

CAPITAL INSIGHTS

PATIENT ENGAGEMENT

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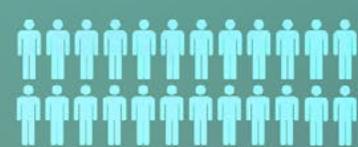


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“Healthcare is on the threshold of wholesale transformation—and M&A is the principal means of affecting this transformation. A convergence of factors, especially the mounting economic imperatives to reshape the delivery of care, is driving the transformation. Opinions vary about what the transformed industry will look like, but those of us who are highly active in the space have little doubt it will look very different.”

– **Christopher Helmroth, Managing Director, SC&H Capital**

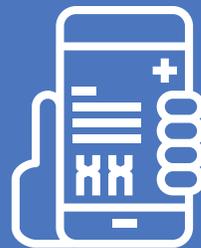
A HEALTHCARE DELIVERY SYSTEM UNDERGOING SWEEPING CHANGE

Potential industry mergers announced in December 2017 alone constituted more than \$550 billion in combined revenues, according to an [analysis](#) by the Wall Street Journal.

The announced M&A activity runs the gamut:

- **A drugstore chain (CVS) is buying an insurance company (Aetna)**
- **A managed care company (Humana) is buying a healthcare services company (Tenet Healthcare), while the latter is seeking the divestiture of its business services arm**
- **An insurance company (United Healthcare) is purchasing a large physicians group (DaVita)**
- **Two not-for-profit hospital companies (Ascension and Providence St. Joseph Health) are in merger talks to form the nation's largest hospital operator, with 191 hospitals in 27 states**

"A common denominator of the ongoing delivery system transformation is keeping patients out of inpatient settings, where the cost of care is highest, in favor of urgent care centers, surgical centers, patient-centered medical homes, and other outpatient settings," says Gregory Hogan, Director of SC&H Capital. "This is a longstanding challenge that the industry, now more than ever, needs to overcome. That's why we're seeing the steady increase of M&A activity, especially regarding patient-facing technologies."



**WE'RE SEEING THE
STEADY INCREASE OF M&A
ACTIVITY, ESPECIALLY
REGARDING PATIENT-FACING
TECHNOLOGIES**

Hogan continues: “But with these changes come new opportunities—some potentially quite significant. For example, more Americans will walk into a national drug store outlet than a hospital or doctor’s office. A drug store outlet has exponentially more access points with virtually no barriers to entry, as evidenced by the fact that CVS and Walgreens have long offered access to a clinical professional via their onsite clinics and even administered free flu shots.”

“That’s where M&A is critically important. A national retailer has thousands of storefronts throughout America, but their merger with a national insurance company means that it can also serve as a primary care destination for millions of patients. Essentially, that’s the basis of the proposed CVS/Aetna merger,” Hogan explains.



HEALTH LITERACY AND KNOWLEDGE: WHY IT MATTERS



The most common barrier to achieving better health outcomes at reduced costs is health literacy, which the Office of Disease Prevention and Health Promotion (ODPHD) defines as “the degree to which individuals have the capacity to obtain, process, and understand basic health information and services needed to make appropriate health decisions.”

Merely 12 percent of adults have “proficient health literacy,” according to [research](#) by the National Assessment of Adult Literacy. Among the sobering findings of the research: “Nearly nine out of ten adults may lack the skills needed to manage their health and prevent disease.”

The research further found that 14 percent of adults—30 million people—have “below basic health literacy.” This patient population is more likely to report their health as poor (42 percent) and lack health insurance (28 percent) than adults with “proficient health literacy.”

“There is nothing easy about navigating America’s vast and complex healthcare system, even for the health literate,” says Christopher Helmrath, Managing Director of SC&H Capital. “Those who lack access to healthcare education—and the deficit spans various demographic and socioeconomic criteria—are at a significant disadvantage that imperils their health and financial wellbeing.”



THOSE WHO LACK ACCESS TO HEALTHCARE EDUCATION—AND THE DEFICIT SPANS VARIOUS DEMOGRAPHIC AND SOCIOECONOMIC CRITERIA—ARE AT A SIGNIFICANT DISADVANTAGE THAT IMPERILS THEIR HEALTH AND FINANCIAL WELLBEING.

Based on facts compiled by the ODPHD, the ill effects of inadequate health literacy are significant and far-reaching:



AVOIDING PREVENTATIVE MEDICINE

Persons with limited health literacy skills are more likely to avoid preventive measures, including flu shots, mammograms, and even routine physical exams. In general, those with limited health literacy skills enter the healthcare system when they are sicker.

INCREASED VULNERABILITY TO CHRONIC DISEASE

Persons with limited health literacy skills are more likely to have chronic conditions—diabetes, hypertension, or HIV/AIDS—and be less able to manage them effectively.



