



Healthcare Providers

Earnings Call Synopsis / Q1 2019 Results

Content



[Summary](#)

Deal Spotlight

Earnings Call Overview / Players In The Industry

Financial Trends and Transactions

ABOUT 7 MILE ADVISORS

7 Mile Advisors is a partner-led middle market investment banking firm providing strategic M&A, private capital transactions, and market insight for business owners, corporations, and private equity firms.

The 7MA team has completed over 120 transactions in the Healthcare sector. We provide pragmatic advice, sector expertise and innovative processes to help clients adeptly navigate the decision tree. Our high-touch processes with senior-led deal teams are the cornerstone of the 7MA process.

Select Related Transactions



* Deal executed by 7 Mile Advisor Principal while in another firm

SUMMARY

We are pleased to present our review and synopsis of results and earnings call commentary for Q1 2019. This summary includes the most recent financial results for key publicly traded companies in the Healthcare Providers sector for the period January – March 2019.

M&A Indicators:

- + Percentage of transactions involving financially distressed sellers
- + Movement across state lines and geographies to expand market capture
- + Vertical acquisitions by insurers of practices and pharmacies

Healthcare Trends to Watch:

- + A push towards integrated, value-based care
- + Integration of technology and artificial intelligence to power healthcare analytics
- + The role of regulation and taxation on care and operating results

Content



Summary
Deal Spotlight

Earnings Call Overview / Players In The Industry
Financial Trends and Transactions

7MA STAFF DEAL SPOTLIGHT

MedExpress Enters into a Joint Venture with Atlantic Health

Urgent Care and Integrated Care Delivery



- The joint venture will foster coordination between Atlantic Health System's extensive clinically integrated network, part of the Horizon BCBS OMNIA Network, and MedExpress' 11 neighborhood medical centers in northern New Jersey.
- MedExpress urgent care patients will now have seamless referral acceptance at Atlantic Health System facilities should further care be needed.
- MedExpress' centers will provide Atlantic Health with an expanded geographic footprint and greater access to care for its patients. The Health System's physicians may now more easily refer patients to a more appropriate site of service in convenient, lower-cost outpatient clinics for certain types of care.

MedExpress Acquired Linc Care from Catholic Health Initiatives



- MedExpress acquired the Linc Care chain of 9 urgent care clinics in Lincoln and Omaha, NE from Catholic Health Initiatives (CHI Health) Nebraska health system.
- In addition to the acquisition, MedExpress and CHI Health have entered into a collaborative care partnership that will enable them to seamlessly coordinate care to enhance quality, increase patient convenience and lower costs. As part of the initiative, MedExpress patients who need more advanced care can transfer seamlessly to a CHI Health location if they choose to.

Content



Summary
Deal Spotlight

Earnings Call Overview / Players In The Industry
Financial Trends and Transactions

HEALTHCARE INDUSTRY OVERVIEW

In Q1 of 2019, Healthcare Providers saw widespread growth in their businesses. Industry consolidation has continued, as more Healthcare Providers are blurring the line between insurer and provider. Benefit plans are becoming more all-encompassing, and providers are pushing into new corners of the market.

Healthcare is also going digital. Numerous providers have touted increased research and development spending on artificial intelligence and data analytics. This trend has widened the flow of information from patient to physician, allowing doctors to uncover new insights, predict care demands before they are made, and make better decisions sooner. Telehealth movements have also put more power in the hands of patients, especially in behavioral health, which has kept more patients out of hospitals and driven down overall costs.

Related to the proliferation of technology in healthcare is a widespread transition to a value-based system. As more information tracking patient outcomes becomes available, doctors are increasingly rewarded for their outcomes, not just the number of patients they see. This trend is expected to persist and lead to better overall standards of care.

In terms of performance trends across the industry, many outcomes this quarter were driven by a weaker flu season and the suspension of the Healthcare Provider Fee in 2019. However, the sensitivity to these events varied on a company by company basis.



