

2015 Update

Year in Urgent Care

Executive Summary

The urgent care deal making environment was strong in 2015 – reminiscent of the good old days (2010 - 2012). AMB believes relevant catalysts include a respectable flu season in Q4 14 and Q1 15 and the Supreme Court’s Decisions in Q2 (King vs. Burwell) which further galvanized population health’s perceived foothold. Furthermore, urgent care’s consolidation catalysts are similar to healthcare services secular trends -- to create enhanced scale to manage increased risk resulting from value-based healthcare. These trends have led health systems and managed care organizations to seek outpatient growth and care coordination opportunities with increased emphasis on urgent and primary care. As evidenced by three of the largest transactions in the last twelve months (see back for recent transactions), health systems and managed care organizations have emerged as the front runners for walk-in medicine assets, and based on AMB’s recent dialogue, both industry participants are planning to further penetrate this market to promote consumer engagement and bolster payer/provider convergence. In addition, managed care has aggressively pursue consolidation (see box on the right). This has, and will continue to cause, further consolidation in the provider business. Providers will seek to build critical mass to counter managed care’s new bargaining power, provider reimbursement pressures and capital needs. New integrated care delivery networks as well as new outsourcing and JV activity will become the norm, and this is where you have seen urgent care have its most dramatic effect. Below, we highlight a few recent transactions involving health systems and urgent care providers.

Payer Consolidation

Post close, the Anthem-Cigna and Aetna-Humana mergers would concentrate market share drastically. As a result, the top three managed care companies would control roughly 133 million lives, nearly half of the U.S. market. How the managed care companies use their new scale to pursue growth opportunities, enhance operating efficiency and diversify their product offerings will have enormous effects throughout the healthcare industry.

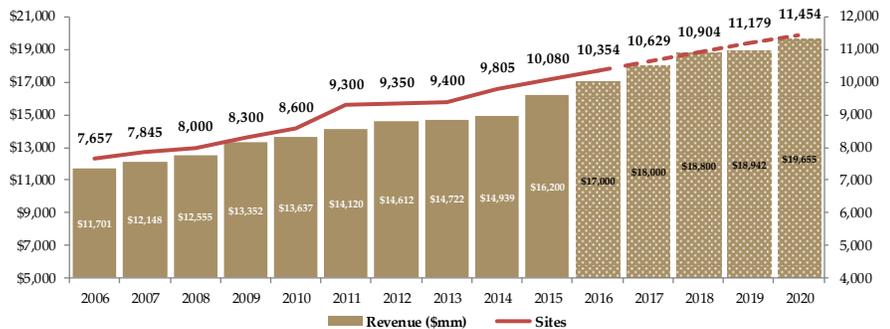
What this means

- ◆ Managed care companies are likely to accelerate volume to value while seeking enhanced population management
- ◆ IT infrastructure will continue playing an important role in the coordination of care and integrated delivery networks

As a result, there will be much more provider consolidation

- ◆ Providers will seek to build critical mass to counter managed care’s new bargaining power, provider reimbursement pressures and capital needs
- ◆ Urgent and primary care to be at the center of integrated care delivery

Accelerating Growth — 3.9% Expected CAGR Through 2020



JV Spotlight & Health System Integration

Date Announced	Health System	Urgent Care Partner	# of Clinics When Announced	# of Clinics Today	Partnership Details
12/14/2015	CHI Franciscan Health <small>Our best care. Your best health.™</small>	CITYMD	0	0	CityMD will partner with CHI Franciscan Health to build urgent care locations in the Seattle-Tacoma area beginning summer 2016. CityMD augments CHI primary care locations to expand patient access to care.
9/17/2015	Northwell Health™	GoHealth URGENT CARE	12	14	In September, GoHealth and Northwell Health, formerly North Shore LIJ, have expanded their joint venture arrangement by adding two existing GoHealth clinics to the Northwell Health network. GoHealth operates clinics in New York and Portland, partnering with Northwell Health on the East Coast and with Legacy Health on the West Coast.
7/22/2015	SAINT JOSEPH HEALTH SYSTEM	physicians urgent care	3	3	St Joseph and Physicians Urgent Care have entered an arrangement for health system patients to have access to extended hours urgent and primary care services. The joint venture will enable patients to conveniently receive x-rays and lab testing in addition to traditional services at urgent care locations and reduce non-emergent ED visits.
6/8/2015	Mount Sinai	Cure URGENT CARE	2	3	CURE and Mount Sinai entered into a joint venture to formalize their existing working relationship. CURE is an urgent care operator in New York City with all of its physicians credentialed in the Mount Sinai system. As part of the arrangement, Mount Sinai helped finance a new Manhattan clinic in June 2015.