UNNECESSARY HOSPITALIZATION

As a consequence of avoiding preventative medicine, as well as increased vulnerability to chronic disease, persons with limited health literacy skills are associated with an increase in preventable hospital visits and admissions—with many using emergency services to access primary care.

HIGHER HEALTHCARE COSTS

Persons with limited health literacy skills make greater use of services designed to treat complications of disease, where the cost of care is increased, and less use of services designed to prevent complications, where the cost of care is decreased. According to an [analysis](#) by the National Network of Libraries of Medicine, the annual cost of low health literacy to the U.S. economy is \$106 billion to \$238 billion.

“Essentially, the longer a patient goes without being proactively and consistently attentive to their health, the more likely they are to become ill, and the greater the financial costs to treat their illness,” says Kevin O’Sullivan, Principal of SC&H Capital. “ Like the old advertising slogan, ‘pay me now or pay me later’.”

A DELIVERY MODEL WITH BUILT-IN PATIENT ENGAGEMENT

A relatively new delivery model—value-based healthcare—has emerged, where a patient’s sustained engagement is required for success. Unlike fee-for-service and capitation models, which compensate hospitals and physicians for the services they render, value-based healthcare compensates providers based on a patient’s health outcome.

Simply stated, a provider’s economic benefits are tied to a patient’s health benefits, including reducing the effects and incidence of chronic disease and helping him or her live a healthy life in an evidence-based way.

Due to three key aspects of value-based medicine, there is growing confidence that it will be particularly effective in spending less to achieve better health outcomes.



**AN EMPHASIS
ON PREVENTATIVE
MEDICINE**



**SUPPLIERS CAN ALIGN
PRICES WITH PATIENT
OUTCOMES**



**PAYERS CAN
CONTROL COSTS, WHILE
REDUCING RISK**



AN EMPHASIS ON PREVENTATIVE MEDICINE

Since managing chronic disease is both expensive and time consuming, providers are incentivized to invest more in preventing the onset of such conditions. When successful, value-based medicine will result in a patient enduring fewer doctor's visits and medical procedures, in addition to spending far less money on prescription medication. In turn, a portion of the resultant savings will be paid to the provider as compensation.



SUPPLIERS CAN ALIGN PRICES WITH PATIENT OUTCOMES

The escalating cost of prescription drugs is an example of how value-based care can enable suppliers to align their products with positive patient outcomes. Lawmakers and academics, in particular, have advocated that pharmaceutical companies peg the price of their drugs to their real value to patients—an increasingly viable proposition in an era of individualized therapies.



PAYERS CAN CONTROL COSTS, WHILE REDUCING RISK

Risk is managed when it is dispersed across a large, diverse patient population. Therefore, a healthier population with fewer claims will proportionally ease the burden on payers' premium pools and investments. Also, the value-based model enables payers to deploy their capital more efficiently by bundling payments that cover the patient's treatment plan, or for chronic conditions, spanning periods of a year or more.

"The shift from volume to value is a real game changer when evaluating a patient's health," says Helmuth. "The alignment of desired outcomes requires providers to make patient engagement—and preventative medicine—the cornerstone of all that they do."

PROMISING PATIENT ENGAGEMENT STRATEGIES

Increasing the health literacy in America remains imperative, requiring a multi-faceted approach consisting of education targeting discreet patient populations, the broad adoption of innovative patient care, and communication coordination techniques and even the use of patient-facing technologies. If nearly nine out of ten American adults lack the skills needed to manage their health and prevent disease, there is neither a quick fix nor a one-size-fits-all remedy that will prove even remotely effective.

Health Education

When evaluating education strategies, it is important to prioritize the patient populations that are most vulnerable, truly understand the common underlying variables of their insufficient literacy, and create simple yet effective solutions to overcome these barriers.

The populations most likely to experience low health literacy are patients living in rural and moderately populated areas, older adults, and racial and ethnic minorities. Many within these populations have not historically experienced healthcare delivery that emphasized and encouraged high levels of patient engagement, but instead only experience episodic circumstances.

Within these populations, communication and education programs need to consider common healthcare challenges that can effectively be addressed. Diabetes, among other chronic diseases, is a prime example, especially given that the disease has common causes and risk factors.

Using these various filters, communication and education programs can be (and have been) tailored to persons with common educational, socio-economic, and healthcare variables. As a result, those spearheading the education—be they providers, payers, governmental entities, or a combination therefore—can be more cost effective in their efforts, while more readily measuring the resultant health outcomes.

The companies that can create solutions that lead to significant patient adoption—and display proven cost reductions or quality improvements—will be targets in the M&A environment.

“There’s a fundamental appetite for any technologies or approaches that increase the engagement of patients in their own health and wellbeing,” explains O’Sullivan. “This has resulted in an increase in M&A activity, as we’ve experienced firsthand in our work with companies like By Light, and that trend will continue.”