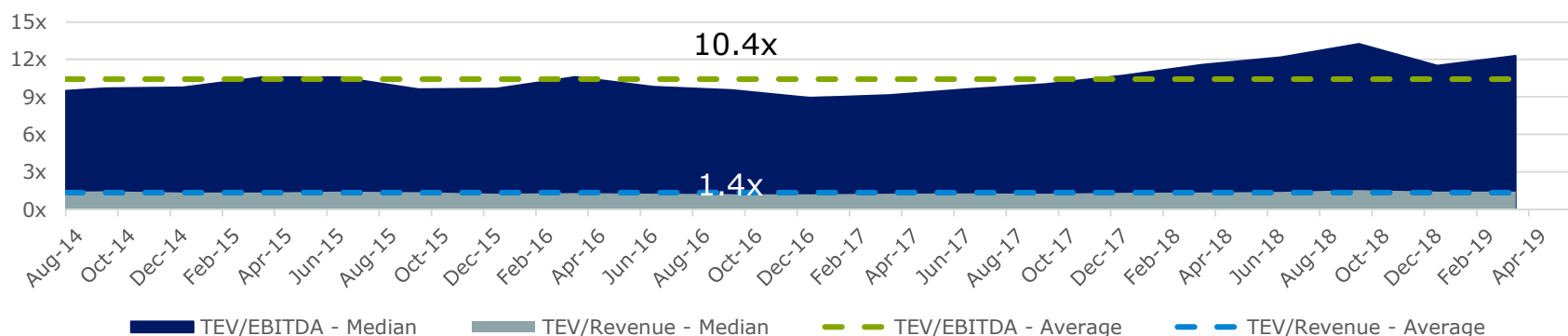
UnitedHealth Group



PUBLIC BASKET AND VALUATION TRENDS

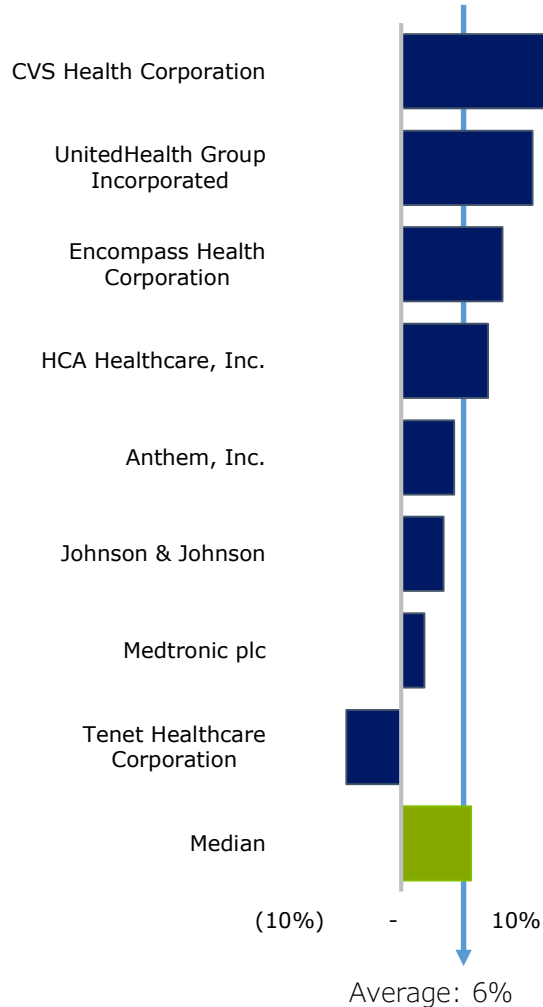
Company	TEV \$m	LTM Rev \$m	Rev Growth YoY	GP %	EBITDA %	TEV / Rev X	TEV / EBITDA X	# FTEs	Rev / FTE \$k
UnitedHealth Group Incorporated	261,427	231,367	11%	24%	9%	1.1	13.1	300,000	771
CVS Health Corporation	156,621	209,623	13%	17%	7%	0.7	11.5	295,000	711
Anthem, Inc.	87,367	94,220	5%	21%	7%	0.9	13.4	63,900	1,474
Johnson & Johnson	371,725	81,593	4%	67%	34%	4.6	13.3	135,100	604
HCA Healthcare, Inc.	80,800	47,771	8%	38%	20%	1.7	8.6	196,000	244
Medtronic plc	145,041	30,557	2%	70%	30%	4.7	15.2	101,013	303
Tenet Healthcare Corporation	20,001	18,159	-5%	36%	15%	1.1	6.9	90,090	202
Encompass Health Corporation	9,343	4,355	9%	41%	21%	2.1	10.2	25,770	169
Average	141,541	89,706	6%	39%	18%	2.1	11.5	150,859	560
Median	116,204	64,682	6%	37%	17%	1.4	12.3	118,057	453

