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Industry Update

# Healthcare Services

A Report on Q1 2018



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\* This publication is also available in soft copy on the MPI website: <http://www.mpival.com/resources.html>.

## Industry Overview

This publication focuses on major events, developments, and trends within the following segments of the Healthcare Services industry:<sup>1</sup>

- Acute Care Hospitals
- Care Management/Cost Containment
- Diagnostic Imaging
- Healthcare Staffing
- Long-Term Care
- Pharmacy Management
- Assisted Living
- Clinical Laboratories
- Healthcare Information Technology
- Home Care/Hospice
- Managed Care
- Surgicenters/Rehabilitation

Amazon, Berkshire Hathaway and JPMorgan Chase announced on Tuesday (January 30) that they would form an independent health care company for their employees in the United States. The alliance was a sign of how the healthcare landscape might evolve in the future. It was unclear how extensively the three partners would overhaul their employees' existing health coverage — whether they would simply help workers find a local doctor, steer employees to online medical advice, or use their muscle to negotiate lower prices for drugs and procedures. While the alliance will apply only to their employees, these corporations are so closely watched that whatever successes they have could become models for other businesses.

Major employers, from Walmart to Caterpillar, have tried for years to tackle the high costs and complexity of health care. About 151 million Americans get their health insurance from an employer. These major employers are moving into an industry where the lines between traditionally distinct areas -- such as pharmacies, insurers, and providers -- are increasingly blurry. CVS Health's deal last month to buy the health insurer Aetna for about \$69 billion is just one example of the changes underway. Separately, Amazon's potential entry into the pharmacy business continues to rattle major drug companies and distributors.

The companies said the initiative, which is in its early stages, would be “free from profit-making incentives and constraints,” but did not specify whether that meant they would create a nonprofit organization. The tax implications were also unclear because so few details were released. Jamie Dimon, the chief executive of JPMorgan Chase, said in a statement that the effort could eventually be expanded to benefit all Americans. “The health care system is complex, and we enter into this challenge open-eyed about the degree of difficulty,” Jeff Bezos, Amazon's founder and chief executive, said in a statement. “Hard as it might be, reducing health care's burden on the economy while improving outcomes for employees and their families would be worth the effort.”

The announcement touched off a wave of speculation about what the new company might do, especially given Amazon's extensive reach into the daily lives of Americans — from where they buy their paper towels to what they watch on television. It follows speculation that the company, which recently purchased the grocery chain Whole Foods, might use its stores as locations for pharmacies or clinics.

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<sup>1</sup> Brief descriptions of each segment of the Healthcare Services industry can be found on pages 15 through 17 of this report.

“It could be big,” said Ed Kaplan, who negotiates health coverage on behalf of large employers as the national health practice leader for the Segal Group. “Those are three big players, and I think if they get into health care insurance or the health care coverage space, they are going to make a big impact.”

But others were less sure, noting that the three companies — which, combined, employ more than one million people — might still hold little sway over the largest insurers and pharmacy benefit managers, who oversee the benefits of tens of millions of Americans. “This is not news in terms of jumbo employers being frustrated with what they can get through the traditional system,” said Sam Glick of the management consulting firm Oliver Wyman in San Francisco. He played down the notion that the three partners would have more success getting lower prices from hospitals and doctors. “The idea that they could have any sort of negotiation leverage with unit cost is a pretty far stretch.”

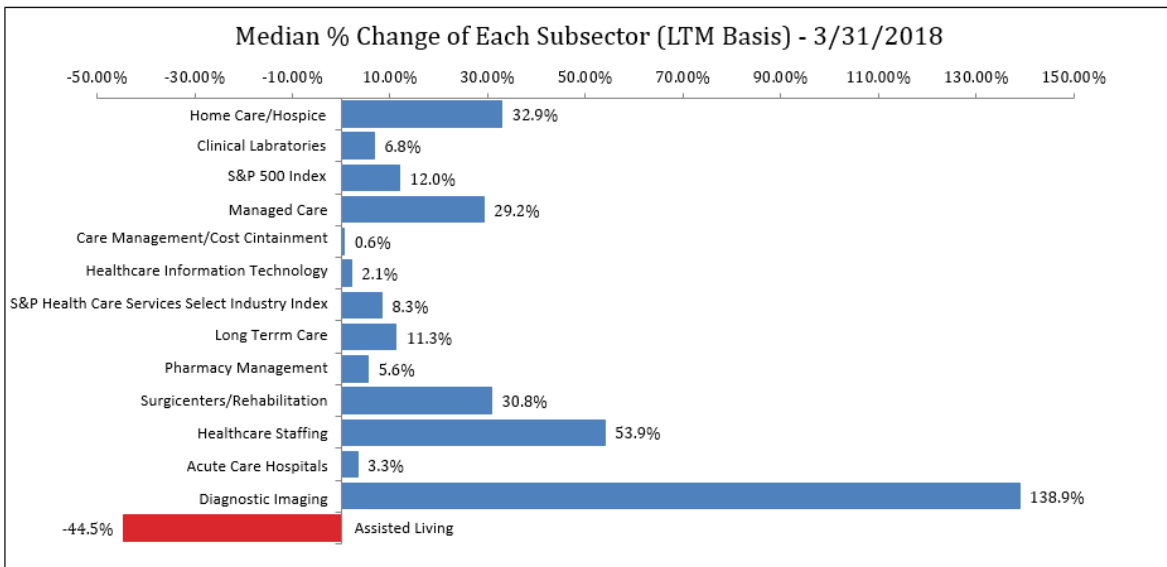
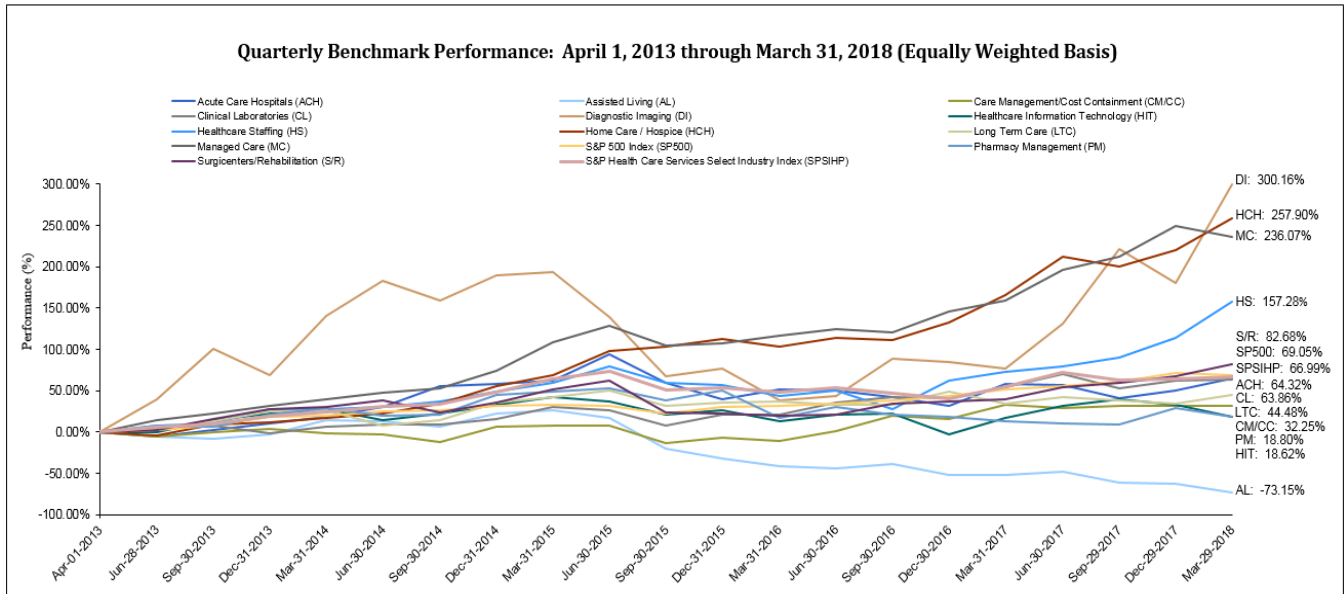
Even the three companies don’t seem to be sure of how to shake up health care. People briefed on the plan, who asked for anonymity because the discussions were private, said the executives decided to announce the initiative while still a concept in part so they can begin hiring staff for the new company. Three people familiar with the partnership said it took shape as Mr. Bezos, Mr. Buffett, and Mr. Dimon, who are friends, discussed the challenges of providing insurance to their employees. They decided their combined access to data about how consumers make choices, along with an understanding of the intricacies of health insurance, would inevitably lead to some kind of new efficiency — whatever it might turn out to be.

