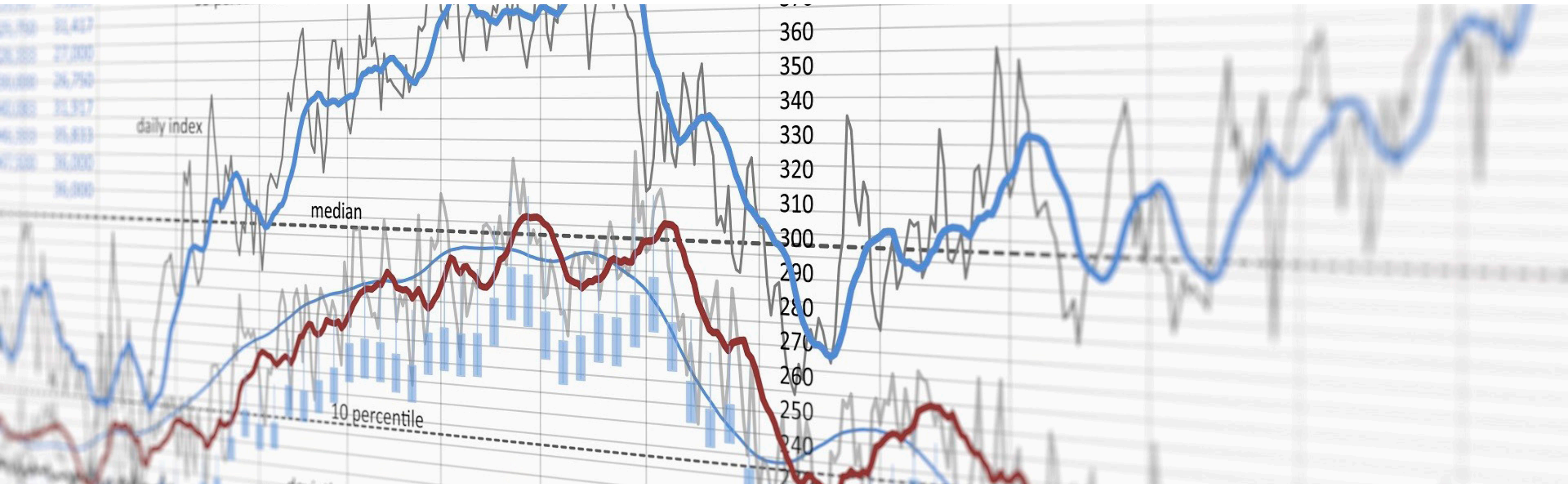
TripleTree Healthcare Merchant Banking

Market Insights | Q1’18



Market Insights is a quarterly perspective on merger and acquisition and private placement activity and public market performance in the healthcare industry.

TripleTree is a healthcare merchant bank focused on mergers and acquisitions, growth capital, strategic advisory and principal investing services. Since 1997, the firm has advised and invested in some of the most innovative, high-growth businesses in healthcare.

We are continuously engaged with decision makers including best-in-class companies balancing competitive realities with shareholder objectives, global companies seeking growth platforms, and financial sponsors assessing innovative investments and first-mover opportunities.

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Q1’18

QUARTER IN REVIEW

KEY TRENDS DRIVING MARKET ACTIVITY

ONCOLOGY

The oncology sector saw an active first quarter in 2018, led by the $2.1 billion acquisition of Flatiron Health by Roche. The amount of investment and M&A activity comes as no surprise as cancer is one of the leading causes of death and related direct medical costs are estimated to be more than $80 billion per year in the United States. As discussed in a previous industry perspective, healthcare has an opportunity to continue to get smarter. We see this becoming a reality in the oncology sector with investments in machine learning and artificial intelligence – companies such as Paige.AI and Artificial Intelligence in Medicine (AIM) – that leverage data to improve the diagnosis and treatment of cancer. The first quarter also saw M&A activity in oncology decision support platforms (e.g., Elsevier's acquisition of Via Oncology and Varian's acquisition of Evinance Innovation) that push evidence-based guidelines and best practices to the point of care. Continued activity in this sector is expected as the amount of data available continues to increase and the industry strives to improve outcomes and reduce costs.

EMPLOYEE BENEFITS

Offering competitive and differentiated benefits to employees is one strategy employers continue to focus on as a means of attracting and retaining talent, reducing expenses, and improving productivity. Additionally, employers are increasingly looking to offer employees resources that help them navigate today's complex healthcare environment. That said, a crowed landscape of solutions spanning enrollment, employee wellness, transparency, decision support, among many others, challenges employers to evaluate and piece together multiple solutions to create a comprehensive offering for employees. Transaction activity during the quarter validates this theme, with activity from vendors across the benefits spectrum. AXA entered the US market through its acquisition of Maestro Health; Accolade, an online platform and provider of personalized advocacy services, raised an additional $50 million; and Zipongo, a food benefits management provider, raised $18 million. We anticipate additional M&A activity as employers continue to build out comprehensive offerings that incorporate multiple delivery methods from mobile apps to high touch concierge services.

DME MARKET IS CONSOLIDATING

The durable medical equipment (DME) market is expected to reach $70 billion annually, expanding as a result of industry tailwinds including aging populations, rising prevalence of chronic conditions, and increasing usage of lower cost care settings. At the same time, the market is highly fragmented and has seen several reimbursement pressures, providing an opportunity for market consolidation as scale has enabled leaders to emerge across segments of the DME market. This dynamic also creates an opportunity for new entrants, including perhaps the global e-commerce company Amazon, to explore a meaningful role in the market. In certain areas of the DME market, particularly in commodity segments such as consumables and wheelchairs, Amazon's supply chain and established distribution network are highly relevant, and Amazon's storefront is already playing a role. However, in other segments where clinical capabilities are critical, such as respiratory therapy, TripleTree believes Amazon would find difficulties finding quick success organically. Building these capabilities in-house would be no small feat. For instance, Amazon would need to build technology workflow into the medical product order process with ties to referring physician groups and/or integration into discharge management. Will the complexities of healthcare keep Amazon out of certain parts of the DME market? Perhaps. Very recently, it was reported by several media outlets that Amazon has apparently canceled plans to sell and distribute pharmaceutical products to hospitals through Amazon Business. These reports cited the complexity of managing the supply chain for specialized medicines that hospitals use. While Amazon may still be a threat with respect to some segments within DME market, other segments may see less of a threat from a mega new entrant like Amazon due to clinical and regulatory complexities that Amazon has thus far shied away from. Outside of Amazon, we do see continued market consolidation across DME as scale, geographic reach, purchasing power, and technology investments will continue to be necessary to support the pace of change and the evolving reimbursement environment.

NOTABLE M&A ACTIVITY IN Q1'18

In February, **Roche**, a Switzerland-based pharmaceutical company, announced the signing of a definitive agreement to acquire **Flatiron Health** at a $2.1 billion valuation. Flatiron Health provides oncology-specific electronic health record (EHR) software to a growing base of over 265 oncology practices across the United States as a means of amassing a robust data asset. Alongside its EHR platform, Flatiron has also invested in technology, people and processes to extract and standardize data from the patient records. Since the vast majority of cancer patients do not participate in clinical trials, the information collected is invaluable to pharmaceutical companies like Roche who can leverage the data to accelerate the development and deployment of new cancer treatments. In addition to monetizing its data asset, Flatiron has ideally positioned itself to deliver evidence-based guidelines at the point of care across its network of oncology practices to improve outcomes.

