

Industry Insights

August 14, 2018

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Telemedicine in Senior Living & Post-Acute Settings

Banker Commentary by Natalie Curreri

On Wednesday August 1, 2018, telemedicine company MDLive announced it had secured a \$50 million growth investment led by Cigna and Health Care Service Corporation, the parent of five Blue Cross and Blue Shield

Plans. Patients can use the Sunrise, FL-based company's service to get virtual visits with physicians, counselors, psychiatrists and dermatologist...*Continued on p.2*



Weekly Commentary

Market Commentary by Matt O'Grady

Headline News

Turkey is starting to look like a double whammy as its economic woes have leap frogged ahead of its political turmoil. As its currency remains in freefall, Turkey's troubles rekindled another flight to safety, and U.S. Treasury rates moved towards the lower end of their recent trading range....*Continued on p.4*

Commentaries *Banker Commentary by Natalie Curreri Continued from p. 1*

The interest in telehealth ventures by large insurance companies like Cigna and Blue Cross and Blue Shield Plans comes as telehealth is poised for growth due to the recently proposed new CMS rule that includes expanded access to virtual doctor visits for American's covered by private Medicare Advantage plans. In the future, insurers see Medicare Advantage (MA) as a key growth area as more seniors are drawn to privately managed Medicare Benefits.

This news highlights the shift towards using, providing, and paying for virtual care in which Senior Living solutions is one key growth segment to explore in virtual care. Senior Living remains an underserved market for virtual care-enabled services.

Virtual care applications, including both remote telemedicine applications and non-telemedicine services, in the smart aging ecosystem encompass numerous care settings that primarily serve consumers ages 50 and above. While a patient's acuity and ability to pay ultimately determine his or her care setting, virtual care impacts nearly every aspect of the continuum including:

- **Proactive Care:** Utilized by consumers under age 65 with the majority of care options being preventative and serving to prolong healthier years. Virtual care options include wearables and wellness initiatives.
- **Aging in Place:** Care options help patients maintain independence while also providing support to assist in daily activities. Solutions include virtually monitoring health metrics and regular patient communication.
- **Residential Care and Others:** This includes clinically focused care options for the aging customer who has had at least one adverse health event. Virtual solutions include 24/7/365 access

to providers and specialists through telemedicine consults.

Particularly where virtual care applications can help the smart aging population include:

- **After Hours SNF Coverage:** Lack of after-hours physician care in SNFs leaves nursing staff ill-equipped to handle complex patient episodes on nights, weekends, or holidays.
- **Behavioral Health:** Mental illness represents a quickly growing challenge to the aging population, and excessive use of psychotropic drug prescriptions to calm senior patients is a growing concern. The smart aging population may face heightened barriers to receiving care such as lack of caregiver education on mental health.
- **Chronic Care Management:** Three in four Americans aged 65+ have multiple chronic diseases. Whether aging at home or in a residential care facility, the aging population faces barriers to chronic condition management tools.

Two pioneers in telemedicine targeted at the smart aging population are **Forefront Telecare** and **TripleCare**. **Forefront**, founded in 2010, initially developed a service that would allow family members to virtually visit with residents in senior living facilities. The company has since expanded into behavioral health and is now one of the largest telemental health providers for geriatric facilities. Forefront is contracted in over 230 facilities in 18 states.

TripleCare was founded in 2011 to reduce the number of unnecessary SNF patient transfers. With video technology and digital diagnostic tools, TripleCare physicians are able to instantly examine and treat residents, face-to-face, at their

Commentaries *Banker Commentary by Natalie Curreri Continued from p. 2*

bedsides. TripleCare offers 113 hours of coverage each week during the hours when bedside physician care is unavailable: overnight, weekends, and holidays. TripleCare is thought to be one of the most experienced telemedicine solutions in the emerging SNF market, delivering care to over 18,000 patients and servicing clients across 12 states.

Moreover, large health systems around the country have become key virtual care participants including Kaiser

Permanente and Ascension Health, to name two. Kaiser Permanente currently serves more than 30 million patients via online portals, virtual visits, or through the health system's applications. Ascension has delivered 20,000+ virtual care encounters this year in 19 different specialties. Overall, with large health systems already successfully utilizing telemedicine, the benefits that virtual care can provide to the senior living communities are too obvious to ignore for this not to become one of the fastest growing segments in the industry.

