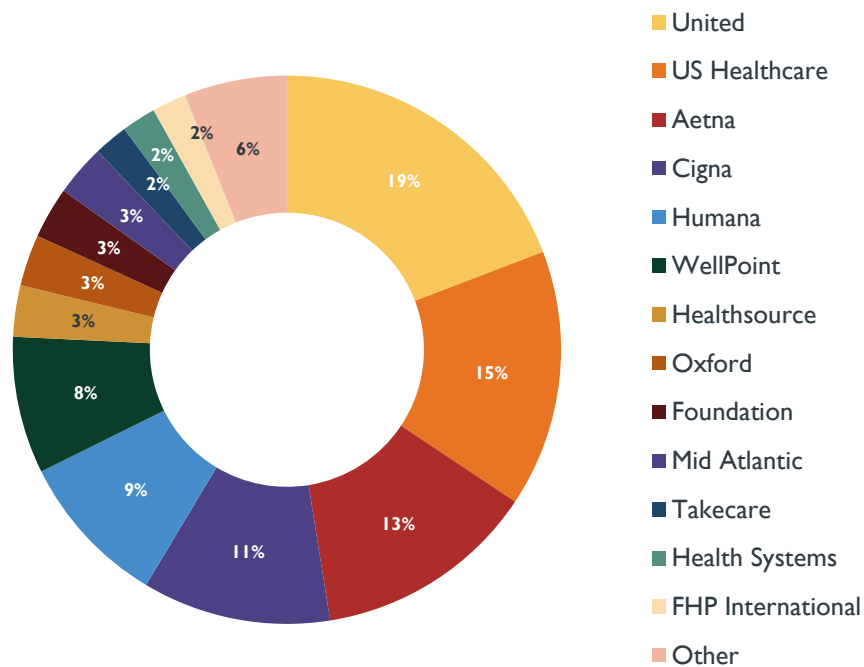


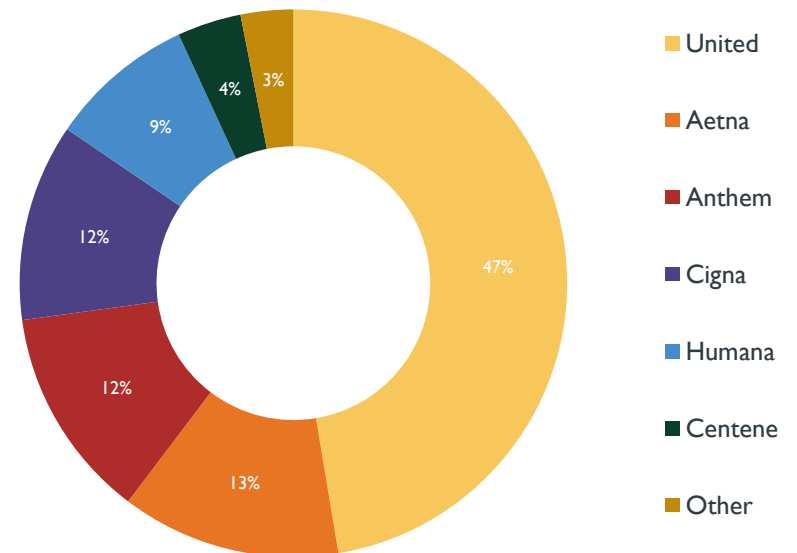
# Managed Care Consolidation

Since the mid-1990's, the managed care industry has seen significant consolidation