Roche was a previous investor in Flatiron, owning an equity stake of 12.6% in the company. As part of the transaction, Roche will pay $1.9 billion to acquire the remaining equity of Flatiron. The transaction is expected to close in the first half of 2018 and post-transaction, Flatiron will continue to operate as an independent business unit.

In February, **AXA** completed their acquisition of **Maestro Health**, a US health benefit administration company, for $155 million. Maestro Health provides a digitally-enhanced platform encompassing a full set of health benefit administration services and third-party administrator services for self-insured companies, including care coordination solutions for employees. Maestro helps companies be more effective in lowering healthcare costs and empowers their customer's employees to make better health-related choices. Founded in 2013, the Chicago-based company has more than 300 employees and targets mid-size and large-size employers across the United States, currently covering over 1 million lives. The transaction gives AXA an entry-point into the US population health management vertical with a consumer-oriented technology platform to accelerate their payer-to-partner US healthcare strategy. Simultaneously, Maestro will benefit from AXA's large international footprint and mature analytical capabilities to identify members' health needs and manage costs while improving outcomes and customer experience.

AXA continues to position health insurance as one of the core areas for growth. Today, AXA provides health insurance coverage to 13 million individuals across 36 countries through their International Health and Employee Benefit business. AXA will have a significant opportunity to cross-sell Maestro's digital member enrollment solutions and care coordination competencies to their existing customer base while also attracting new business through a broader, end-to-end population health platform. The transaction is yet another example of larger organizations expanding through vertical integration in order to obtain better health outcomes and value for the end-consumer.

NOTABLE M&A ACTIVITY IN Q1'18 CONTINUED

In January, **StateServ**, a portfolio company of **Blue Wolf Capital**, signed a definitive agreement to acquire **Hospicelink**, its chief competitor in the technology-enabled hospice durable medical equipment (DME) benefit management space. The combined Company has a leading position in a large hospice segment of the $70 billion DME market and dominates the largely untapped $1+ billion hospice DME benefit management opportunity, with limited competition. The strategic acquisition also fortifies against potential new entrants and enhances the Company's geographic footprint and financial profile. Together, StateServ and Hospicelink will operate a national network of more than 1,300 DME provider locations and 21 distribution centers serving over 100,000 patients daily, further advancing the shared missions to support end of life care with compassion

In a bold move and what is yet another example of vertical integration, **Inovalon** announced the signing of a definitive agreement to acquire **ABILITY Network** for $1.2 billion. Inovalon, having primarily served payers in the past, is significantly extending its reach within the provider market by acquiring a SaaS-based platform with revenue cycle and connectivity capabilities. The acquisition, which closed in early April, increases Inovalon's provider footprint to over 50,000 sites and further diversifies its customer base by increasing provider revenue from 15% to 34% on a pro forma basis. Further, Inovalon will capture data from ABILITY's 44,000+ provider sites in its Inovalon ONE platform, adding to existing data and outcomes on more than 240 million patients and 37 billion medical events. The integrated platform supports the company's efforts in providing real-time value-based analytics across its customer base of payers, providers and pharmaceutical companies. Illustrative use cases of the combined platform include aligning payer and provider goals to close gaps in care, optimizing post-acute care to improve outcomes and provider economics, and providing ABILITY's client base with Inovalon's Medicare claims database to enhance performance in quality programs.

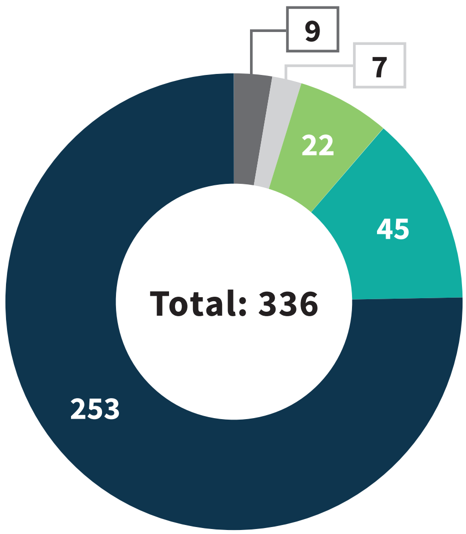
Lastly, ABILITY brings an increase in subscription revenue and margin to Inovalon, which still has a meaningful services component in its delivery model, and is expected to be highly accretive.