Commentaries *Market Commentary by Matt O'Grady Continued from p. 1*

While the European Union appears far better able to handle this contagion as compared to other recent failures, several European banks do have significant exposure to Turkey. Turkish officials have implemented monetary policies intended to stabilize the lira, but this week could still prove to be eventful for the global markets.

On the sanction front, the United States imposed new sanctions against Russia for the Skirpal poisoning, and it seems to have put Putin on the defensive. In reaction to these new sanctions Russia announced that they will be reducing investments in American securities, which isn't really a new policy, since they have announced similar movements during times of political stress.

International trade and tariffs remain a focal point for reporters and investors. As events have progressed investors have been reminded about the complexity of these issues and that there really aren't any clear quick quid pro quos, when it comes to these dynamics. Interestingly, even economists are split on whether or not we are indeed engaged in a trade war. A recent Wall Street Journal survey of private economist returned a 50-50 split about whether they considered recent events to actually be labeled as a trade war.

Following up on two regulatory stories from earlier this summer, several states have been slow to start collecting their new sales tax from internet sales, which is indicative as to just how complex that issue can be, since states need to certify that the taxes and sales actually qualify under the new regulations.

The other regulatory update from earlier this summer circles back to the Supreme Court reversal on union membership and dues. Several states like Wisconsin had enacted similar provisions in 2011, and those results suggest that unions could see a 30% reduction in participation as these changes influence new memberships. The biggest change could be seen in public sector unions, which could have serious implications for

education, since teachers make up nearly 38% of unionized public employees.

Economic Releases

Last week was highlighted by Friday's release from the Department of Labor: consumer prices rose 2.9% this year, which is the highest increase since 2011.

This week's scheduled releases are numerous and investors will be paying close attention to the following: Import Price Index, Empire Manufacturing, Nonfarm Productivity, Industrial Production, Capacity Utilization, Initial Jobless Claims, Philadelphia Fed Business Outlook, Housing Starts, Bloomberg Consumer Comfort, Small Business Optimism, and NY Fed report on Household Debt and Credit.

Market News and Numbers

The equity markets finished the week slightly lower. The DJIA closed at 25,313, which was down 189 points. This was despite nearly reaching record highs mid-week. Overall second quarter earnings are up nearly 25%, and the biggest surprise is that their forward forecast remains positive despite looming trade issues.

The bond market was busy last week. The Treasury department auctioned \$78 billion of new securities. Normally this would push rates higher, but the sales were met with solid demand, and overall Treasury rates also benefited from a renewed flight to quality trade. This week the Treasury department is scheduled to sell another \$122 billion of new securities. With the overall domestic economy remaining strong, another rate hike in September by the Federal Reserve continues to look likely.

The tax-exempt bond market had a relatively quiet week as new issue volume remained near the weekly average of \$5.4

billion. Secondary activity was also largely muted as summer vacation schedules continue to be in a full effect.

From a rate perspective, the scale was little change until Friday, when municipal bonds reacted to the rally in Treasury bonds and finished the week one basis point lower than where they started. Meanwhile, SIFMA increased 16 basis points, moving from 1.29% to 1.45%; and the RBI increased 3 basis points, moving from 4.45% to 4.48%.

Fund flows returned to positive territory, and tax-exempt funds took in nearly \$650 million of new cash.

This week's new issue calendar is surprisingly large at just under \$12 billion.

Oil remained in its recent trading range with WTI futures closing on Friday at \$67.63.

What Deals Got Placed

Advocate Aurora came to market last week for the first time as a combined credit borrowing \$1.2 billion using various structures. The combined group is rated AA by S&P, Aa3 by Moody's, and AA by Fitch. The majority of the bonds came as taxable corporate bonds with two terms. The 2028 term came at 3.829% (+85), and the 2048 term came at 4.272% (+115). On the tax-exempt side most of the bonds were structured as floating rates. The tax-exempt fixed rate bonds came in 2038 with a premium structure, using a 4.00% coupon priced at a 3.74% (+66).

Loma Linda in California rated BB- by S&P and BB by Fitch borrowed \$399 million in completion debt. They used a premium structure in 2058 with a 5.50% coupon to yield a 4.50% (+242).

In Kentucky, Baptist Healthcare group borrowed \$128 million of taxable bonds. The bonds were rated Baa1 by Moody's and A by Fitch. The bonds came at par in 2048 with a 5.079% coupon (+205).