## Managed Care Companies (as a Percentage of Total Market Capitalization)



1995 – Total \$40.6 billion  
Top 5 = 67% of total

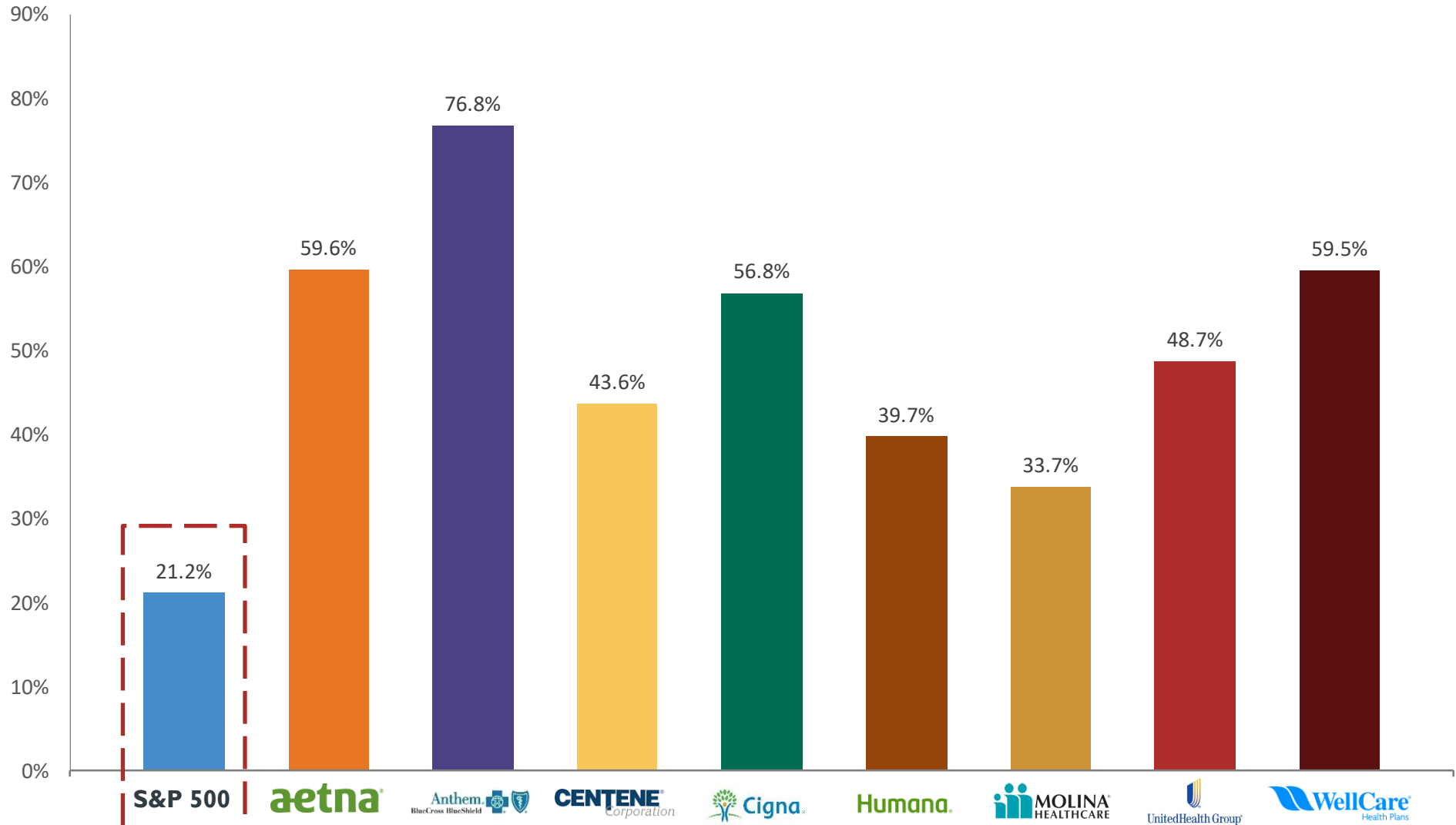


2017 – Total \$428.6 billion  
Top 5 = 93% of total

# Recent Stock Performance of Publicly Traded Health Plans

Over the past year, in spite of legislative uncertainty, the managed care plans have seen a large increase in market value, well exceeding the rise in the S&P 500. They are trading at close to 52-week highs

