
Provident Perspectives: Consolidation in the Medicare Advantage Sector

Merger and acquisition activity in the Medicare Advantage market is set to continue into the foreseeable future. A favorable growth backdrop defined by an aging population and bipartisan congressional support will continue to drive interest from strategic acquirers and other investors.

PROVIDENT'S PERSPECTIVE

As the leading middle-market merger and acquisition advisory firm within healthcare services, Provident Healthcare Partners possesses unique insight into the current trends facing the healthcare industry and how these trends will likely drive future consolidation activity. Provident recently advised Peoples Health Network, a leading Medicare Advantage plan in the state of Louisiana, in its sale to UnitedHealth Group (NYSE: UNH) through a competitive transaction process. We anticipate that transactions like these will continue for the foreseeable future, as strategic acquirers and private equity firms continue to take advantage of industry tailwinds that will result in sustainable, long-term sector growth.



Provident Medicare Advantage Deal Team



Justin Hand, Managing Director
Provident Healthcare Partners



Kevin Palamara, Managing Director
Provident Healthcare Partners



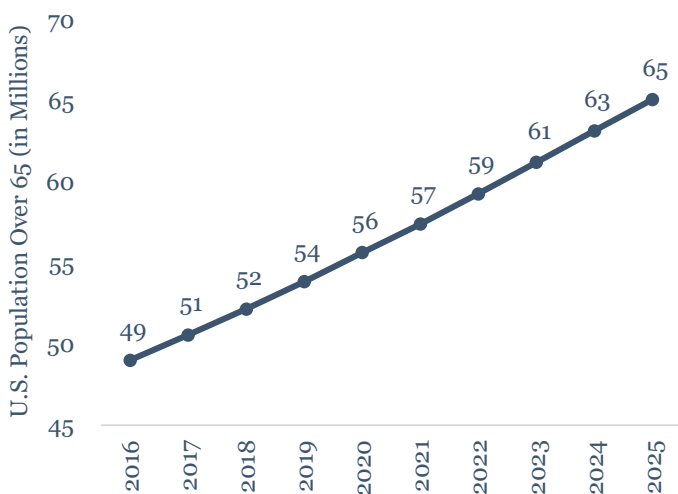
Jon Brown, Analyst
Provident Healthcare Partners

MEDICARE ADVANTAGE MACROECONOMIC TRENDS

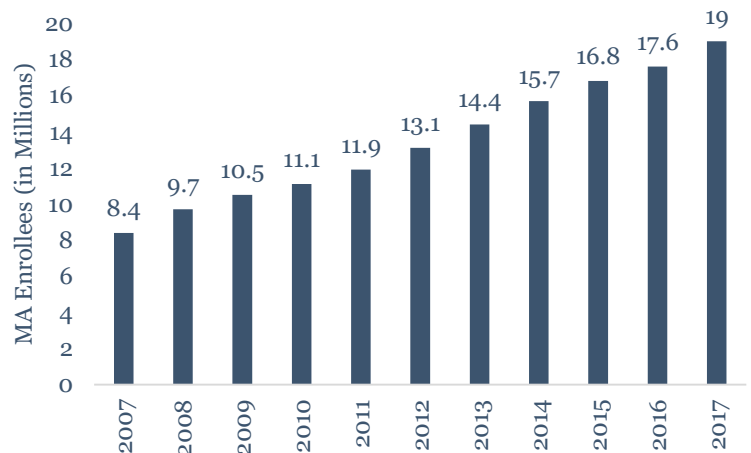
The Medicare Advantage (MA) market continues to grow at a steady pace, with enrollment increasing by 8% between 2016 and 2017, per the Kaiser Family Foundation. Provident anticipates that multiple factors will drive future enrollment growth within the sector. For starters, the population of U.S. citizens aged 65 and over is expected to more than double from over 46 million people in 2016 to over 98 million by 2060. MA plans stand to benefit from an aging population, as more people become Medicare eligible and can subsequently opt into MA plans. Prior experience with commercial health plans offered via employer sponsored insurance along with increased awareness of MA plans as an alternative to traditional Medicare have and will continue to drive enrollment. MA is also one of the few healthcare initiatives that has bipartisan support in Congress, which provides long-term market stability in an ever-changing healthcare regulatory landscape. While only a third of Medicare beneficiaries are enrolled in a MA plan, we anticipate that these factors will lead to increased adoption and utilization.

