An Evolving Market: Perspectives on the forces shaping the U.S. Healthcare system

Jeff Woods
Partner, Head of the U.S. Healthcare Practice

Capital Roundtable Keynote Address
February 13, 2014
The Parthenon Group Overview

- Founded in 1991 as a strategic advisory firm
- 275 members in 2014
- Offices in Boston, London, Mumbai, San Francisco, Shanghai, and Singapore
- Client mix includes Global 1000 and mid-market corporations, private equity firms, and educational institutions

Healthcare  Industrials  Consumer Growth
Private Equity  Information & Media  Education
Healthcare Practice Experience

Suppliers
- Informatics
- Medical equipment
- Revenue cycle mgmt.
- Temporary staffing

Life Sciences
- Cosmeceuticals
- Diabetes supplies
- Medical Devices
- CRO’s

Providers
- Dental
- Diagnostic imaging
- Physical therapy
- Urgent care

Payers
- Managed care
- Medicare/Medicaid/PDP
- Brokers
- Workers compensation

Gov’t/ Other
- Healthcare funding
- Medical education
Industry Perspectives
Fragmentation and complexity create inefficiency across the U.S. healthcare system


$2.8T
Industry Perspectives

Reported 2013 healthcare deal volume was down 20%, but roughly proportional to overall deal flow

Number of U.S. PE Investments, 1995-2013E

PE Investments in Healthcare (U.S.), 2000-2013

*Note: Includes buyout deals of US targets only; Healthcare excludes biotech*
Prospects for growth in the healthcare sector over the next 3-5 years vary significantly by segment.

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<th>More Pressure</th>
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<th>Stable</th>
<th>Growth</th>
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**Economic Recovery**

**Reimbursement Pressure**

**Unfavorable Regulatory Environment**

**Supply/ Demand Imbalance**

**Efficiency and Cost Savings**

**Favorable Regulatory Environment**

**Supply/ Demand Balance**
**Investment Themes**

Parthenon believes investments focused on these themes will benefit from strong, favorable market dynamics.

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**Four observations on the healthcare landscape…**

1. Challenges and opportunities will arise from expanded gov’t role in healthcare.
2. Access to care issues are looming.
3. Variation within the supply of healthcare delivery materially impact performance of multi-site providers.
4. Healthcare is still a very local business—knowing your customers and referral base is a formidable competitive advantage.
Expanded Gov’t Role
Reform will add up to 30M newly insured lives through 1) Medicaid Expansion and 2) Insurance Exchanges…

Health Insurance Status, U.S. Non-Elderly, 2012-2020F
Includes Full Impact of Healthcare Reform

Incremental Covered Lives Added Under Reform, Cumulative, 2012-2020F
Expanded Gov’t Role

Payer mix varies considerable by segment: the tradeoff between “stroke of the pen risk” and broader economic risk.

U.S. Healthcare Segments by Payer Mix

- Out of Pocket/ Other
- Workers’ Comp
- Private Insurance
- Medicaid
- Medicare

Gov’t Reimbursement Risk  Broader Economic Risk
Access to care Issues
Access issues are looming as 30MM newly insured will enter the healthcare system

Comparison of MA Physician Workforce vs. U.S. Total, 2010

MA Physician Accepting New Patients, ’05–’12

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Supply-side variation

Healthcare delivery is shifting to lower cost settings, but significant variation exists with the supply of and the reimbursement for services.
4 Marketing/ Referral Strategies

The vast majority of healthcare services are delivered within a referral base of 15-miles or less”

Customer Referrals by Zip Code (15-Mile Radius)

Q: What percent of your total referrals come from your top 10 referring physicians?

90% of outpatients travelled less than 15-miles for care at this facility
Agenda

• Parthenon’s Healthcare Practice
• Perspectives on the U.S. Healthcare Industry
• Investment Themes
• Appendix
Areas of Expertise

- Healthcare
- Private Equity
- Industrials
- Information & Media
- Consumer Growth
- Education
Appendix

Healthcare Team

Jeff Woods
Partner, Head of the U.S. Healthcare Practice

Mr. Woods is a Partner in the Boston office of The Parthenon Group and the Head of the firm’s U.S. Healthcare Practice. Mr. Woods has more than a decade of consulting experience in healthcare, including the hospital, medical device and health insurance industries. He has considerable experience in due diligence and portfolio work for private equity clients. Further, his corporate client work includes strategy development, operational improvement, M&A, and sales force optimization. Previously, Mr. Woods worked in the business development group at Guidant and in the decision-support software division at Health Management Systems.

Mr. Woods holds a B.A. in Biology from Dartmouth College, an M.S. in Evaluative Clinical Sciences from Dartmouth Medical School, and an M.B.A. with distinction from the Tuck School of Business.

Mark Laudy
Partner, San Francisco Office Head

Mr. Laudy oversees the firm’s San Francisco office. His work focuses on business unit strategy, mergers and acquisitions, and growth. Mr. Laudy works extensively with private equity clients on issues of strategic due diligence, and also advises corporations in the consumer products, technology, and financial services industries. Prior to joining Parthenon, Mr. Laudy was with the consulting firm McKinsey & Company, and also with the data communications company Riverstone Networks.