Regulatory Update

- ◆ **Reimbursement Impact:** Most policies and topics focused on the ongoing evolution of the reimbursement system from volume to value including (i) the repeal of Sustainable Growth Rate and replacement with value based payment structures for physician services (via Merit Based Incentive Payment System and Alternative Payment Models); (ii) changes to the Medicare Shared Savings Program final rule permitting ACOs to continue on a shared savings only track for a second term (CMS/CMMI to encourage the growth of accountable care and value based arrangements); (iii) changes relative to the creation of hospital off-campus provider based locations (primary care practice sites and others) via the 2015 Budget Act.
- ◆ **Certificate of Need requirements:** New York continues to discuss regulating UCCs but has not done so. Under Article 28 of the Public Health Law, UCCs owned by non-physicians (e.g., for-profit investors) are still subject to loose licensure and certificate of need requirements as diagnostic and treatment centers.
- ◆ **Use of "Urgent Care":** Illinois legislature removed part of this prohibition in 2014, effective January 1, 2015, so "Urgent" and "Urgi-" could be used (the prohibition on "Emergency" remains). This suggests Illinois may be liberalizing its regulatory structure.

Valuation Hurdles

In contemplation of a sale or the preparation for a future exit, the following topics should be accounted for in assessing valuation. Walk-in medicine companies should expedite the evaluation of the below and prepare in advance of a sale process.

- ◆ Cash to accrual methodology including impact of date of service vs. date of transaction implications on revenue recognition and contractual/bad debt allowances
- ◆ Seasonality and anomalies like abnormally high and/or low flu seasons
- ◆ Reimbursement changes associated with commercial contracts as well as changes in CMS rates (i.e., parity increases and rate retractions)
- ◆ Discretionary bonuses, profit sharing plans and out of market compensation incentives
- ◆ "Staffing up" for projected growth (both in corporate infrastructure and clinical operations)
- ◆ Operating losses associated with de novo clinics as well as anticipated profitability
- ◆ Non-operating revenues such as meaningful use

Top Industry Transactions

Target	Locations	Date Announced	Description	Purchaser
	35	January 4, 2016	USPI, a JV between Tenet and WCAS, is purchasing CareSpot in order to expand its serving offering to health system partners. With the addition of CareSpot's urgent care clinics, USPI is able to offer comprehensive ambulatory services to clients.	
	14	November 2, 2015	HCA's acquisition of Urgent Care Extra will complement HCA's market presence in Nevada. In doing so, the company increased its urgent care offering to 65 clinics nationwide and with the addition of 14 clinics in the Las Vegas area.	
	87	May 21, 2015	FastMed Urgent Care operates medical centers in North Carolina and Arizona. ABRV will provide capital for growth as well as strategic and operational assistance to broaden FastMed's service offering.	
	141	April 8, 2015	MedExpress accelerated its de novo growth in 2015 following its acquisition by UnitedHealth via Optum. The integration will also allow MedExpress providers to access the care management and analytic resources of Optum.	
	289	March 23, 2015	Select Medical and WCAS purchased Concentra to broaden Select Medical's outpatient segment. Both Select Medical and Concentra were previous portfolio companies of WCAS prior to the transaction. WCAS sold Concentra to Humana in 2010.	

Healthcare Investment Banking

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