HCIT Deals Update

News and Notable: Emerging Themes

Slow and Steady Realignment to Value-Based Care Continues…Will It Succeed?

The concept of value-based care ("VBC"), shifting risk from insurance carriers to providers in exchange for better provider compensation, has been around for decades. The benefits are clear: aligning provider incentives with outcomes, higher potential compensation for providers, and putting care decisions back in the hands of providers.

When the concept was first introduced, private practices attempted to manage risk assessments and contract negotiations with payors themselves. The results were often losses for providers due to inaccurate cost estimates and pricing pressure from payors. Without access to actuarial accountants and significantly large patient populations to manage risks, providers realized value-based care was not feasible or profitable.

What's changed? The advent of "Big Data" and third-party companies turning data into actionable insights that primary care providers can rely on to understand risks and properly price VBC services. In addition, these insights can assist providers in predicting outcomes and making better decisions in care delivery.

Further, consumer engagement in health is on the rise, both due to the cultural shift from access to better information and as a reaction to increasing premiums and out-of-pocket costs that are shifting healthcare costs from insurers to consumers and their employers. Successful VBC providers are now engaging patients in their own healthcare decisions and educating consumers on how care decisions, treatment adherence, and lifestyle changes translate into costs.

VBC is still in the early innings. As WHA speaks with healthcare private equity investors and entrepreneurs, many are interested and excited about moving away from fee-for-service models, but find there are still hurdles in shifting to VBC. Third-party companies that can work with existing provider networks to capture claims data, appropriately calculate risks, and price services should find an eager market in the coming years. Companies that can engage patients to improve adherence and make smarter healthcare decisions will be highly valued as they will offer clear ROI for all those who take on risk.

Notable Recent Deals in Value-Based Care

signifyhealth acquired CARAVANHEALTH

Transaction Details

Date: Mar. 1, 2022
Valuation: $300M

- Signify Health (NYSE:SGFY) is a tech-enabled value-based care platform that delivers in-home care
- Caravan Health works with providers in an ACO network; together the companies will be able to better support larger groups
- The transaction was structured as $250M upfront with a $50M earnout

Caravan Health, an accountable care advisor, was acquired by SignifyHealth at a valuation of $300M

CLAREMEDICA HEALTH PARTNERS Received a growth capital investment from REVELSTOKE CAPITAL PARTNERS

Transaction Details

Date: Feb. 24, 2022
Raise: Undisclosed

- ClareMedica Health Partners is a leading value-based primary care provider for Medicare Advantage patients in Florida
- Revelstoke Capital is a healthcare-focused middle market private equity firm
- ClareMedica will use the capital to expand its *Better*Care^{SM} to new markets

ClareMedica, a value-based care provider, received a growth investment from Revelstoke Capital

babylon acquired higi

Transaction Details

Date: Jan. 5, 2022
Valuation: $14.4M

- Babylon Health (NYS:BBLN) a digital value-based care provider, acquired Higi Health, a health kiosk company
- Higi has a network of self-screening healthcare stations to increase access to preventative care
- Babylon previously led a Series B round in Higi of venture investors in 2020

Babylon Health acquired Higi for an implied valuation of $14.4M

vera WHOLE HEALTH is merging with Castlight

Transaction Details

Date: Jan. 6, 2022
Valuation: $370M

- Vera Whole Health, a value-based primary care provider, announced it will acquire Castlight (NYSE:CSLT)
- Castlight offers care navigation and benefits tools for employers and plans
- Vera's majority investor, Clayton, Dublier & Rice, is funding $338M and Anthem will contribute an undisclosed amount

Vera Whole Health announced it will merge with Castlight at a $370M valuation

HCIT Deals Update

Providers and Employer Groups Value Mental Health and Wellness in Outcomes Based Care

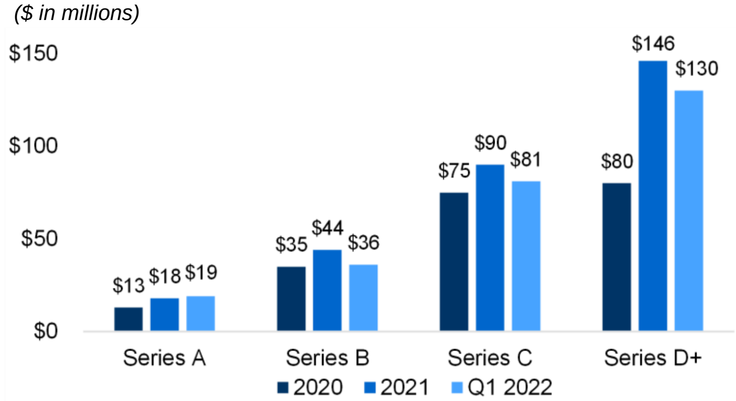
Consolidation in Digital Mental Health

The COVID-19 pandemic spawned a cornucopia of innovative digital health and wellness companies rising to solve the secondary health crises resulting from the isolating quarantines and overnight shift to remote work. Companies that had been first movers in the market prior to the pandemic found momentum as employers gained a new appreciation of their roles in handling employee mental health and ongoing wellness needs.