In Idaho, St Luke's Health System issued \$73 million in daily floating rate bonds. The bonds are rated AA by S&P and Aa1 by Moody's.

In the senior living space Lifespace communities borrowed a \$165 million using a premium structure in 2048 with a 5.00% coupon yielding a 4.24% (+116). The bonds are rated BBB by Fitch.

In Pennsylvania, Pleasant View Retirement borrowed \$20 million in bonds using a premium structure in 2048. The bonds had a 5.00% coupon to yield a 4.19% (+111). The bonds are rated BBB- by Fitch.

Market Indices

Equity Indices

Information as of August 10, 2018

Index	Close	Returns			Returns	
		52 Week	Weekly		52 Week	Weekly
DJIA	25,313	15.8%	(0.6%)	Acute Care	31.8%	(2.3%)
S&P 500	2,833	16.1%	(0.2%)	Alternate Site Services	5.0%	(3.1%)
NASDAQ	7,839	25.3%	0.3%	Diagnostics	18.4%	(0.2%)
Russell 2000	1,687	22.7%	0.8%	Distribution	(20.2%)	(3.4%)
NYSE Healthcare	15,453	15.0%	(0.5%)	Healthcare IT	24.4%	2.9%
				Healthcare REITs	(5.6%)	(0.2%)
				Managed Care	34.8%	1.1%
				Medical Technology	30.6%	(0.8%)
				Outsourced Services	13.9%	(0.6%)
				Pharma Services	22.4%	(2.0%)
				Pharmacy Services	0.4%	3.0%
				Post-Acute Care	58.5%	(0.1%)

Source: Cain Brothers, Bloomberg and Capital IQ.

Tax-Exempt Debt

Information as of August 10, 2018

	Current (%)	One Week Ago (%)	One Year Ago (%)
A-rated Tax-Exempt Hospital Bonds (30-Yr)	3.72%	3.73%	3.50%
AA Tax-Exempt Hospital Bonds (30-Yr)	3.42%	3.43%	3.30%
SIFMA (Variable Rate Demand Notes)	1.45%	1.29%	0.78%
Taxable Variable Rate Demand Notes	0.40%	0.40%	0.40%
Revenue Bond Index	4.48%	4.45%	3.70%
SIFMA/1 Month LIBOR	70.05%	62.02%	63.47%
RBI/30 Yr Treasury (%)	147.85%	144.01%	130.19%
30-Year Floating to Fixed Swap (81% LIBOR)	2.42%	2.49%	1.53%

Source: Cain Brothers. Note: SIFMA, RBI & 30-Yr. Treasury are as of prior Thursday close

Tax-Exempt Healthcare Issuance

Information as of August 2018

Borrower	Par (\$MM)	State	Rating	Maturity	Coupon	Yield to Call	Yield to Mat.	AAA
Advocate Aurora Health	\$ 1,230,000	WI	Aa3 / AA / AA	2025 (put)	5.00%	2.57%	3.73%	3.06%
Loma Linda University Medical	366,000	CA	NR / BB- / BB	2058	5.50%	4.50%	4.97%	3.06%
Pleasant View Retirement	20,315	PA	NR / NR / BBB-	2048	5.00%	4.19%	4.56%	3.06%
Lifespace Communities	166,875	IA	NR / NR / BBB	2048	5.00%	4.24%	4.64%	3.06%
Baptist Healthcare System	129,000	KY	Baa1 / NR / A	2048	5.08%	5.08%	-	3.06%
Friends House Retirement	16,795	CO	NR / NR / NR	2048	5.38%	4.90%	5.12%	3.06%
Total	\$ 1,928,985							

Source: Cain Brothers, Bloomberg and Capital IQ.

Transaction Activity, Week of August 13, 2018

M&A Activity

<u>Announced</u>	<u>Target</u>	<u>Acquirer</u>	<u>Ent. Value</u>	<u>Enterprise Value/</u>		<u>Description</u>
				<u>LTM Rev.</u>	<u>LTM EBITDA</u>	
8/10/2018	Precedent Health	SpecialtyCare (Kohlberg)	NA	NA	NA	Provider of intraoperative neuromonitoring
8/9/2018	Discovery Health Partners (majority stake)	Carrick Capital	NA	NA	NA	Provider of insights and technology-powered solutions to help healthcare payers
8/7/2018	Alegeus (Lightyear Capital)	Vista Equity Partners	NA	NA	NA	Consumer-directed healthcare solutions
8/6/2018	JBR	Webster Capital	NA	NA	NA	Clinical research site manager conducting post-op pain studies on behalf of pharmaceutical companies

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Public Offering Activity

NONE

Source: IPO Monitor, Capital IQ, Mergermarket, PE HUB and press releases.