Patient Care Coordination

According to an [abstract](#) published by the National Institutes of Health (NIH), “23 percent of Medicare beneficiaries with five or more chronic conditions account for 68 percent of total Medicare spending. The care these individuals receive is often fragmented across settings and providers, with many providers failing to follow evidence-based guidelines and with patients not well versed in self-care management strategies.”

Compounding these challenges is the fact that many physicians claim they are not equipped to meet the needs of patients with chronic conditions, according to a Commonwealth Fund [study](#). Among the study’s key findings is that “organizing the delivery of care to respond to the needs of patients, particularly those with chronic conditions, requires crossing traditional institutional boundaries and creating networks that threaten a healthcare culture that is currently based on professional and institutional autonomy.”

Therefore, many providers have been augmenting their health education efforts with patient care coordination programs and patient-centered medical homes that help persons with both low health literacy and chronic disease to follow the care prescribed for them.

A care coordinator will meet with a patient in the hospital to explain the nature of the patient’s illness: what caused it and what is required to effectively manage it. Prior to the patient’s release from the hospital, the care coordinator will provide an initial supply of medicines, while helping to ensure his or her ability to refill prescriptions independently. The care coordinator will even help to coordinate follow-up appointments with physicians and therapists who can see the patient in an outpatient setting.

“At first blush, this brand of high-touch coordination may appear expensive, but not when weighed against the otherwise prohibitive costs typically associated with the management of chronic disease in an inpatient setting, especially among those with low health literacy,” says Hogan. “Reducing these costs is catalyzing the increased M&A activity.”

Patient-Facing Technologies

Given its ability to measure data, manage information, and automate processes, technology has long been integral to the delivery of care. Of late, however, patient-facing technologies have emerged that hold significant promise to engage patients in managing their health and wellness—perhaps even with historically challenged patient populations.

For example, the wireless remote monitoring of patients' vital signs and symptoms is an increasing tool of choice among primary care providers for its ability to enable early intervention when specific symptoms are detected. In the event of a person with hypertension, the technology could be used to detect a potential heart attack or simply advise about medication, lifestyle, additional clinic visits, or recommendations to visit their primary care physician or emergency room.

In addition, there is no shortage of app developers focused on diabetes. In [clinical trials](#), patients with type 2 diabetes who used an app to monitor blood glucose showed a greater reduction in HbA1c than those who did not use an app, with the biggest benefit seen in younger patients. Moreover, a recent [article](#) in Diabetes Technology & Therapeutics reported that apps can enable patients to better manage their condition, improve their disease trajectory, lower rates of complications, and prevent comorbidities.

Similarly, some of the most exciting developments in digital health are wearable technology and devices like Fitbit and the iWatch. Increasingly, wearable devices are being studied for their ability to serve as cardiac monitors, EKGs, sleep cycle analyzers, and glucose monitors.

“Apps and wearables can provide real-time results to a healthcare provider anywhere—potentially with highly vulnerable patients,” says O’Sullivan. “The technologies are within reach and can change the way we approach chronic disease and treatment.”



**APPS AND WEARABLES
CAN PROVIDE REAL-TIME
RESULTS TO A HEALTHCARE
PROVIDER ANYWHERE—
POTENTIALLY WITH HIGHLY
VULNERABLE PATIENTS**

PATIENT ENGAGEMENT M&A

Recent middle-market transactions reveal an increased investment in engaging a diversity of patient populations—often through technology-enabled platforms. The common denominator to the deal flow is the universal imperative of increasing the quality of care, while decreasing costs.

● December 2017

By Light Professional IT Services was acquired by **Sagewind Capital LLC**, a New York-based private equity firm. The acquisition of By Light, a leading provider of a full range of hardware and software engineering services to defense, civilian, and commercial customers worldwide, illustrates the continued interest of private equity buyers in the government services space.

By Light was responsible for the development of My HealtheVet (MHV)—the largest patient-facing portal used by the U.S. Department of Veterans Affairs—along with the necessary operational performance for all cloud environments. By providing more than 2 million registered users with secure, online access to their personal health records, along with the ability to communicate with providers and manage prescription refills, MHV lets veterans actively maintain their health.

● May 2017

Milner-Fenwick, a producer of patient education videos on topics ranging from wellness and chronic conditions to medical procedures and treatments, was acquired by **Interactivation**, an operator of media and health companies. Milner-Fenwick's content is distributed via healthcare websites, video on-demand and inpatient TV systems, tablets, community outpatient classes, and other interactive learning environments.

The company's videos are used in hospitals, HMOs, medical clinics, physician practices, and health departments throughout the U.S., as well as home health agencies, health insurance companies, offices, disease management companies, and public health agencies.