Companies like Omada and Livongo continue to have success offering digital behavioral care with coaching apps aimed at managing chronic conditions by encouraging diet, exercise, and adherence. For employers, the longer-term cost savings opportunity is still in *preventative* behavioral care – wellness programs that help employees manage stress, eat better, workout, complete annual check-ups, and get connected to the right providers as part of a holistic approach to health.

While many of the standout Notable Deals we highlighted in 2022 involved strategic acquisitions, growth capital raises in digital health have continued at robust levels through the first quarter of 2022. *Rock Health* reported 95 digital growth capital raises in the first quarter, putting 2022 on track to surpass 2021 deals.

Average Digital Health Deal Size



Q1 2022 Notable Deals

omada completed a Series E raise led by Fidelity

Transaction Details

Date: Feb. 23, 2022

Raise: $192M

- Omada Health is a digital wellness company selling diabetes, hypertension, mental health and health coaching programs to employer groups
- Omada promises defined ROI to employers in preventing high cost chronic conditions such as diabetes
- Civilization Ventures, aMoon Fund, Wellington Management, and Perceptive Advisors also participated in the round

Omada Health completed a Series E raise for $192M led by Fidelity, for a post-money valuation of $1.0B

LIFESPEAK acquired Wellbeats

Transaction Details

Date: Feb. 22, 2022

Valuation: $92.5M

- LifeSpeak, Inc. (TSE:LSPK), a Canadian public company, acquired Wellbeats from LFE Capital and 3C Capital Partners
- Wellbeats provides virtual fitness, nutrition, and mindfulness classes through employers and health plans
- LifeSpeak values the acquisition as increasing its ability to provide a single-vendor solution for delivering mental and physical health support

LifeSpeak, Inc., a leading mental health and wellbeing platform, acquired Wellbeats for $92.5M

lyra acquired ICAS World

Transaction Details

Date: Jan. 19, 2022

Valuation: Undisclosed

- Lyra acquired ICAS World concurrent with raising an additional $235M in a deal led by Dragoneer Investment Group
- Prior to the acquisition, Lyra was serving 4M+ employees globally with its Workforce Mental Health benefits, a hybrid clinical offering including in-person care, telehealth, and live-messaging
- ICAS World will add another 6.3M members and 40,000 providers

Lyra Health acquired ICAS World, a UK-based EAP company with a presence in 155 countries

headspace health. acquired Sayana

Transaction Details

Date: Jan. 12, 2022

Valuation: Undisclosed

- Headspace Health is continuing its digital health expansion with the acquisition of Sayana, a mental wellness application
- Sayana is a consumer-facing application that lets users track their feelings through AI chats and receive self-care exercises
- Headspace and Ginger can use the technology to supplement their team of therapists, coaches, and psychiatrists, focused on serving employer groups

Headspace Health, valued over $3B since its merger with Ginger.io, recently acquired Sayana

Source: *Rock Health* Digital Health Venture Database

Focus on Increasing Deal Activity in Pharmacy Benefits and Distribution

A Push for Transparency and Cost Containment is Expanding Pharmacy Solutions

The pharmaceutical industry, including manufacturers, pharmacy benefits managers ("PBMs"), and payors, have all felt the heat in the last ten years to curb skyrocketing prices and improve access to medications. The problems of pricing transparency, distribution, and cost saving alternatives are ripe for solving with digital innovation.

Affordability Driving Disruption in Pharma

While a few high-profile headlines in recent years have focused on corporate malfeasance, the broader conversation of rising prescription drug prices is more complicated than a few egregious price hikes. Pharmacy benefits has evolved into a highly complex ecosystem based on who is paying for the drugs and incentivization systems that can act to increase profits or lower costs, depending on which side of the transaction you stand.