Q1'18

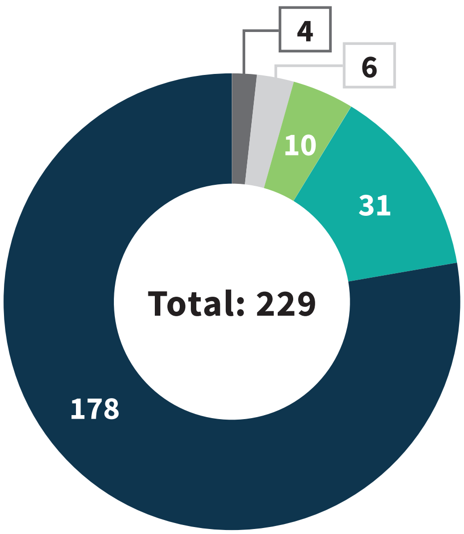
M&A Deal Stratification

Q1'18 HEALTHCARE M&A DEAL STRATIFICATION

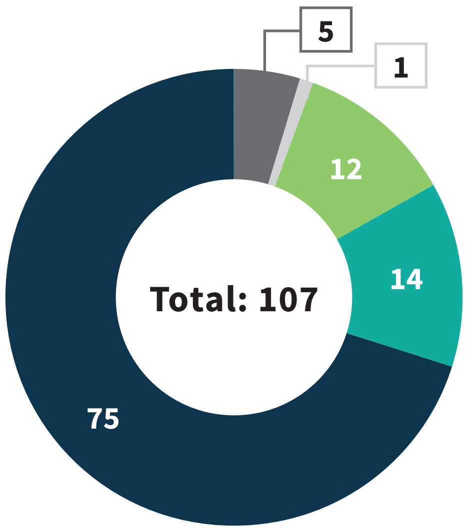
Total Deals by Transaction Ranges

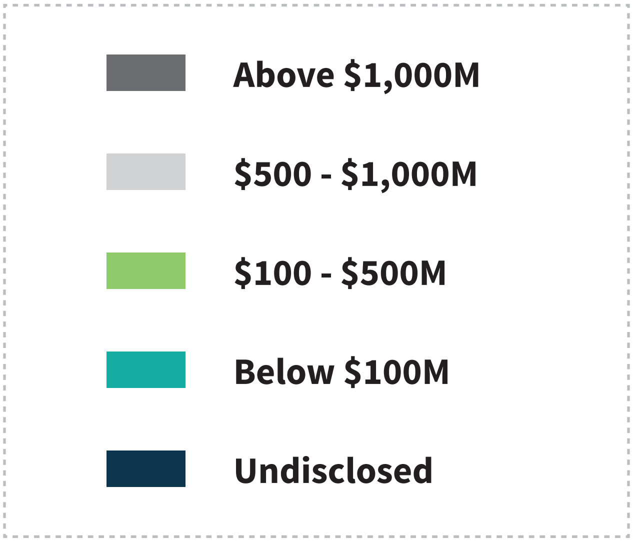


Closed Deals by Transaction Ranges



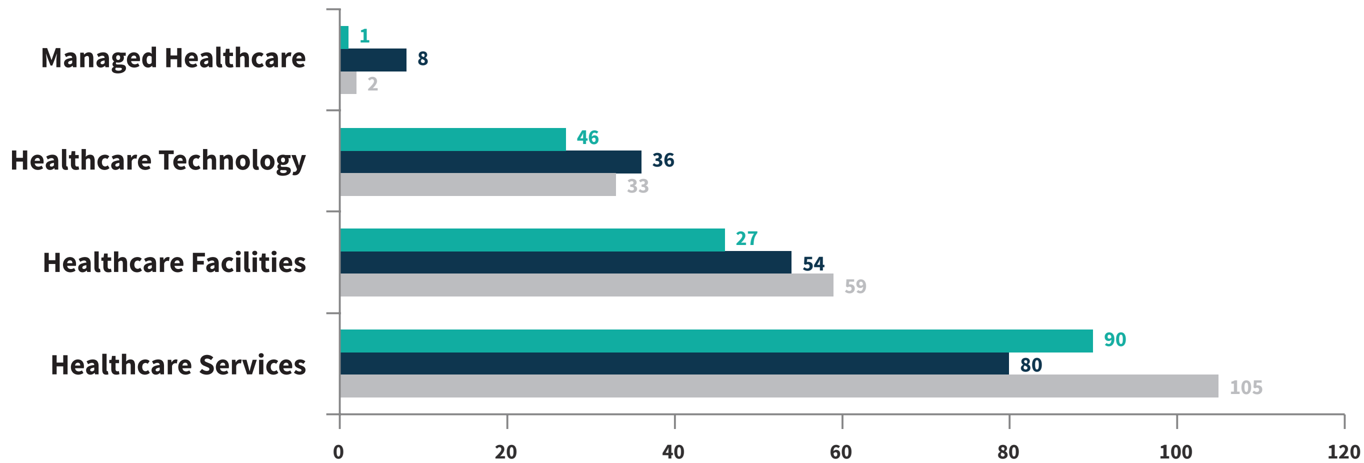
Announced & Pending Deals by Transaction Ranges



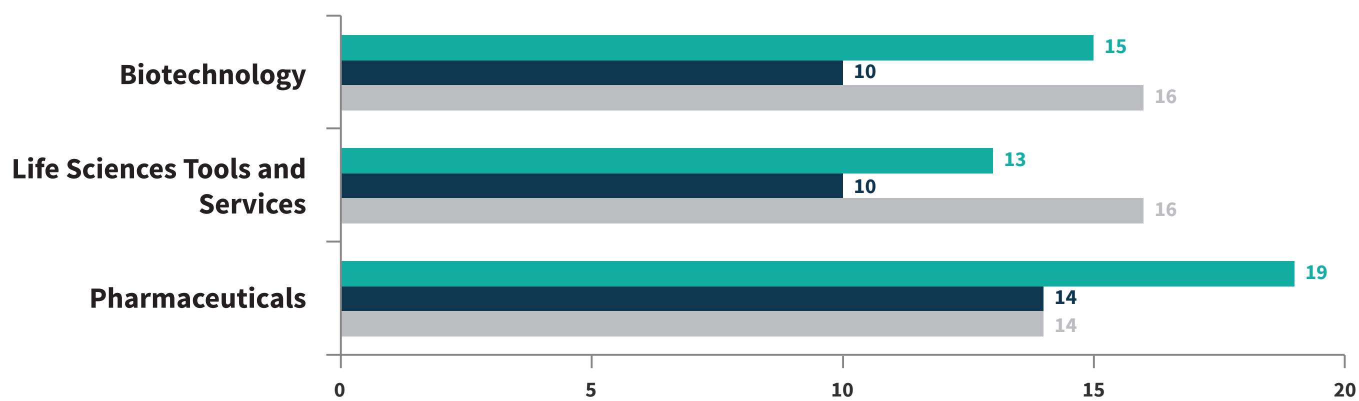


Source: S&P Capital IQ

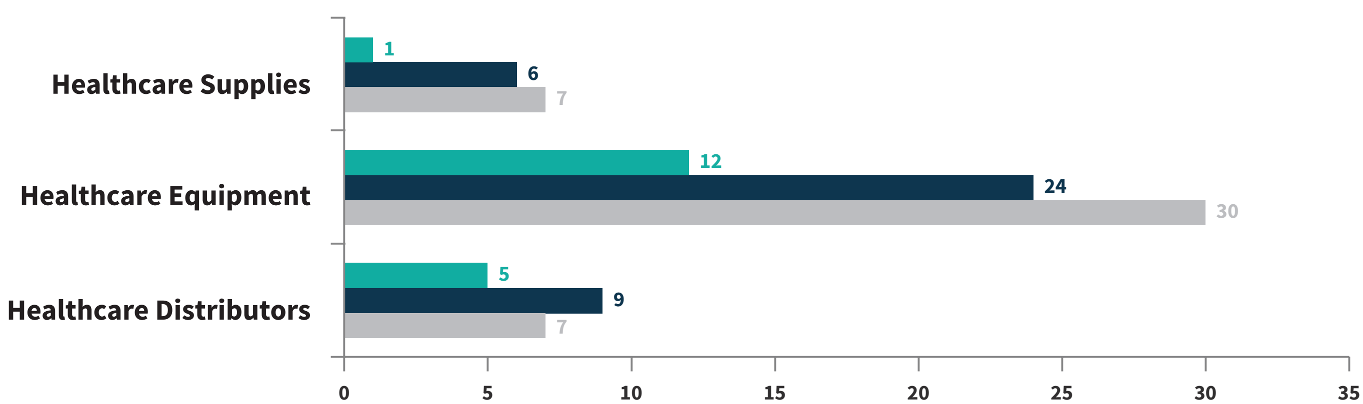
Healthcare Services, Facilities & Technology – 164 Closed Transactions



Life Sciences Technology & Services – 47 Closed Transactions



Healthcare Equipment and Distribution – 18 Closed Transactions



Source: S&P Capital IQ

Q1'18 M&A DEAL STRATIFICATION CONTINUED

($ in Millions)

Total Q1 Deal Activity

Total Deals Reported in Q1	336
# of Deals Disclosing Metrics	83
# Reported TEV	75
# Reported TEV & Rev	5
# Reported TEV, Rev & EBITDA	3
Average TEV	$1,308
Average TEV/Rev	2.6x
Average TEV/EBITDA	17.7x
Median TEV	$60
Median TEV/Rev	1.3x
Median TEV/EBITDA	19.7x
Total Deal Value	**$108,579**
Prior Quarter Total Deal Value	**$155,135**
% Change	***(30.0%)***

Q1 Deal Activity — Closed[1]