“The ballooning costs of health care act as a hungry tapeworm on the American economy,” Mr. Buffett said in the statement. “Our group does not come to this problem with answers. But we also do not accept it as inevitable.”

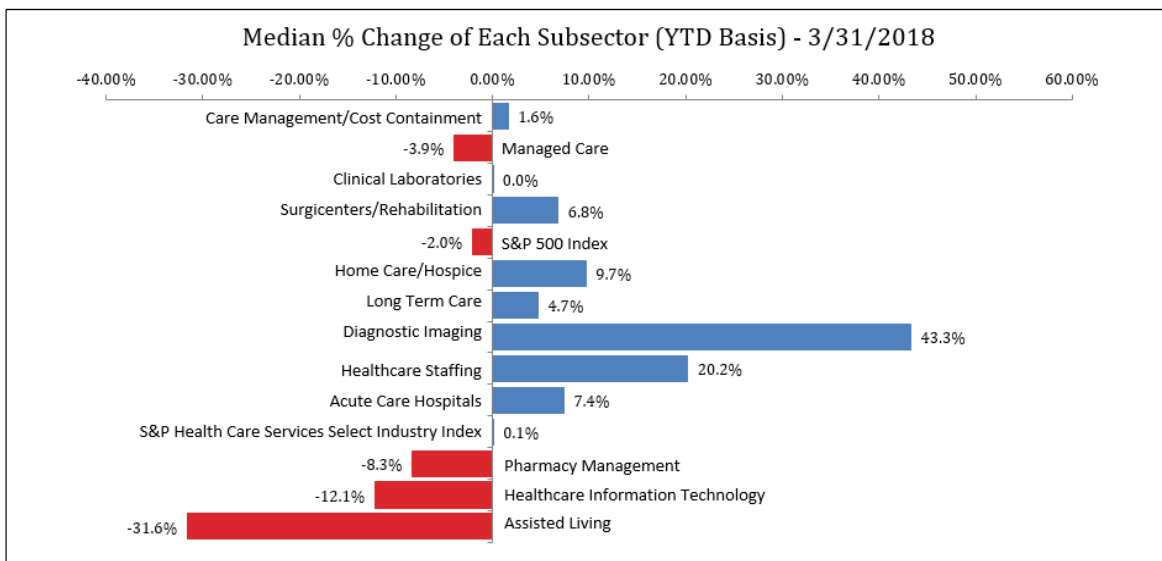
The companies said they would initially focus on using technology to simplify care but did not elaborate on how they intended to do that or bring down costs. One of the people briefed on the alliance said the new company wouldn’t replace existing health insurers or hospitals.

Planning for the new company is being led by Marvelle Sullivan Berchtold, a JPMorgan managing director who was previously head of the Swiss drugmaker Novartis’s mergers and acquisitions strategy; Mr. Combs; and Beth Galetti, a senior vice president at Amazon. (Source: *The New York Times*)

Industry Overview (cont.)



- The S&P Healthcare Services Index increased 8.3% in the latest twelve months (“LTM”) ended March 31, 2018. The Diagnostic Imaging segment exhibited the strongest performance of the group, increasing 138.9% in the LTM period. The worst performing segment was Assisted Living, down 44.5% in the LTM period.



- The S&P Healthcare Services Index increased 0.1% in the year to date (“YTD”) period ended March 31, 2018. The Diagnostic Imaging segment exhibited the strongest performance of the group, increasing 43.3% in the first quarter of 2018.<sup>2</sup> The worst performing segment was Assisted Living, down 31.6% in the first quarter of 2018. The political uncertainty surrounding the replacement of the Affordable Care Act continues to be a source of volatility for the sector, as regulatory and compliance challenges persist. Industry participants remain focused on controlling costs, and uncertainty surrounding shifting government policy could mean a more challenging environment for parts of the industry.

