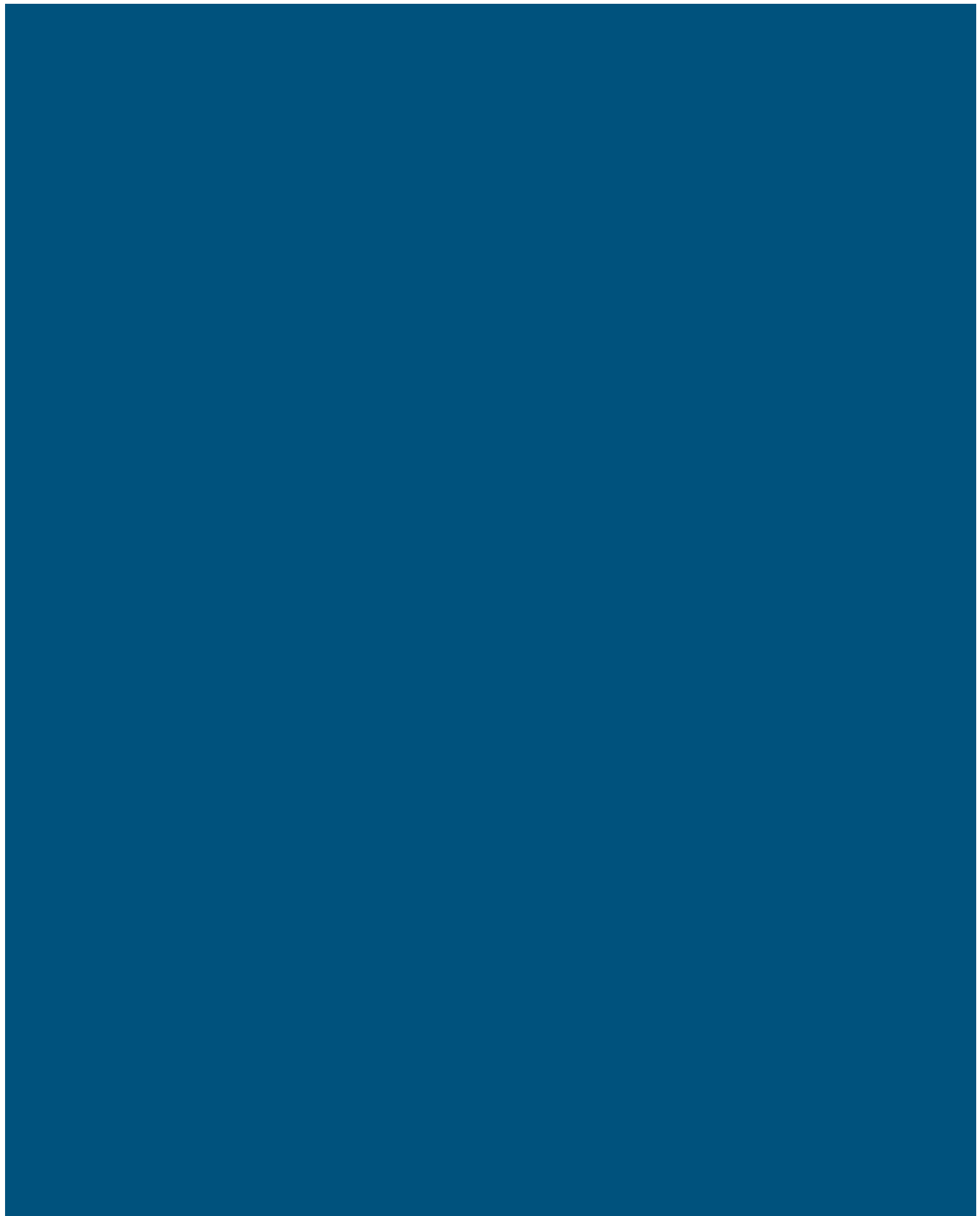


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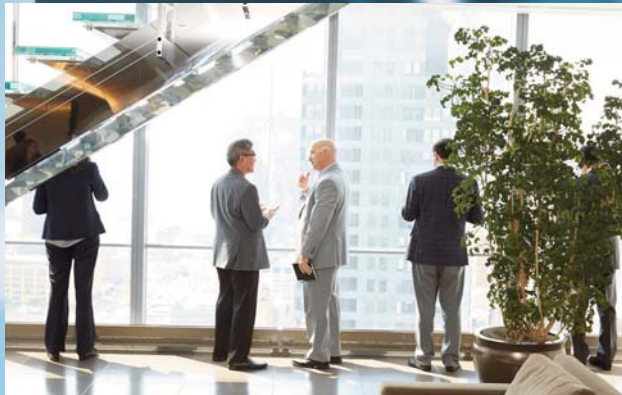
# Highlights