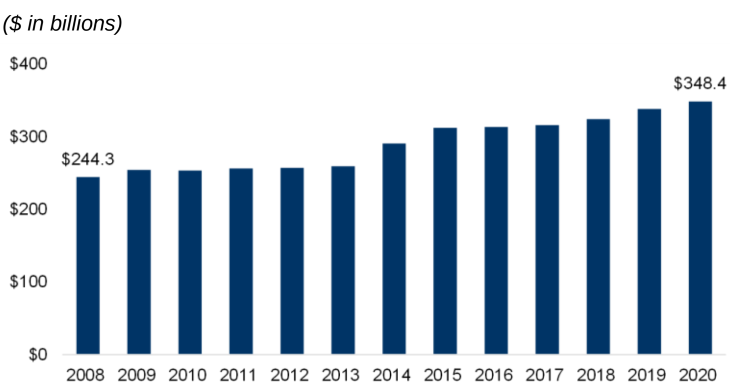
- In 2021, 3 in 10 patients reported not taking prescriptions as directed due to costs
- Even among adults with incomes over $90,000, 10% report difficulties in paying for their prescriptions

After seeing results in telehealth, the tech community is eager to take on the pharmaceutical benefits and distribution industries, inspired by big name successes such as Ro Pharmacy and GoodRx, which is continuing its acquisition spree into 2022. Not to be left out, Amazon Pharmacy partnered with PBM Prime Therapeutics and five of the Blues plans to offer a prescription discount card called "MedsYourWay", including home delivery.

While Amazon's entrance may be viewed with caution by some ePharma players, the broad and diverse range of challenges in the pharmaceutical industry from drug development, through prescriptions, coverage, and finally distribution to the consumer offers an endless landscape of opportunities for innovative entrepreneurs and investors to build solutions and create categories.

This quarter Waller Helms did a deeper dive on the PBM space to understand why investors revisiting their theses on PBM companies that focus on transparency and deploying additional capital into the sector.

National Prescription Drug Expenditure



Q1 2022 Notable Deals

The theme of prescription affordability is evident in these recent deals shaking up the pharmacy space.

SmithRx completed a Series B raise led by venrock

Transaction Details

Date: Mar. 30, 2022

Raise: $27.2M

- SmithRx is a digital PBM marketed towards employers as being transparent and delivering better savings by passing 100% of rebates on to clients
- Unlike other PBMs, the company charges a flat administration fee across its offering
- As a software provider, SmithRx expects to scale better than traditional PBMs and will be able to expand margins as the company grows

Digital PBM SmithRx raised $27.2M in a Series B raise led by Venrock, a Palo Alto-based venture capital fund

GoodRx Health acquired vitaCare

Transaction Details

Date: Mar. 6, 2022

Valuation: $157M

- GoodRx will expand its manufacturer solutions business with vitaCare
- VitaCare has a network of third-party pharmacies with brand name medications
- GoodRx sells a mobile app that tracks drug prices and offers discounts; the company makes money from app subscriptions, telehealth, and advertising
- The deal was structured as $150M in cash with a $7M one-year earnout

GoodRx acquired vitaCare Prescription Services, a subsidiary of TherapeuticsMD, for $157M

alto PHARMACY completed a Series E raise led by SoftBank

Transaction Details

Date: Jan. 27, 2022

Raise: $200M

- Alto Pharmacy is a digital pharmacy promising transparency and efficiency in delivering prescriptions to patients
- The company has raised over $550M from Series A to the recent Series E and is one of the larger epharma companies with over 1,300 employees
- Alto focuses more on provider coordination and benefits coverage than other consumer-facing competitors

ePharma company, Alto Pharmacy, completed a Series E round of $200M led by SoftBank

Sources KFF, "Health Tracking Poll", Oct. 4, 2021; CMS, National Healthcare Expenditure Data

Focus on Evolving Delivery and Payment Models in Pharmacy Services

Following the Money in Pharma Claims

Nearly all (99%) U.S. employers offer prescription drug coverage. 92% of these plans break drugs into tiers: the higher the tier, the larger the employees' copay.

The tiers are typically set by the insurer or a self-insured employer working with a consultant to incentivize employees to opt for lower cost generic drugs or "preferred drugs". Specialty drugs, which often are used for genetic conditions or cancer treatment, will usually fall into their own higher cost-sharing tier.
Preferred drugs are lower cost options for a given treatments. These options are not necessarily the most effective or have the fewest side effects, but are designated by "Formulary" committees to be adequate options for treating conditions. Insurers use lower copays to incentivize patients to choose preferred drugs.

Pricing transparency in pharma isn't just a manufacturer's sticker price; it's seeing the real costs throughout the value chain

On the other end of the value chain, prescription drug manufacturers also use incentives to get brand name drugs on preferred lists. Rebates are offered by pharma companies back to employers, usually via a PBM, as an incentive to put their drugs on the preferred list. This increases sales for the manufacturer from that employer.

According to RxBenefits, this arrangement can save employers 20-30% of their prescription drug program, however, PBMs have been accused of keeping the rebate money instead of distributing it back to their employer clients. The rebate system also came under fire in Medicare during the Trump administration. PBMs were pocketing rebates from manufacturers rather than passing the money back to consumers; further, manufacturers were accused of increasing list prices to give the appearance of a larger rebate for the PBMs.