June 2016

Healthiest You Corporation was purchased by **Teladoc, Inc.** (NYSE:TDOC). Healthiest You develops a mobile application for telehealth engagement. Its technology allows employers, third-party administrators, and health plans to reduce costs, redirect claims, and improve access to healthcare.

January 2015

Sesame Communications, Inc. was purchased by **Internet Brands, Inc.** Sesame Communications, Inc. develops cloud-based digital marketing and patient engagement solutions, such as Dental Sesame and Ortho Sesame, for dental and orthodontic industries in the U.S.

Dental Sesame and Ortho Sesame enable users to build a patient community that keeps appointments, appointment reminders, appointment and payment history, and online bill-pay options. They also include portals that enable patients to access their online health history forms, diagnostic images, and X-rays.

"While much of the patient engagement M&A is technology focused, there are and will continue to be deals that are a result of organizations with complementary competencies and shared patient populations," says Hogan.

NETWORK AND DELIVERY EXPANSION M&A

Recent deal flow has addressed patient engagement by not only expanding networks and delivery models, but by using technology-enabled, patient-facing platforms. Increasing the quality of care and decreasing the cost of that care, however, remains the impetus for the M&A activity.

● September 2017

Anthem (NYSE: ANTM), a BlueCross BlueShield insurance provider, announced an agreement to acquire HealthSun, a provider of healthcare services to Medicare and Medicaid patients in South Florida—many of whom are dual-eligible. Anthem stated that it acquired HealthSun for its “unique” delivery model and to add members to its Government Business Division.

In addition, 2018 earnings accretion is part of the deal, which will benefit Anthem shareholders.

● June 2017

Teladoc Inc. (NYSE: TDOC), the nation’s first and largest telehealth platform, announced the acquisition of **Best Doctors**, a consulting firm specializing in “improving health outcomes for the most complex, critical and costly medical issues.”

Teladoc stated that the acquisition was an effort to achieve “one simple, virtual, patient-centric way to resolve their healthcare issues, improving outcomes and reducing costs.”

2016

With its 2016 acquisitions of insurers **Allegiance Health** and **HealthPlus**, the **Henry Ford Health System** boosted its annual revenue from \$800 million to \$5.7 billion, while expanding its footprint from five Michigan counties to eight.

When speaking to Henry Ford's effort to ensure the long-term success of these acquisitions, COO Bob Riney told Modern Healthcare: "When we made the decision to partner with Allegiance, it was a mutual decision to become one. We set out as a system determined to try and get advantages with mergers and mitigating the challenges that have plagued so many mergers across the country."

"Technology is proving to be a highly additive tool in engaging patients, but it is only as good as the resources behind it," says O'Sullivan. "By expanding and refining the delivery of care, technology can be given a more specific job to do in enabling individual patients to take control of their healthcare."



CONCLUSION

Of the many variables affecting the quality and cost of healthcare in the U.S., from scientific advancements to public policy, none is greater than patient engagement.

The goal in the healthcare industry is to increase the communication and interaction with patients, which leads to higher healthcare quality while ultimately reducing the costs associated with patient care. The integration of outpatient interaction, technology, and health education will reduce the need for expensive inpatient care and will ultimately shrink the current explosive and untenable spending occurring in the U.S. healthcare market.

“Comprehensive patient engagement solutions targeting highly diverse patient populations are an increasing focus of M&A and private equity capital, especially given the ability to deploy technological and outpatient care delivery models,” says Helmrath. “Combining these solutions will ultimately create the momentum to reduce costs, improve care, and truly make the transformative changes required for long-term sustainability.”

About Capital Insights

Capital Insights converts SC&H Capital’s in-depth knowledge of key industries, as well as our expertise in M&A, into actionable insights that businesses can use to their competitive advantage.

About Healthcare Transformed

Few industries in the U.S. are as large and complex as healthcare. Fewer still are as ripe to be transformed—an inevitability given healthcare’s size, inefficiencies, and uneven performance. The transformation will result in sweeping changes, potentially displacing established market-leading firms, products, and alliances. SC&H Capital Insights, Healthcare Transformed is a series of eBooks written to help payers, providers, suppliers, and funders successfully navigate sweeping changes in the industry—transformation that is only now beginning, but will play out over many years to come and contribute to the ebb and flow of the healthcare M&A market. Our healthcare authorities identify emerging trends while examining the opportunities and threats they pose to business, in addition to making sense of public policy and its potential impact on the private sector.

CONTACT US

About SC&H Capital

SC&H Capital, an affiliate of SC&H Group, is an investment banking and advisory firm providing M&A, employee stock ownership plan (ESOP), capital raising, and business valuation solutions to middle market and growth companies nationwide. SC&H Capital delivers investment banking and advisory services across numerous industries, including technology, healthcare, manufacturing, and government contracting to help owners achieve their exit planning goals and liquidity objectives. To learn more visit www.schcapital.com.

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