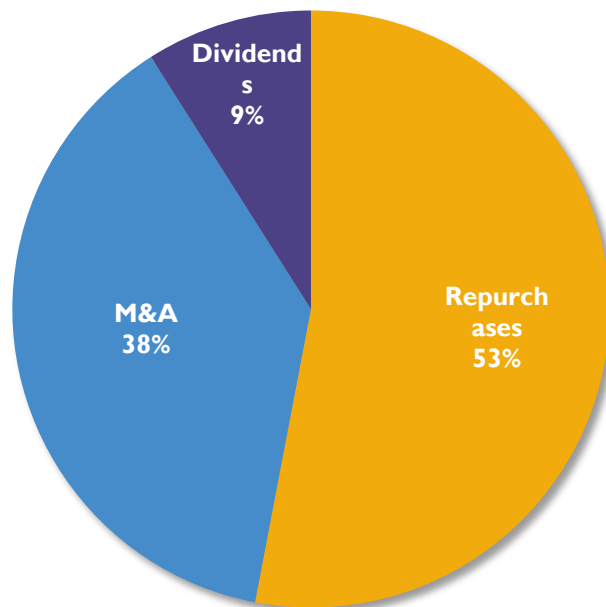
## 2017 Stock Performance



# Managed Care Capital Deployment

The earnings are deployed primarily for share repurchases and M&A, though capital expenditures (Cap Ex) are significant

## Capital Deployment: 2007-2016



Represents ~\$150bn of total capital deployed

## 2016 & 2017 YTD Cap Ex for Leading Managed Care Firms

(\$ in millions)

Company	2016 Capex (%) <sup>(1)</sup>	2017 Q3 YTD Capex (%) <sup>(1)</sup>
<b>aetna</b>	\$270 (0.4%)	\$301 (0.7%)
<b>Anthem</b> BlueCross BlueShield	\$584 (0.7%)	\$516 (0.8%)
<b>CENTENE</b> Corporation	\$306 (0.8%)	\$301 (0.8%)
<b>Cigna</b>	\$461 (1.2%)	\$340 (1.1%)
<b>Humana</b>	\$527 (1.0%)	\$233 (0.9%) <sup>(2)</sup>
<b>Magellan</b> HEALTHCARE	\$61 (1.3%)	\$43 (1.0%)
<b>MOLINA</b> HEALTHCARE	\$176 (1.0%)	\$85 (0.6%)
<b>UnitedHealth Group</b>	\$1,705 (0.9%)	\$1,391 (0.9%)
<b>WellCare</b> Health Plans	\$105 (0.7%)	\$93 (0.7%)

# Cain Brothers' Views on the Managed Care Markets

From the beginnings of ACA through the uncertainty of Repeal/Replace/Reform, the managed care sector has been impacted more than any other sector in healthcare. We believe it will continue to strengthen regardless of what actions come out of Congress