While the MA industry outlook is positive, there are also multiple factors that could hinder market growth. A dynamic regulatory environment presents challenges that MA plans must be able to navigate to remain competitive and relevant. Single payor healthcare, for instance, is a policy initiative that has gained significant traction in the U.S., as healthcare costs continue to rise and a greater portion of the cost burden shifts toward patients. In 2017, a bill was introduced in the California state legislature that proposed a single payor system. While the bill was eventually shelved, single payor has continued to gain traction, as several 2018 congressional candidates have implemented “Medicare for All” into their policy platforms. Another threat to the MA market is provider consolidation. As providers continue to consolidate at a rapid rate, MA plans will be forced to bargain with larger entities that can leverage their size to negotiate favorable reimbursement rates. MA plans that fail to achieve economies of scale by attracting new members will become increasingly vulnerable during rate negotiations.

U.S. Population Growth – Age 65 and Over



Medicare Advantage Enrollment Growth

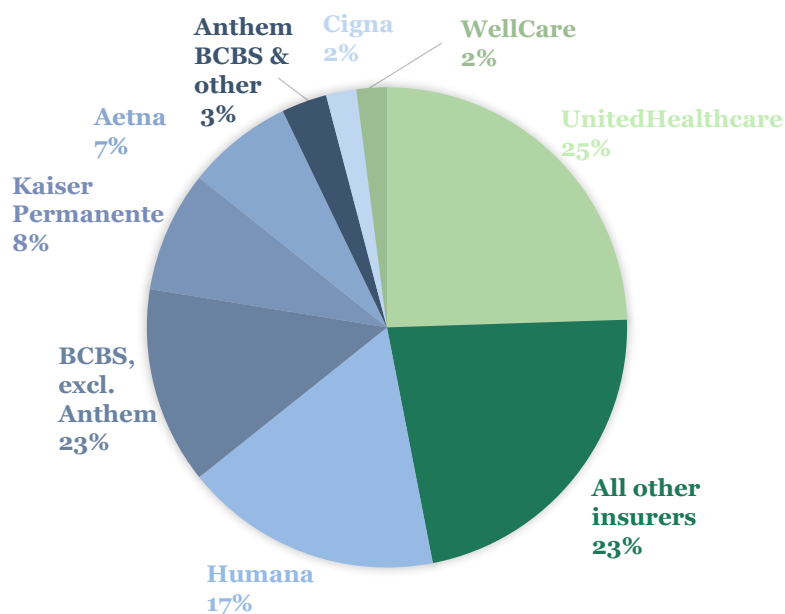


Sources: Kaiser Family Foundation, Population Reference Bureau, Healthy California Act

CONSOLIDATION TRENDS IN MEDICARE ADVANTAGE

The MA market is dominated by many of the nation's largest managed care organizations (MCOs). UnitedHealthcare (United) and Humana are the largest players and together accounted for 42% of enrollment in 2017. Other noteworthy players include Anthem, Cigna, Kaiser Permanente and WellCare. This trend has carried into 2018, with United and Humana accounting for 42% of enrollment as of February 2018 (see Table 1). Like other areas of healthcare, there has been a significant amount of merger and acquisition activity in the MA market in recent years. In 2017, two headline mergers were proposed that involved four major U.S. MCOs, Aetna/Humana and Anthem/Cigna. While these deals ultimately failed due to antitrust regulation, consolidation in the MA sector has continued at a rapid pace, as MCOs look to acquire health plans in the lower middle market to expand their geographic footprint and increase enrollment. MA sector tailwinds, which include an aging population, increased awareness, and bipartisan congressional support, are driving M&A activity in the sector.

2017 Medicare Advantage Enrollee Market Share by Firm



Total 2017 Medicare Advantage Enrollment: 19 Million

Table 1: 2018 Annual Enrollment Period Trend by Largest Parent Organizations

Parent Organization	Total Enrollees Dec 2017	Total Enrollees Feb 2018	2018 AEP Trend	2018 AEP Growth Percentage	Feb 2018 Market Share
UnitedHealth Group (NYSE: UNH)	3,695,919	3,933,828	237,909	6%	24%
Humana (NYSE: HUM)	2,852,333	2,986,451	134,118	5%	18%
Kaiser Permanente	1,037,143	1,042,471	5,328	1%	6%
Aetna (NYSE: AET)	930,087	1,015,141	85,054	9%	6%
Anthem (NYSE: ANTM)	675,707	701,887	26,180	4%	4%
Cigna (NYSE: CI)	429,762	428,782	-980	-0.2%	3%
WellCare (NYSE: WCG)	373,139	378,531	5,392	1%	2%
Centene (NYSE: CNC)	264,532	278,097	13,565	5%	2%

