pose a real threat to certain health care subsectors, unless traditional players are able to forge mutually beneficial partnerships with these emerging influencers.

59% of survey respondents think the entrance of nontraditional players will increase investment activity in 2019.

Upstream health interventions gain legitimacy

It is increasingly accepted that genetics, lifestyle, social factors, and economic and environmental circumstances all contribute significantly to an individual's overall health status. More attention is being paid to a range of social determinants of health (SDOH), defined by the World Health Organization (WHO) as "the conditions in which people are born, grow, live, work and age."^{iv} Recognizing the importance of SDOH, the Department of Health and Human Services (HHS) has announced several initiatives.^v However, for upstream health interventions to be truly effective, providers, payers, and the regulatory apparatus will need to align to facilitate efficient delivery of services that leverage public and private funding streams. Widespread acceptance of the importance of upstream health interventions may drive the expansion of sectors that address basic social needs and foster overall health and wellness.

64% of survey respondents said they expect early and upstream interventions for health to increase investment activity in 2019.



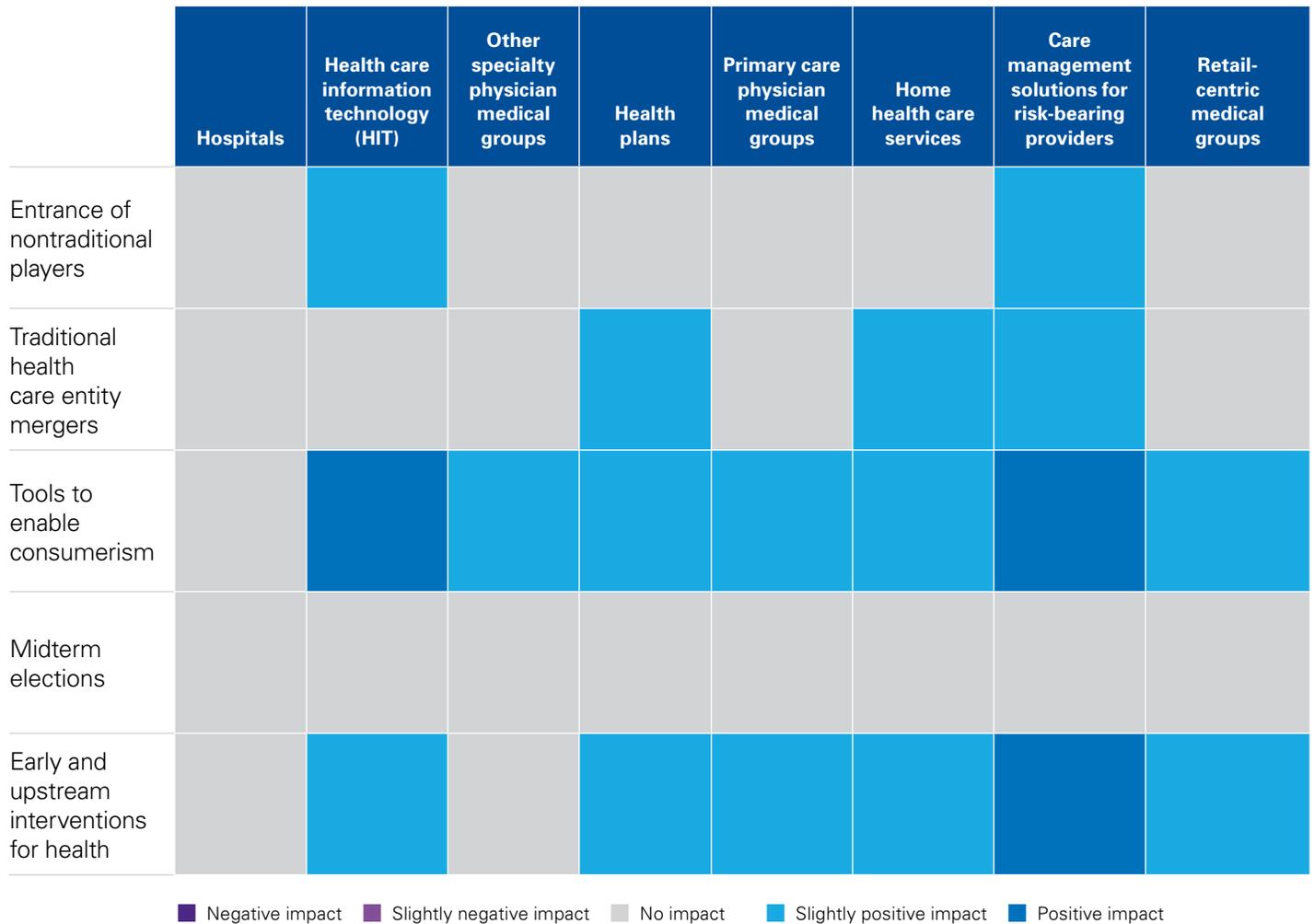
Technology helps consumerism become a reality

Patients are beginning to act more and more like consumers as they face higher out-of-pocket costs and deductibles, are empowered with tech-enabled tools, and gain increased access to their own health care data. These factors have increased pressure on providers, payers, and suppliers to become more responsive to consumer demands and preferences. To this end, disruptive technologies are enabling greater use of consumer data to better understand individual needs, promote healthy behaviors, offer the right care in the right place at the right time, provide cross-institutional connectivity among providers, and help patients and clinicians collaborate on managing health conditions. Over time, consumer tools stand to not only impact patients' health care experiences, but also potentially improve clinical outcomes.

84% of survey respondents said they expect demand for tools to enable consumerism to increase investment activity in 2019.

Impact of disruptors on subsectors

The chart below illustrates how survey respondents believe each of the disruptive factors¹ could impact the subsectors examined in this paper.



¹ "Complete definitions for each disruptor can be found in the full questionnaire, which can be accessed here: https://shwca.se/2019_investment_survey.

2019 investment projections

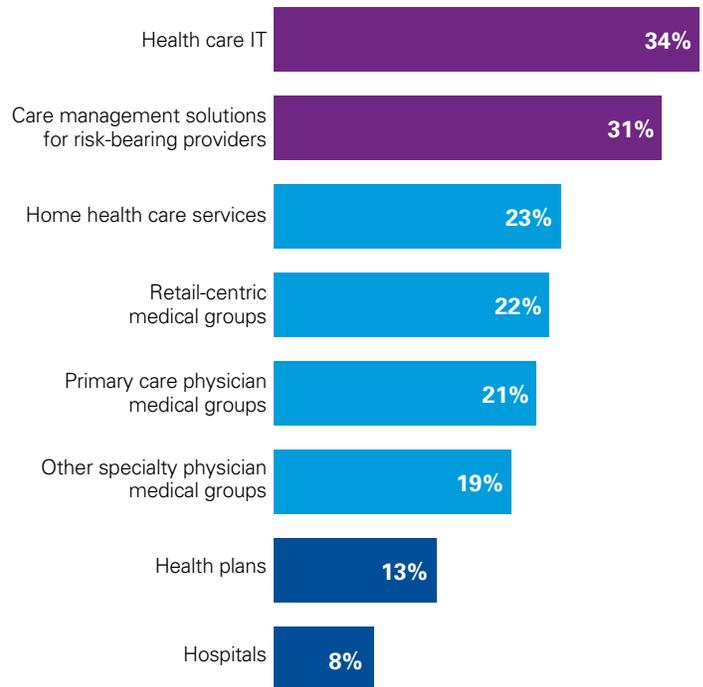


Survey respondents expect investment activity to occur primarily in subsectors that foster lower cost care and tie in with the shift toward consumerism, e.g., HIT, care management solutions for risk-bearing providers, home health care services, retail-centric medical groups, and primary care physician groups.

We grouped the subsectors into three buckets according to the level of investment interest by survey respondents: highest, medium, and lowest. When assessing each of the buckets, we further categorized these into themes that we call: the new frontier (highest), the scale seekers (medium), and the foundation (lowest). This section analyzes these themes and their subsectors. Detailed survey results by subsector are provided in the Appendix.

For 2019, in which subsector(s) are you most interested in investing?*

Respondents could select up to 3 subsectors.



■ The new frontier ■ The scale seekers ■ The foundation

*Please note that the actual survey question included a longer list of subsectors from which respondents could select. For the full list of subsectors presented, please see the full report, which can be accessed here — https://shwca.se/2019_investment_survey.

The new frontier



Of all the subsectors captured in this survey, HIT and care management solutions are the most likely to evolve in the short term, due to the potential for disruption from tools to enable consumerism, early and upstream interventions for health, and the entrance of nontraditional players. To stay relevant, companies in these subsectors will need to innovate continuously to align with consumer needs and market demands, as well as overall changes in the health care ecosystem.

Health care information technology (HIT): It is important to recognize that the HIT subsector spans several categories, including cloud-based applications, revenue cycle management tools, telemedicine, EMR/ EHR, and health care analytics/informatics. While back-office technologies can help drive efficiencies in traditional health systems, more disruptive health care IT tools will realize their greatest value in combination with predictive analytics applied to “big data.” Investors continue to be bullish on all things HIT given the fact that, as long as cybersecurity and patient privacy concerns are addressed, activity in this subsector should ultimately lead to consumer and patient insights that yield better care at lower costs.

Care management solutions for risk-bearing providers:

Analytics-driven care management systems include a suite of products that, together with patient data from multiple sources, can be used to support better patient outcomes at a lower cost. The objective is to use these tools to facilitate stratification of patient risk, comprehensive care coordination, two-way communication between patients and care managers, and care team performance measurement. In response to payment reform trends, we are seeing a significant number of start-up service providers that are taking on financial risk in this category. The expectation is that opportunities will increase with the aging of the population, growing prevalence of chronic diseases, and continued drive toward value.