### In the News...

- **That Bad Bet that Insurers Can’t Shake:** General Electric Co.'s looming \$6.2 billion charge in its GE Capital unit is one of the biggest in a corner of the insurance industry that has reeled from pricing miscalculations made decades ago. About 7.3 million of the policies are in consumers' hands, some with generous lifetime benefits. Although GE sold much of its financial-services operations after the 2008 financial crisis, it left on its books responsibility for billions of dollars of coverage for long-term-care policies that been sold by other insurers to consumers. Those policies – about 300,000 of them – promise to pay for nursing homes and other care for individuals. Long-term-care insurance took off in the early 1990s. The policies had strong appeal to elderly people, and many insurers thought they had the perfect product to profit from people's concerns about becoming unable to care for themselves and outliving their savings. In general, the policies pay for nursing homes, assisted-living facilities, or health-care aides in people's private residences. Such care generally isn't paid by the Medicare health-insurance program for older people, while the state-federal Medicaid program is for the poor. But by the mid-2000s, many insurers were rapidly ratcheting back the benefits, concluding they had badly

<sup>2</sup> Diagnostic Imaging segment consists of one company, RadNet, Inc.

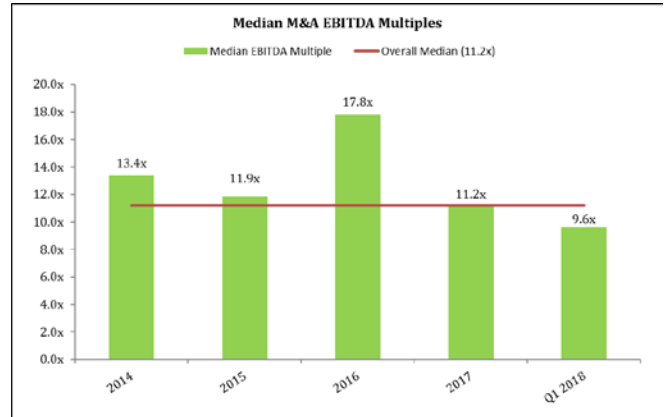
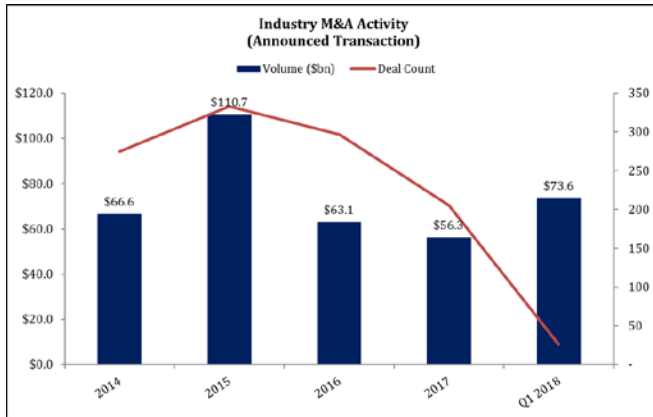
miscalculated how many people would file claims and how long they would draw benefits before dying, among other things. (*Wall Street Journal*, 01/16)

- **Insurers Predict Stable 2018 Obamacare Marketplace:** Health insurers that continue to sell individual coverage under the Affordable Care Act are forecasting a stable market on public exchanges this year after a rocky 2017 that had the law under attack. Cigna was able to effectively manage Obamacare patients in 2017 even after its individual business that includes business on the ACA’s public exchanges grew by 77% to 297,000 health plan enrollees. Centene CEO Michael Neidorff says he’s optimistic bipartisan legislation will emerge to stabilize the individual marketplaces. The Trump White House and the Republican-led Congress last year failed to repeal the ACA, benefiting health insurers like Centene that have placed a big bet on Obamacare. “It consumed more than three quarters of the legislative year and the repeal and replace effort ultimately was unsuccessful,” Neidorff told analysts earlier this month on the company's fourth quarter earnings call. “We do anticipate Congress will look at ways to stabilize the marketplace and there continues to be strong bipartisan support to implement a reinsurance program,” Neidorff said. (*Forbes*, 02/16)
- **What the \$52 Billion Cigna Purchase of Express Scripts Means for Consumers:** The healthcare industry is consolidating in a series of head-snapping deals. But like many of the recent multibillion-dollar combinations, it’s not clear whether the just-announced \$52-billion merger of Cigna Corp. and Express Scripts Holding Co. will deliver lower premiums or cheaper drugs for consumers. Health insurance giant Cigna announced it will buy Express Scripts, the largest pharmacy benefit manager in the country. Unless federal regulators move to block it — as they did with two recent proposed health insurance company tie-ups— the merger is expected to be complete by the end of the year. It’s just the latest sign that healthcare giants are trying to gain more control over rising costs, especially for new prescription medicines. In December, CVS Health — a pharmacy benefit manager with almost 90 million plan members — announced it would buy Aetna, which has an estimated 45 million customers. In 2015, only 1% to 2% of the American public used specialty drugs — pharmaceuticals that cost \$600 or more per month — yet they accounted for about 38% of total drug expenditures. (*Los Angeles Times*, 03/12)

## M&A Overview

### *Industry Trends*

As shown below, there has been a megadeal in the first quarter of 2018, with Cigna Corporation acquiring Express Scripts Holdings Company for \$68.6 billion [number differs from that stated on the prior page]. As a result, volume is up while deal count is down from the first quarter of 2017. In the first quarter of 2018, we observed 26 deals in the Healthcare Services industry, totaling \$73.6 billion. (*Source: S&P Capital IQ*)