Public Rev & EBITDA Multiples Over Time

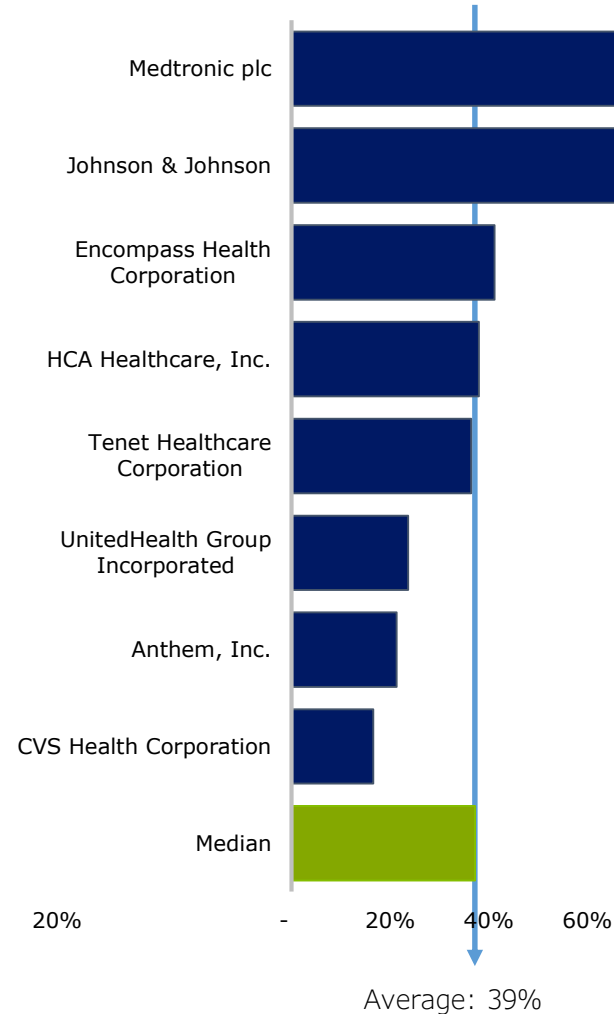


OPERATIONAL METRICS

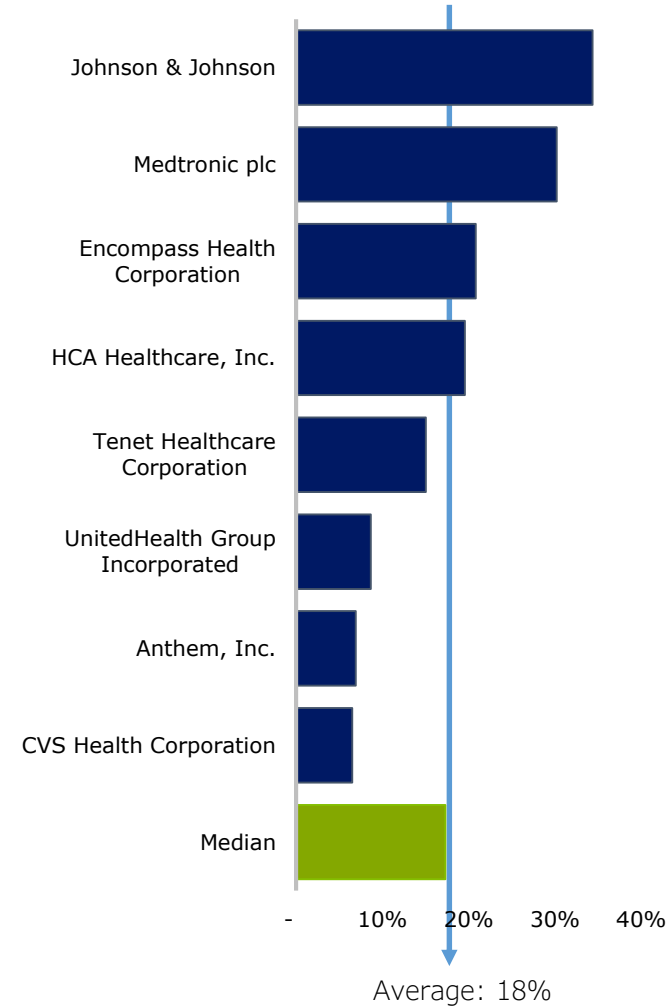
LTM REVENUE GROWTH %



LTM GROSS PROFIT MARGIN %



LTM EBITDA %



UnitedHealth Group

Commentary

"The continued growth and earnings performance of our business is a byproduct of our focus on providing exceptional returns to society by improving health care affordability, outcomes and the patient experience, what some refer to as the triple aim. This orientation frames our growth strategy, informs capital allocation decisions and shapes the operating plans for UnitedHealth Group's businesses, all directed towards attaining the promise of our mission." — David S. Wichmann, CEO

Highlights

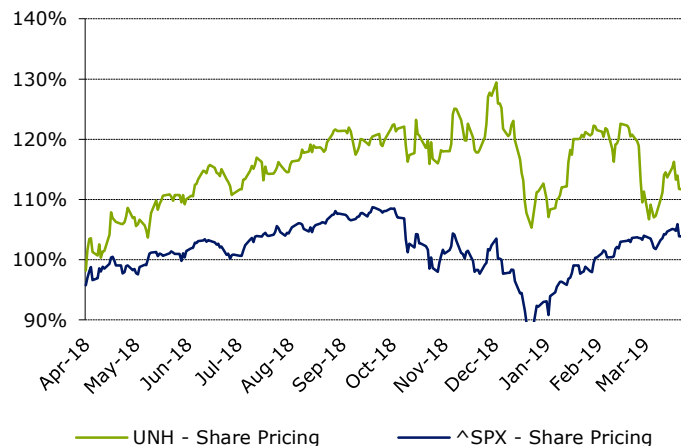
For the quarter ended March 31, 2019 (Q1'19):

- UnitedHealthcare posted sales of \$48.9B, a YoY increase of ~7% driven by volume expansion in Medicare products.
- Optum listed revenue of \$26.4B, an implied YoY increase of ~13% which was fueled by expansion in pharmacy care services and care delivery.
- Increased revenues were partially offset by the suspension of the Health Insurance Provider fee, which is usually passed along to consumers via increased premiums.
- The company recently closed its acquisition of DaVita's physician group, a move that will allow the group to wear two hats as insurer and health-care provider.

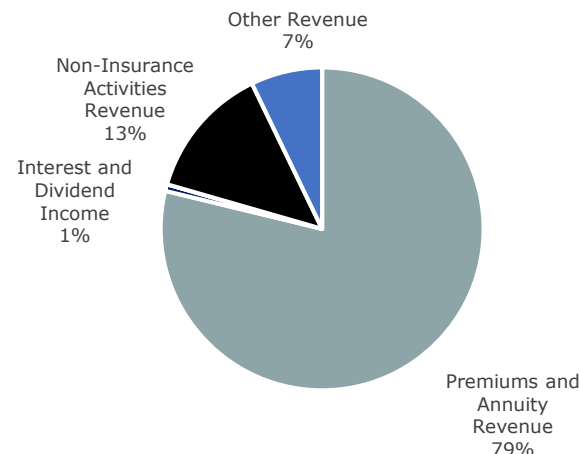
News

- [Optum completes acquisition of DaVita Medical Group from DaVita](#)
- [UnitedHealthcare Expands Use of Bundled Payments with Medicare Advantage Health Care Providers](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ and Earnings Call Transcript

Commentary

"We are pleased with the progress and momentum we demonstrated in the quarter as we position ourselves to win in this evolving health care landscape. The breadth of our assets, capabilities and experience meaningfully differentiate us from others in the market and provide us unique opportunities to create a company that generates superior value for shareholders and all the constituencies we serve." — Larry J. Merlo, President and CEO

Highlights

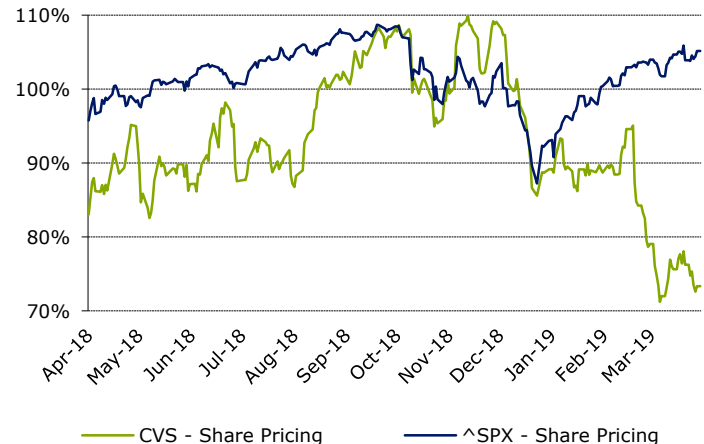
For the quarter ended March 31, 2019 (Q1'19):

- The Health Care Benefits segment lead CVS Health to an earnings per share of \$1.62, which came in above guidance and led the firm to raise annual guidance from \$6.75 to \$6.90.
- CVS cited positive results in its integration of Aetna, which it acquired in a recent \$69B merger. The company expects 2019 synergies between \$300 and \$500M and hopes that figure will reach the \$750M mark in 2020.
- The pursuit of data analytics capabilities has helped deliver health care services more efficiently and at lower costs.
- Operating income was up 57%, largely attributed to the acquisition-fueled revenue boost from the Aetna business.
- Operating income in the pharmacy segment was down 5.7% YoY, driven by price compression for pharmaceuticals.