Total Deals Reported in Q1	229
# of Deals Disclosing Metrics	51
# Reported TEV	47
# Reported TEV & Rev	2
# Reported TEV, Rev & EBITDA	2
Average TEV	$427
Average TEV/Rev	3.8x
Average TEV/EBITDA	23.0x
Median TEV	$46
Median TEV/Rev	3.8x
Median TEV/EBITDA	23.0x
Total Deal Value	**$21,756**
Prior Quarter Total Deal Value	**$67,190**
% Change	***(67.6%)***

Q1 Deal Activity — Announced & Pending[2]

Total Deals Reported in Q1	107
# of Deals Disclosing Metrics	32
# Reported TEV	28
# Reported TEV & Rev	3
# Reported TEV, Rev & EBITDA	1
Average TEV	$2,713
Average TEV/Rev	1.8x
Average TEV/EBITDA	7.3x
Median TEV	$104
Median TEV/Rev	1.3x
Median TEV/EBITDA	7.3x
Total Deal Value	**$86,824**
Prior Quarter Total Deal Value	**$87,945**
% Change	***(1.3%)***

(1) Transactions that closed during the quarter, regardless of when the transaction was announced

(2) Transactions that were announced but did not close during the quarter

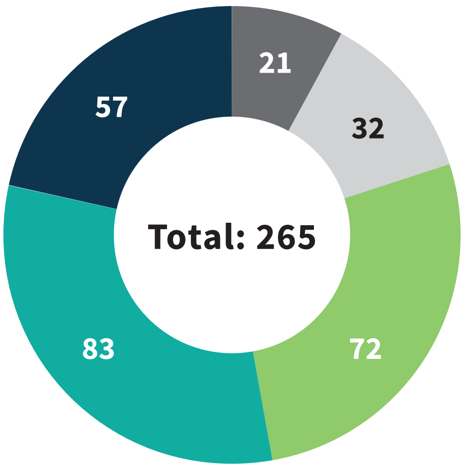
Source: S&P Capital IQ

Q1’18

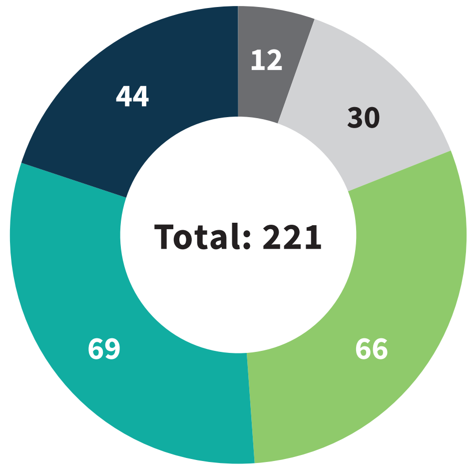
Private Placement Stratification

Q1'18 HEALTHCARE PRIVATE PLACEMENT STRATIFICATION

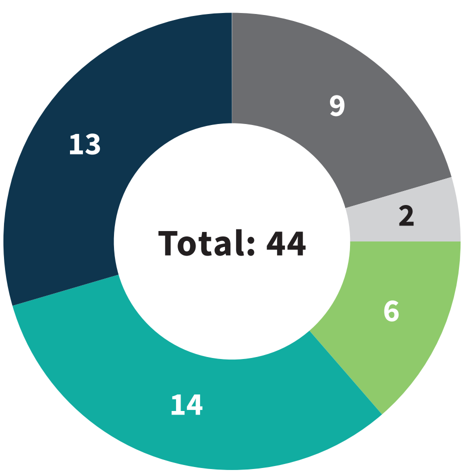
Total Private Placements by Investment Value



Closed Private Placements by Investment Value



Announced & Pending Private Placements by Investment Value



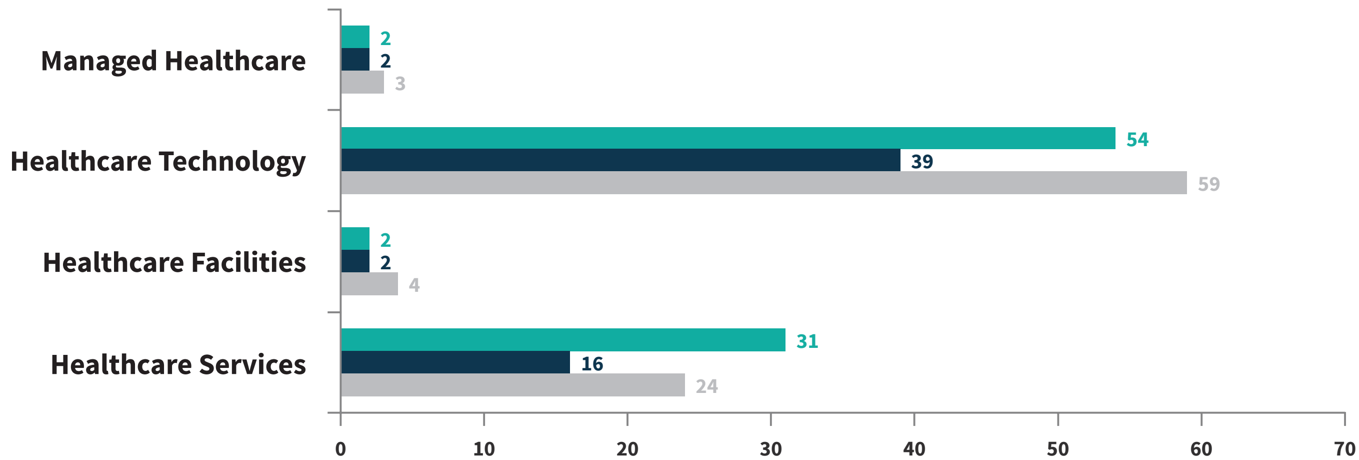
- Above $100M
- $50 - $100M
- $10 - $50M
- Below $10M
- Undisclosed