Private Placement Activity - Equity

<u>Date</u>	<u>Company</u>	<u>Investor(s)</u>	<u>Type</u>	<u>Amount</u>	<u>Description</u>
8/9/2018	Hing Health	Insight Venture Partners (lead), Atomico Investment	Series B	\$26.0	Digital healthcare solutions for employees to recover from musculoskeletal disorders at workplace
8/6/2018	GoodRx	Silver Lake	Strategic Growth Investment	Undisclosed	Provides current prices and discounts for prescriptions at pharmacies across America

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Healthcare News

Employers Are Finding New Ways to Cut Health Care Costs

A growing number of companies are contracting directly with hospitals and providers to take care of their employees, according to an annual survey released Tuesday by the National Business Group on Health, an industry organization focused on large companies. Some 11% said they will do this in 2019, up from 3% this year. General Motors (GM) and Henry Ford Health System in Detroit announced such a contract on Monday. The six-hospital system will provide access to more than 3,000 primary care and specialty doctors, as well as hospital, emergency room and pharmacy services, through GM's new "ConnectedCare" plan option. Also becoming more popular are direct contracts between companies and providers to handle certain pricey conditions, such as cancer, cardiovascular disease, fertility treatments and orthopedic needs. Some 18% of companies said they are negotiating these deals for 2019, up from 12% this year, according to the survey. (CNN Money, 8/7)

<https://money.cnn.com/2018/08/07/news/economy/employer-health-care/index.html>

Three Women Changing the Way We Deliver Healthcare

In the wake of Amazon's nearly one-billion-dollar acquisition of the online pharmacy, Pillpack a full-service pharmacy that delivers medication, there is little question about the impact that technology is having on healthcare. And while technology has been a key component of healthcare for decades, improvements in security and efficiency provided by platforms like PillPack only just scratch the surface of what is possible. In time, we may replace many of those pills altogether with tech-enabled healthcare solutions that are designed to change behavior in line with specific health outcomes. This emerging sub-sect of the health-tech industry has been coined digital health therapeutics. (Forbes, 8/2)

<https://www.forbes.com/sites/vinettaproject/2018/08/02/three-women-changing-the-way-we-deliver-healthcare/#2c5d31023e17>

Healthcare News *Continued from p.8*

Healthcare Is The No. 1 Issue For Voters; A New Poll Reveals Which Healthcare Issue Matters Most

Depending on which news outlet, politician or pundit you ask, American voters will soon participate in the most important midterm election “in many years,” “in our lifetime” or even “in our country’s history.” The stakes of the November 2018 elections are high for many reasons, but no issue is more important to voters than healthcare. In fact, NBC News and The Wall Street Journal found that healthcare was the No. 1 issue in a poll of potential voters. What’s curious about that survey, however, is that the pollsters didn’t ask the next, most-logical question. What Healthcare Issue, Specifically, Matters Most To Voters? To answer this question, I surveyed readers of my monthly newsletter. Will the opioid crisis sway voters at the polls? What about abortion rights? The price of drugs? The cost of insurance? To understand the significance of these results, look closely at the top four: Prescription drug pricing (58%) Universal/single-payer coverage (57%) Medicare funding (50%) Medicaid funding (40%) Notice a pattern here? All of these healthcare issues come down to one thing: money. Healthcare Affordability: The New American Anxiety

Because the majority of my newsletter readers operate in the field of healthcare, they’re well informed about the industry’s macroeconomics. They understand healthcare consumes 18% of the gross domestic product (GDP) and that national healthcare spending now exceeds \$3.4 trillion annually. The readers also know that Americans aren’t getting what they pay for. The United States has the lowest life expectancy and highest childhood mortality rate among the 11 wealthiest nations, according to the Commonwealth Fund Report. But these macroeconomic issues and global metrics are not what keeps healthcare professionals or their patients up at night. (Forbes, 8/13)