The 4th Annual  
Health Care Deal Summit  
Spring 2017

Proskauer»



Proskauer and Deloitte convened health care industry leaders to discuss important developments in health care M&A and the regulatory and legislative landscape facing the industry.



# Welcome and Opening Remarks

## Opportunities and Uncertainty

**Richard Zall**, partner and chair of Proskauer's Health Care Practice, opened the Summit by observing that, although the industry faces enormous uncertainty about the fate of Obamacare, health care M&A activity remains robust. Zall noted that providers and payers continue to seek greater scale, expansion of service lines and capabilities and entry into new markets in an effort to better compete and win business. He said that M&A activity includes both horizontal and vertical integration.

Buyers in these M&A deals include not only health care companies seeking strategic advantage, but also private equity sponsors who are currently awash with capital. Zall predicted continued opportunity for both financial and strategic buyers in niche sectors that are likely to flourish, such as physician practice management, behavioral and senior health, digital health solutions and population health management.

However, he said that sectors that are more exposed to potential government retrenchment, such as any business dependent on Medicaid funding or the health exchanges, are more vulnerable. Also, Zall reminded the audience that the entire health care industry faces perpetual regulatory and legislative change, citing not only the current debate about the Affordable Care Act (ACA), but also the uncertainty around MACRA implementation, CHIP reauthorization, adoption of value-based payment and antitrust policy.

### Audience polling:

The Summit audience polling results below appear to support the proposition that, compared to 2016, overall health care M&A volume in 2017 will grow.

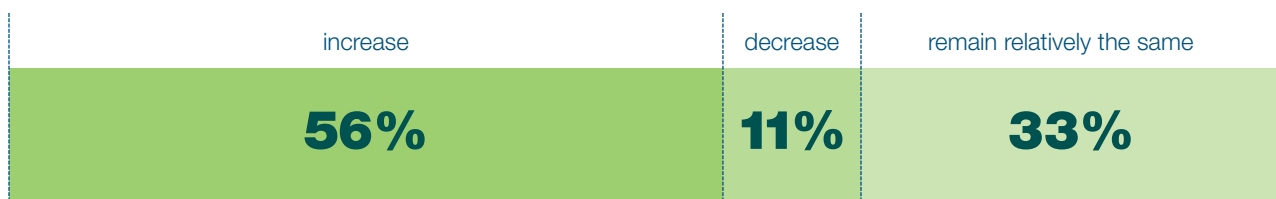
### Keynote Address

Managed Care as a Partial Solution to the Cost Crisis

**Kenneth A. Burdick**, Chief Executive Officer of WellCare, delivered the Summit keynote address, focusing on the need to confront the continued rising U.S. health care cost crisis. WellCare provides government-sponsored managed care services on a national scale for Medicaid, Medicare Advantage and Medicare prescription drug plans. Burdick predicted the country is at a "tipping point," with health care spending growing at an unsustainable rate.

Burdick remarked that strategic acquisitions must be designed to address the country's health care affordability crisis. He said WellCare — and most other managed care plans today — seek to mitigate costs connecting members to the right services at the right time and helping members navigate the complex health care system, not by denying claims or care. Burdick commented that WellCare focuses on forming beneficial relationships with members to encourage them to change unhealthy habits and behavior. These changes eventually will lead to a reduction of expensive inpatient and ER visits, and total medical costs, as more members receive expanded access to preventive services and primary care.

Burdick said he is bullish on growth opportunities in Medicaid and Medicare Advantage products, given the need for greater accountability of the industry for the "medical spend" and the growth of value-based payment programs sponsored by government and commercial payers.





