HEALTH & WELLNESS SERVICES
INDUSTRY OVERVIEW

July 2014
**Health & Wellness Markets**

"Health & Wellness" is a broadly used term that covers a variety of services, technology, and products aimed at individual consumers, employers, and insurance providers.

### Health & Wellness Healthcare Services, HCIT, and Consumer Products¹ ²

<table>
<thead>
<tr>
<th>Healthcare Services</th>
<th>Healthcare IT</th>
<th>Traditional Healthcare-Related Consumer Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Risk Assessment</td>
<td>Biometric Screening</td>
<td>Weight Management</td>
</tr>
<tr>
<td>Examples: - Medical Questionnaires - Family Medical History Assessment - Diet/lifestyle Surveys</td>
<td>Examples: - BMI and Cholesterol Benchmarking</td>
<td>Nutrition</td>
</tr>
<tr>
<td>Examples: - Healthy Cafeteria Options - Nutritionist</td>
<td>Examples: - Gym Membership - Yoga - Pilates - Fitness Centers</td>
<td>Fitness Services</td>
</tr>
<tr>
<td>Examples: - On-site Classes - Doctor Offices - Health Education - Counseling Services</td>
<td>Examples: - Chiropractic - Massage - Acupuncture</td>
<td>Smoking Cessation</td>
</tr>
<tr>
<td>Stress Management</td>
<td>Holistic Care</td>
<td>Flu Shots</td>
</tr>
<tr>
<td>On-Site Wellness Centers</td>
<td>Examples: - Preventive Care - Diet &amp; Nutrition - Smoking Cessation - Counseling</td>
<td>Disease Management</td>
</tr>
<tr>
<td>Healthcare Coaching</td>
<td>Population Health</td>
<td>Data Analytics</td>
</tr>
<tr>
<td>Examples: - Fitness - Weight Management - Nutrition</td>
<td>Employee Portals</td>
<td>Consumer-Directed Mobile Apps</td>
</tr>
<tr>
<td>Many Products Re-vamped with Additional Functionality</td>
<td></td>
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</tr>
</tbody>
</table>

¹ Note: Managed Care Providers have a variety of internal wellness service offerings that they offer to their own managed populations.

² Shaded box represents service/product offering in target market.

The following HW&Co. Industry Reader focuses on Health & Wellness services to the workplace.
HEALTH & WELLNESS SERVICES OVERVIEW

Health & Wellness service providers aim to lower health care costs and increase employee productivity through individual or comprehensive solution offerings.

- Health & Wellness services, which represents an estimated $2 billion plus market, generally include health risk assessment, weight management, nutrition, screenings, fitness services, smoking cessation, and stress management through behavioral change.¹

- The demand for Health & Wellness services is forecasted to grow over 9% for the next several years primarily driven by the following key growth drivers:
  1. Insufficient traditional cost control and rising healthcare costs
  2. Increasing incidence of chronic conditions
  3. Increasing investment in corporate wellness

U.S. HEALTH & WELLNESS SERVICES MARKET GROWTH¹

($ in billions)

WELLNESS SERVICES SEGMENTATION¹

On-site flu shots/vaccinations
- Healthcare coaching and interventions
- Disease and condition management
- 24/7 nurse line/telephonic counseling
- Employee engagement

Key Industry Growth Drivers: Insufficient Traditional Cost Control & Rising Healthcare Costs

Ineffective existing cost control strategies amid rising healthcare costs is putting pressure on employers to find new and meaningful ways to manage and limit healthcare costs.

AS HEALTHCARE COSTS CONTINUE TO RISE...

- Employers carry a significant amount of the burden and are projected to spend $620 billion for 150 million Americans in 2014, representing a 28% increase compared to 5 years ago.¹
- 62% of CFOs consider healthcare costs a major financial concern (up from 60% the previous year) as traditional cost controls have been ineffective.²

AVG. ANNUAL FAMILY HEALTH INSURANCE PREMIUMS³

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer Contribution</th>
<th>Worker Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$9,069</td>
<td>$6,657</td>
</tr>
<tr>
<td>2013</td>
<td>$11,786</td>
<td>$4,565</td>
</tr>
</tbody>
</table>

Employers are looking towards workplace wellness programs to reduce medical cost, absenteeism, and health-related productivity loss.