*Top Ten Largest Announced Transactions Year to Date – March 31, 2018*

Announced	Buyer	Target	Target Description	Implied Enterprise Value (\$ mm)
3/8/2018	Cigna Corporation	Express Scripts Holding Company	Express Scripts Holding Company operates as a pharmacy benefit management (PBM) company in the United States and Canada.	\$ 68,576.14
2/15/2018	Roche Holding AG	Flatiron Health, Inc.	Flatiron Health, Inc., a healthcare technology company, engages in building data pipelines and structured databases for oncology and the healthcare markets.	\$ 2,173.91
3/6/2018	Inovalon Holdings, Inc.	ABILITY Network Inc.	ABILITY Network Inc., a healthcare technology company, develops and delivers a suite of Web-based solutions for healthcare providers in ambulatory, acute, and post-acute settings in the United States.	\$ 1,200.00
2/23/2018	R1 RCM Inc.	Intermedix Corporation	Intermedix Corporation provides technology-enabled solutions that supports and connects healthcare providers, public health agencies, and emergency management personnel in the United States.	\$ 460.00
12/29/2017	NA	Four Senior Living Communities In Florida, Maryland And Virginia	Four Senior Living Communities In Florida, Maryland And Virginia comprises senior living communities and are located in the United States.	\$ 368.00
1/11/2018	Clearlake Capital Group, L.P.	ProVation Medical, Inc.	ProVation Medical, Inc. provides clinical decision support and procedure documentation solutions.	\$ 180.00
1/16/2018	Community Care Health Network, Inc.	HealthFair USA, Inc.	HealthFair USA, Inc. operates as a mobile health screening company.	\$ 160.00
1/22/2018	AXA SA	Maestro Health, Inc.	Maestro Health, Inc., an employee benefits company, provides integrated "one stop shopping" along with private labeled exchange solutions, and employee health and benefits management solution for brokers, small employers, and Fortune 1000 organizations.	\$ 155.00
3/15/2018	Encompass Health Corporation	Camellia Healthcare	Camellia Healthcare provides hospice, home health care, and private duty services.	\$ 135.00
1/4/2018	Francisco Partners Management LLC	Connecture, Inc.	Connecture, Inc., together with its subsidiaries, operates as a Web-based consumer shopping, enrollment, and retention platform for health insurance distribution in the United States.	\$ 108.29

Public Market Data

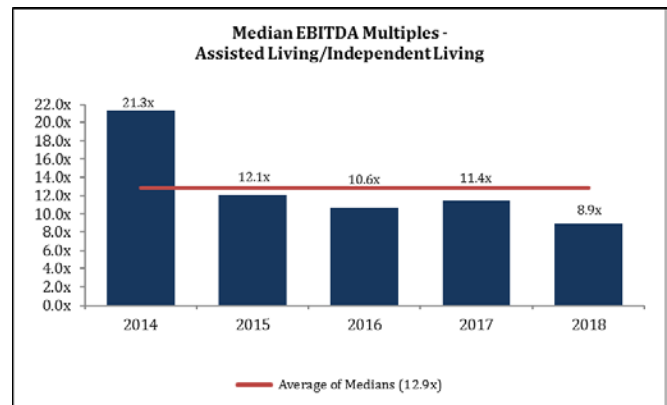
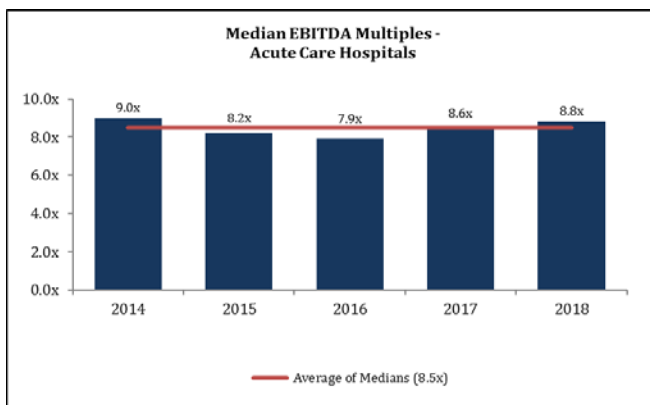


# Healthcare Services Industry Report – Q1 2018

Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Acute Care Hospitals</b>										
Community Health Systems, Inc.	3.96	10.51	3.85	14,413	16.0x	9.3x	5.9%	11.3%	NM	NM
HCA Healthcare, Inc.	97.00	106.84	71.18	68,248	8.3x	7.9x	18.8%	18.9%	15.4x	11.1x
Kindred Healthcare, Inc.	9.15	11.90	5.50	4,180	9.9x	5.2x	7.0%	13.3%	NM	11.1x
LifePoint Health, Inc.	47.00	67.95	41.45	4,788	7.2x	6.5x	10.6%	11.6%	17.9x	10.8x
Quorum Health Corporation	8.18	9.73	2.54	1,472	15.3x	8.8x	4.7%	8.6%	NM	NM
Tenet Healthcare Corporation	24.25	25.24	12.25	19,330	8.6x	7.7x	11.8%	14.1%	NM	24.8x
Universal Health Services, Inc.	118.41	128.15	95.26	15,197	8.8x	8.4x	16.6%	16.4%	14.8x	12.4x
<b>Median</b>					<b>8.8x</b>	<b>7.9x</b>	<b>10.6%</b>	<b>13.3%</b>	<b>15.4x</b>	<b>11.1x</b>