Source: S&P Capital IQ

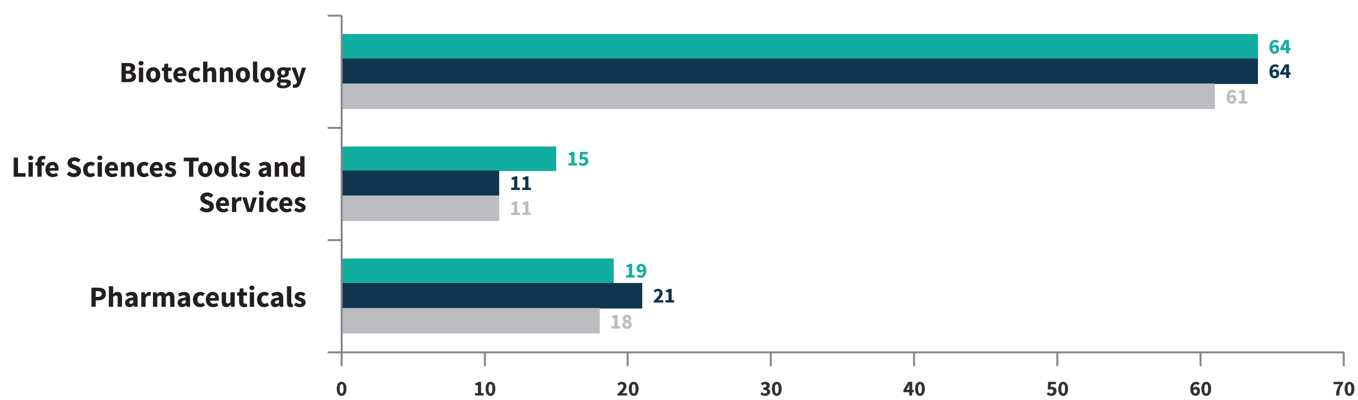
Q1'18 PRIVATE PLACEMENT STRATIFICATION CONTINUED

Q1 2018 | Q4 2017 | Q3 2017

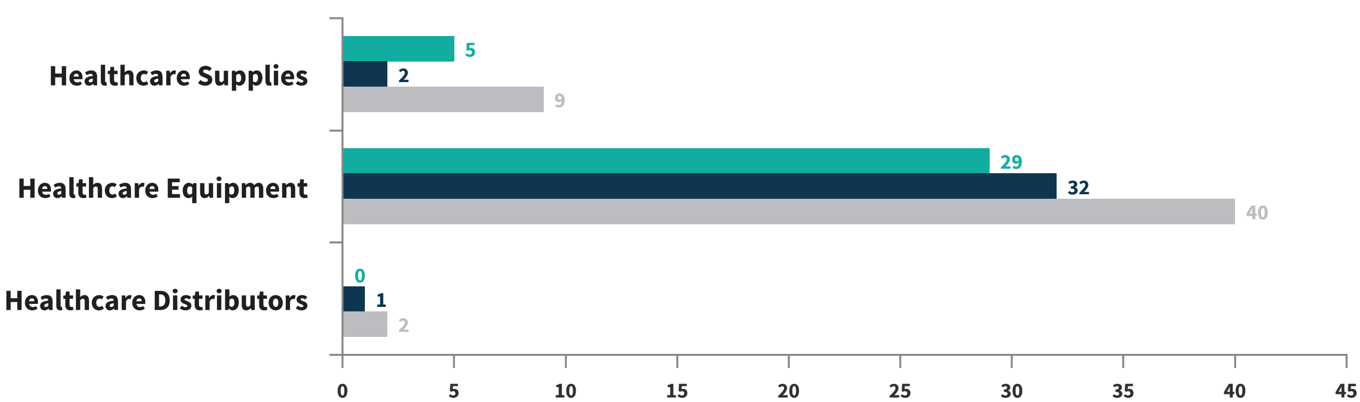
Healthcare Services, Facilities & Technology – 89 Closed Transactions



Life Sciences Technology & Services – 98 Closed Transactions



Healthcare Equipment and Distribution – 34 Closed Transactions



Source: S&P Capital IQ

Q1'18 PRIVATE PLACEMENT STRATIFICATION CONTINUED

($ in Millions)

Total Q1 Private Placement Activity	
Total Private Placements Reported in Q1	265
# of Private Placements Disclosing Investment Value	208
Average Value	$40
Median Value	$15
Total Value	**$8,243**
Prior Quarter Total Private Placement Investment Value	**$7,427**
% Change	***11.0%***

Q1 Private Placement Activity — Closed[1]	
Total Private Placements Reported in Q1	221
# of Private Placements Disclosing Investment Value	177
Average Value	$34
Median Value	$16
Total Value	**$6,077**
Prior Quarter Total Private Placement Investment Value	**$5,395**
% Change	***12.6%***

Q1 Private Placement Activity — Announced & Pending[2]	
Total Private Placements Reported in Q1	44
# of Private Placements Disclosing Investment Value	31
Average Value	$70
Median Value	$12
Total Value	**$2,166**
Prior Quarter Total Private Placement Investment Value	**$2,031**
% Change	***6.6%***

(1) Transactions that closed during the quarter, regardless of when the transaction was announced

(2) Transactions that were announced but did not close during the quarter

Source: S&P Capital IQ

Q1’18

Noteworthy M&A Transactions

JANUARY 2018

Key Themes

Autism platforms are attracting significant private equity investment.

KKR, Altamont Capital, Pharos Capital, and Five Arrows Capital are among groups that have made investments in the autism treatment space this past month; the general investment thesis being that it's an underserved market that can be effectively addressed with a scaled platform.

The benefits market is rapidly adopting consumerism.

What has historically been a complex, confusing and intricate market is accelerating up the curve of consumerism; approaching the level of industries such as retail. This change is driven by the modern healthcare consumer demanding price transparency, transactional simplicity and access to information.

Data is becoming more actionable and reaching the point of care.

EHR systems are becoming more sophisticated, specialized and applicable than ever, leading to increased knowledge and improved decision support at the point of care. This is a win across the board for healthcare, improving the efficiency and effectiveness of care while simultaneously reducing costs.

Noteworthy M&A and Private Placement Transactions

- **AXA** (ENXTPA: CS), a company engaged in the provision of insurance and asset management services, entered into an agreement to acquire **Maestro Health**, a developer of an online employee health and benefits platform designed to simplify and personalize how people shop, enroll and live with their benefits. Total consideration for the acquisition is **$155M**. Maestro's platform maestroEDGE is an all-in-one, tech-meets-service platform that offers four key components of employee health and benefits, including HR management, benefits marketplace, benefit accounts and self-funded insurance. It optimizes the benefits experience for all employees, enabling employers to streamline integration of care management to drive down costs and improve engagement for constituents across the entire continuum of care. With AXA, Maestro customers will see enhancements in their experience and access to leading product offerings. This transaction reflects AXA's continued focus on its health business and supports its payer-to-partner strategy, in line with "Ambition 2020," a corporate initiative to meet customers' rapidly evolving needs and grow in a challenging economic environment. Starting with a platform in the U.S., the most advanced and innovative market in this respect, it represents an important step towards building a comprehensive and long-term population health management solution to provide better care at lower cost.

- **Wolters Kluwer Health** (ENXTAM: WKL), which provides information and business intelligence for healthcare professionals, entered into an agreement to divest **ProVation Medical**, its procedure documentation and order set management software business, to **Clearlake Capital Group** for **$180M**. The divestment reflects the Health division's increasing focus on supporting healthcare providers in delivering improved patient outcomes by offering a broad and cohesive suite of products, from healthcare learning and research, to advanced clinical decision support, terminology management and patient engagement. This broad-based, multispecialty and integrated range of solutions can most effectively help healthcare providers in improving outcomes and reducing variability in care.
- **Alliance HealthCare Services**, a national provider of outsourced healthcare services, and owner **Tahoe Investment Group** executed a definitive agreement to acquire **e+CancerCare**, a provider of cancer care services, from **Kohlberg & Company**. With 24 locations in 10 states, e+CancerCare will join **Alliance Oncology**, a division of Alliance HealthCare Services, upon completion of the transaction. Together, the organizations will operate 60 cancer care centers across the U.S. focused on diagnosing, staging and treating cancer. Services the organizations deliver include radiation oncology and related therapies, medical oncology and chemotherapy services, and PET/CT imaging in partnership with leading academic medical centers, health systems and physicians. The vision of Alliance HealthCare Services is to be a driving force in transforming healthcare in a consolidating U.S. healthcare environment. Bringing Alliance Oncology and e+CancerCare together will ultimately benefit patients and their families with more effective, efficient and compassionate care.
- **VSS**, a private investment firm focused on the information, healthcare services, tech-enabled business services and education industries, closed its private placement in **Caravan Health**. The transaction represents its ninth investment in the healthcare industry. Caravan is a provider of value-based care (VBC) enablement services to hospitals and physician practices, enabling providers to qualify, participate and succeed under value-based payment models, with a focus on Medicare Accountable Care Organizations. The shift to VBC requires providers to have a fundamentally different set of capabilities in order to succeed in these complex programs, driving a significant need for Caravan's capabilities and expertise. Caravan's platform drives industry leading savings, care improvement metrics, and strong customer ROI.