Health care information technology was chosen by 34 percent of respondents as one of the top three areas in which they are most interested in investing.

Care management solutions for risk-bearing providers was chosen by 31 percent of respondents as one of the top three areas in which they are most interested in investing.

The scale seekers



Home health care services, retail-centric medical groups, primary care physician medical groups, and specialty physician medical groups provide care outside of or adjacent to the hospital. Therefore, investor enthusiasm for these categories correlates with an observed trend of health care services shifting to lower-cost sites of care. In response to pressure from new delivery models and the need to adapt business models to new demands, organizations are focused on rolling up and creating scale by consolidating portions of the fragmented provider market to create larger entities.

Home health care services: Home health care services are becoming increasingly sophisticated as patients receive more and more aspects of traditional hospital-level care in the home, e.g., dialysis, infusion therapies, oxygen therapy, and intravenous administration of complex drugs for certain conditions, in addition to more traditional skilled nursing and non-skilled services. Growth in this subsector will continue to be driven by the dramatic cost differences between home and inpatient settings, although increasing scrutiny of favorable federal reimbursement for home health care could become a headwind.^{vi}

Retail-centric medical groups (e.g., dental, dermatology, vision, physical therapy): Consolidation is occurring in this subsector, yet the market remains fragmented and, due to previous roll-ups, highly competitive. Not to be confused with the retail model (e.g., CVS/Aetna), this subsector relies on connecting directly with consumers and is tied in part to decreased dependence on traditional insurance reimbursement. Further, services like physical therapy (PT) and occupational therapy (OT) are part of the larger push to reduce unnecessary hospital utilization costs.

Primary care physician medical groups: Primary care physicians (PCPs) are central to the shift toward value-based models that require improved care coordination. Consolidation has occurred rapidly over the past few years, with more than 53 percent of physicians' practices owned by hospitals in 2016.^{vii} However, shifts in federal payment policies, as well as signs that patient/provider dissatisfaction with hospital-owned practices may be growing, could drive a move back toward independently owned practices that can use care coordination and data tools to achieve the same outcomes.^{viii} Although there is investment interest across the PCP landscape, there is a particular upside to PCP groups that are able to take on risk.

Specialty physician medical groups (e.g., imaging/radiology, anesthesiology, cardiology, orthopedics, OBGYN, oncology): Specialty physicians that serve patients with chronic diseases or those requiring more specialized treatment are also consolidating. This subsector will be especially impacted by newer specialist-focused, risk-based alternative payment models (APMs), as well as the Merit-based Incentive Payment System (MIPS), which ties a provider's or practice's compensation to performance relative to peers, as well as to cost and quality improvements over time.^{ix}

Between 19 and 23 percent of survey respondents chose the following subsectors as one of the top three areas in which they are most interested in investing:

- Home health care services – 23 percent
- Retail-centric medical groups – 22 percent
- Primary care physician medical groups – 21 percent
- Specialty physician medical groups – 19 percent

The foundation



Health plans and hospitals continue to be major players in the health care industry. However, the changing landscape – such as the evolution from volume to value, the shift to lower cost sites of care, and increasing consumerism – means these major players must evolve and innovate along with their less traditional counterparts.

In many cases, the interests of health plans and hospitals may overlap. For example, in addition to the uncertainty around the Affordable Care Act (ACA), providers are feeling continued payer pressure to align costs with value and patient outcomes. Payers are increasingly willing to pay for new modes of service and sites of care, if there is support from data that substantiates cost reduction, improved quality, or better outcomes. However, payers' willingness to enter into these types of arrangements is currently being constrained by the extent of providers' readiness to take on risk.

Health plans: The number of Medicare Advantage (MA) and Medicaid managed care plans is growing, which creates opportunities for investment and innovation around new payment models. Further, there is growing interest in technology-focused health insurance companies. However, lower survey respondent interest in this subsector could be a result of uncertainty surrounding evolving federal policies, as well as the price pressure that comes from higher-deductible insurance policies and small but increasing self-pay models.

Hospitals: Hospitals' position of strength at the center of the health care delivery system is shifting with the increasing demand for care delivery at alternative sites, including services delivered in the home. In the face of pricing pressure, many health systems are consolidating to improve their competitive position in relevant markets and expand geographically. Consolidation can bring greater scale, cost efficiencies, and improved negotiating leverage with payers, as hospitals face decreasing reimbursement and regulatory headwinds (such as equalizing payment for services across sites of care). Declining patient census, along with cost and reimbursement pressures, may be driving a more conservative approach to this subsector. However, it is important to note the difference between sophisticated health systems with strong margins and strategic investments, versus struggling systems with narrow/negative margins that may not be positioned well for the future, but are able to persist because they fill a community need today.

Health plans were chosen by 13 percent of respondents as one of the top three areas in which they are most interested in investing.

Hospitals were chosen by 8 percent of respondents as one of the top three areas in which they are most interested in investing.

Conclusion

Even with market uncertainty as a growing headwind, we expect to see significant health care and life sciences investment activity continue in 2019. Despite continuing ACA challenges, as well as the ongoing evolution of regulations, reimbursement policies and delivery models, there is significant optimism for increased growth and efficiency opportunities in health care and life sciences organizations.

The new frontier

Garnering high investment interest from survey respondents, many organizations in the HIT and care management subsectors are using innovation to push the health care ecosystem toward transformational models we expect to see over the next five to ten years. Investments in these subsectors may be higher risk, but mitigating that risk – through informed evaluations of solutions that reflect an understanding of the many complexities of health care – can yield higher returns.

The scale seekers

Organizations that deliver direct patient care – home health care providers, retail-centric medical groups, primary care physician medical groups, and specialty physician medical groups – are aiming to consolidate and scale their operations to enhance their competitive positions. Organizations in this grouping are highly valued due to their lower risk, as long as scale is used in service of meaningful optimization of their businesses.

The foundation

Despite disruption from all sides, health plans and hospitals are still viewed as the cornerstones of the health care system. They will likely remain integral components of US health care for the foreseeable future and have opportunities to realize continued growth through a smart approach to transformation.

Investors should expect that the health care and life sciences industry will likely remain an attractive investment target for some time, due to the sector's critical role in the economy. Projected health care spending is expected to grow from nearly 18 percent of the gross domestic product (GDP) in 2017 to 19.7 percent by 2026.^{ix} Smart investors will differentiate between inflated expectations and appropriate pricing by monitoring policy, regulatory, and market developments, and evaluating opportunities in the context of disruption.

Endnotes

- i V. Reklaitis (2018). Exit polls suggest midterm election voters focused on healthcare and immigration, not the booming economy, MarketWatch.
- ii B. Bannon (2018). What midterm exit polls tell us about 2020, The Hill.
- iii K. Keith (2018). Stay granted in Texas v. Azar: Clears way for appeal, keeps ACA in place, HealthAffairs.
- iv World Health Organization. Social determinants of health.
- v S. Porter (2018). Azar outlines his ambition on social determinants of health: 5 takeaways, Health Leaders.
- vi Medicare Payment Advisory Commission (2018); <http://www.medpac.gov/docs/default-source/default-document-library/december-2018-transcript.pdf?sfvrsn=0>.
- vii E. Hannah (2018). The problem with hospital-owned primary care, HNI.
- viii J. Finnegan (2018). MGMA 18: Dinosaurs? Hardly. A renaissance in independent physicians practices, doctors say, FierceHealthcare.
- ix B. Feinberg (2018). Trends that will effect specialty health care into the future, Specialty Pharmacy Times.
- x A. Martin, M. Hartman, B. Washington, A. Catlin, and the National Health Expenditure Accounts Team (2018). National healthcare spending in 2017: Growth slows to post-Great Recession rates; share of GDP stabilizes, Health Affairs.
- xi <https://www.cms.gov/newsroom/fact-sheets/cms-finalizes-calendar-year-2019-and-2020-payment-and-policy-changes-home-health-agencies-and-home>
- xii Medicare Payment Advisory Commission (2018); <http://www.medpac.gov/docs/default-source/default-document-library/december-2018-transcript.pdf?sfvrsn=0>.
- xiii Advisory Board (2018). The most in-demand doctors – and why.

About KPMG LLP

KPMG LLP is one of the largest providers of professional services – strategy, advisory, tax and audit – to the health care and life sciences industry globally. With more than 3,500 industry-specific partners and professionals, our U.S. practice serves 69 percent of the top 100 health care systems, 90 percent of the top 10 health insurers, and all 25 of the leading global life sciences companies. Our dedicated health care and life sciences M&A teams have extensive experience in mergers, acquisitions, affiliations and integrations across all of the major segments and subsectors of the health care and life sciences industry. We understand the regulatory, commercial and accounting complexities unique to the industry, and provide an integrated suite of services to assist our clients in achieving business results. For more information about our health care and life sciences practice, please visit www.kpmg.com/us/healthcarelifesciences.

About Leavitt Partners

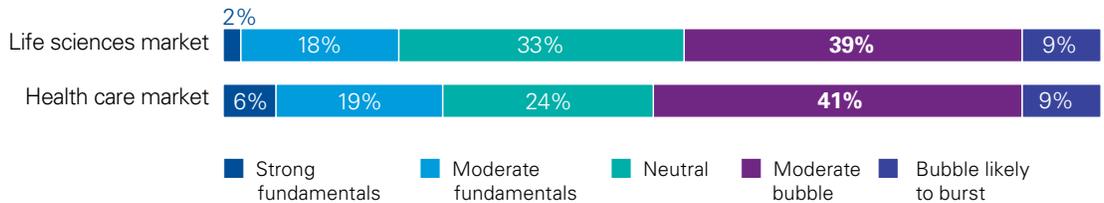
Leavitt Partners is a health care intelligence business. The firm helps clients successfully navigate the evolving role of value in health care by informing, advising, and convening industry leaders on value market analytics, alternative payment models, federal strategies, insurance market insights, and alliances. Through its family of businesses, the firm provides investment support, data and analytics, member-based alliances, and direct services to clients to support decision-making strategies in the value economy. For more information, please visit www.LeavittPartners.com.