# Panel 1: Private Equity: What's Hot and What's Not?

## A Seller's Market with Opportunities and Challenges

**Richard Zall** moderated the Summit's first panel featuring the perspectives of three leading partners from private equity firms that invest heavily in the health care industry.

The panelists included:

**Tom Flynn**, Managing Partner, SV Health Investors

**Christopher Kersey**, MD, MBA, Founding Managing Partner, Havencrest Healthcare Capital Partners

**Sarah Roth**, Partner, The Riverside Company

### On the present investment and regulatory environment:

Flynn noted the high-valuation environment, and the uncertainty created by the potential ACA "repeal and replace" movement, created uneasiness among some investors. Roth agreed that valuations are lofty, but noted that the abundance of available capital and need of PE firms to deploy it contributed to continued careful investment. Kersey agreed, noting that the Trump administration's antiregulatory rhetoric may encourage investors to deploy capital more aggressively than in recent times.

**On value-based payment opportunities:** Flynn noted that the ACA provided an added push in the shift away from a volume-based payment system, with hospitals now thinking beyond merely filling beds. Kersey agreed that population health management is a fertile growth area in view of the incentives offered by value-based payment programs. He observed that this opportunity had not yet resulted in a surge in deal activity. Nonetheless, Kersey says, companies offering managed care for government-supported beneficiaries — Medicaid managed care and Medicare Advantage programs — are ripe for investment. Roth suggested that the push toward value-based payment is transformational and will take some time to be fully embraced by providers. However, she anticipates investment opportunities in companies that can improve outcomes by employing technology and proprietary data analytics.

### On how Medicare and Medicaid changes might affect

**investors:** Flynn commented that, since the new administration and Republican Congress appear committed to reducing health care entitlements and spending, investors are rightly cautious of businesses with Medicaid or even Medicare exposure. He noted that given the prospect of Medicaid moving to a state block grant, companies with a multistate presence could face lower reimbursements and additional expenses in a more complex system that will vary state-by-state. Yet, Roth cautioned that government moves slowly, and that such changes could create opportunities for those companies that master the nuances of a decentralized state-dominated, rather than federal, payment system.

### On investment opportunities in the physician services

**sector:** All of the panelists cited this area as among the most active. Flynn noted that unlike twenty years ago, when primary care physicians led the charge and combined to take on risk contracts, today many specialty groups are combining or selling to others because they worry about surviving in today's changing value-based market. Roth noted the most successful physician consolidation models combine a focus on quality care, consumer marketing and the use of data. Kersey agreed and indicated the most important capability he seeks in such companies is a sophisticated technology platform that can provide real-time analysis of practice patterns and costs.



## Panel 2: New Deal Trends, Structures and Themes

As the need for capital investment to compete effectively grows, so does the use of nontraditional deal structures

Our second panel, moderated by [Craig Tye](#), Principal, Mergers & Acquisitions, Life Sciences and Health Care, [Deloitte Consulting LLP](#), featured Deloitte\* and Proskauer M&A dealmakers who discussed the trends they are seeing in the marketplace.

The panelists included:

[Monte Dube](#), Partner, Health Care Department, Proskauer

[Simon Gisby](#), Managing Director & National Practice Leader, Life Sciences and Health Care, Deloitte Corporate Finance LLC

[James Gorayeb](#), Partner, M&A Transaction Services, Deloitte & Touche LLP

[David Manko](#), Partner, Health Care Department, Proskauer

### On the importance of scale and integration of capabilities:

In Gorayeb's view, the need of physician practices to access capital to expand and take on risk contracting is a major driver of innovative deal structures. For example, he said if case management is not the strength of a practice group, a partnership with a third party with that capability can help the physicians manage population health. Manko echoed this point, stating that historically, a hospital might acquire a medical group to drive inpatient and ancillary service volume, but now hospitals want to buy more cost-effective groups that are capable of population management. Gisby cited the need for economies of scale to effectively manage the administrative requirements of a value-based system as a driver of joint ventures between management services organizations and clinically integrated networks.