- **KKR**, the global investment firm, created **Blue Sprig Pediatrics**, a platform of clinics providing Applied Behavior Analysis (ABA) for children diagnosed with Autism Spectrum Disorder (ASD). The Company intends to open new clinics and partner with existing providers to fulfill the unmet need for compassionate and high-quality interventions for ASD patients nationwide. With 1 in every 68 children diagnosed with ASD, there is a large and growing population that, unfortunately, is currently under-served. The mission of Blue Sprig as a scaled platform providing ABA services is to advocate for the resources that patients need, invest in additional research to advance understanding and treatment of these children, and ultimately make a difference in their quality of life and ability to contribute to society as a whole.

- **Allscripts** (NASDAQ:MDRX), a provider of software, services, information and connectivity applications for physician practices, entered into an agreement to acquire **Practice Fusion** for **$100M** in cash, subject to adjustment for working capital and net debt. Practice Fusion partners with top-tier life sciences organizations to drive innovation. It offers an affordable, certified cloud-based EHR for traditionally hard-to-reach, small, independent physician practices. The Company supports 30,000 ambulatory practices and 5 million patient visits a month. This strategic acquisition is expected to further advance Allscripts' strategy to offer the most comprehensive, high-performing health information technology and solutions. Practice Fusion's EHR will complement and round out Allscripts' existing ambulatory clinical portfolio, providing a value offering and "last mile" reach to the under-served clinicians in small and individual practices.

- **Connecture** (OTCQX: CNXR), a provider of web-based information systems used to create health insurance marketplaces, entered into a definitive agreement to be acquired by entities affiliated with the global private equity firm, **Francisco Partners**. Under the terms of the agreement, entities affiliated with Francisco Partners have agreed to pay **$0.35 per share** for each share of Connecture common stock not held by Connecture's existing preferred investors, Francisco Partners and **Chrysalis Ventures**, and their affiliates. Connecture provides software and related service solutions to health insurance and ancillary carriers, brokers and other related retail distribution entities, health care providers and government agencies. The Company helps organizations grow and retain their membership, while improving efficiency and reducing technology costs. Connecture is playing a crucial role in the continued evolution of health insurance distribution. The Company is on the forefront of providing technology solutions that enable consumers to find and purchase the best health insurance and ancillary benefits policies for them and their dependents.

FEBRUARY 2018

Key Themes

Major technology companies continue to actively push into healthcare.

Last month technology companies such as Apple, Alphabet, and Fitbit made moves in the healthcare space. The $3 trillion healthcare sector represents an attractive opportunity as healthcare has lagged behind the technology curve. Additionally, the rise of healthcare consumerism, higher out-of-pocket expenses, and employer sponsored programs have led to an environment ripe for disruption.

Artificial intelligence driven health platforms are creating buzz.

Artificial intelligence is an exciting new frontier in healthcare, and its power to reduce costs and improve quality and access to healthcare has drawn immense interest from investors. TripleTree and TT Capital Partners have taken note of the increasing excitement around artificial intelligence in healthcare and explored the space in more detail in a recent blog.

Dermatology continues to attract private equity investment.

Our firm has closely tracked the M&A activity in dermatology and published an Industry Perspective on practice management and highlighted the applicability to dermatology. The regulatory environment, reimbursement pressures, need for advanced EMR systems, and extreme fragmentation is driving consolidation in a number of specialties. Private equity is leading the charge in this “roll-up” strategy as the platform’s they back provide the infrastructure and management to attract independent dermatology practices.

Noteworthy M&A and Private Placement Transactions

- **Fitbit**, a leading provider of wearables to track and provide motivation for everyday health and fitness, announced the acquisition of **Twine Health** for **$17.5M** in cash. Twine Health is a health coaching platform empowering people to achieve better health outcomes. Through its HIPAA compliant platform, Twine Health combines artificial intelligence-driven insights and engaging content to help people better manage chronic conditions such as diabetes and hypertension which in combination impact approximately 105 million people in the United States. The move comes as Fitbit's Health Solutions platform is becoming an increasingly important part of its business strategy. Twine will serve as the foundation for Fitbit's expansion into health plans, health systems, and self-insured employers looking to reduce costs and improve member health through intervention beyond the walls of the clinical environment. Eventually Fitbit can extend the benefits of the Twine platform to its 25 million+ users and expand into new condition areas.

- Fitbit's move comes as both **Alphabet** and **Apple** have made recent moves to strengthen their ties to healthcare. Alphabet's healthcare unit, Verily is weighing a move into the insurance sector through partnerships with payers. According to those familiar with the move, Verily is in discussions with insurers to jointly bid for contracts that would involve taking on risk for patient populations. The move makes sense for Alphabet as it can leverage the patient health information it already has and its data expertise to determine the most appropriate path of care. In another move, Apple announced it is launching primary clinics called AC Wellness to serve its employees and their families. The clinics, which will open in spring 2018, are yet another example of technology companies proactively managing employee health.

- **PAIGE.AI**, a company utilizing artificial intelligence to improve the diagnosis and treatment of cancer, announced it has raised **$25M** led by Jim Breyer, founder and CEO of **Breyer Capital**. The capital will allow PAIGE.AI to invest in building the world's leading offering in digital and computational pathology. Recently, PAIGE.AI developed its first product for the clinical setting, an application suite and slide viewer, which was implemented institution wide at Memorial Sloan Kettering (MSK) Cancer Center this year. The partnership with MSK gives PAIGE.AI invaluable access to MSK's intellectual property in the field of computational pathology and rights to their library of 25M pathology slides. PAIGE.AI will be releasing disease-specific modules for their clinical product later this year.

- Austin-based artificial intelligence startup, **Closedloop.ai**, currently backed by Greycroft, Meridian Street Capital, Social Starts, and Joyance Partners, raised additional equity funding from undisclosed investors. Closedloop.ai's product offering leverages all available health data in an organization and learns from patterns in their customer's data in combination with their own EHR data to generate more accurate risk scores, predictions, and recommendations. Closedloop.ai's platform enables healthcare organizations to identify at-risk patients, see which intervention methods are most effective, and monitor their impact over time.