## Assisted Living/Independent Living

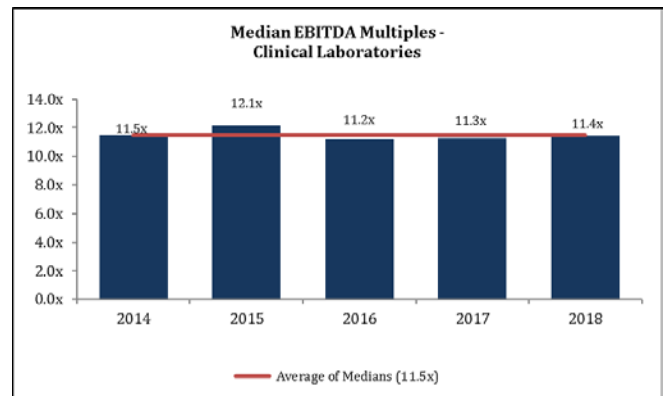
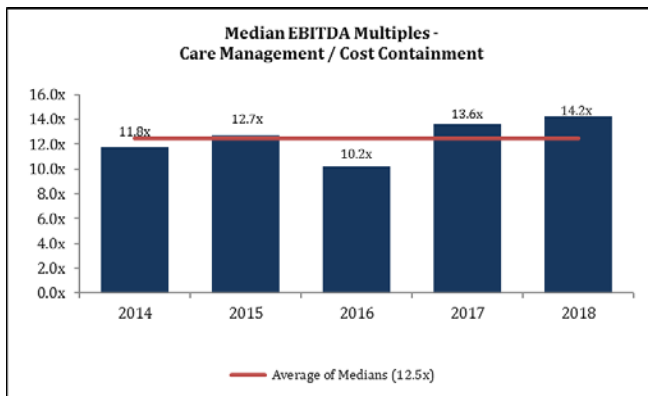
Brookdale Senior Living Inc.	6.71	15.66	6.39	5,879	8.9x	10.1x	17.2%	12.6%	NM	NM
Capital Senior Living Corporation	10.75	16.72	10.35	1,320	15.7x	12.6x	18.1%	21.5%	NM	NM
Five Star Senior Living Inc.	1.30	2.15	1.23	32	3.5x	2.0x	0.8%	1.2%	NM	NM
<b>Median</b>					<b>8.9x</b>	<b>10.1x</b>	<b>17.2%</b>	<b>12.6%</b>	<b>NM</b>	<b>NM</b>



Public Market Data (cont.)

Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Care Management/Cost Containment</b>										
R1 RCM Inc.	7.14	7.99	3.02	770	NM	14.5x	(1.4%)	6.1%	NM	NA
CorVel Corporation	50.55	61.20	40.70	901	12.8x	NA	12.8%	NM	27.5x	NA
HMS Holdings Corp.	16.84	20.90	11.01	1,553	16.0x	11.9x	18.6%	23.2%	34.9x	44.0x
MAXIMUS, Inc.	66.74	72.71	57.12	4,175	11.1x	11.0x	15.2%	15.2%	19.6x	19.1x
Cotiviti Holdings, Inc.	34.44	45.97	30.84	3,787	15.6x	12.4x	35.9%	40.3%	23.0x	28.3x
<b>Median</b>					<b>14.2x</b>	<b>12.1x</b>	<b>15.2%</b>	<b>19.2%</b>	<b>25.3x</b>	<b>28.3x</b>

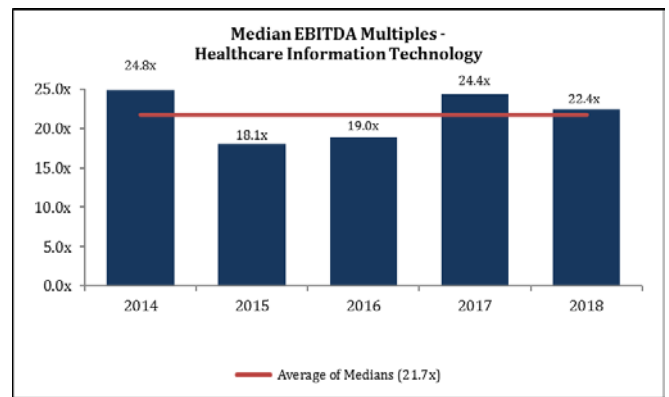
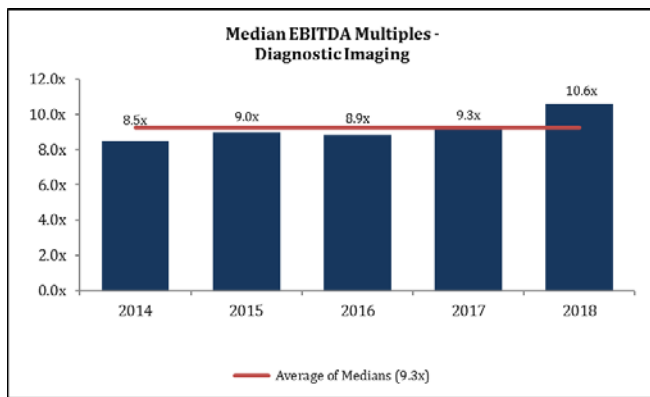
<b>Clinical Laboratories</b>										
Laboratory Corporation of America Holding	161.75	181.72	134.19	22,949	11.6x	10.6x	19.4%	19.0%	13.0x	16.9x
Psychemedics Corporation	21.36	27.99	15.99	113	10.7x	NA	26.5%	NA	19.2x	NA
Quest Diagnostics Incorporated	100.30	112.97	90.10	17,540	11.3x	11.1x	20.2%	20.4%	17.6x	16.9x
Sonic Healthcare Limited	22.88	24.97	20.61	12,288	14.2x	12.9x	16.3%	17.3%	21.0x	19.9x
<b>Median</b>					<b>11.4x</b>	<b>11.1x</b>	<b>19.8%</b>	<b>19.0%</b>	<b>18.4x</b>	<b>16.9x</b>



Public Market Data (cont.)

Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Diagnostic Imaging</b>										
RadNet, Inc.	14.40	14.45	5.40	1,261	10.6x	8.4x	12.9%	15.7%	NM	28.1x
<b>Median</b>					<b>10.6x</b>	<b>8.4x</b>	<b>12.9%</b>	<b>15.7%</b>	<b>NA</b>	<b>28.1x</b>