**On the state of public hospitals:** Dube predicted that there may be renewed deal activity among public hospitals since they face more rigorous competition from better capitalized private and nonprofit systems. For those public hospitals that want to remain in business, one option is a joint venture with investor-owned hospitals, where the for-profit company takes on the management role and the nonprofit hospital gets a capital partner.

**On the success factors in M&A deals:** All of the panelists agreed that working out post-closing governance was an important facet of a successful transaction. Manko remarked that in physician practice acquisitions corporate practice of medicine restrictions are one of the biggest challenges, because the buyer cannot take charge of clinical practice decisions that are critical to successful performance. Dube suggested that the key to successful transactions is making sure the parties have a common understanding of the "end game," i.e., how the enterprise will function post-closing. Gisby pointed out that the most successful deals are those where the parties bring complementary capabilities.

At the conclusion of the discussion, each panelist was asked to provide one piece of advice to those contemplating an M&A deal:

**Gisby:** "Given that health care is local and regional, it is important to have the ability to quickly and respectfully say "No" as soon as it is clear that the other party won't truly mesh with your core consolidation strategy."

**Gorayeb:** "Have a disciplined diligence practice but understand that every transaction presents some risk, as no deal is perfect."

**Dube:** "Know the leverage points and fears of your counterparty."

**Manko:** "Patience and timing."



## Panel 3: Washington Spotlight: What's Ahead for Health Reform?

With the entire country watching, the Senate debates the future of the ACA and Medicaid funding

Our third panel, moderated by [Bertha Coombs](#), reporter, [CNBC](#), discussed the big issues and unsettled policy questions swirling around the Congressional debate over the repeal/replace or repair/retool of the ACA and whether the federal government will cede a greater role to the states with respect to Medicaid. The speakers debated the intricacies of the current ACA “repeal and replace” reform proposals, which necessarily involve equal parts policy, politics and marketplace realities.

The panelists represented Democratic and Republican party perspectives:

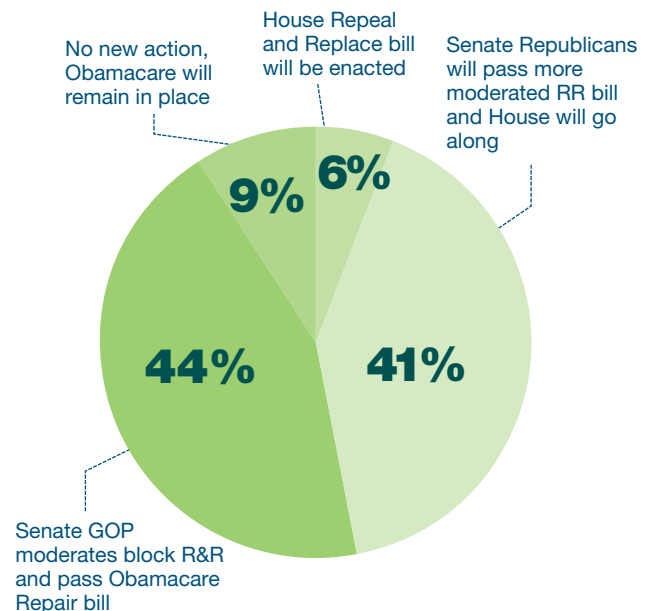
[Chris Jennings](#), President, Jennings Policy Strategies

[Dean Rosen](#), Partner, Mehlman Castagnetti Rosen & Thomas

**On continued negotiations:** As Rosen sees it, the negotiations over funding for the ACA's expansion of Medicaid may hinge on the time frame of when such funding will phase out. Jennings agreed, saying that a longer phase-out would translate to front-load gain, back-load pain and major policy implications down the road, since some states wouldn't have the resources to maintain levels of coverage similar to the present levels. Both panelists agreed that any bill that passes Congress would inevitably contain trade-offs on Medicaid, proposed tax cuts and access to coverage.

**On the likely outcome:** Jennings framed the coming debate as it continues deeper into the summer: Passage of legislation is difficult to imagine, given the opposition of most industry observers who want to avoid market instability and many consumers who fear losing coverage. Regardless, Jennings and Rosen agreed that most people in D.C. believe that Congress is more likely than not to pass something, as they have no choice politically with midterm elections coming next year.

Audience polling:  
What will happen to Obamacare?