- **Platinum Dermatology Partners**, a portfolio company of **Sterling Partners**, has acquired Phoenix-based **Center for Dermatology and Plastic Surgery** (CDPS). CDPS provides general and cosmetic dermatology, dermatopathology, and surgical solutions including Mohs micrographic. Platinum Dermatology's managed service organization enables physician business owners to maintain ownership and autonomy over their practice while benefiting from comprehensive practice management solutions and collaboration with other physicians. The move expands the Platinum network to Arizona through CDPS's 21 providers across eight locations in the greater Phoenix area.

- Nashville-based **United Derm Partners** has expanded its reach into Oregon through its acquisition of **Bend Dermatology Clinic**. The Bend, Oregon-based practice has five physicians across five locations providing general, medical and cosmetic dermatological services. United Derm's practice management solutions will provide Bend Dermatology with operational support, revenue cycle management, regulatory assistance, contract negotiation, and capital for growth. With the acquisition, United Derm has expanded to nearly 50 providers across 20 locations in Nevada, California, Texas, and Oregon since being founded in 2016.

- **Anne Arundel Dermatology Management** (ADM), a portfolio company of **New MainStream Capital** and **Pantheon**, announced its partnership with **Dermatology Associates of Knoxville** (DAK) and **East Tennessee Dermatology Group** (ETDG). With the partnership, ADM is now the largest provider of dermatology services in East Tennessee and has more than doubled its footprint in the state since entering the market last year. Anne Arundel now serves Maryland, Tennessee, and Virginia through 38 clinics and 90 providers.

MARCH 2018

Key Themes

Digital mental health and wellness solutions are demonstrating value.

With the millennial population continuing to challenge the norm with unique preferences and values, quickly growing digital self-care platforms have continued to attract mind share and institutional investment. In Q1'18, the top 2 grossing digital self-care apps by revenue in the U.S., Calm and Headspace, generated $14 million in combined iOS and Android revenue. Additionally, the top 10 digital wellness apps (e.g. mindfulness and meditation) generated nearly 3 times as much revenue in Q1'18 compared to Q1'17[1]. B2C apps such as Headspace, Digipill, Simple Habit, and most recently, Calm, have all pulled in institutional capital, noting that private equity investors are valuable partners in perfecting subscription-based business models, enterprise businesses, and international expansion opportunities. In addition, organizations such as Quartet Health and Happify, who are both B2B and B2C, pulled in outside investment within the past year, further highlighting the attractiveness of this market.

Vertical integration continues to drive the M&A agenda for dominant industry participants.

One theme we discussed in a previous blog continues to showcase itself in a big way, with the largest players in the healthcare industry continuing to diversify their capabilities, entrench their market presence, and add a new dimension with the end objective of improving patient outcomes and enhancing cost efficiency. Below, we profile two monumental transactions that come on the heels of the mega merger between Aetna and CVS that was announced last quarter. Cigna's announced acquisition of Express Scripts and Inovalon's acquisition of ABILITY Network are two more examples of healthcare industry vertical integration; Walmart's rumored acquisition of Humana could potentially transform the retail giant into a healthcare powerhouse overnight, which is significant at a time where health service providers are pairing off with retailers (specifically pharmacy/drug store chains) in order to reduce costs, strengthen networks, and defend against new threats such as Amazon.

Continued robust investment and capital formation activity in physician practice management.

In an unabated theme, investors continue to drive significant activity in physician practice management across a wide range of specialties. This theme continues to play out in specialties where the practice management model is mature, such as dental, where Heartland Dental and others have been growing successfully in the large, fragmented dental market for over 20 years. Most other specialties are more nascent in practice management development, and we are observing a race to create leading platforms that can become one of the few natural consolidators in smaller market segments such as eye care and women's health.

Noteworthy M&A and Private Placement Transactions

- **Calm**, a mental health and wellness start-up company focused on meditation, is reportedly raising $25M in a round led by **Insight Venture Partners**, though the deal has not yet been officially announced. Founded in 2012, Calm has quickly grown to a business with $40M of revenue in 2017[2]. Though the app is free, the company charges $60 a year for a subscription, which includes content such as a library of meditative guidance and audio programs intended to guide users through stress relief and anxiety. As of the beginning of 2018, Calm has approximately 20 employees. Company leaders have intentions to eventually grow beyond meditation to a consumer brand, with products such as books and clothing; founder Michael Acton Smith has even compared the future of the brand to Nike.

- **Cigna's** $67B deal for **Express Scripts** is the latest indication that the health care industry's biggest players believe they must diversify their offerings and forge integrated solutions to compete with their peers. The deal allows Cigna to extend beyond their core commercial insurance business and have a deeper role in managing drug spend, which is increasingly seen as a key component of managed care companies. The combined company will have approximately $142B of revenue based on 2017 reported results, and is expected to close by the end of 2018 (pending shareholder and regulatory approvals).

- **Inovalon**, a predominantly payer-facing analytics, quality and risk assessment company, entered into a definitive agreement to acquire **ABILITY Network**, a provider-focused SaaS-based revenue cycle management and connectivity platform, for $1.2 billion. The acquisition represents another example of vertical integration within the healthcare industry and will significantly expand Inovalon's presence and access to data within the provider market. Further, ABILITY's customer base of over 44,000 acute, post-acute and ambulatory sites provides Inovalon's existing customer base with a direct connection to providers and their patients. Additionally, data from ABILITY's platform will feed into and enhance Inovalon's analytical capabilities and differentiation in the marketplace. The transaction will be highly accretive to Inovalon and closed in early April 2018.

- **KKR** announced that it will acquire a majority interest in **Heartland Dental**, the largest dental support organization (DSO) in the United States, from **Ontario Teachers' Pension Plan** and other existing shareholders. Founded in 1997 and based in Effingham, IL, Heartland provides non-clinical administrative support services to more than 840 offices and 1,300 dentists across 35 states. This investment comes roughly six years after Ontario Teachers' November 2012 majority investment. At the time, Heartland consisted of 397 supported practices throughout 21 states. Today, Heartland has over 11,000 employees and the Company generates an estimated $1.3B of revenue.

- **LLR Partners** announced the formation of **Eye Health America**, a practice management services organization established to support the expansion of leading eye care practices in the Southeastern U.S. Consequentially, Eye Health America announced the acquisition of **The Eye Associates**, **Clemson Eye** and **Piedmont Surgery Center**, providers of advanced eye care and ambulatory surgery services. At the time of formation, Clemson Eye had four locations, Eye Associates had six locations, and Piedmont operated a single surgery center.