Health care and life sciences market overview

This section includes detailed survey responses from the 2019 KPMG/Leavitt Partners' Health Care and Life Sciences Investment Survey with views on the overall health care and life sciences industry followed by snapshots of each of the eight subsectors examined in the survey.

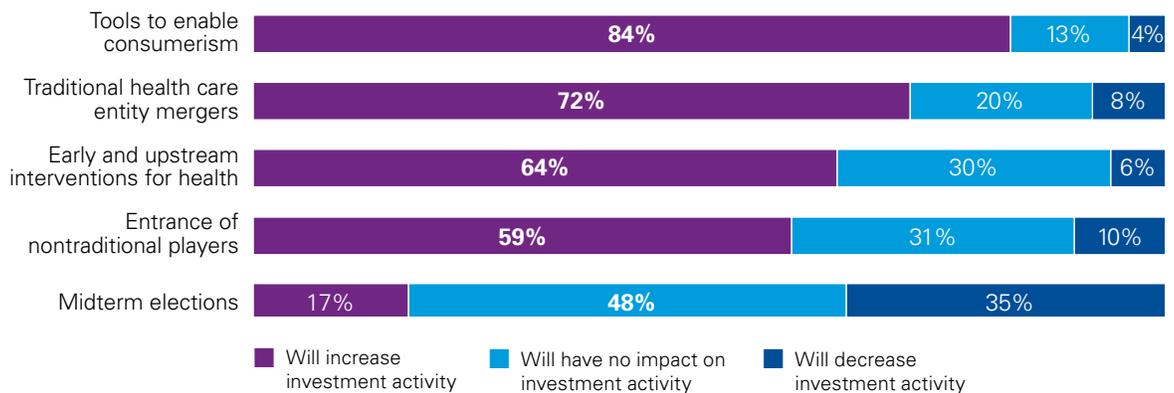
Current state of the life sciences and health care markets

n = 233



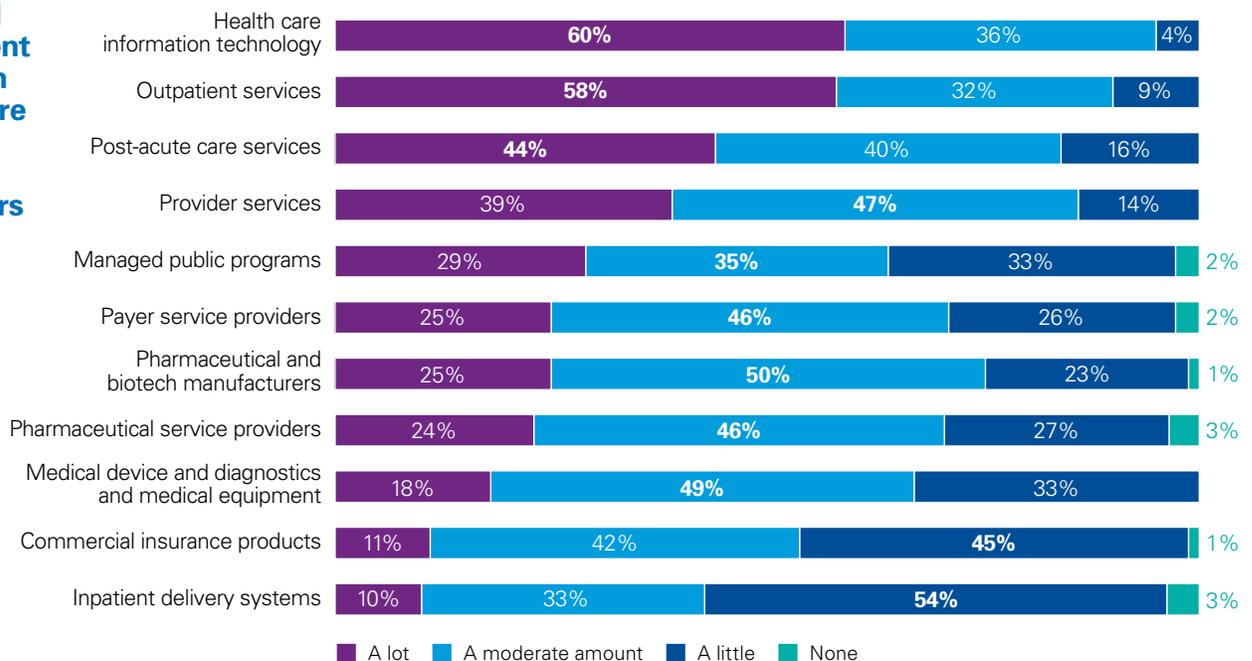
Expected impact of disruptors on investment activity

n = 196



Expected investment activity in health care and life sciences subsectors

n = 201

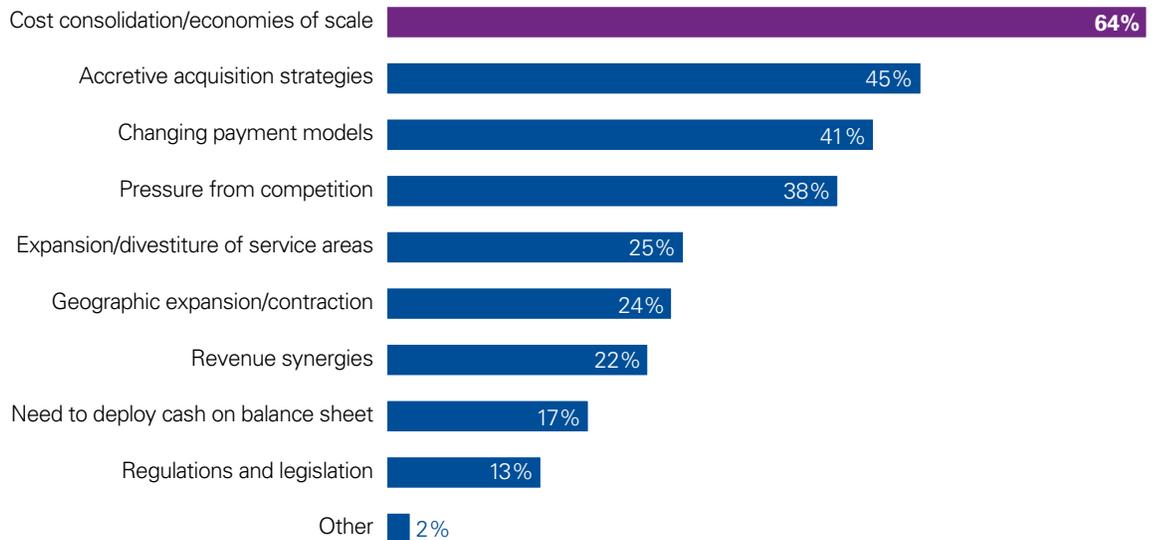




Biggest drivers of merger and acquisition (M&A) activity in the health care and life sciences sector

Respondents were asked to select up to 3 from the list

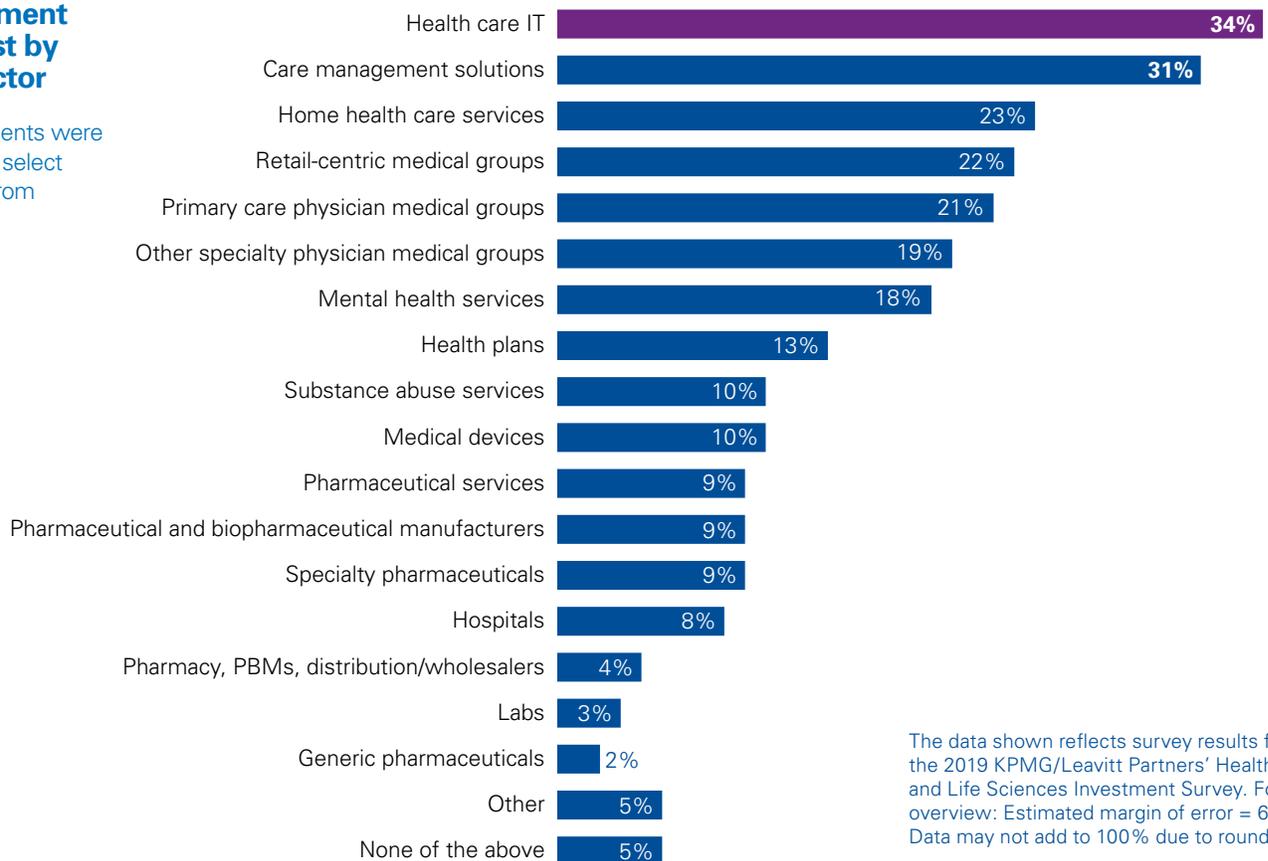
n = 200



Investment interest by subsector

Respondents were asked to select up to 3 from the list

n = 175



The data shown reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the overview: Estimated margin of error = 6%. Data may not add to 100% due to rounding.