**On the possibility of bipartisan compromise:**

Rosen was skeptical about a bipartisan solution, given the political realities. Jennings added that any Senate bill that attempts to attract Democratic Senators and accommodate moderate Republicans may have a hard time succeeding in the House. While there is a vast political divide on how to repair the ACA, bolster the individual insurance marketplace and contain Medicaid costs, the speakers expressed the hope that some bipartisan solution might be developed in the years ahead.

## Closing Remarks

Strong deal volume driven by a need by providers for capital

Our program concluded with closing remarks from

**Edward Kornreich**, partner, Proskauer, who offered highlights from the Summit. In his view, contemporary deals are based on reality: Companies that bring value to health care delivery will receive investment capital. In the current health care environment, since doctors and nonprofits largely do not have access to capital, joint ventures and similar consolidations are inevitable and are likely to be a common occurrence in the near future.



## Key Conference Takeaways

Developments in health care M&A and changes occurring to the U.S. health care system:



### **Strong deal activity in 1Q 2017 driven by market realities, new technologies and an influx of capital:**

In early 2017, deal activity was spurred by horizontal consolidation to achieve greater scale and tap new markets, vertical integration to add new capabilities, acquisition of new technologies and management tools, and the pool of private equity investment capital.

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**Opportunities abound, with some headwinds:** There are many opportunities to continue to innovate and transform the health care delivery system, eliminate fragmentation and inefficiency, and use emerging technologies and information management tools. Yet, uncertainty in the regulatory arena presents some challenges and risks, such as: the ACA “Repeal and Replace” vs. “Repair and Retool” Congressional debate; the future of Medicaid and CHIP, Medicare and the individual commercial market; MACRA implementation and antitrust enforcement.

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### **Managed care companies are one solution to the “cost crisis”:**

With health spending accounting for almost 18 percent of the country’s GDP, the country is reaching a tipping point. Managed care companies offer a partial solution by mitigating health care costs through enrollments in Medicare Advantage and prescription drug plans, and adding value in the Medicaid space. As such, there is a lot of innovation occurring within managed care companies, making the sector ripe for future investment.

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**Managed care companies deliver value in the Medicaid sphere by building relationships with members:**

The holy grail of managed care companies is to deliver a more powerful value proposition. Ultimately, efficiencies come in Medicaid not by avoiding claims or cutting off access, but through execution: connecting and engaging individuals, changing their unhealthy behavior, and helping patients navigate the system.

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**Private equity health care investment has been robust despite lofty valuations:**

The private equity investment environment, despite the regulatory uncertainty in Washington, has remained stable over the past year, with an abundance of available capital creating a seller's market. The promise of a lighter regulatory touch from Washington may also attract further investment.

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**Value-based health care investment opportunities abound, yet still are a small percentage of deal activity:**

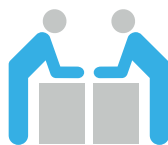
As the ACA started the shift from fee-for-service models, investments opportunities in population health remain a fertile area, but such deals still only represent a small percentage of activity. However, there remains continued private equity interest in opportunities that feature new technologies to leverage data to increase value and improve outcomes.

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**Innovative deal structures:** The need for an expanded range of capabilities and capital partners to invest in new technology and systems and additional service lines has created a need for innovative deal structures to marry the parties who offer such capabilities and capital.

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**The push and pull of health care legislative debate leaves a narrow window for bipartisan compromise:**

The majority of stakeholders believe that due to political realities, Congress is likely to pass some health care repeal and replace bill that undoubtedly will contain trade-offs on Medicaid expansion, tax cuts and subsidies to allow access to coverage. Ultimately, there is a narrow path for bipartisan compromise, given the heated nature of the debate, the strictures of the special "reconciliation" budget rules and the complexities of cutting spending and maintaining a desired level of care.

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**Portfolio of solutions to bend the cost curve:** In the current market, there is no "killer app" for bending the cost curve or improving outcomes. If a company brings value, it will find willing investment partners. Ultimately, the most successful transactions will be mergers, acquisitions, joint ventures and partnerships that give entrepreneurs, doctors and nonprofits access to needed capital to continue to innovate and provide value-based care.

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