

Q3-2016 Health Plans Update



Market Overview

As anticipated, strategic buyers were the driving force behind consolidation in the M&A market for health plans during the third quarter of 2016. As four of the leading health plans (by total population covered) go through acquisitions, smaller health plans have begun taking a more active role in the market. An ongoing trend among insurers is dropping out of the Affordable Care Act (ACA) exchanges, which have become too costly for payers to provide to patients; Aetna became the third national provider to drop out of exchanges in August. As a result, providers have looked to consolidation in order to mitigate the impact of losses resulting from the ACA exchanges. Another evolving trend Provident is witnessing is an increase in consolidation activity among Third Party Administrators as employers are experiencing the effects of increased costs in providing healthcare benefits to employees. Moving into the final quarter of the year, Provident anticipates a small number of significant acquisitions to occur within the space among strategic groups looking to leverage M&A to achieve operational synergies and improve margins.

Public Company Valuations

Select Public Trading Multiples (as of 09/30/2016)

| Company | Ticker | EV (MM) | EV/REV | EV/EBITDA |
|--------------------------|--------|---------|--------|-----------|
| UnitedHealth Group, Inc. | UNH | 158,522 | 0.90x | 12.04x |
| Anthem, Inc. | ANTM | 47,843 | 0.58x | 9.10x |
| Aetna, Inc. | AET | 43,854 | 0.71x | 7.65x |
| Cigna, Corp. | CI | 35,557 | 0.92x | 9.43x |
| Humana, Inc. | HUM | 28,186 | 0.52x | 11.25x |

Note: information is sourced from Capital IQ

Selected Transactions

| Month | Acquirer | Target Company | Details |
|----------------|--------------------------------|-----------------------------------|--|
| September 2016 | OneDigital Health and Benefits | Mann & Watters Insurance | OneDigital Health and Benefits, the nation's largest employee benefits-only company, has acquired Mann & Watters Insurance of Wilmington, N.C. The deal provides Mann & Watters a broader range of programs and solutions to offer their customers and expands OneDigital's presence in the Carolinas. |
| | | MRCT | OneDigital has also acquired MRCT of St. Louis. The acquisition gives OneDigital a second office in the St. Louis region, enhancing their position in the Midwest. MRCT will gain access to OneDigital's team of national experts and resources in order to position itself for future growth. |
| July 2016 | UnitedHealthcare (NYSE: UNH) | Rocky Mountain Health Plans | UnitedHealthcare has announced its acquisition of Rocky Mountain Health Plans (RMHP), a nonprofit insurance provider based in Colorado. RMHP has struggled to cover costs for the insurance plans that it offers on the Colorado state health insurance marketplace. Through the acquisition, United will restore the group's capital infrastructure and ensure longevity of the health plans it offers to patients. United now has access to RMHP's 300,000 customers in rural and western Colorado where it currently has a limited presence. UnitedHealthcare has also been taking an active role in acquiring medical groups through its physician services arm, OptumCare. Both organizations are expected to utilize acquisitions to expand their geographic reach and scope of service offerings. |
| July 2016 | Magellan Health | Armed Forces Services Corporation | Magellan Health completed its acquisition of Armed Forces Services Corporation (AFSC). Magellan's leadership in complex care and special population management aligns with AFSC's focus on managing behavioral health and specialty services. The purchase price of the acquisition was \$117.5 million, with an additional earn-out opportunity of up to \$10 million based on the retention of certain core businesses of AFSC. Magellan will expand their integrated care offerings to AFSC's customers, including all five branches of the U.S. Armed Forces and other agencies of the federal government. The deal shows the continued trend of health plans acquiring medical services providers to take a more active role in managing members outcomes. |