## Key Themes

**Government programs are the avenue to growth**

**Activity expected around capabilities more than sales/mergers**

**Scale and diversification will drive consolidation and M&A Activity**

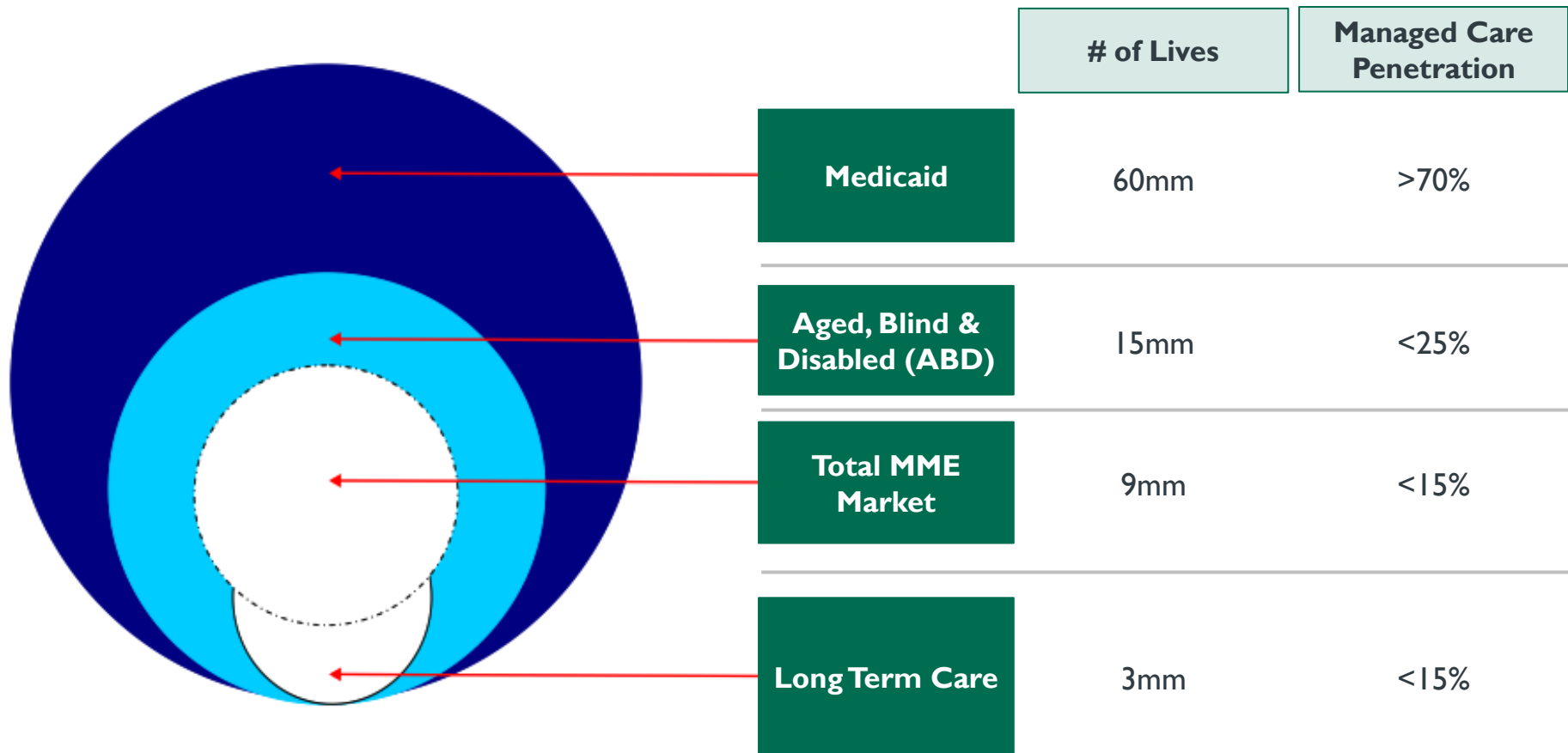
**Provider/payer collaboration will accelerate**

**Disruptive innovation on the horizon?**

# MCO Penetration in Medicaid by Program Type

The high acuity Medicaid populations offer a significant opportunity for growth for the Medicaid MCOs

## Managed Care Expansion Opportunities



## Selected Provider/Payer Partnerships

PriorityHealth  Beaumont

 Cigna<sup>®</sup>

 HealthCare Partners<sup>®</sup>  
A DaVita Medical Group

 BlueCross BlueShield  
of Louisiana

 Amerigroup  
RealSolutions<sup>®</sup>  
in healthcare

 Mount  
Sinai

oscar

aetna<sup>®</sup>

 Banner Health<sup>®</sup>

Anthem<sup>®</sup>  BlueCross BlueShield

 Aurora  
Health Care<sup>®</sup>

bright  Centura Health<sup>®</sup>  
HEALTH™

aetna<sup>®</sup>

 Mount  
Sinai

 Indiana University Health

evolent  HEALTH

## New York has a robust not-for-profit and independent health plan presence

Though New York is not alone in this regard (e.g., WI, MA, NM) it is an important, and we believe ongoing, feature of the landscape, in spite of recent transactions