Health care information technology

(e.g., EHR/EMR, analytics, SaaS)

Investment considerations

- Expect general growth as this is the **new greenspace of health care**, although not all solutions will grow at the same pace.
- Assess timing of **macro changes** in the health care industry to ensure solution is not too far ahead or behind industry needs.
- Evaluate **contribution to value**, improved clinical performance, and reduced administrative costs.
- Understand **new rules and regulations** that improve access to patient data while adhering to strict privacy rules.
- Understand if the company has a **proven track record** of successfully leveraging its data, as well as future potential and plans for data usage.
- Given the volume of early-stage companies in this space, it is critical to **understand the competitive landscape** and how an offering is differentiated from competitors.
- Consider that, unlike most other subsectors, HIT assets are generally subject to **minimal reimbursement exposure**.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players				●	
Traditional health care entity mergers			●		
Tools to enable consumerism					●
Midterm elections			●		
Early and upstream interventions for health				●	

Mergers and acquisitions: Health care information technology

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	173	23.1%	599.1
2017	199	19.1%	248.7
YTD Sep-18	117	18.8%	542.0
LTM Sep-18	170	18.8%	569.1

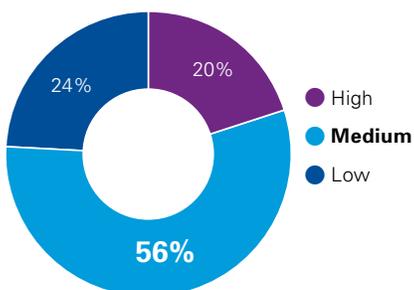
Source: Capital IQ, Industry Classifications (Target/Issuer): Health Care Technology (Primary)

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

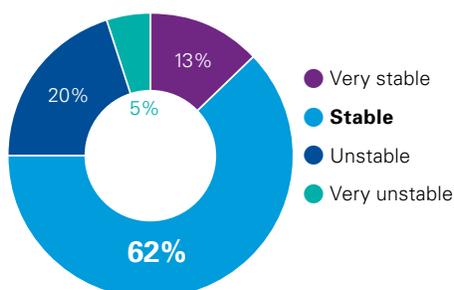


Subsector growth potential: Survey findings and investment considerations

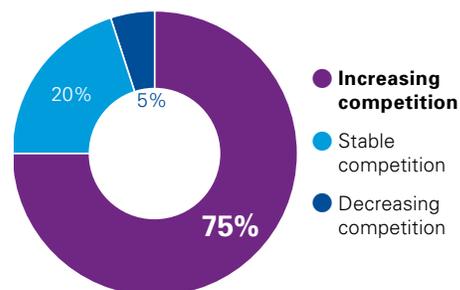
Barriers to entry



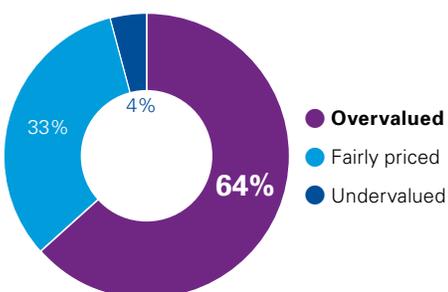
Reimbursement stability



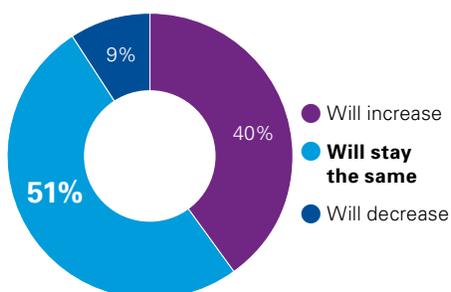
Competitive environment



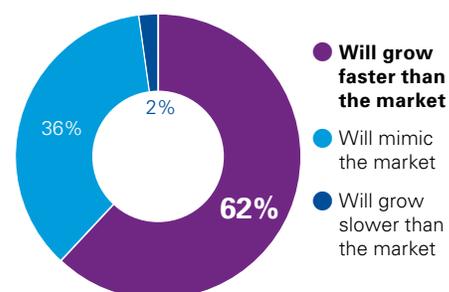
Asset prices



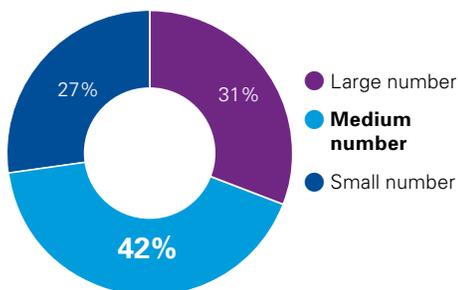
Valuations



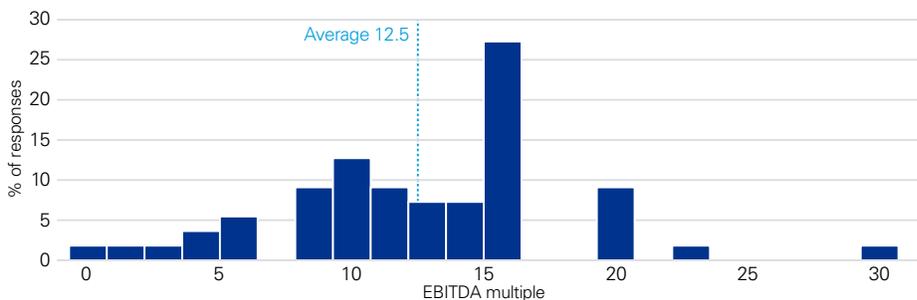
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the healthcare IT subsector: n=55, Estimated margin of error = 11%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Care management solutions for risk-bearing providers

(e.g., utilization management solutions, chronic care management solutions, case management solutions)

Investment considerations

- Evaluate ability to **balance reduced costs and improved quality** as signals of commitment to future growth.
- Look for use of **analytics and predictive modeling** as evidence of commitment to better outcomes at lower cost.
- Understand care management solutions' usage within **risk-bearing models**.
- Recognize that the **model you invest in** might not be the model you exit with.
- Assess ability to **apply solutions quickly** to highest-cost populations.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players				●	
Traditional health care entity mergers				●	
Tools to enable consumerism					●
Midterm elections			●		
Early and upstream interventions for health					●

Mergers and acquisitions: Care management solutions for risk-bearing providers

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	23	39.1%	52
2017	23	26.1%	389
YTD Sep-18	15	40.0%	471
LTM Sep-18	26	34.6%	533

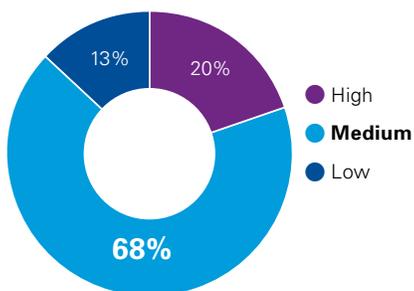
Source: Capital IQ, Business Description (Target/Issuer): Health care services (Primary). Keywords: Utilization management, care management, population health, chronic care management, case management