According to a 2017 study on drug pricing, patients still pay a surprisingly low 14% of prescription drug costs across private, Medicare, and Medicaid. Due to this dynamic, it is unsurprising that many business solutions to decrease drug prices serve employer groups who act as payors and most of the national press coverage on reducing drug costs involves government programs.

This too will change. As healthcare costs continue to shift to patients via insurer policies or the adoption of HDHP plans, consumers are becoming more aware of prescription decisions and asking questions about true costs. Successful PBMs can deliver value for employers by engaging patients in prescription drug decisions.

Role for PBMs in Infusion Care

Many healthcare dealmakers will have taken note of the recent rise in infusion clinic and home infusion deals. The increasing activity in the space has been in step with the increasing demand for specialty drug treatments which require infusion services. Traditionally, specialty drugs delivered with medical services are billed through the medical practice. The drugs are often acquired in bulk purchase by the practice or health system and sold at a mark-up or "retail" to the patient with a rebate going back to practice. The pharma claims are then processed by a medical benefits plan and not through prescription drug plan.

The decentralization of drug delivery through infusion clinics has the potential to change this dynamic and may create opportunities for PBMs to work with infusion service providers to acquire and bill for infusion drugs. Again, PBMs could offer greater cost transparency for payors by contracting with specialty drug providers or working with the infusion clinics. These services offer a growth opportunity for traditional PBM companies.

Notable Pharma Benefits Companies

southernscripts | Water Street — Natchitoches, LA

- Southern Scripts is a PBM promising a transparent, customer-focused on savings and a 100% pass-through rate on rebates and discounts
- Southern Scripts was received a $100M growth capital investment from Water Street Healthcare Partners in January 2021 to expand its PBM model

rxss Rx Savings Solutions | McCarthy Capital — Overland Park, KS

- Rx Savings Solutions ("RXSS") is subscription software company paid for by employers and health plans which calculates lower cost prescription options for patients
- RXSS was recapitalized with an $18.4M investment from McCarthy Capital in November 2017
- RXSS now serves over 17M members on its platform

RXSENSE | Parthenon Capital — Boston, MA

- RxSense is an HCIT company serving private PBMs, offering adjudication, pharmacy networks, rebate administration, customer services, and analytics
- The company received a growth capital investment from Parthenon Capital Partners in March 2020, including $294M in new debt

Sources: KFF, "2018 Health Benefits Survey"

Waller Helms Advisors At a Glance

Specialist investment bank focused on the crossroads of insurance, healthcare, investment services and technology

Insurance

Distribution, Carriers, Services

- Advised NMC on its recapitalization of Donan and CCG IQ
- Advised Crouse and Associates on the sale to: RSG
- Advised Liberty Mutual on its acquisition of: State Auto

Healthcare

Payor, Provider, Employer Solutions

- Advised Vimly Benefit Solutions in its growth capital raise by: MK capital
- Advised New Mountain on the sale of OneDigital to: ONEX
- Advised Century Equity on the sale of DirectPath to: CNO

Investment Services

Wealth / RIA, Retirement, Life, Annuities

- Advised Lion Street on the sale to: Integrity
- Advised Aquiline on the sale of Simplicity to: LEE Equity
- Advised Prime Capital Investment Advisors on its investment from: LNC Partners

Technology

Fintech, Insurtech, HCIT

- Advised dama financial in a Series B financing from: **A group of strategic investors, including follow-on capital**
- Advised Mylo, a Lockton Company, on its Series A financing from: Guggenheim
- Advised Ensurem on its sale to: 777 Partners

WHA Differentiators

- *Industry Expertise*
- *Independent Advice*
- *Transaction Experience*

Relevant WHA Attributes

64 *Transactions Since Jan. 1st, 2019*	**$17.6B+** *Aggregate Value of Deals Since Jan. 1st, 2019*	**~$300M** *Average Deal Value*	**27** *Investment Banking Professionals*

Healthcare Practice Areas of Focus

Healthcare Benefits
Benefits distribution, enrollment, and technology

Digital Health
Telemedicine, provider access, and care delivery

Healthcare Enterprise Services
Provider tools, EMR systems, PBMs, and other HCIT

Care Coordination
Provider communication and care management

Population Health
Healthcare data and analytics, AI tools, and value-based care

Digital Engagement & Wellbeing
Patient and employee engagement tools

Diagnostics & Remote Monitoring
Biometric collection, remote monitoring, and med. device

Revenue Cycle Management
Eligibility, billing, claims management, and payments

Please feel free to reach out to any of our healthcare leadership to discuss these industry updates further.

Waller Helms Advisors Team Contacts



David Helms
Managing Director
David.Helms@wallerhelms.com
(312) 763-9901

Alex Weiss
Managing Director
Alex.Weiss@wallerhelms.com
(312) 763-9911

Kari O'Brien
Vice President
Kari.OBrien@wallerhelms.com
(312) 319-4404