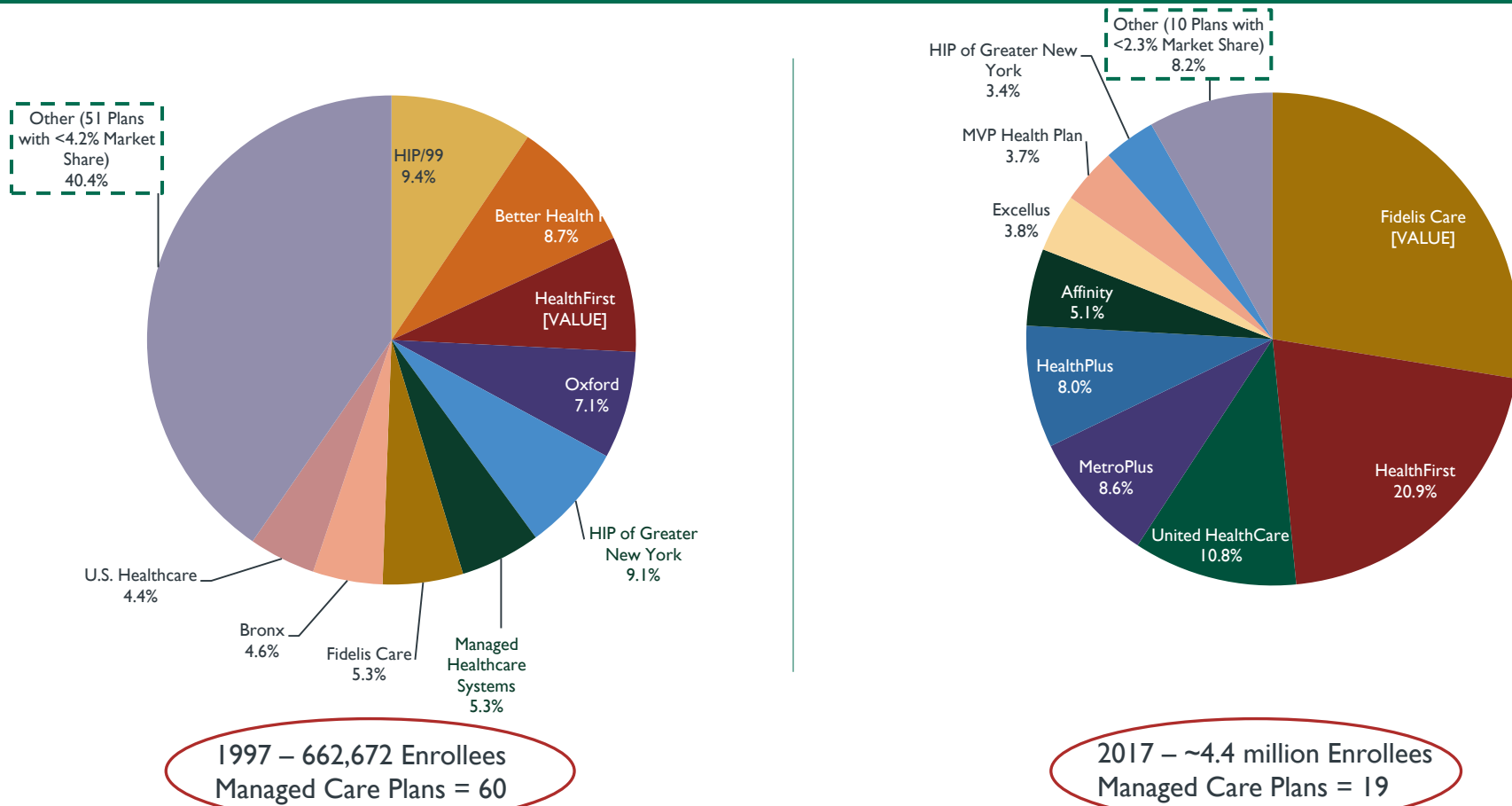


# New York Medicaid Consolidation History

Since the late-1990's, the New York Medicaid industry has seen significant consolidation

New York mainstream Medicaid Managed Care has consolidated from 60 to 19 plans between 1997 and 2017 while significantly increasing enrollment. Expectation is that MLTC and similar programs will continue to experience the same consolidation.