<https://www.forbes.com/sites/robertpearl/2018/08/13/midterms/#7bec26c33667>

3.15M Records Exposed by 142 Healthcare Data Breaches in Q2 2018

In the second quarter of 2018, 3.15 million patient records were compromised in 142 healthcare data breaches, according to the Protenus Breach Barometer. A discouraging 30 percent of privacy violations involved repeat offenders, indicating that “health systems accumulate risk that compounds over time if proper reporting and education do not occur,” the report observed. If an individual healthcare employee breaches patient privacy once, there is a greater than 30 percent chance that he or she will do so again in three months’ time, and a greater than 66 percent chance he or she will do so again within one year, the report related. (Health IT Security, 8/9)

<https://healthitsecurity.com/news/3.15m-records-exposed-by-142-healthcare-data-breaches-in-q2-2018>

Healthcare News *Continued from p.9*

Meet the Chatbots Providing Mental Health Care

If you're feeling stressed, sad or anxious, you could schedule an appointment with a therapist. Or you could send a text message to Sara, who provides round-the-clock support for just \$5 a month. Her responses are encouraging and empathetic—if occasionally robotic. That's because Sara is not a person. She's a piece of software built by X2AI, a San Francisco-based startup that has developed several of a growing number of chatbots focused on delivering mental health care. Roughly 20% of American adults experience some mental illness, but fewer than half get treatment, according to 2016 data from the U.S. National Institute of Mental Health. The hope is that artificially intelligent tools capable of simple text or voice conversations can help fill the gaps—augmenting but not replacing their human counterparts. (Wall Street Journal, 8/9)

<https://www.wsj.com/articles/meet-the-chatbots-providing-mental-healthcare-1533828373>

How Do Healthcare Mergers and Acquisitions Impact Patients?

Healthcare mergers and acquisitions have been the cause of considerable debate across the medical industry, calling into question the tools and scale necessary to thrive in current care models as well as the notion of anti-trust laws in healthcare. But as industry professionals consider the business case for mergers and acquisitions, it will be essential for them to also understand how these events impact the patient experience. (Patient Engagement HIT, 8/7)

<https://patientengagementhit.com/news/how-do-healthcare-mergers-and-acquisitions-impact-patients>

Cain Brothers News

Upcoming Events:

2018 Cain Brothers Healthcare Conference

September 26-27, 2018

Renaissance Westchester Hotel

80 West Red Oak Lane

West Harrison, NY 10604

For additional information contact: [Brittany Hayes](#)

Cain Brothers' Transactions

CALIFORNIA cryobank

A portfolio company of

Longitude CAPITAL **NOVAQUEST CAPITAL MANAGEMENT**

Has been acquired by

GI PARTNERS

SELLSIDE M&A ADVISORY
August 2018

OPTIMAL HEALTH SERVICES

Has been acquired by

Bristol Hospice
EMBRACING A REVERENCE FOR LIFE

A portfolio company of

Webster Capital

SELLSIDE M&A ADVISORY
July 2018

MedPlast

A portfolio company of

JLL Partners / WATER STREET

Has acquired the Advanced Surgical and Orthopedics product lines of

Integer

JOINT LEAD ARRANGER AND JOINT BOOKRUNNER
July 2018

PREMERA | BLUE CROSS

Has agreed to acquire the Medicare Advantage contract of

Soundpath HEALTH

A subsidiary of

Catholic Health Initiatives

BUYSIDE M&A ADVISORY
Pending

AVIZIA

Has been acquired by

American Well

SELLSIDE M&A ADVISORY
July 2018

sciformix
Trusted Services. Built on Science.

Has been acquired by

COVANCE
SOLUTIONS MADE REAL

the drug development business of

LabCorp

SELLSIDE M&A ADVISORY
June 2018

Blackstone

Has acquired

CARD
CENTER FOR AUTISM & RELATED DISORDERS

BUYSIDE M&A ADVISOR
May 2018

JORDAN HEALTH SERVICES

A portfolio company of

PALLADIUM EQUITY PARTNERS

Has been acquired by

KELSO PRIVATE EQUITY **BLUE WOLF**

SELLSIDE M&A ADVISORY
May 2018

Children's Choice PEDIATRIC DENTAL CARE

Was recapitalized by

AMULET CAPITAL PARTNERS LP

SELLSIDE M&A ADVISORY
April 2018

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