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

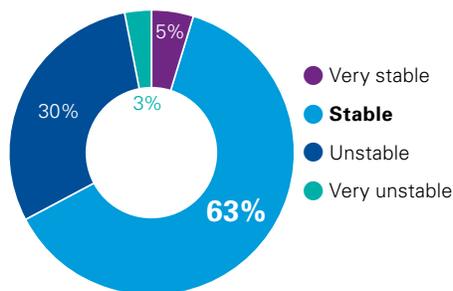


Subsector growth potential: Survey findings and investment considerations

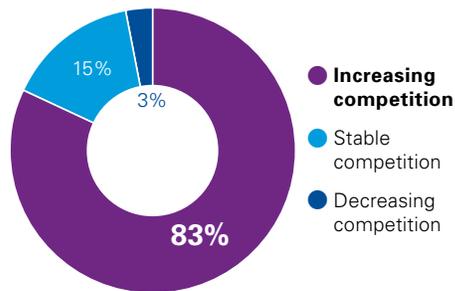
Barriers to entry



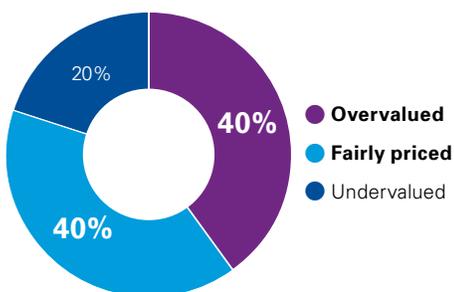
Reimbursement stability



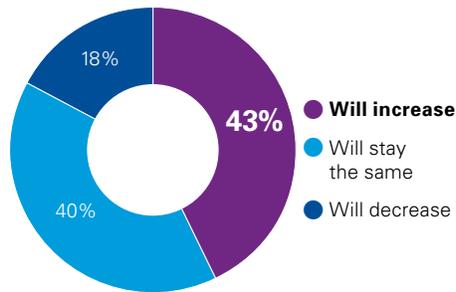
Competitive environment



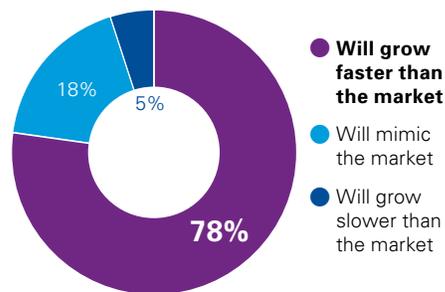
Asset prices



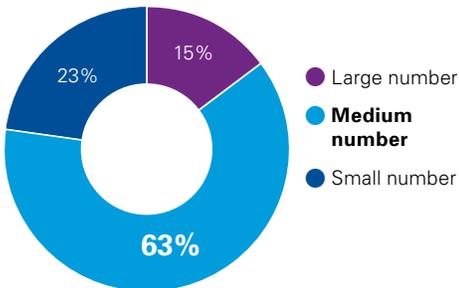
Valuations



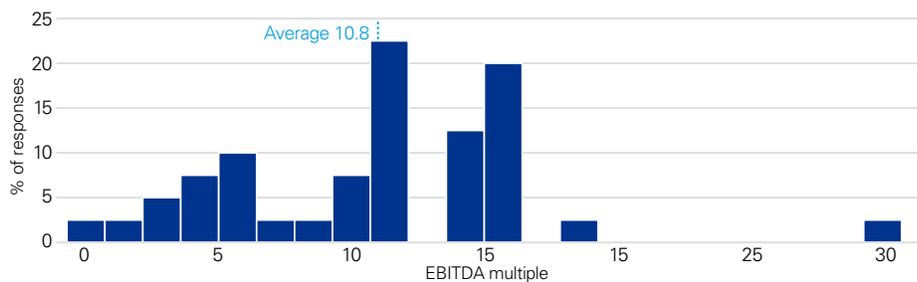
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the care management solutions for risk-bearing providers subsector: n=40, Estimated margin of error = 13%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Home health care services

(medical and non-medical services delivered in the home)

Investment considerations

- Understand that the needs of the **aging population** and shift to **lower-cost** settings are driving investor interest.
- Evaluate optimization of model/cost structure to fully realize **margin improvement**.
- **Evaluate whether offering has services extending** beyond skilled nursing and non-skilled to higher-level care, e.g., infusion therapy, dialysis, and telemedicine.
- Assess offering's place in the **care continuum**, given focus on post-discharge care quality and readmission avoidance.
- Consider impacts of recently announced changes to the **Medicare Home Health Prospective Payment System**, including the shift in the unit of payment from 60 days to 30 days beginning in 2020.^{xi}
- Temper optimism about reimbursement increases with **increasing scrutiny** of this subsector's **high margins**.^{xii}
- Be **mindful of past billing and compliance abuses**, as these could impact offering's standing with payers and regulators.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers				●	
Tools to enable consumerism				●	
Midterm elections			●		
Early and upstream interventions for health				●	

Mergers and acquisitions: Home health care services

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	45	20.0%	48.6
2017	42	19.0%	19.1
YTD Sep-18	38	18.4%	178.2
LTM Sep-18	49	18.4%	139.6

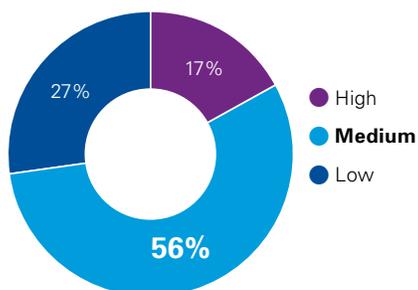
Source: Capital IQ, Industry Classifications (Target/Issuer): Hospitals and Healthcare Centers, Healthcare Facilities, Healthcare Services (Primary), Healthcare Providers Specialist Services (Primary), Medical Doctor Specialist Services (Primary), Rehabilitation Services (Primary); Keyword Home health; Home Healthcare Services (Primary)

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

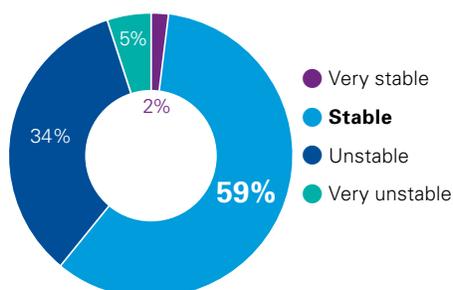


Subsector growth potential: Survey findings and investment considerations

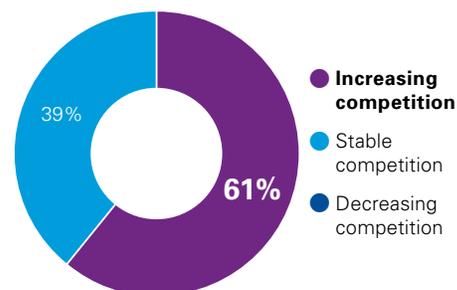
Barriers to entry



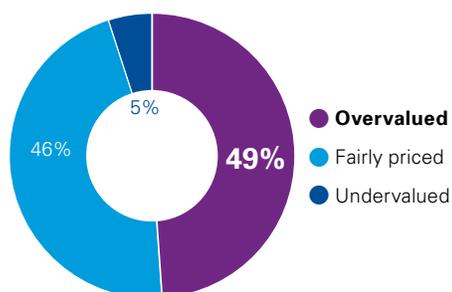
Reimbursement stability



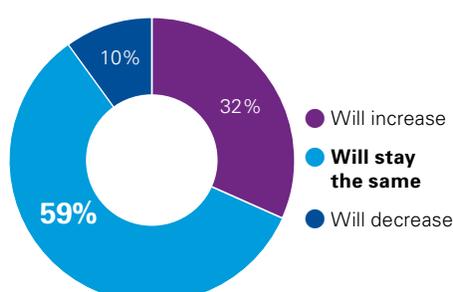
Competitive environment



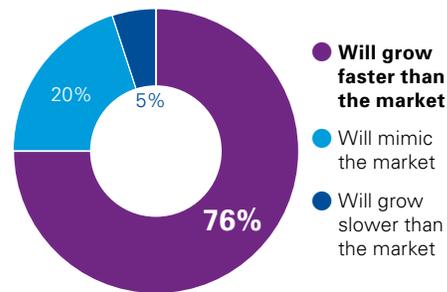
Asset prices



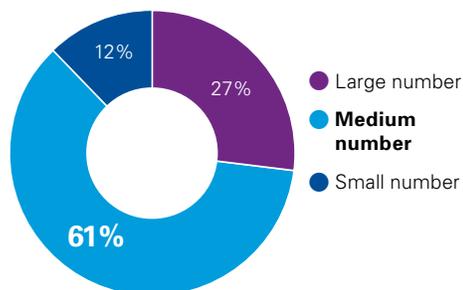
Valuations



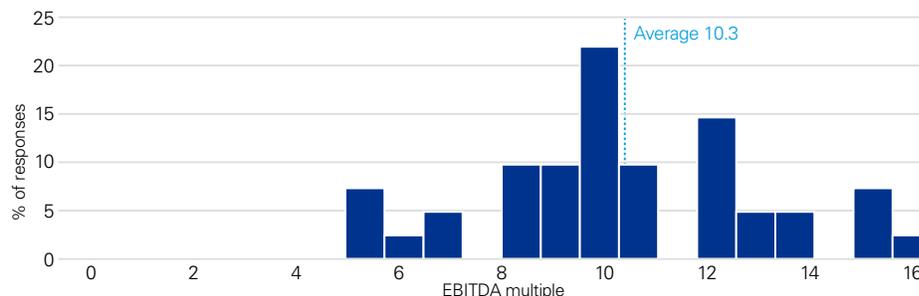
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the home health service subsector: n=41, Estimated margin of error = 13%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Specialty physician medical groups

(e.g., imaging/radiology, anesthesiology, cardiology, orthopedics, OB/GYN, oncology)

Investment considerations

- Focus on **specialty groups in outpatient settings**, rather than outsourced solutions for hospitals.
- Look at **fastest-growing medical specialties** – geriatrics, OB/GYN, oncology, and orthopedics, among others.^{xiii}
- Evaluate whether already **tracking quality and outcome** measures and leaning into coming requirements for MACRA, e.g., MIPS and associated Advanced Alternative Payments Models.
- Bear in mind projected specialty physician shortages, as well as compensation/incentive issues that could lead to **recruiting and retention** challenges.
- Consider that higher-cost specialty services will face cost and reimbursement pressures; **lower-quality providers will experience payment penalties**.
- Assess balance between levers required to **benefit from scale** and **risks** involved in executing on scale initiatives.
- Understand evolving **physician compensation models**, including risks and opportunities inherent in **physician partner models**.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers			●		
Tools to enable consumerism				●	
Midterm elections			●		
Early and upstream interventions for health			●		

Mergers and acquisitions: Specialty physician medical groups

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	55	5.5%	315.5
2017	56	17.9%	30.5
YTD Sep-18	33	9.1%	733.3
LTM Sep-18	40	12.5%	442.6