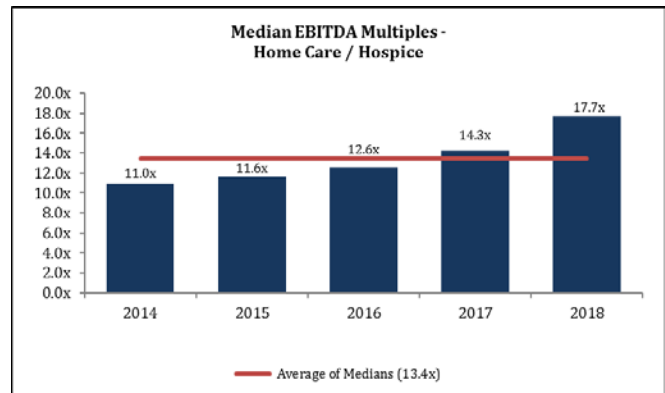
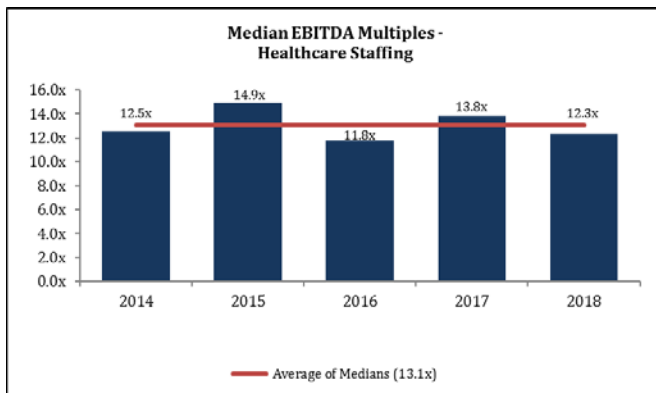
<b>Healthcare Information Technology</b>										
Allscripts Healthcare Solutions, Inc.	12.35	16.13	11.25	4,126	27.3x	9.4x	8.4%	19.9%	NM	NM
athenahealth, Inc.	143.03	158.66	95.01	5,843	35.3x	16.6x	13.5%	26.1%	NM	60.3x
Cerner Corporation	58.00	73.86	56.49	19,012	13.9x	10.9x	27.1%	31.4%	22.3x	25.8x
Computer Programs and Systems, Inc.	29.20	36.15	26.05	544	16.5x	11.3x	11.9%	16.7%	NM	27.8x
Quality Systems, Inc.	13.65	17.74	12.24	885	17.4x	11.3x	9.7%	14.9%	48.6x	55.9x
Press Ganey Holdings, Inc.	67.40	92.68	47.92	305	22.4x	9.9x	9.7%	17.4%	NM	35.3x
Omniceil, Inc.	43.40	55.40	38.00	1,861	39.1x	14.6x	6.6%	16.1%	NA	46.3x
HealthStream, Inc.	24.83	31.53	21.15	664	25.6x	16.9x	10.5%	17.2%	NM	NM
Inovalon Holdings, Inc.	10.60	17.80	10.15	1,303	17.2x	7.8x	16.9%	29.1%	44.0x	NM
<b>Median</b>					<b>22.4x</b>	<b>11.3x</b>	<b>10.5%</b>	<b>17.4%</b>	<b>44.0x</b>	<b>40.8x</b>



Public Market Data (cont.)

Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Healthcare Staffing</b>										
AMN Healthcare Services, Inc.	56.75	60.80	34.71	3,018	12.3x	10.5x	12.3%	13.1%	20.5x	17.8x
Cross Country Healthcare, Inc.	11.11	15.09	9.07	479	12.2x	10.1x	4.5%	5.4%	10.8x	20.0x
ASGN Incorporated	81.88	86.13	44.66	4,813	17.0x	12.3x	10.8%	11.9%	27.1x	28.2x
<b>Median</b>					<b>12.3x</b>	<b>10.5x</b>	<b>10.8%</b>	<b>11.9%</b>	<b>20.5x</b>	<b>20.0x</b>

<b>Home Care / Hospice</b>										
Addus HomeCare Corporation	48.65	49.55	30.70	548	16.7x	12.7x	7.9%	8.6%	41.1x	23.5x
Amedisys, Inc.	60.34	65.91	45.60	2,054	16.0x	12.8x	8.5%	9.8%	67.7x	19.8x
Chemed Corporation	272.86	285.79	178.44	4,500	18.7x	16.1x	14.4%	16.2%	44.9x	24.8x
LHC Group, Inc.	61.56	76.14	51.38	2,126	23.7x	12.5x	8.4%	9.1%	38.2x	19.5x
<b>Median</b>					<b>17.7x</b>	<b>12.7x</b>	<b>8.5%</b>	<b>9.5%</b>	<b>43.0x</b>	<b>21.7x</b>

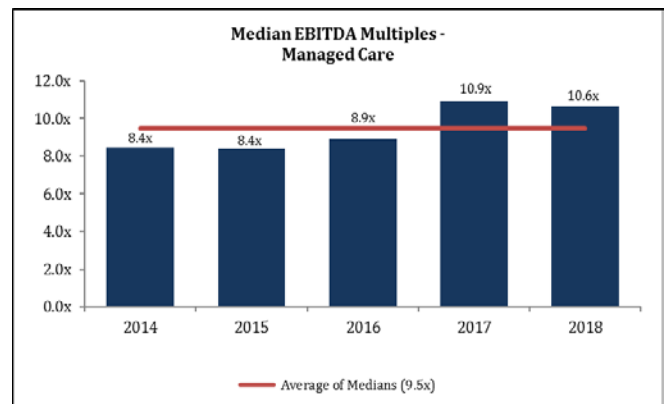
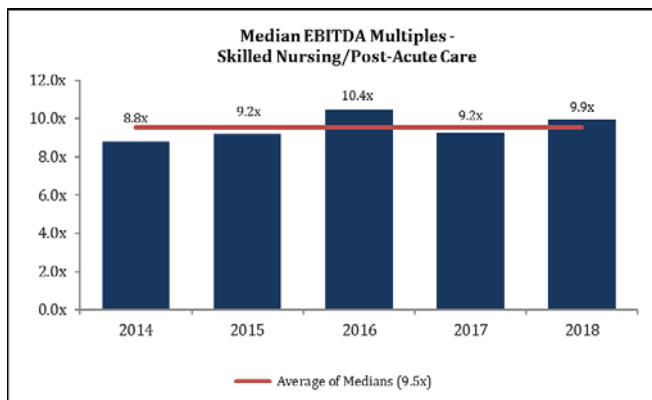


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Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Skilled Nursing/Post-Acute Care</b>										
Diversicare Healthcare Services, Inc.	7.52	12.25	7.16	133	4.7x	NA	4.9%	NA	NM	NA
Genesis Healthcare, Inc.	1.51	2.69	0.60	4,534	12.8x	7.4x	6.7%	11.6%	NM	NM
National HealthCare Corporation	59.63	75.70	57.00	837	8.2x	NA	10.5%	NA	16.2x	NA
The Ensign Group, Inc.	26.30	29.24	16.51	1,619	11.6x	8.3x	7.5%	9.7%	33.5x	15.1x
<b>Median</b>					<b>9.9x</b>	<b>7.9x</b>	<b>7.1%</b>	<b>10.6%</b>	<b>24.8x</b>	<b>15.1x</b>