- Studies have found that wellness program participation over five years leads to lower healthcare costs and decreasing healthcare use.⁴

2005-2010: WELLNESS PROGRAM PARTICIPATION RESULTS⁴

- ~7% reduction per employee per year to direct medical costs after 5 years⁴

Total Monthly Medical Costs per Employee

4. RAND Workplace Wellness Study.
Employers are looking towards wellness programs as increasing incidence of chronic conditions lead to rising employer healthcare spend and lower employee productivity.

- Health risk behaviors are the root of many health problems leading to the U.S. “lifestyle disease” epidemic, causing chronic conditions such as diabetes, heart disease, and pulmonary conditions.
  - Number of working-age adults with a chronic condition has grown 25% in 10 years, reaching approximately 58 million people\(^1\)

- Growing prevalence and earlier onset of chronic conditions increases the healthcare cost burden for employers.
  - Costs attributed to treating chronic conditions now account for over ~75% of national health expenditures\(^2\)
  - Indirect costs are 4x higher for individuals with chronic conditions compared with healthy individuals due to illness-related loss of productivity, including employee absence and reduced performance\(^3\)
  - Asthma, diabetes, and hypertension result in 164 million days of absenteeism each year, costing employers $30 billion\(^4\)

**RISKS AND BEHAVIORS DRIVE CHRONIC CONDITIONS\(^5\)…**

8 Risks and Behaviors account for 80% of total chronic illness costs worldwide

**… LEADING TO ESCALATING ECONOMIC COSTS\(^6\)**

Projected Annual Economic Costs 2003-2023 ($ in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Costs Avoided if Alternative Path is Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$1,324</td>
</tr>
<tr>
<td>2013</td>
<td>$2,192</td>
</tr>
<tr>
<td>2023</td>
<td>$3,030</td>
</tr>
</tbody>
</table>

1. Eroding Access Among Non-Elderly U.S. Adults with Chronic Conditions: Ten Years of Change.
2. Chronic Conditions Overview – Centers for Disease Control and Prevention.
5. 2013 Health Care Study – Aon Hewitt.
Employers are increasingly willing to invest in Health & Wellness services programs.

- Employers are looking for effective long-term strategies to address rising costs and to support their broader consumer-based strategy of giving employees more responsibility for health care decisions and costs.

- ~500 vendors now sell workplace wellness programs, with medium-to-large companies spending an average of $521 per employee per year on wellness incentives (a twofold increase from $260 in 2009).

- Payors and employers are utilizing wellness programs to proactively improve employee lifestyle behavior to reduce employee incidence of chronic conditions, thereby reducing healthcare costs and improving productivity.
  - U.S. companies that target just three major risk factors can save $700 per employee each year in healthcare costs and productivity improvements.

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**HEALTH AND PRODUCTIVITY STRATEGIES**

Employer willingness to invest resources in programs that focus on health and productivity

**KEY GOALS FOR EMPLOYERS**

Percentage of employers with >1,000 employees that cited goal

- Improve Employee Health (78%)
- Control Healthcare Costs (71%)
- Reduce Absenteeism (43%)
- Increase Productivity (42%)
- Maintain or Increase Benefits Offering (40%)
- Attract and Retain Talent (30%)

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1. Reuters.
4. 2013 Health Care Study – Aon Hewitt.
5. HR/Benefits Pulse Survey on Wellness – ADP Institute.
Wellness programs commonly incentivize employees to become more proactive with personal healthcare and lifestyle choices.

- Workplace wellness programs offer screening activities and preventive interventions to identify and address potential health risks, and health promotion activities to further healthy lifestyles.
- Meaningful incentives are effective in motivating user participation in a wellness program or to use a specific tool.
  - Payors seek to engage patients, improve care, and reduce costs
  - Shift to value-based from fee-for-service payments
  - Employers aim to lower costs through enhanced patient engagement, choice, and care
- Deep user engagement, high level of user retention rates, and superior outcomes (clinical and other) are key differentiators for Health & Wellness services programs.