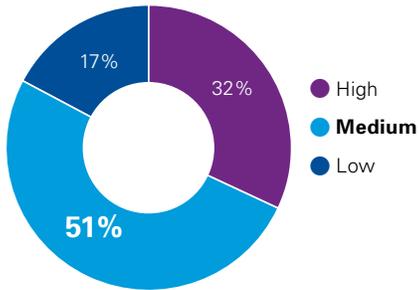
Source: Capital IQ, Industry Classifications (Target/Issuer): Hospitals and Healthcare Centers, Healthcare Facilities, Healthcare Services (Primary), Healthcare Providers Specialist Services (Primary), Medical Doctor Specialist Services (Primary), Rehabilitation Services (Primary), Diagnostic Imaging Centers (Primary), Fertility Clinics (Primary). Keywords: Radiology, anesthesiology, hospitalists, cardiology, orthopedics, OB/GYN, oncology, wound, gastroenterology

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

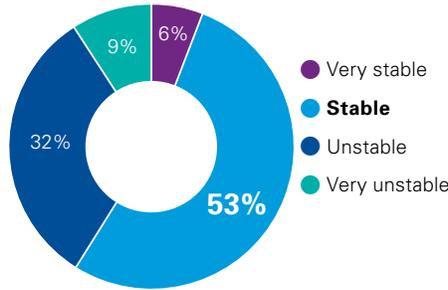


Subsector growth potential: Survey findings and investment considerations

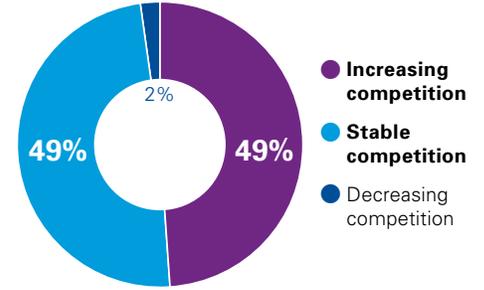
Barriers to entry



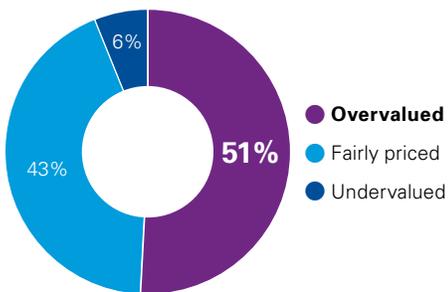
Reimbursement stability



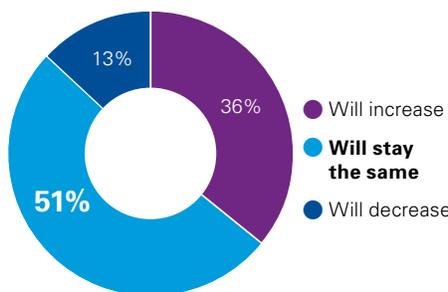
Competitive environment



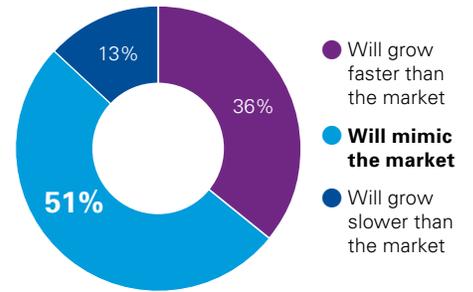
Asset prices



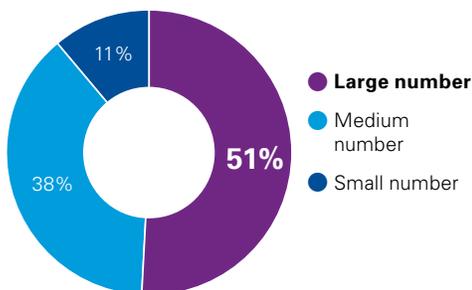
Valuations



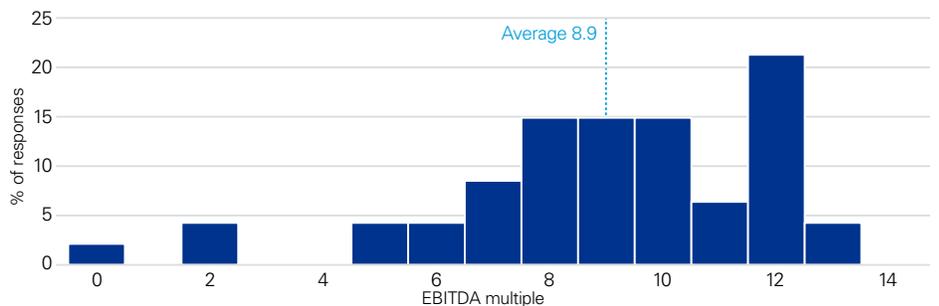
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the other specialty physician groups subsector: n=47, Estimated margin of error = 12%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Primary care medical groups

Investment considerations

- Evaluate whether physician group is **source of referrals or standalone cost center**.
- Assess varying levels of **preparedness to take on risk** and track record in driving **lower cost care and better patient experience**.
- Look at commitment to leveraging physicians' ability to practice at the **top of their license**.
- Consider that there is an **upside** to PCP practices that **are able to take on risk**.
- Understand **local market competition**, especially from retail clinics.
- Be aware of organization's response to **reimbursement pressure** from MACRA and other alternative payment models, as well as MIPS payment adjustments – which kick in this year and are very modest, even for top performers.
- Consider the possibility that PCPs may take on **different roles** in the evolving health care ecosystem.
- Understand that **physician compensation models** are changing and may require optimization of physician utilization models.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

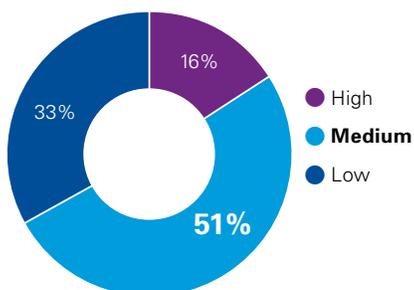
	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers			●		
Tools to enable consumerism				●	
Midterm elections			●		
Early and upstream interventions for health				●	

Note: Based on data limitations of the Capital IQ database, primary care medical group transaction data is not included.

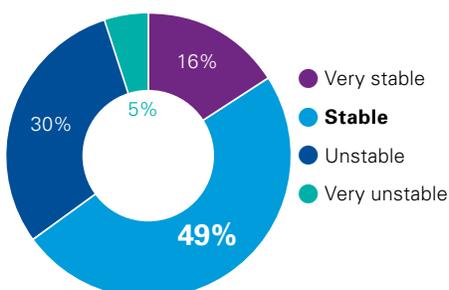


Subsector growth potential: Survey findings and investment considerations

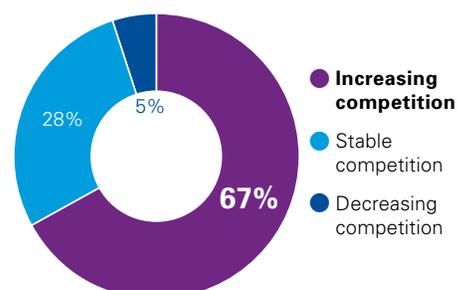
Barriers to entry



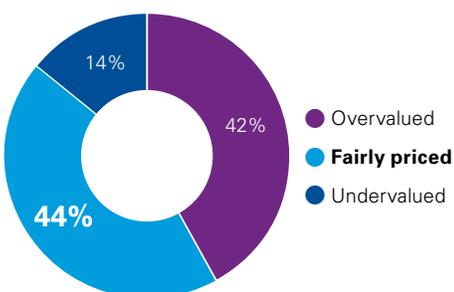
Reimbursement stability



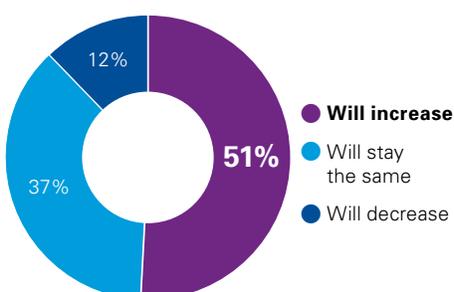
Competitive environment



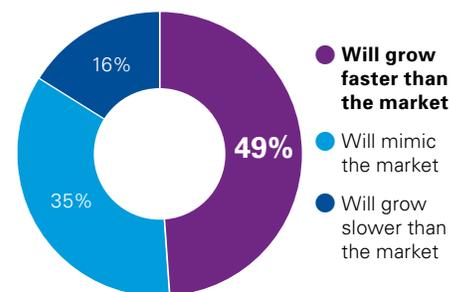
Asset prices



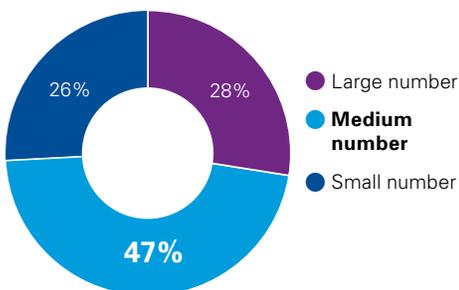
Valuations



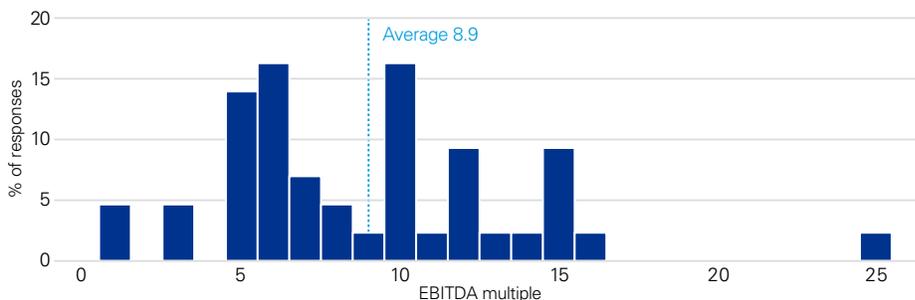
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the primary care physician medical group subsector: n=43, Estimated margin of error = 12%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Retail-centric medical groups