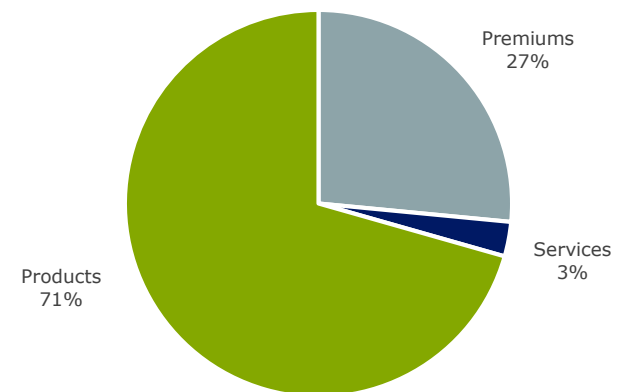
News

- [CVS Pharmacy Launches Same-Day, On-Demand Rx Delivery Nationwide](#)
- [CVS Health Outlines Strategy to Accelerate Growth](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Commentary

"We reported significant growth in our risk-based membership and improved the penetration of our clinical and specialty services...our value proposition is resonating across our markets...the upcoming launch of IngenioRx is a key milestone in the realization of our vision and strategy...we finally have a strong integrated pharmacy and medical platform"— Gail K. Boudreaux, President and CEO

Highlights

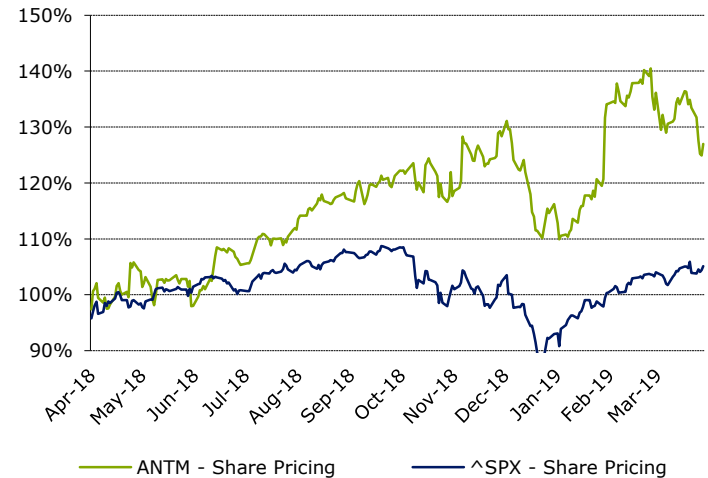
For the quarter ended March 31, 2019 (Q1'19):

- Anthem posted operating revenues of \$24.4B, a YoY increase of ~9% and a result of higher premium revenue in its Government Business and Commercial & Specialty Business segments.
- Earnings per share grew to \$5.91, a YoY increase of 18.4% attributed to healthy operating results in the Commercial Business segment.
- Total medical membership grew 2.9% over the past year, partly due to growth in Anthem's Medicaid and Medicare businesses. This has bolstered increased membership in the Government Business segment.
- Better earnings results were partly driven by the 2019 suspension of the Health Insurance Provider fee, which is typically a major cost and driver of pricing.
- Anthem's transition to IngenioRx, a pharmacy benefit manager it recently acquired, is hoped to drive lower costs in the pharmaceuticals space going forward.

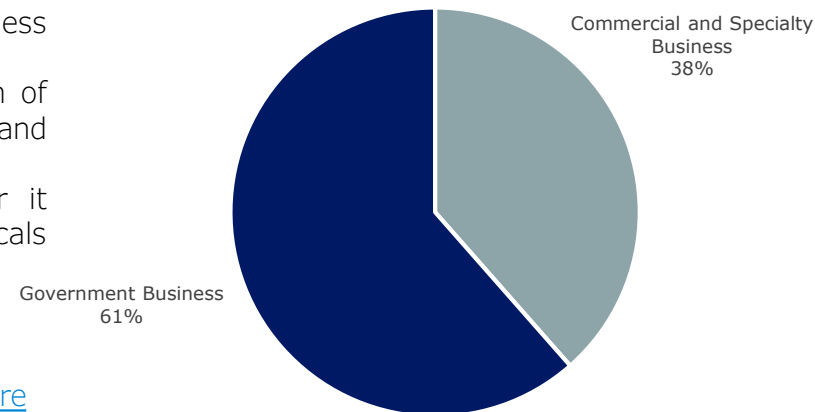
News

- [Anthem joins Stanford initiative to find benefits from AI](#)
- [Anthem's Social Determinants Benefits Package Boosts Medicare Enrollment](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Commentary

"We...have a very large pathology practice inside of HCA that's growing. We are exploring hospitalists. We are exploring emergency room physicians. We're exploring anesthesia in ways that are maybe different than what we've done in the past...How that will impact acquisitions in the future? I don't think it will be a material impact...It could be synergistic on the margins for some acquisitions in the future, if we do have a different approach there." — Samuel N. Hazen, CEO, on M&A appetite for in-hospital practices