**Managed Care**

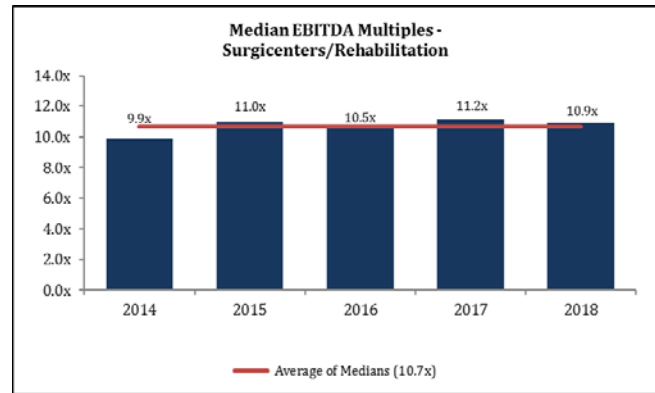
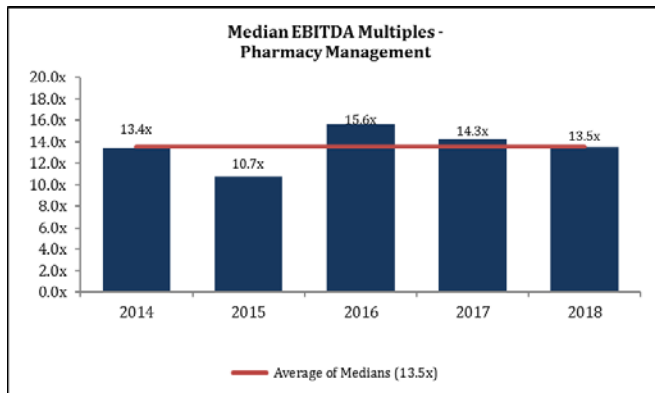
Aetna Inc.	169.00	194.40	127.08	60,593	10.7x	9.7x	9.4%	10.2%	29.0x	16.2x
Centene Corporation	106.87	112.42	69.20	19,428	10.6x	7.9x	4.0%	4.0%	22.6x	14.9x
Cigna Corporation	167.74	227.13	146.70	43,317	9.3x	8.7x	11.2%	11.3%	18.2x	13.3x
Humana Inc.	268.83	293.35	206.68	38,141	10.4x	11.2x	6.8%	6.1%	15.2x	20.1x
Magellan Health, Inc.	107.10	109.80	66.00	3,198	13.2x	8.7x	4.2%	4.8%	23.6x	19.1x
Molina Healthcare, Inc.	81.18	93.98	45.43	3,850	17.3x	6.3x	1.1%	3.2%	NM	20.9x
Triple-S Management Corporation	26.14	29.43	15.05	445	4.5x	NA	3.4%	NA	11.2x	14.6x
UnitedHealth Group Incorporated	214.00	250.79	164.25	231,037	13.7x	11.8x	8.4%	8.7%	19.6x	17.7x
WellCare Health Plans, Inc.	193.63	221.75	139.13	5,606	8.8x	6.9x	3.7%	4.3%	23.1x	20.5x
Anthem, Inc.	219.70	267.95	163.87	72,959	13.4x	10.7x	6.1%	7.5%	14.6x	14.8x
<b>Median</b>					<b>10.6x</b>	<b>8.7x</b>	<b>5.1%</b>	<b>6.1%</b>	<b>19.6x</b>	<b>16.9x</b>



Public Market Data (cont.)

Company	3/31/2018 Close <sup>(2)</sup>	52-Week		Enterprise Value (EV) <sup>(3)</sup>	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
		High	Low		LTM	NFY	LTM	NFY	LTM	NFY
<b>Pharmacy Management</b>										
BioScrip, Inc.	2.46	3.39	1.35	837	19.6x	14.8x	5.2%	8.0%	NM	NM
Express Scripts Holding Company	69.08	85.07	55.80	52,481	7.4x	6.8x	7.1%	7.6%	8.6x	9.5x
<b>Median</b>					<b>13.5x</b>	<b>10.8x</b>	<b>6.2%</b>	<b>7.8%</b>	<b>8.6x</b>	<b>9.5x</b>

<b>Surgicenters/Rehabilitation</b>										
Hanger, Inc.	16.00	18.00	10.87	1,035	15.7x	8.7x	6.3%	11.4%	NM	NM
Encompass Health Corporation	57.17	59.29	42.08	8,598	10.3x	10.2x	21.3%	20.1%	21.9x	16.5x
Select Medical Holdings Corporation	17.25	19.78	12.90	5,670	10.9x	8.8x	11.9%	12.5%	13.1x	15.0x
U.S. Physical Therapy, Inc.	81.30	87.50	56.50	1,173	18.0x	19.1x	15.8%	14.1%	46.3x	33.4x
Nobilis Health Corp.	1.65	2.10	1.10	308	9.0x	5.2x	11.5%	17.0%	34.0x	6.4x
<b>Median</b>					<b>10.9x</b>	<b>8.3x</b>	<b>15.2%</b>	<b>14.1%</b>	<b>14.4x</b>	<b>15.8x</b>



Definitions:  
 Enterprise Value – defined by S&P Capital IQ as “market cap. + total debt + preferred equity + total minority interest – cash and equivalents”  
 LTM – the latest twelve months.  
 EBITDA – *adjusted* earnings before interest, taxes, depreciation and amortization.  
 NFY – next fiscal year.  
 EPS – earnings per share.  
 NA – not available, NM – not meaningful.

Notes:  
 (1) Source: As reported by S&P Capital IQ.  
 (2) Reported in local currency.  
 (3) In millions of local currency.