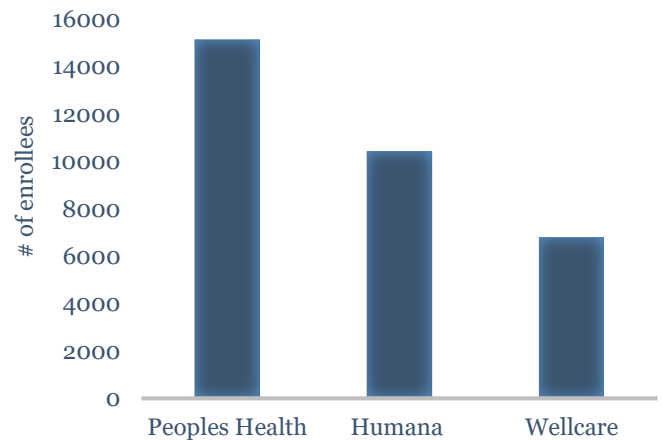
CREATING VALUE THROUGH A STRATEGIC TRANSACTION

Much of the M&A activity in the MA sector is strategic in nature and typically involves a large MCO acquiring a smaller MA plan. Examples of strategic rationale for pursuing a transaction can include expanding geographic reach, increasing market share, and diversifying service lines. MCOs also benefit from economies of scale, as more individuals are covered under one entity, and the costs associated with managing members is spread across a larger number of people. Smaller plans can also benefit from a transaction by leveraging the resources of the acquirer to reduce their own administrative costs and drive enrollment growth.

Provident recently represented Peoples Health in its sale to UnitedHealthcare. Peoples Health is a Louisiana-based MA plan that launched in 1994 and has grown from 3,200 members to over 65,000, becoming the second largest provider of MA services and the largest provider of SNP services in the state. United sought to expand its presence in the Louisiana market and establish a recurring revenue stream by diverting its existing members toward a United-owned Medicare Advantage plan, as they become Medicare eligible. Peoples Health saw an opportunity to leverage United’s infrastructure to innovate its product offerings. Other recent transactions involving a MCO acquiring a MA plan include WellCare’s acquisition of Michigan-based Meridian Health Plans, Southwestern Health Resources’ acquisition of Texas-based Care N Care Insurance Company, and Anthem’s acquisitions of South Carolina-based America’s First Choice and Florida-based HealthSun.

MCOs Acquiring MA Plans		
Date	Target	Acquirer
Aug 2018		
May 2018		
May 2018		
Feb 2018		
Dec 2017		

Medicare Advantage - Louisiana SNP Market Share



Recent Provident Transaction in the Medicare Advantage Sector

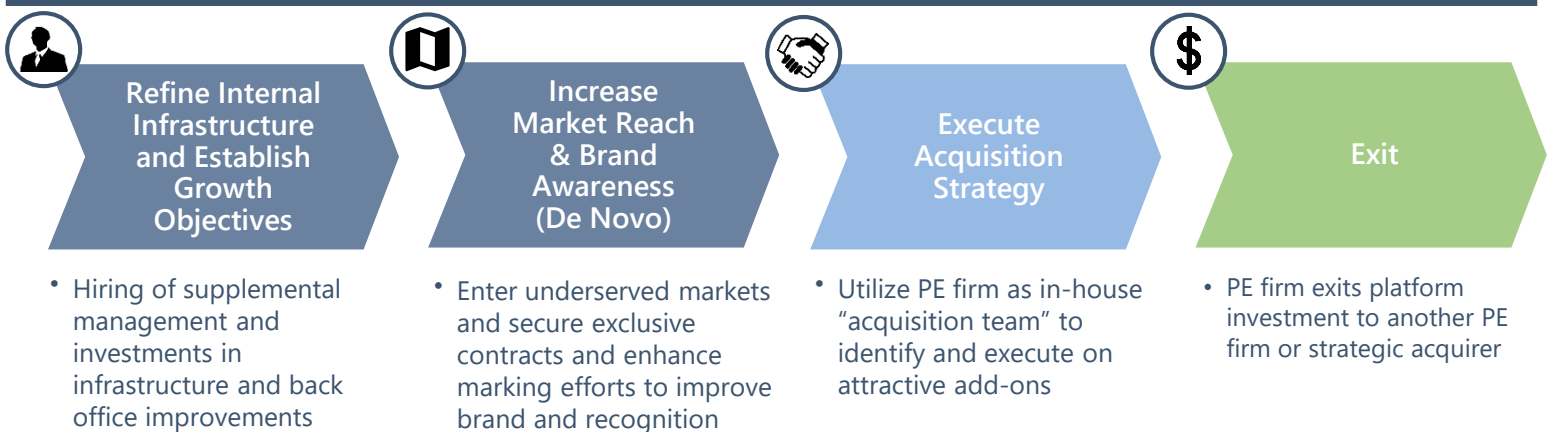
<p>Provident Client: </p> <ul style="list-style-type: none"> • Second largest Medicare Advantage plan in Louisiana with 65,000+ members • 4.5 STAR rated plan • Proven business model with supporting ancillary services 	+	<p>Buyer: </p> <ul style="list-style-type: none"> • Insurance arm of UnitedHealth Group • Subsidiary of largest Managed Care Organization in the U.S. • Largest player in the Medicare Advantage space 	=	<p>Combined Entity</p> <ul style="list-style-type: none"> • Streamlined administrative functions • Recurring revenue stream via age-ins • 4.5 STAR rating for combined plan
--	---	--	---	---