Highlights

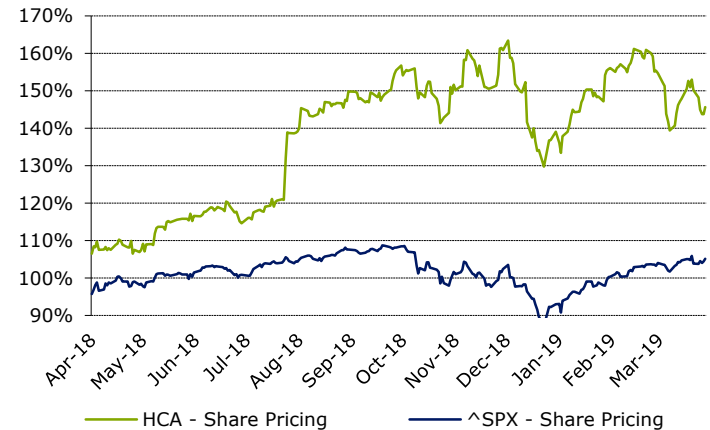
For the quarter ended March 31, 2019 (Q1'19):

- Same-facility Medicare equivalent admissions increased 2%, which supported same-facility revenue growth of 6%.
- Same-facility emergency room visits fell 2.3% relative to the same quarter last year, a decline largely attributed to the milder flu season.
- Earnings per share grew ~27% to \$2.97.
- HCA's business is heavily influenced by patient volumes and contractual relationships with Medicare, Medicaid, managed care health plans, and commercial insurance companies. These contracts drive prices and are frequently reviewed and adjusted for market conditions and the regulatory environment.
- HCA announced an acquisition of a majority interest in the Galen College of Nursing during the quarter.

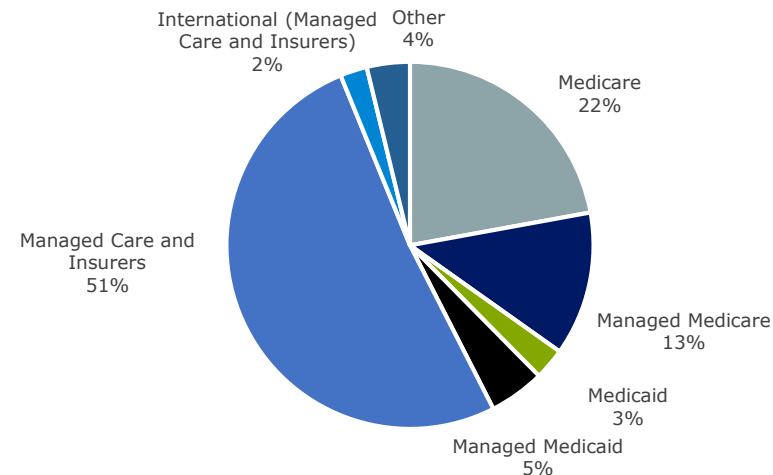
News

- [HCA Healthcare Using Algorithm Driven Technology to Detect Sepsis Early and Help Save 8,000 Lives](#)
- [HCA Healthcare to Acquire Majority Ownership Position in Galen College of Nursing](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Commentary

"We had a solid start to the year. We have successfully implemented several changes that are and will continue to positively impact our performance. We are continuing to make improvements in our operations that are having a positive impact. We're sharpening our organizational structures to continue to refine, simplify and effectuate change, with our leadership remaining resolute about execution."

— Ronald A. Rittenmeyer, Chairman and CEO

Highlights

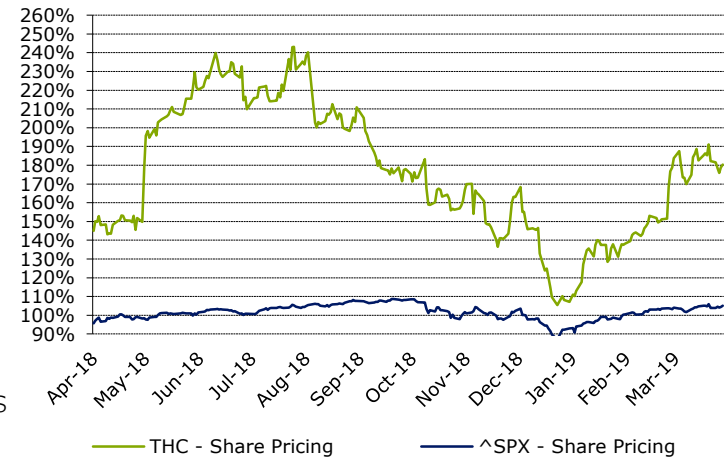
For the quarter ended March 31, 2019 (Q1'19):

- Tenet noted opportunities for margin expansion in its Hospital business through further leveraged operating costs and top line growth.
- The company saw volume growth in the first quarter despite a milder flu season.
- Ambulatory EBITDA grew 12%, and a 4% EBTIDA margin boost in the Conifer RCM division raised the figure to 28%.
- Tenet posted same-facility revenue growth of 4.2%
- Added 27 facilities in 2018 and cited that the pipeline remains strong. Expecting future quarters to reflect growth from continued M&A activity this year.
- Cited a few key trends that are shaping demand for healthcare services: consumers seeking lower-cost solutions, a shift from lower inpatient volumes to higher outpatient volumes, and consolidation across the sector.

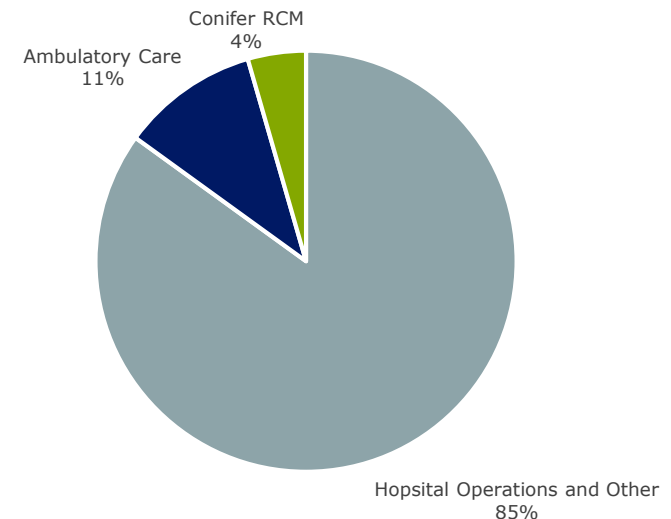
News

- [Tenet Extends Collaboration with Cerner](#)
- [Tenet and Anthem Blue Cross Sign Multi-Year Agreement](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ and Earnings Call Transcript