## Segments of the Healthcare Services Industry Defined

- **Acute Care Hospitals:** This industry segment includes hospitals and other healthcare providers that focus on short-term treatment for severe injuries or illnesses. Healthcare reform, reimbursement trends, electronic records, and nursing shortages are the top concerns faced by operators in the Acute Care Hospital industry. Healthcare reform will likely increase the number of insured patients, which will boost revenue. Other factors, such as aging population, will contribute to revenue growth over the next five years. Profitability will remain pressured as labor costs rise; however, the industry's profit margin will get a boost from the increasing number of people who have health insurance.
- **Assisted Living:** The Assisted Living industry segment is made up of a variety of senior care services, including assisted living facilities, continuing care retirement communities, and elderly and disabled services. The number of elderly Americans is anticipated to continue to expand in the coming years, which will stimulate demand within the industry. However, Medicare and Medicaid reimbursement cuts are expected to severely limit the growth of the industry.
- **Care Management/Cost Containment:** Companies in this industry segment reduce the overall cost of medical treatment by establishing controls across many providers of healthcare services for the use of expensive procedures, in-patient admission criteria, the lengths of stay, and other factors affecting the cost of care. Importantly, a company in this industry may represent a number of physician practices, laboratories and/or other service providers. This gives them much more leverage than a single physician practice would have in negotiating reimbursement prices with insurance companies or government medical programs. The cost of providing healthcare services has risen as a result of new technologies, malpractice insurance rates, and labor costs. However, insurance companies and the government continue to lower their reimbursement rates. The demand for companies in this industry is expected to increase as healthcare service providers utilize industry companies to operate more efficiently and to avoid severe margin pressure from reduced reimbursement fees from large insurance entities.
- **Clinical Laboratories:** This industry segment consists of companies that conduct analytic services to provide healthcare practitioners with information concerning the onset, severity and cause of patients' physical ailments. While the industry has long been an essential component of healthcare, the aging population and ongoing progress toward preventive care has further boosted revenue over the past five years. During the next five years, the Clinical Laboratories industry is expected to benefit from healthcare reform and the aging U.S. population. As many laboratories consolidate, operators will increasingly compete on the basis of price with hospitals that provide industry services in-house. In particular, large laboratories are acquiring smaller labs that provide either routine or specialized services, such as biomarkers. Also, as more patients seek an individually tailored healthcare plan, demand for high-margin molecular testing, such as with regard to genetics, will cause industry profit to increase.

## Segments of the Healthcare Services Industry (cont.)

- **Diagnostic Imaging:** Diagnostic imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Diagnostic imaging procedures facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. The industry is forecast to increase 2.6% per year on average over the next five years. This growth will be driven by the aging of the U.S. population, wider physician and payor acceptance for imaging technologies, and greater consumer and physician awareness of diagnostic screening capabilities. However, as third-party payers expand access to health insurance, they will also continue their attempts to reduce system-wide waste and fraud to keep costs low. Even as funding for Medicare and Medicaid is expected to increase over the next five years, the Centers for Medicare and Medicaid Services (CMS) will continue to implement reimbursement cuts aimed at reducing industry volumes by discouraging reduplicative services.
- **Healthcare Information Technology:** This industry provides technology solutions to optimize processes and help eliminate errors, variance, and waste for healthcare organizations. Companies in this industry provide computer software-based solutions that help hospitals and physician groups improve efficiencies and business processes across the enterprise to enhance and protect revenues. This industry is poised for further growth going forward. Ongoing contributors to growth in this industry include: incentives in the American Recovery and Reinvestment Act; a shift away from fee-for-service or volume-based reimbursement towards value-based or outcomes-based reimbursement; and a shift in the U.S. marketplace towards a preference for a single platform across inpatient and ambulatory settings.
- **Healthcare Staffing:** The healthcare staffing industry is faced with the challenge of orchestrating care in an increasingly complex and converging healthcare labor market. Moving forward, the industry will benefit from the evolving needs of the continuously aging Baby Boomer generation, in which the number of adults aged 65 and older will increase at an annualized rate of 3.2% to 56.0 million people in the five years to 2020. This will provide impetus for healthcare providers to hire extra staff to compensate for the influx of patients, raising demand for industry services.
- **Home Care/Hospice:** The Home Care/Hospice industry is becoming one of the fastest-growing healthcare industries in the U.S. The industry saves patients billions of dollars every year by treating them in their homes instead of in hospitals. An aging population, the prevalence of chronic disease, growing physician acceptance of home care, medical advancements, and a movement toward cost-efficient treatment options from public and private payers continue to foster industry growth.
- **Long-Term Care:** The Long-Term Care industry provides long-term care, skilled nursing care, and social services in residential facilities. The profitability of the long-term care facilities depends on efficient operations, as revenue per patient is largely controlled by Medicare and Medicaid. Over the next five years, the continued aging of the population will stimulate demand.



## Segments of the Healthcare Services Industry (cont.)

- **Managed Care:** The term managed care is used in the U.S. to describe a variety of techniques intended to reduce the cost of providing health benefits and improve the quality of care. Moreover, the median age of the population is anticipated to continue its ascent over the five-year period, rising from 37.9 years in 2016 to 38.7 in 2021. Demand for health services and coverage tends to rise as the population ages, largely because these individuals typically require more procedures than their younger counterparts.
- **Pharmacy Management:** This industry includes firms that provide pharmacy benefit management services. Industry firms are third-party administrators of government and employer-sponsored prescription drug programs. They are primarily responsible for processing and paying prescription drug claims. Though it felt the recession's effects, the Pharmacy Benefit Management industry has recovered quickly and is poised to grow on the back of rising insurance coverage and increased physician visits, which will yield a higher number of prescriptions filled. As the median age of the U.S. population continues to rise, more Americans will rely on medications, increasing demand for the industry's services from insurers and employer-sponsored coverage plans.
- **Surgicenters/Rehabilitation:** The Surgicenters and Rehabilitation industry focuses on orthopedics. Surgicenters are establishments that provide surgical and emergency care services on an outpatient basis. This includes the provision of services such as arthroscopic, cataract surgery and setting broken bones. Rehabilitation centers provide follow-up physical therapy and other treatment and activities to help patients regain or improve mental or physical functionality following an injury or illness. Looking ahead, industry growth is expected to accelerate because of legislation and improving economic conditions. The introduction of the Patient Protection and Affordable Care Act will extend healthcare to a number of Americans, which will hasten increasing demand for the industry.

## About MPI

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