CREATING VALUE THROUGH PRIVATE EQUITY

While the MA plan buyer universe skews toward strategic acquirers, private equity firms have also made investments into MA plans. Private equity refers to the investors and funds that seek to make direct equity investments in privately-owned companies. Like strategic acquirers, private equity firms look to capitalize on MA market tailwinds and utilize their business and market expertise to accelerate the trajectory of rapidly growing MA plans. Per Jim Little, Managing Partner at New Capital Partners, “We look for MA plans that have strong relationships with providers and are located in markets with favorable competitive dynamics.” New Capital Partners was among the first institutional investors in the MA sector when they made a Series A investment in Senior Whole Health, a Massachusetts-based dual-eligible focused health plan, in 2004. In 2011, TA Associates, a Boston-based private equity firm, acquired a majority stake for \$135M. Six years later, TA Associates sold Senior Whole Health to Magellan Health (NASDAQ: MGLN) for \$400M.

A more recent transaction involving a private equity firm partnering with a MA plan was the Summit Partners (Summit) led recapitalization of HealthSun. HealthSun is a Florida-based MA plan that focuses on the dual-eligible population in Broward and Miami-Dade counties. Summit was able to help HealthSun grow by acquiring primary care clinics, recruiting key senior management team members, and building a business development team. Within a year, HealthSun was acquired by Anthem. Through the acquisition Anthem added 40,000 members to its Florida membership base and significantly expanded its clinical capabilities with HealthSun’s owned clinics. Another recent transaction involving a private equity firm and a MA plan was the \$115M growth equity investment made by Warburg Pincus into Orange, California-based Alignment Healthcare. The investment provided Alignment Healthcare with capital to expand its operations and geographic reach.

Strategic Initiatives Leading to Growth



Private Equity Partnership

Jan 2017



Private Equity Led Growth Initiatives

- Acquisition of 2 primary care clinics: WellMax and Pasteur Medical Centers
- Hiring of experienced Chief Financial Officer and Head of Business Development
- Hiring of business development team

Exit Partner

Dec 2017



CONCLUDING THOUGHTS

Medicare Advantage is one of the few healthcare policy initiatives that has received bipartisan support from Congress. While the number of enrollees continues to increase year over year due to an aging population and awareness of Medicare Advantage as an alternative to traditional Medicare grows, relatively low utilization has left room for significant market growth. As healthcare companies and managed care organizations in particular seek to remain competitive in an industry shifting towards value-based care, we believe that consolidation in the sector will continue at a strong pace as these entities seek to expand and innovate their existing Medicare Advantage service offerings via mergers and acquisitions. As trends within the sector continue to favor plans with scale, strong management, strategic vision, and access to capital, the rate at which consolidation and investment activity has occurred in the sector will likely continue. To the extent that it is of interest, members of the Provident team would be happy to elaborate on any of these trends & provide specific insights on healthcare niches, specialties, and industry verticals. Please contact us at (310) 359-6600 for additional information.

Jon Brown

Analyst

(310) 359-6617

jbrown@providenthp.com



Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

Boston:

260 Franklin Street, 16th Floor
Boston, Massachusetts 02110
617-742-9800

Los Angeles:

315 S. Beverly Drive, Suite 504
Beverly Hills, California 90212
310-359-6600