Commentary

"We are very pleased with our strong start to 2019 and are confident in the health of our business...Our goal is to deliver solid financial and operational performance while also advancing innovation that will have an enduring impact on patients, caregivers and consumers. During the first quarter, we demonstrated our ability to consistently deliver growth while also executing on our long-term strategies." — Joseph J. Wolk, Executive Vice President and CFO

Highlights

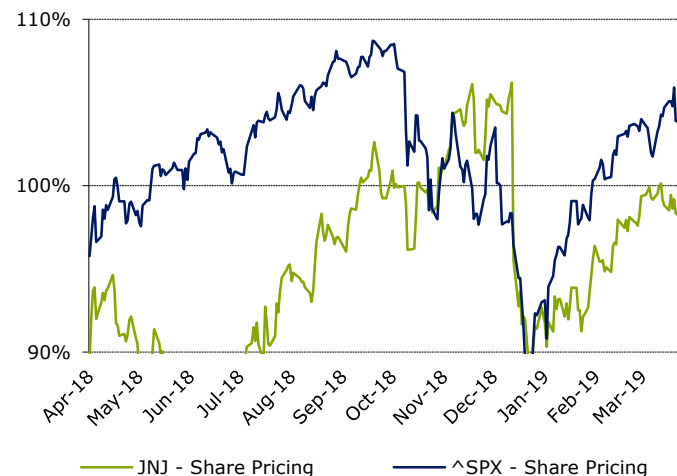
For the quarter ended March 31, 2019 (Q1'19):

- Johnson & Johnson's revenue inched .1% higher YoY, while net earnings fell 14%.
- While the pharmaceutical segment saw 4.1% growth, revenue in the medical device and consumer segments contracted 4.6% and 2.4%, respectively.
- Strong growth in the pharmaceutical segment by the company's psoriasis treatment, Stelara, and oncology drugs Darzalex and Imbruvica.
- Lower consumer segment sales were largely impacted by negative international currency fluctuations.
- Attributed softness in the consumer market to a milder flu season and seasonal weaknesses often seen in Q1.

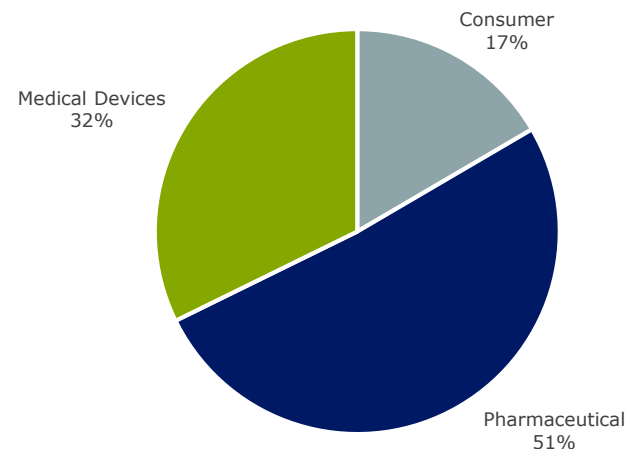
News

- [Johnson & Johnson Completes Divestiture of Advanced Sterilization Products to Fortive Corporation](#)
- [Johnson & Johnson Announces Completion of Acquisition of Auris Health, Inc.](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Medtronic

Commentary

"In fiscal year 2019, we executed and delivered revenue growth, EPS, and free cash flow all above the guidance we set at the beginning of the year. Our organization overcame challenges and relied upon the diversification of our business to deliver another quarter of solid top and bottom-line results, with excellent free cash flow generation."— Omar Ishrak, CEO

Highlights

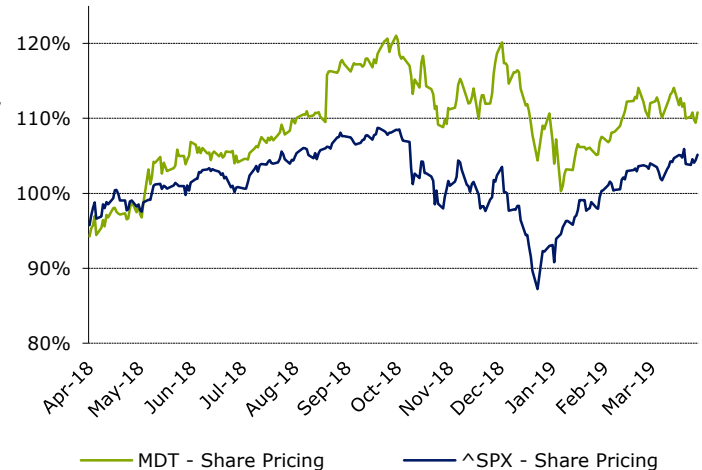
For the quarter ended April 26, 2019 (Q4 '19):

- Medtronic reported flat revenue growth, net income down 19%, and earnings per share down 18%.
- Regarding individual segments, the Cardiac and Vascular Group and the Diabetes group shrunk revenue 2.7% and 3%, respectively, while sales were up 1% in the Minimally Invasive Therapies Group and 4% in the Restorative Therapies Group.
- Results came in above estimates thanks to stronger-than-expected demand for surgical instruments.
- The company met increased competition to its Cardiac and Vascular Group with initiatives to diversify its offerings– recent growth has stemmed from new launches and acquisitions in its Minimally Invasive Therapies Group.