Mr. Laudy graduated summa cum laude and Phi Beta Kappa with a B.A. from Yale College and received a J.D., with distinction, from Stanford Law School.

Jay Bartlett
Partner and Co-Head of the Private Equity Practice

Mr. Bartlett is a Partner and Co-head of Parthenon’s Global Private Equity Practice. His work includes conducting due diligence of and developing strategy for companies in a broad variety of sectors, including consumer products, retail, publishing, education, industrial and business services. Prior to joining Parthenon, Mr. Bartlett was Director of Business Development for the Salt Lake Olympic Committee and Olympics.com, and was a consultant with Bain & Company.

Mr. Bartlett received his B.A. in economics, magna cum laude, from the University of Vermont, and completed his M.B.A. at the Tuck School of Business at Dartmouth, where he was elected Edward Tuck Scholar.

Roger Brinner, Ph.D
Partner, Chief Economist

Dr. Brinner is the Chief Economist of The Parthenon Group. He is well known as an expert economist and articulate analyst of the U.S. and international economies, and he has many long-term relationships with corporate clients on issues relating to enterprise strategies and planning. Dr. Brinner’s experience includes senior positions at respected business, academic, and government institutions. Dr. Brinner has been a professor at Harvard University and the Massachusetts Institute of Technology, and for more than 20 years, led the preeminent economic research group Standard & Poor’s Data Resources. Dr. Brinner received a B.A. in Economics from Kalamazoo College and a Ph.D. in Economics from Harvard University.

Tim Dutterer
Partner, Technology Practice

Mr. Dutterer is a Partner in Parthenon’s Private Equity Practice in San Francisco where he focuses on the technology sector and emerging consumer brands. His work includes due diligence services, growth strategy development, and exit planning. Previously, Mr. Dutterer was a technology consultant at IBM and PricewaterhouseCoopers where he advised corporate, government, and non-profit clients on technology and strategy development.

Mr. Dutterer received his B.A. cum laude in Public Policy from The College of William and Mary and his M.B.A. with distinction from the Harvard Business School.

David Nierenberg
Principal

Mr. Nierenberg is a Principal in the Boston office of the Parthenon Group. Previously, Mr. Nierenberg worked for five years as a consultant with Clarion Healthcare.

Mr. Nierenberg has partnered with many clients across the pharmaceutical, biotech, and medical device industries. His healthcare experience includes managed care strategy; portfolio optimization; life-cycle management; product marketing; sales force effectiveness; and due diligence.

Mr. Nierenberg received his BA magna cum laude, Phi Beta Kappa in History & Science from Harvard University. He completed his MBA at Kellogg, where he graduated Honors and Beta Gamma Sigma.
Appendix
Healthcare/ Private Equity Practice Services

Private Equity Strategy Development
- Annual portfolio assessment and adjustment strategy
- Business strategies for private equity firms
- Identification of proprietary deal sourcing options through industry screens and assessments
- Marketing and positioning strategy

Due Diligence Services
- Customer and market growth assessments
- Industry attractiveness assessments
- Business growth forecasts
- Target strategic position assessments
- Synergy audits
- Acquisition opportunity assessments

180 Day Plan Development
- Collaborative development of action-oriented road map to be executed upon closing and for first 6 months of investment
- Builds upon key issues and opportunities highlighted in diligence
- Development of key performance indicators

Portfolio Company Performance Improvement Program
- Mergers & Acquisitions
- New Market / Channel Strategy
- Customer Segmentation
- Pricing Strategy
- Marketing Effectiveness
- Sales Force Optimization
- Product Mix / Segmentation
- Working Capital Improvement
- Logistics & Supply Chain Optimization
- SG&A Cost Reduction

Exit Strategy Planning & Support
- Industry attractiveness assessments
- Business growth forecasts
- Tracking of customer loyalty, company growth and evolution of market position
- Networking support
- Offers third party assessment of company positioning, track record and future prospects
- Vendor Due Diligence

Typical Project Duration:
- 1 to 3 Months
- 3 to 4 Weeks
- 3 to 8 Weeks
- 1 to 6 Months
- 1 to 3 Months
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<th>XactiMed</th>
<th>Commercial due diligence</th>
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<th>&quot;Look For The Smile Above Our Name&quot;</th>
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## Experience

### Completed Transactions, cont.

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<td>Equity Provider: Piramal/ IndUS Growth Partners</td>
<td>Equity Provider: Ontario Teachers Pension Plan</td>
<td>Equity Provider: Ameritox</td>
<td>Equity Provider: TA Associates</td>
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<td>Provider of data, analytics and consulting services to the healthcare industry</td>
<td>The largest dental services organization (DSO) in the U.S.</td>
<td>Provider of pain management services to Workers Comp payers</td>
<td>Provider of Revenue Cycle Management service to hospitals</td>
<td>Leading provider of long-term care pharmacy operating software</td>
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