(e.g., dental, dermatology, vision, physical therapy)

Investment considerations

- Understand **reimbursement landscape** and potential impact of changes from CMS/commercial payers.
- Evaluate the degree to which self-pay and elective procedures represent potential risks to the business if there is a **shift in the economy**.
- Assess sophistication of **engagement with consumer-oriented patients**.
- Identify potential **upside opportunities and downside risks** posed by **current revenue cycle processes**, as well as cost of improvements in people, processes, and systems.
- Look for current and future opportunities to **optimize operations** by lowering costs through scale.
- Verify that **physician compensation and incentive structures** are appropriately aligned to adequate production and minimal turnover.
- Ensure that **compliance** issues related to **referrals, procedures, and payments** have been adequately addressed.
- Understand degree of **operational/clinical integration**, given recent roll-up of most assets.
- Consider the **competitive dynamics** of markets that will likely grow over time.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers			●		
Tools to enable consumerism				●	
Midterm elections			●		
Early and upstream interventions for health				●	

Mergers and acquisitions: Retail-centric medical groups

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	94	2.1%	43.1
2017	90	2.2%	7.7
YTD Sep-18	62	6.5%	19.9
LTM Sep-18	84	4.8%	19.9

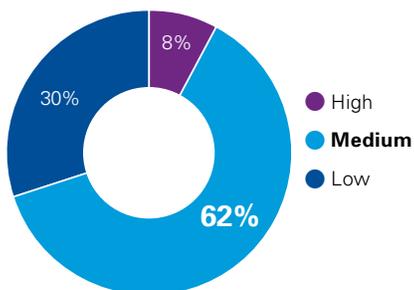
Source: Capital IQ, Industry Classifications (Target/Issuer): Hospitals and Healthcare Centers, Healthcare Facilities, Healthcare Services (Primary), Healthcare Providers Specialist Services (Primary), Medical Doctor Specialist Services (Primary), Rehabilitation Services (Primary), Dental Services (Primary), Keywords: Dental, Dermatology, Vision, Optometry, Physical therapy, Vein, Chiropractic.

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

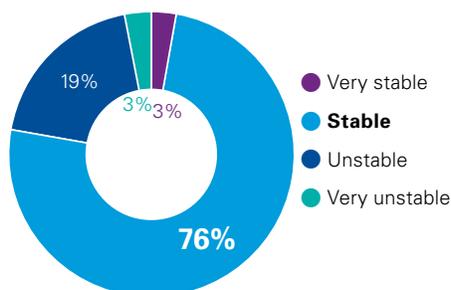


Subsector growth potential: Survey findings and investment considerations

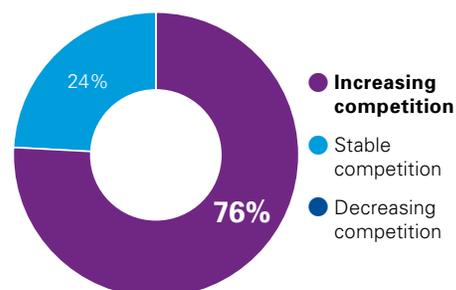
Barriers to entry



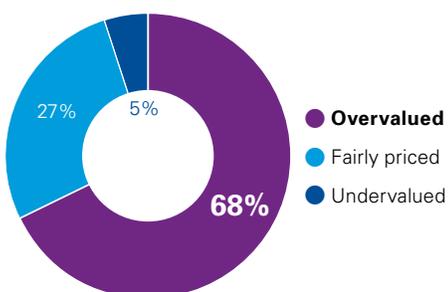
Reimbursement stability



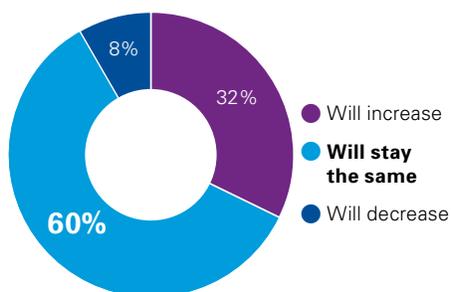
Competitive environment



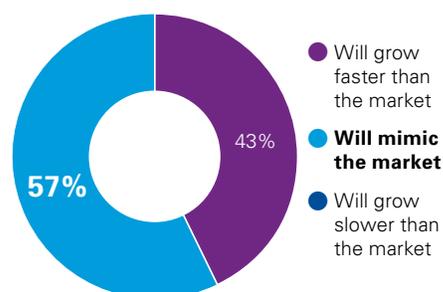
Asset prices



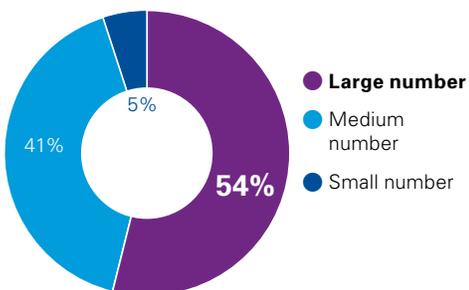
Valuations



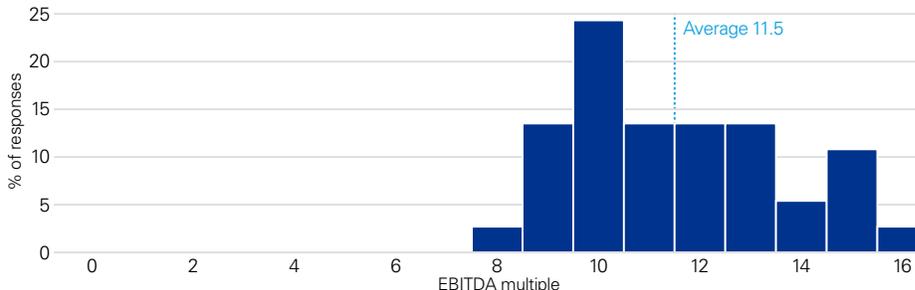
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the retail-centric medical groups subsector: n=37, Estimated margin of error = 14%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Health plans

Investment considerations

- If efficiency initiatives have been exhausted, look for increased focus on **benefit cost reductions**, savings through **value-based reimbursement models**, and **risk-sharing** opportunities.
- Evaluate commitment to **chronic care management opportunities** evidenced by expansion into Medicare Advantage and Medicaid Managed Care.
- Factor in challenges and opportunities related to ACA **new rules and short-term plans**.
- Look for potential growth of Association Health Plans (AHP) and Short-Term Limited Duration (STLD) plans in **current ACA marketplace**.
- Pay attention to **disruption from newer models**, e.g., technology-based health plans with system platforms and comprehensive datasets that drive value-based care.
- Look for **improved quality measures** leading to enhanced star ratings and corresponding reimbursement increases.
- Seek out organizations that are **aligning with care/benefit management companies** to capture shared savings through focus on effective diagnosis, cost reduction, and quality improvement measures.

Disruptor impact

What impact on the deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers				●	
Tools to enable consumerism				●	
Midterm elections			●		
Early and upstream interventions for health				●	

Mergers and acquisitions: Health plans

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	15	33.3%	1,543.3
2017	24	25.0%	182.3
YTD Sep-18	16	25.0%	1,987.5
LTM Sep-18	23	21.7%	1,670.0

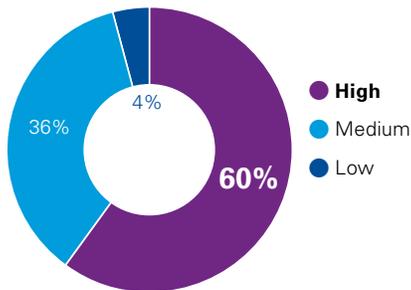
Source: Capital IQ, Industry Classifications (Target/Issuer): Managed Health Care (Primary), Health and Medical Insurance (Primary).