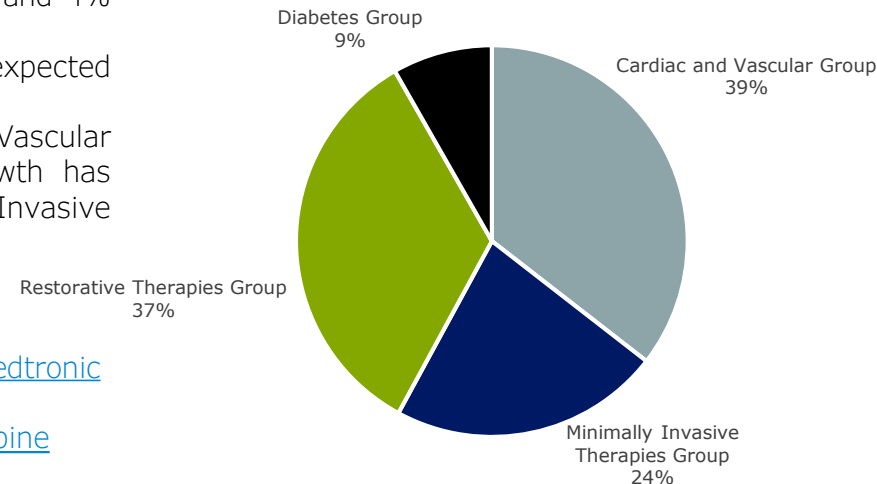
News

- [New Data Show Encouraging Economic Outcomes for Medtronic HeartWare HVAD System](#)
- [Medtronic Enters Into Definitive Agreement to Acquire Titan Spine](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Commentary

"The strength of our business model was demonstrated again in the first quarter of 2019 as we made continued progress on our operational and strategic initiatives and generated strong financial results...We provide necessary services to an aging population and consistently produce high-quality patient outcomes in a cost-effective manner. As the population continues to age, the demand for our facility and home-based services will grow, and we will meet that demand with enhanced capabilities and expanded capacity." — Mark Tarr, President and CEO

Highlights

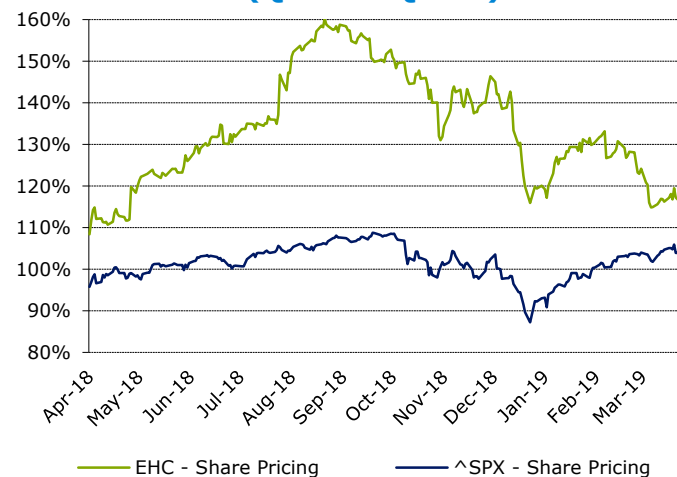
For the quarter ended March 31, 2019 (Q1'19):

- Encompass posted YoY revenue growth of 7.5%, adjusted EBITDA growth of 8.8%, and adjusted earnings per share growth of 11.8%.
- Revenue growth was driven by volume and pricing growth in both of the company's operating segments, which was the key driver of overall earnings growth.
- Hospice revenue increased due to acquisitions and same-facility admissions growth of 13.7%.
- Large working capital increases drove operating cash flows 26.1% lower.
- The recent acquisition of Alabama-based hospice operator Alacare Home Health & Hospice is expected to provide a solid top-line boost. The company posted revenues of \$117M last year.

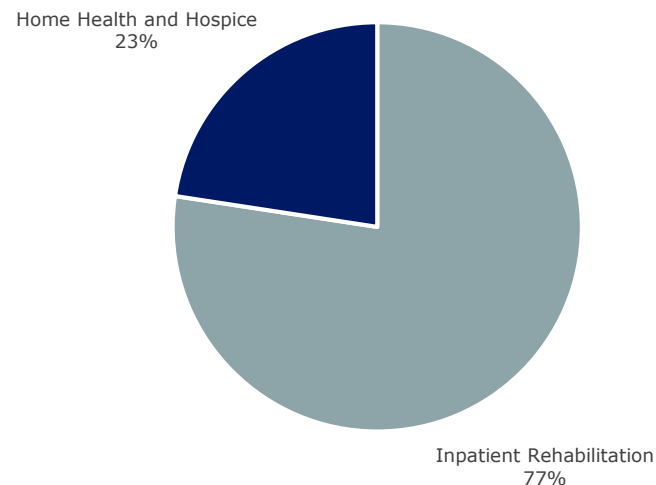
News

- [Encompass Health Announces Definitive Agreement to Acquire Birmingham-based Alacare Home Health & Hospice](#)

Market Performance (Q2'18 – Q1'19)



Revenue Mix



Source: PR, CapitalIQ, Presentation and Earnings Call Transcript

Content



Summary
Deal Spotlight
Earnings Call Overview / Players In The Industry
Financial Trends and Transactions

FINANCIAL TRENDS

Company Name	Revenue (\$M)					Revenue Growth (%)		
	CQ1'19	CQ1'18	FY'18	FY'17	FY'16	CQ1'19	FY'18	FY'17
UnitedHealth Group Incorporated	\$ 60,308	\$ 55,188	\$ 226,247	\$ 201,159	\$ 184,840	9.3%	12.5%	8.8%
CVS Health Corporation	\$ 61,397	\$ 45,693	\$ 193,919	\$ 184,765	\$ 177,526	34.4%	5.0%	4.1%
Anthem, Inc.	\$ 24,666	\$ 22,537	\$ 92,091	\$ 90,049	\$ 84,862	9.4%	2.3%	6.1%
Johnson & Johnson	\$ 20,021	\$ 20,009	\$ 81,581	\$ 76,450	\$ 71,890	0.1%	6.7%	6.3%
HCA Healthcare, Inc.	\$ 12,517	\$ 11,423	\$ 46,677	\$ 43,614	\$ 41,490	9.6%	7.0%	5.1%
Medtronic plc	\$ 8,146	\$ 8,144	\$ 29,953	\$ 29,710	\$ 28,833	0.0%	0.8%	3.0%
Tenet Healthcare Corporation	\$ 4,545	\$ 4,699	\$ 18,313	\$ 19,179	\$ 19,621	-3.3%	-4.5%	-2.3%
Encompass Health Corporation	\$ 1,124	\$ 1,046	\$ 4,277	\$ 3,914	\$ 3,643	7.5%	9.3%	7.4%
Average	\$ 22,344	\$ 21,273	\$ 86,836	\$ 83,250	\$ 78,376	9.4%	5.8%	5.6%
Median	\$ 31,176	\$ 27,166	\$ 111,745	\$ 104,291	\$ 98,240	10.5%	5.7%	5.6%