## Medicaid Managed Care Consolidation



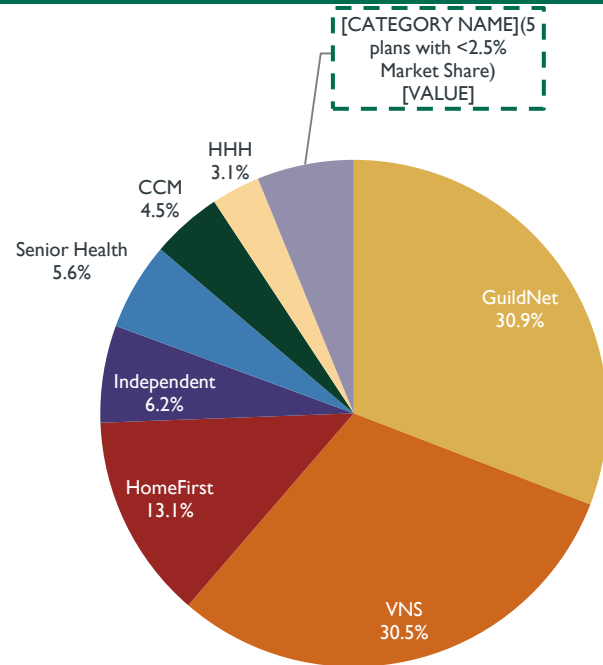


# New York Medicaid MLTC History

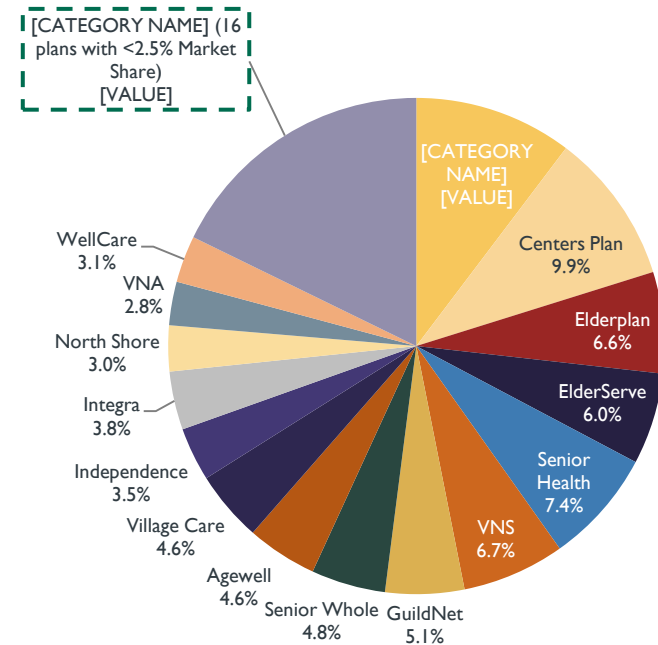
With mandatory enrollment, the MLTC market has grown, as has the number of participants

In spite of this, numerous plans have exited in recent years, and we expect that trend to continue no matter what the status of/successor to FIDA

## Medicaid MLTC Managed Care



2008 – 21,523 Enrollees  
Managed Care Plans = 13



2017 – 189,071 Enrollees  
Managed Care Plans = 31

# What does this mean for smaller, regional health plans?

As the industry continues to consolidate, smaller players will be able to stay competitive by strengthening client relationships, engaging in partnerships, and potentially merging with other organizations

## Competition will become more intense

Scale and capitalization will allow national players to acquire capabilities, diversify and lower administrative costs, making it harder for smaller players to compete on price and retain customers

Constraints on smaller plans' (especially non-for-profit) ability to raise capital will make expansion more difficult

Potential for disruptive innovation (e.g. Aetna-CVS, Walmart) and not just traditional competitors

## How will these plans compete?

### Relationships

- Advantage of local market presence and reputation
- Quality, customer service, and flexibility
- Finding a sustainable niche to serve

### Partnerships

- Back office joint-ventures, network sharing arrangements, best of breeds contracting
- Essential provider partnerships
- Acquiring capabilities to create an integrated offering