### Wellness Program Incentives Overview

<table>
<thead>
<tr>
<th>Program</th>
<th>Overview</th>
<th>Avg. Annual Value ($ amount of reward to employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational/Awareness Incentives</td>
<td>Rewards employees for completing a health risk assessment of their personal health and health risk factors (e.g., completing an assessment about family medical history, diet, lifestyle, and fitness routine and biometric screening).</td>
<td>$120 for health risk assessment; $130 for biometric screening</td>
</tr>
<tr>
<td>Action-Based Incentives</td>
<td>Rewards employees for taking a specific action to improve their health and wellbeing after completing an initial health risk assessment (e.g., joining a weight-management program, attending a smoking cessation class, or undergoing preventive screening). Can also sometimes penalize employees for lack of action to improve health.</td>
<td>$200-350 for assessment followed by action</td>
</tr>
<tr>
<td>&quot;Everything-but-the-Kitchen-Sink&quot; Incentives</td>
<td>Rewards employees for completing tasks. More complex and beneficial tasks are rewarded by bigger incentives.</td>
<td>$25-125 per task</td>
</tr>
<tr>
<td>Progress-Based Incentives</td>
<td>Rewards employees for taking steps to hit personal benchmarks for cholesterol, blood pressure and weight (e.g., enrolling in a weight-management program, reducing body mass index, or initiating a healthy diet).</td>
<td>$100 for reaching a healthy weight</td>
</tr>
<tr>
<td>Outcome-Based Incentives</td>
<td>Rewards and penalizes employees for hitting or missing certain health metrics. Employees pay more until they hit optimal targets for cholesterol, blood pressure and body mass index levels, at which point they receive a reward.</td>
<td>$100 for achieving a healthy weight; $125 for hitting other biometric targets; $200 for quitting tobacco</td>
</tr>
<tr>
<td>Targeted Incentives</td>
<td>Offers employees personalized wellness programs and incentives. Employers determine the reward based on employees’ personal health-risk, claims and other health data and may outsource the data analytics work to the insurer or an analytics company.</td>
<td>$100-125 for targeted programs</td>
</tr>
</tbody>
</table>

Wellness Evolution

Paradigm shift of the industry from disease management to wellness will sustain demand for Health & Wellness services.

- Industry shift towards wellness as payors and employers are focusing on value-based, outcomes oriented, and personalized models.
- Declining interest in disease management due to a lack of a credible ROI and relatively lower program participation rates.\(^1\)\(^2\)
  - In addition, the number of disease management focused vendors has decreased as insurance companies have developed in-house capabilities to manage the high-cost of chronic disease management.
- Wellness programs have demonstrated success in engaging users more effectively, retaining high participation rates, quantifying outcomes, and improving employee productivity.

### Trends
- Rising healthcare cost environment
- Insufficient traditional cost control measures

### Synopsis
- Most employers have been focused on year-to-year trend mitigation as primary health care strategy
- “Compensation & Benefits”

### State
- Traditional State – Annual Trend Mitigation
- Current State – Shift Towards Corporate Wellness
- Future State – Redefined Employer Role

### State
- Employers faced with a decision: actively manage risk or transfer it
  - “House money, house rules:” actively manages risk by requiring employees to be engaged in their health (emphasis on outcomes) or face higher healthcare expenses
  - Leverage private healthcare exchanges to transfer risk

### Synopsis
- Introduction of PPACA and healthcare reform
- Consumerization of Healthcare - Emergence of private HIX

### Future State
- Emphasis on health and well-being, productivity, and performance of employees
- Use of incentives as a tactic in overall wellness strategy
- Data analytics

### Trends
- Many new wellness providers developing unique services and HCIT business models
- Emergence of industry leaders as the wellness sector matures

1. Managed Care Overview – UBS.
2. Workplace Wellness Programs Study – RAND.
OTHER INDUSTRY TRENDS

A number of additional trends will change the landscape of the Health & Wellness services industry going forward.

- **Patient Protection & Affordable Care Act and healthcare reform.**
  - Affirms HIPAA Non-Discrimination relating to health reward programs; increased premium differentials: 20% to 30% (50% for smokers)
  - Provides wellness program grants/tax incentives for small businesses
  - ACA projected to create increasing numbers of self-insured employers, resulting in additional demand for wellness programs

- **Consumerization of Healthcare – Emergence of Private Health Insurance Exchanges (HIX).**
  - Recent moves by high-profile employers towards exchanges both private (e.g. Aon Hewitt, Towers Watson), and government-run
  - HIX prioritizes patient outcomes as key focus area and provides a more reliable system for premium or contribution differential
  - In a consumer healthcare retail model, wellness programs are a point of differentiation for health insurance exchanges

PPACA – TWO TYPES OF WELLNESS INCENTIVE PROGRAMS¹

1. **Participatory**
   a. Reward, or conditions for obtaining reward, unrelated to a “health factor” (examples: health status, injury, illness, risk factors like BMI, cholesterol, glucose, BP, smoking)
   b. Majority of wellness programs
   c. Examples: gym reimbursement, health screening (regardless of results), attending seminars, etc.