FINANCIAL TRENDS

Company Name	Gross Margin (%)					EBITDA Margin (%)		
	CQ1'19	CQ1'18	FY'18	FY'17	FY'16	CQ1'19	FY'18	FY'17
Medtronic plc	69.9%	70.7%	69.9%	68.9%	69.1%	30.4%	31.4%	30.4%
Johnson & Johnson	67.1%	66.9%	66.9%	67.4%	69.7%	36.0%	34.7%	33.0%
Encompass Health Corporation	41.2%	41.7%	41.3%	41.1%	41.6%	21.4%	20.6%	21.3%
HCA Healthcare, Inc.	38.6%	36.9%	37.6%	37.2%	37.7%	20.2%	19.1%	18.8%
Tenet Healthcare Corporation	36.3%	36.1%	36.4%	35.4%	36.4%	12.6%	15.2%	13.2%
UnitedHealth Group Incorporated	23.2%	23.8%	23.8%	23.4%	23.5%	9.1%	8.5%	8.4%
Anthem, Inc.	21.8%	24.4%	21.9%	19.8%	21.2%	9.8%	6.9%	6.0%
CVS Health Corporation	17.4%	15.0%	15.9%	15.4%	16.3%	6.2%	6.4%	6.7%
Average	39.9%	39.3%	39.4%	39.2%	39.7%	20.8%	19.9%	20.0%
Median	46.0%	46.0%	46.0%	45.6%	46.3%	21.6%	21.6%	20.8%

KEY TRANSACTIONS IN 1Q 2019

Date	Target	Buyers/Investors	Target Business Description
04/01/2019			Alacare operates 23 home health locations and 23 hospice locations across Alabama.
03/26/2019			Wellcare provides managed care health plans primarily through Medicaid, Medicare Advantage, and Medicare Prescription Drug plans for more than 4.4 million members.
03/18/2019			Center for Diagnostic Imaging is a leading independent provider of outpatient diagnostic imaging services.
03/14/2019			Galen College of Nursing is one of the largest private nursing schools in the United States, focusing solely on nursing education.
02/20/2019			Heartland Women's Healthcare is an OB-GYN practice with 25 locations across Missouri and southern Illinois.

KEY TRANSACTIONS IN 1Q 2019

Date	Target	Buyers/Investors	Target Business Description
02/12/2019		Keck Medicine of USC	Los Angeles Cardiology Associates is a cardiovascular care group with eight locations across the Los Angeles region.
01/16/2019			Activate Healthcare is a healthcare provider offering customized services to employers and unions for preventive and primary medical care.
01/16/2019			Allegheny Health Network, based in Pittsburgh, is a non-profit, eight-hospital academic medical system.
01/08/2019			EyeCare specialties is an eye care provider in Nebraska servicing the Lincoln, Beatrice, and Fremont areas.
01/03/2019			Healthdrive provides healthcare services such as dental examinations and cleanings, examination for oral cancer, denture fabrication, eye health tasting, podiatry, and audiology.

DISCLOSURES

At the time this was published: 1) 7M Securities was not making a market in any of the securities listed herein, nor was 7M Securities or associated persons selling or buying them from customers on a principal basis. 2) Neither 7M Securities, its officers nor its partners have a financial interest beyond a nominal basis in any of the securities of the issuers listed herein. 3) 7M Securities was not a manager or co-manager of a public offering of any of the securities listed herein within the past 12 months.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from publicly available sources but neither 7 Mile Advisors, LLC nor 7M Securities, LLC represents that this information is accurate or complete. Any information contained in this report is subject to change without notice.

CONTACT INFORMATION

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions, and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. Securities offered through 7M Securities LLC.

Leroy Davis, Partner	704.899.5962	leroy@7mileadvisors.com
Tripp Davis, Partner	704.899.5762	tripp@7mileadvisors.com
Andy Johnston, Partner	704.899.5961	andy@7mileadvisors.com
Ben Lunka, Managing Director	704.496.2995	ben@7mileadvisors.com
Jeff Stoecklein, Managing Director	312.796.9330	jeff@7mileadvisors.com
Mark Landry, Managing Director	561.508.9360	mark@7mileadvisors.com
Kristina Sergueeva, Director	704.899.5149	kristina@7mileadvisors.com
Neil Churman, Director	281.742.9340	neil@7mileadvisors.com
John Cooper, Director	704.973.3996	john@7mileadvisors.com
Tim Frye, Director	704.973.3994	tim@7mileadvisors.com
Nicholas Prendergast, Financial Analyst	704.973.3995	nicholas@7mileadvisors.com
Ariail Siggins, Marketing Director	704.981.2908	ariail@7mileadvisors.com
Sydney Larese, Associate	704.973.3998	sydney@7mileadvisors.com
Marty Johnson, Associate	704.981.2503	marty@7mileadvisors.com
Rory Julyan, Associate	704.981.2520	rory@7mileadvisors.com
Garth Martin, Associate	704.973.3997	garth.martin@7mileadvisors.com
Dennis Fox, Associate	704.706.9168	dennis@7mileadvisors.com
Steve Buffington, Associate	704.960.1828	steve@7mileadvisors.com
Emily Halstenberg, Coordinator	704.409.9912	emily@7mileadvisors.com