### Merger/Sale

- Robust valuations
- High capitalization gives bigger players an appetite for acquiring smaller companies

## Major Themes in Healthcare

**Moving More Care Into The Community Setting**

**Aggregation Of Physicians**

**Payer-Provider Vertical Integration**

**Post-Acute Coordination**

**Population Health Management**

**Technology-Enabled Healthcare**

**Capital  
Allocated to  
Healthcare**

# Current Credit Markets Snapshot

There is a robust financing market for health care services companies, with representative lenders shown below. In general, lenders are looking for stability of revenue and EBITDA, organic and de novo growth opportunities, and \$10 million+ of EBITDA visibility in the current market environment.

## Representative Lenders

### Senior Lenders and Unitranche

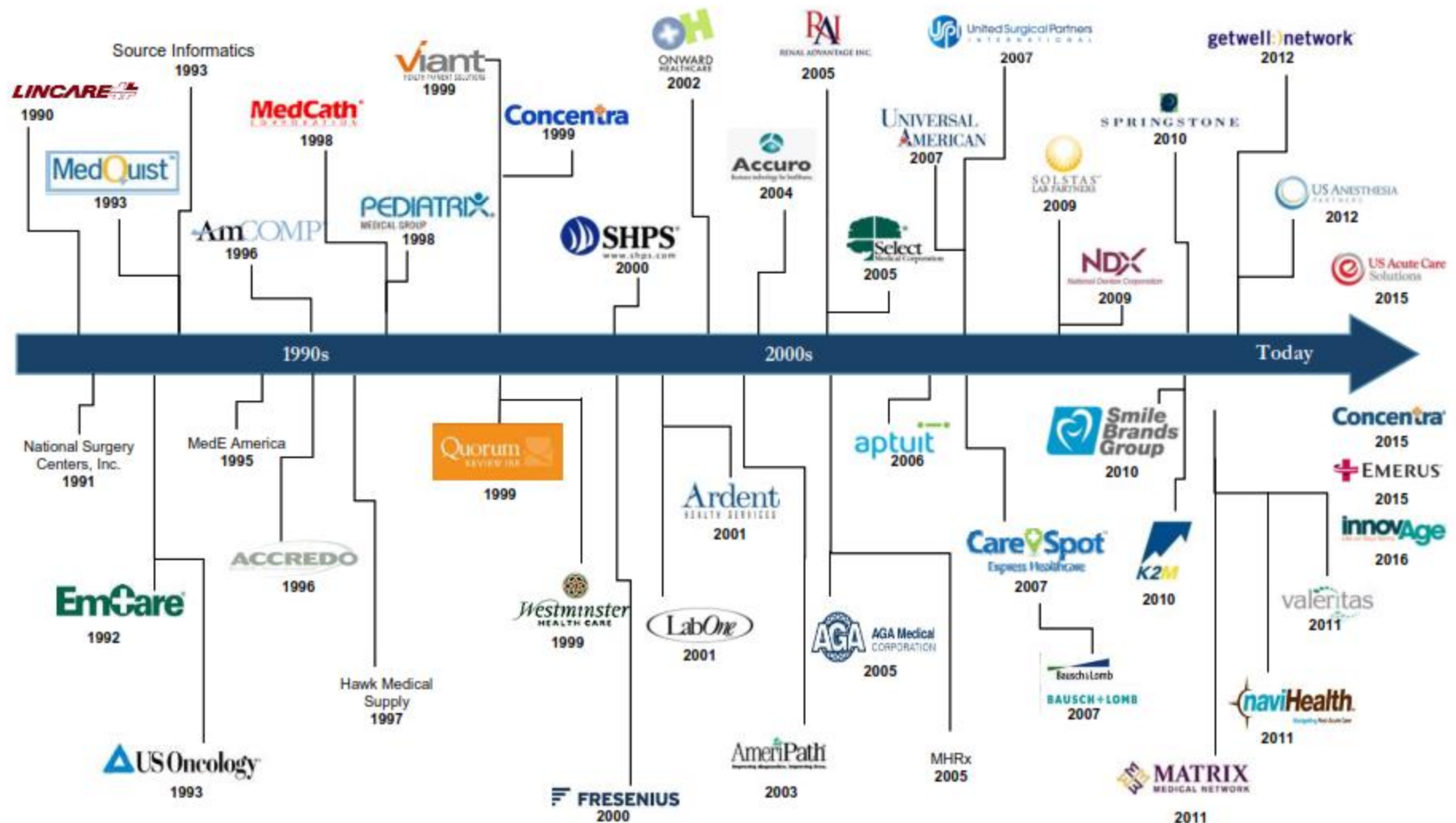


### Subordinated Debt



# Welsh, Carson, Anderson & Stowe (WCAS) Healthcare Investment History

WCAS is one example of how active private equity has been across the spectrum of health care services



## Managed Care

The managed care risk businesses are not at the epicenter of private equity investment. However, there is increasing interest in the space, especially in governmental programs and specialty services

CapitalG, Founders Fund, General Catalyst, Khosla Ventures, Lakestar, Ping An Ventures, Thrive Capital	 2016	Cardinal Partners, FLAG Capital, HLM Venture Partners, Kleiner Perkins, New Capital Partners, Trident Capital, QuestMark, Greenspring Associates, Waveland Ventures	 2014
Athyrium Capital, First Round Capital, Sequoia Capital	 2016	Kinderhook Industries	 2009
Bain Capital, Diamond Castle Holdings	 2014	Leonard Green, GIC, Hellman & Friedman	 2016
Blackstone, Credit Suisse and Goldman Sachs Capital Partners	 2005	Stonehenge Growth	 2009
Centerbridge Partners	 2016	Juggernaut Capital	 2016
Goldman Sachs, Pamplona Capital Management	 2014		

# Acute Care Hospitals

The vast majority of hospital beds are owned by not-for-profit or governmental sponsors, and this has not changed for decades. However, private equity is still involved, both directly and via partnerships