(1) Sensor Tower

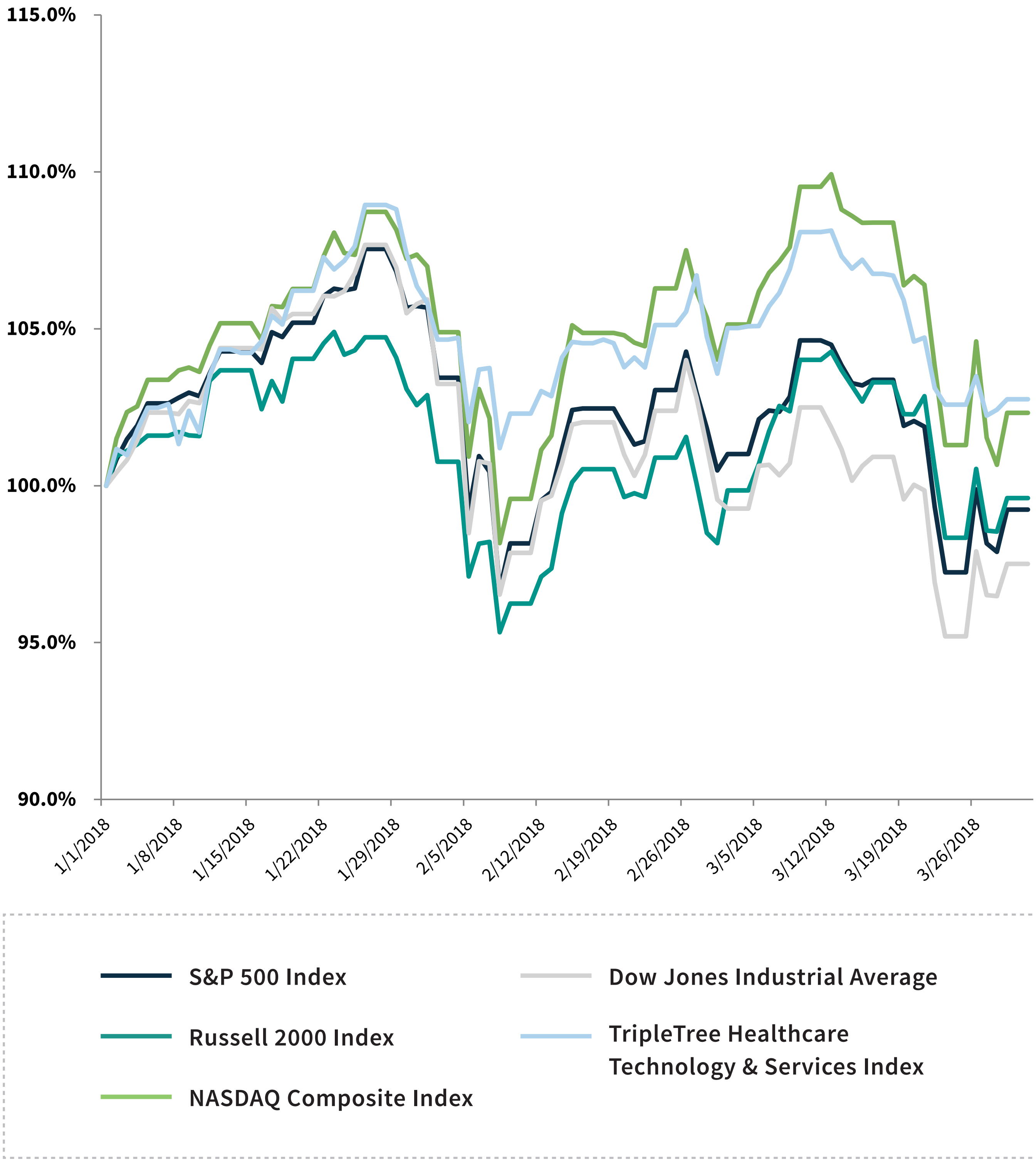
(2) Ibid

Q1'18

Public Market Performance

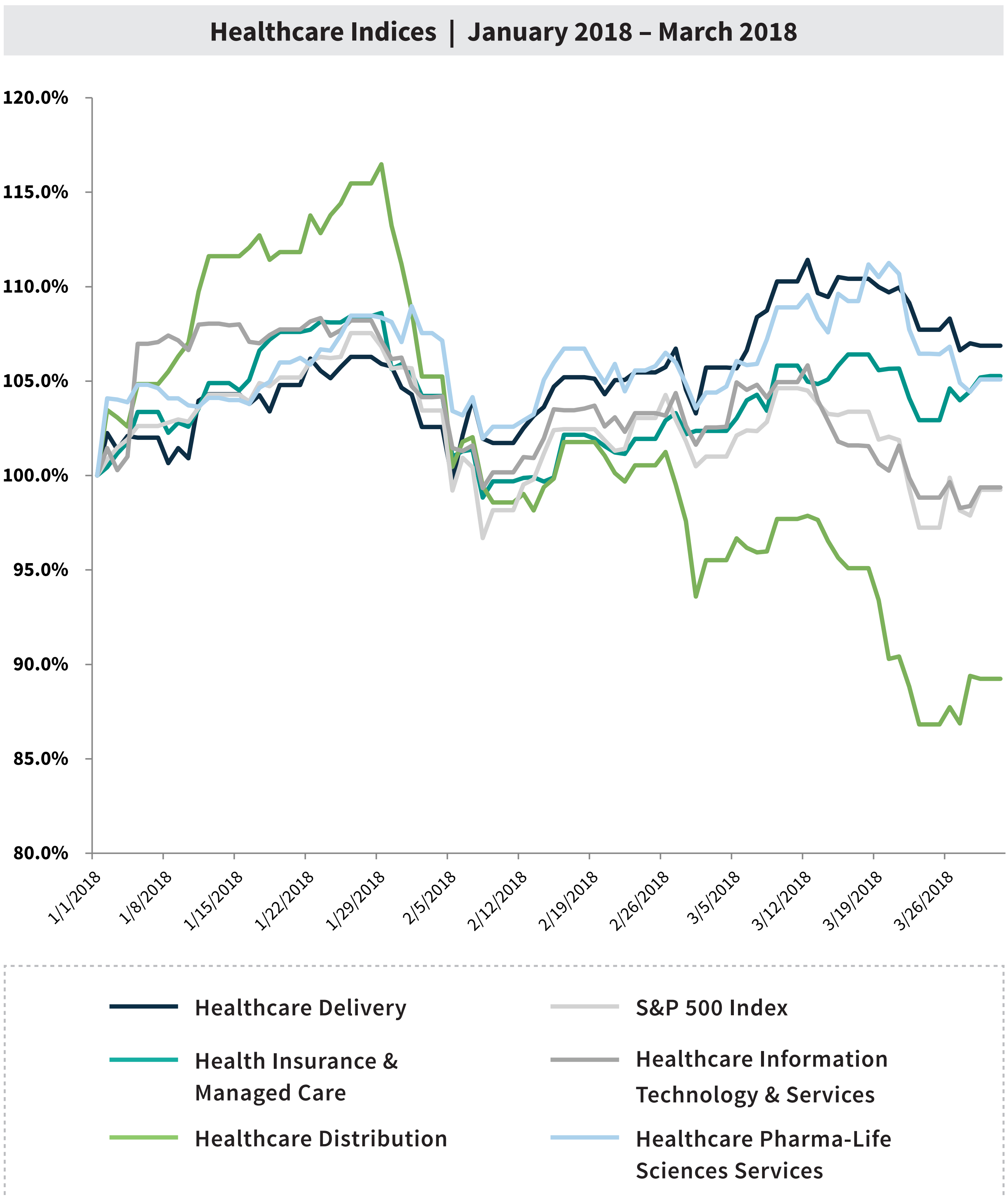
Q1'18 MARKET INDICES

Broader Market and Healthcare Indices | January 2018 – March 2018



Source: S&P Capital IQ

Q1'18 HEALTHCARE INDICES



Source: S&P Capital IQ

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