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

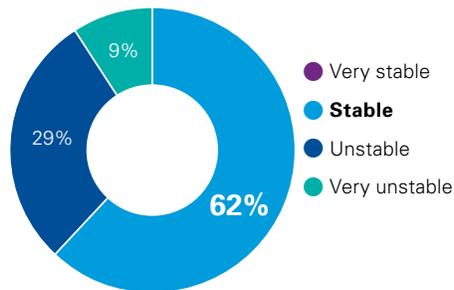


Subsector growth potential: Survey findings and investment considerations

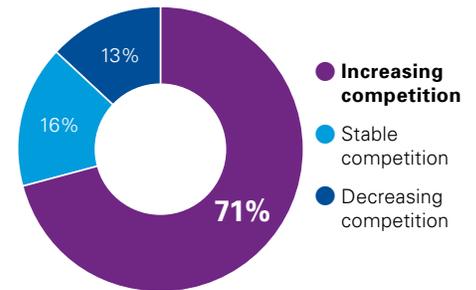
Barriers to entry



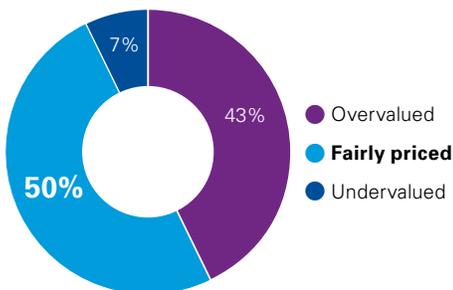
Reimbursement stability



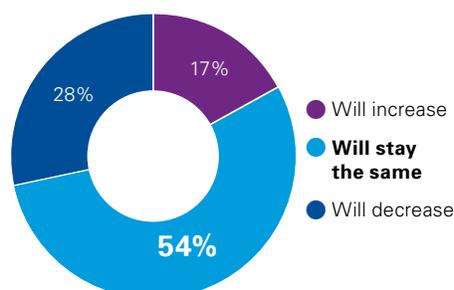
Competitive environment



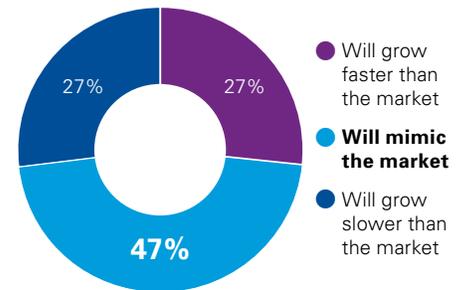
Asset prices



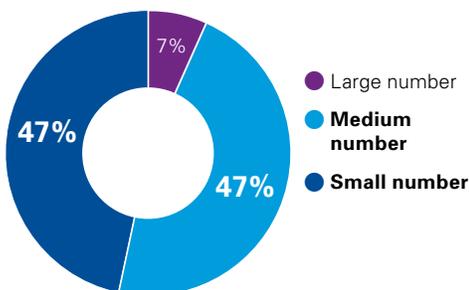
Valuations



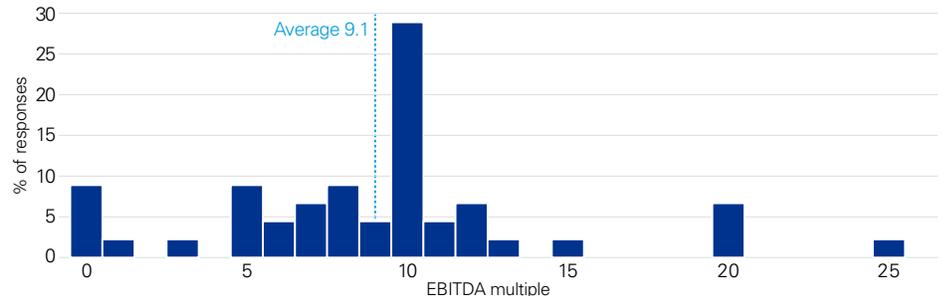
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the health plan subsector: n=45, Estimated margin of error = 12%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Hospitals

Investment considerations

- Evaluate **strategic investments** (e.g., telemedicine, care management solutions, medical devices) as signals of positive approach to disruption.
- Assess commitment to **business model shifts** needed to ensure long-term strategic positioning.
- Look at **service rationalization, clinical/care redesign, physician enterprise management, reduction of unwarranted clinical variation**, and management of labor and supply chain costs as indicators of strong longer-term financials.
- Remember that public **pressure over high cost of care and surprise billing** is increasing scrutiny of this subsector.
- Assess the degree to which hospital is facing short-term financial challenges due to regulatory changes, e.g., **site-neutral payments** and reduced **340b reimbursements**.
- Weigh how market share is impacted by **competing hospitals** and strength of **major purchasers**, e.g., health plans, private sector employers, and public employee groups/unions.

Disruptor impact

What impact on the hospital deal-making climate do you think each of the following disruptors will have?

	Negative impact	Slightly negative impact	No impact	Slightly positive impact	Positive impact
Entrance of nontraditional players			●		
Traditional health care entity mergers			●		
Tools to enable consumerism			●		
Midterm elections			●		
Early and upstream interventions for health			●		

Mergers and acquisitions : Hospitals

M&A close date	Number of closed transactions	Percent of transactions with value announced	Avg. deal value of announced transactions (\$ millions)
2016	59	47.5%	110.8
2017	38	21.1%	84.7
YTD Sep-18	35	25.7%	149.1
LTM Sep-18	48	27.1%	115.3

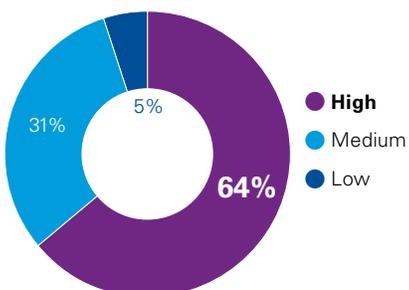
Source: Capital IQ, Industry Classifications (Target/Issuer): Hospitals and Healthcare Centers (Primary)

Note: The average deal value is calculated using only those deals that have the deal value disclosed in the Capital IQ database.

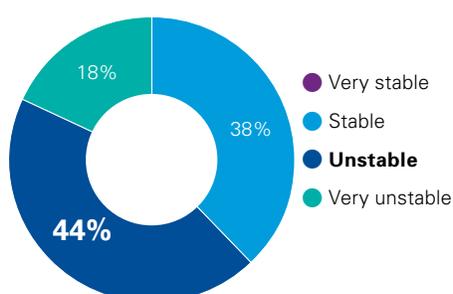


Subsector growth potential: Survey findings and investment considerations

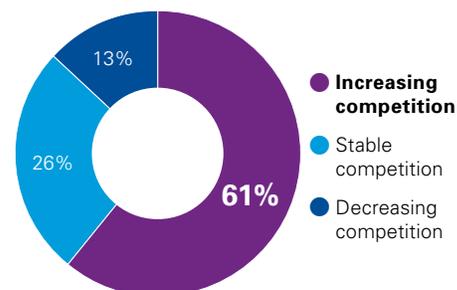
Barriers to entry



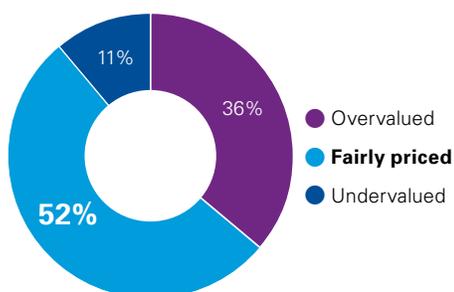
Reimbursement stability



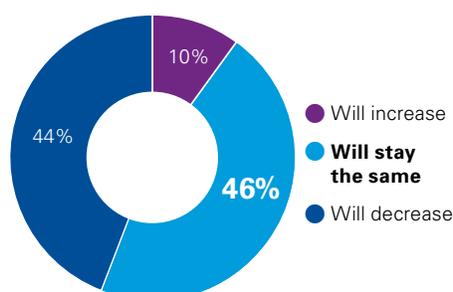
Competitive environment



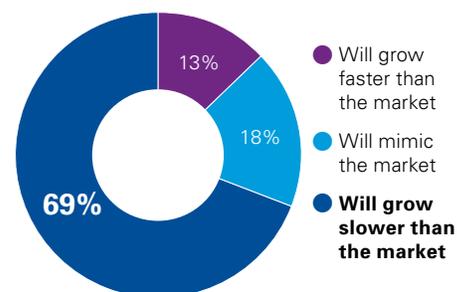
Asset prices



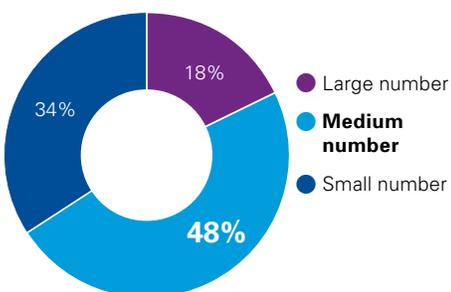
Valuations



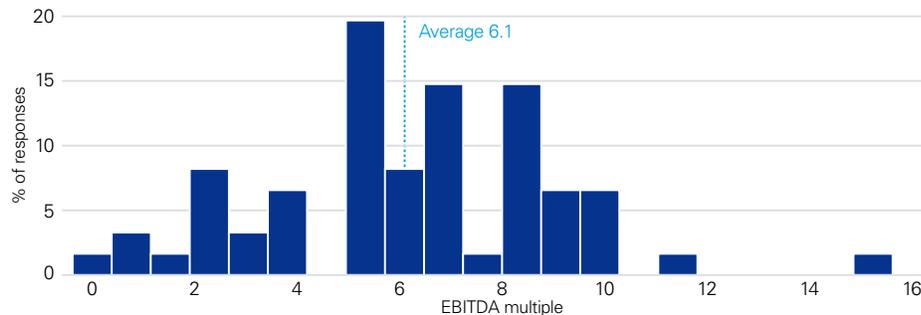
Relative growth



Viable investment targets



Estimated purchase price multiple (in EBITDA)



The data above reflects survey results from the 2019 KPMG/Leavitt Partners' Healthcare and Life Sciences Investment Survey. For the hospitals subsector: n=61, Estimated margin of error = 11%. Bolded text highlights the choice that received the most responses, note that for some this falls within the margin of error to the choice that received the second most responses. Data may not add to 100% due to rounding.

Contacts

KPMG



Carole Streicher
National Partner
in Charge,
Healthcare Deal
Advisory
312.665.2138
cstreicher@kpmg.com



Andy Stephenson
Partner,
Healthcare Deal
Advisory
212.872.6031
astephenson@kpmg.com



S. Lawrence Kocot
Principal and
National Leader,
Center for Healthcare
Regulatory Insight
202.533.3674
lkocot@kpmg.com



Brett Glover
Partner,
Healthcare Deal
Advisory
214.840.8579
bglover@kpmg.com

Leavitt Partners



Susan C. Winckler
President
Leavitt Partners Solutions
801.707.1735
susan@leavittpartners.com



Brett Graham
Chief Strategy Officer
801.898.3568
brett@leavittpartners.com



Sierra Smith
Enterprise Strategy
641.780.7011
sierra.smith@leavittpartners.com



Bo Nemelka
Enterprise Strategy
801.808.7089
bo.nemelka@leavittpartners.com

*** We would like to acknowledge the contributions of Kirsti Boston, Amy Busse, Donna Ceparano, and Ross S. White (KPMG), as well as Andrew Clark, Jennifer Colamonico, Kerstin Edwards, David Muhlestein, Taylor Leavitt, and Lia Winfield (Leavitt Partners).**

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