## For-Profit Joint Ventures / Investments

Aetna & Banner Health



LifePoint Health



Apollo Global Management



Tenet



Billings Clinic & RegionalCare



The Carlyle Group & TPG Capital



Medical Properties Trust



TPG Capital



Leonard Green & Partners



Ventas



# Home Health and Hospice

Home health and hospice, both relatively fragmented markets, have seen tremendous interest by the private equity community

## Private Equity Investments

Altaris Capital Partners		Fulcrum Equity Partners		Palladium Equity	
Audax Group	 	Gemini Investors / Plenary Partners		Patriarch Partners	
Bain Private Equity Capital / J.H. Whitney		Generation Growth Capital		PNC Riverarch Capital	
Bell Health Investment Partners		Graham Holdings		Pouschine Cook Capital Management	
Blue Wolf Capital	 	H.I.G. Capital		Psilos Group	
Boyne Capital	 	Investors Management Corporation		Riverside Company	
Capricorn Healthcare		Levine Leichtman Capital Partners		Tenex Capital Management	
The Carlyle Group		Linsalata Capital Partners		Valor Equity Capital	
Evolve Capital	 	Oak Hill Capital Partners		Wellspring Capital Management	
Formation Capital		One Equity Partners		Welsh, Carson, Anderson & Stowe	
Frazier Healthcare		Onex Partners			



# Behavioral Health

The same is true for behavioral health, especially with mental health parity, the opioid crisis, and lessening stigma associated with behavioral health

## Private Equity Investments

Audax Group



Linden



BBH



MTS Health Investors



Bregal Partners



Polaris / Oak HC/FT



Clearview Capital



Ridgmont Equity Partners



Comvest Partners



Riverside Company



Dobbs Management Group



Vestar Capital Partners (Public)



FFL



Webster Capital



Frazier Healthcare, NEA



Wellspring Capital Management



H.I.G



Welsh, Carson, Anderson & Stowe



Kohlberg & Company



Wicks Group / The Jordan Company





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## *New York Health Plan Association Conference*

November 16, 2017

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