2. **Health contingent**
   a. Reward tied to a health factor
      i. Employee must satisfy standard related to a health factor OR
         1. Examples:
            a. Meet specific BMI or cholesterol target
            b. Walking or exercise program
      ii. Additional requirement due to existence of a health factor
         1. Example: because of cholesterol, must complete education seminar
   b. Two types of health contingent wellness program (new in final regs)
      i. Activity only
      ii. Outcome-based

Increases in differentials promote adoption of Health & Wellness services.

¹ “Wellness & the ACA: it’s not as Bad as you Fear!,” Wellness Rebates.
**Industry Consolidation and M&A**

Continued consolidation of wellness service providers and increased HCIT investments as participants look to add differentiated assets and target patient engagement technology.

- Broad-based interest and M&A activity in the Health & Wellness services sector.
  - Reference and diagnostic lab strategics seek to acquire accretive lab testing volume (e.g. biometric screening and on-site testing)
  - Managed care organizations, diversified healthcare/H CIT providers, and wellness providers look to diversify service offering

- New HCIT entrants due to increasing investment/interest in patient engagement and healthcare results.
  - New platforms are leveraging technology, consumer-centric platforms, and mobile to strengthen engagement, measure results, and ultimately reduce healthcare costs per patient

### Notable M&A Activity 2012-2014YTD

<table>
<thead>
<tr>
<th>Date</th>
<th>Target Company</th>
<th>Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-14</td>
<td>MDVIP, Inc.</td>
<td>Summit Partners</td>
</tr>
<tr>
<td>Apr-14</td>
<td>Take Care Employer Solutions, LLC</td>
<td>Water Street Healthcare Partners</td>
</tr>
<tr>
<td>Apr-14</td>
<td>CHS Health Services</td>
<td>Water Street Healthcare Partners</td>
</tr>
<tr>
<td>Apr-14</td>
<td>Summit Health, Inc.</td>
<td>Quest Diagnostics Inc.</td>
</tr>
<tr>
<td>Mar-14</td>
<td>Health Solutions Services, Inc.</td>
<td>Interactive Health Solutions, Inc. (CI Capital)</td>
</tr>
<tr>
<td>Feb-14</td>
<td>Audax Health Solutions, Inc.</td>
<td>Optum</td>
</tr>
<tr>
<td>Feb-14</td>
<td>Occupational Medicine Physicians</td>
<td>Norton Healthcare, Inc.</td>
</tr>
<tr>
<td>Dec-13</td>
<td>Quantum Health and Wellness, LLC</td>
<td>MMARS, Inc.</td>
</tr>
<tr>
<td>Nov-13</td>
<td>Step Success Ltd</td>
<td>Ultrasis plc</td>
</tr>
<tr>
<td>Oct-13</td>
<td>Novia CareClinics, LLC</td>
<td>QuadMed, LLC</td>
</tr>
<tr>
<td>Jul-13</td>
<td>Plus One Health Management</td>
<td>OptumHealth Care Solutions, Inc.</td>
</tr>
<tr>
<td>Jun-13</td>
<td>Living Well Health Solutions LLC</td>
<td>Healthstat, Inc.</td>
</tr>
<tr>
<td>Apr-13</td>
<td>Plexo Inc.</td>
<td>Medisys Corporate Health LP (Persistence Capital Partners)</td>
</tr>
<tr>
<td>Dec-12</td>
<td>Sensia Healthcare Inc.</td>
<td>U.S. Healthworks, Inc.</td>
</tr>
<tr>
<td>Sep-12</td>
<td>Ingenios Health Co.</td>
<td>LLM Capital; Hickory Ridge Capital</td>
</tr>
<tr>
<td>Jul-12</td>
<td>Makos Health Associates</td>
<td>ExamWorks Group, Inc.</td>
</tr>
<tr>
<td>Jun-12</td>
<td>Doctors Direct Healthcare, Inc.</td>
<td>BioSignia, Inc.</td>
</tr>
<tr>
<td>Jun-12</td>
<td>Warm Health, Inc.</td>
<td>Altegra Health, Inc. (Parthenon Capital Partners)</td>
</tr>
</tbody>
</table>

Source: CapIQ

- Indicates financial/sponsor platform buyer.
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