



Welcome to the September 2013 issue of the Mansa Capital newsletter. Spending on healthcare Information Technology (HCIT) at large North American healthcare organizations is expected to rise upwards of \$34.5 billion by 2014. According to KPMG, the U.S. healthcare sector is a leading industry for potential M&A activity. As October 1st (the official launch of the Affordable Care Act, also known as Obamacare) draws near, we see continued increases in federal spending on HCIT. These tools are needed to support the millions of Americans who will enter our healthcare system during the 2013-2014 enrollment period. Web strategies in particular are gaining attention. To help boost enrollment in the healthcare insurance exchanges in the 35 states where the federal government will run them, the Centers for Medicare and Medicaid Services (CMS) is seeking help from online insurance companies. With greater use of HCIT, data privacy with regard to the exchanges remains a key concern at the federal and state levels. As a result, government agencies and private companies are making sizable investments in healthcare IT to increase data security. Such investments are expected to increase consumer confidence and promote education during this enrollment period. We hope you enjoy this month's summary of some of the ways providers, insurers and employers are responding to increased competition and greater demands around healthcare data, connectivity, reporting and outcomes.

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Policy

Federal

- According to a CMS press release, the final FY 2014 Hospital IPPS rule **will increase the Medicare payments by 0.7%**, for estimated **\$1.2 billion** total overall payments to hospitals. As per CMS, this rate increase is impacted by a **temporary reduction of 0.8%** to implement the American Taxpayer Relief Act's need to recoup overpayments from prior years and **an additional 0.2% reduction to offset projected spending increases** associated with changes to admission and medical review criteria for inpatient services
- As per Dr-solutions.com, the AMA **has criticized the 2014 Medicare physician fee schedule** for lowering payment **for more than 200 services that Medicare pays more for when the service is provided in a doctor's office and less when it's performed in a hospital outpatient department or ambulatory surgery center**
- As reported by Healthcarefinancenews, the House Energy and Commerce Committee **has approved unanimously a legislation to repeal and replace the sustainable growth rate (SGR) formula**, moving another step closer to a more stable Medicare physician payment system based on delivering quality and efficient care instead of 11th-hour fixes

- Modern Healthcare reports that the CMS **has signed agreements with five Web-based insurance broker firms** to help enroll Americans in the insurance exchanges in the 35 states where the federal government will run them, a step which will help in increasing enrollment in health insurance
- According to Healthcareitnews, due to the increase in electronic devices connected to the internet, the Federal Trade Commission has laid out the **case for strong consumer protections regulating the private industry's use of big data** and has asked Congress for the **power to level civil fines against businesses** for weak consumer data security as well as **putting limits on the collection of consumer data**
- As reported by Healthcareitnews, even though the American Academy of Family Physicians and other groups have appealed to CMS to delay the meaningful use Stage 2 timeline by one year, **HIMSS** has made the case for a more nuanced approach **asking federal officials to launch it on schedule but extend year one of the attestation period** due to the timeline and certification challenges faced by eligible hospitals, eligible professionals and technology vendors
- As per a recent article by Fiercehealthcare, the American Hospital Association **criticized** a Department of Health & Human Services' Office of Inspector General **report that recommended dramatic changes to the critical access hospital (CAH) program**. The OIG found nearly **two-thirds of CAHs would not meet the location requirements** if required to re-enroll and a vast majority would not meet the **distance requirement** too

State

- As per Healthcareitnews, Florida is considering **requiring private health insurers to cover tele-health services** and provide reimbursement for remote consultations, on a basis equivalent to the in-person consultations with physicians with allowable co-pays & deductibles, making it **the 20th state to do so starting 2015**
- A recent article by Beckershospitalreview.com says that with the passage of House Bill 834, North Carolina will require **all hospitals and ambulatory surgery centers to submit pricing on the 100 most common inpatient diagnosis-related groups**, effective April 1, 2014, and every quarter thereafter, **to North Carolina's Department of Health and Human Services**
- According to Healthcareitnews, even as the HHS invests **\$67.0 million** in insurance exchange navigators and provided **\$150.0 million** more in enrollment assistance, states are concerned that **HHS cannot adequately protect the privacy of those who will use the assistance programs** because the current guidance and rules, revolving around navigators, have **numerous deficiencies**
- As per American Health Care Association, nearly **50 medical societies** signed a letter circulated by the American Medical Association last month, **opposing the potential replacement of state-level Quality Improvement Organizations (QIOs)**, which are tasked with sharing information about best practices with healthcare providers participating in Medicare, **with regional ones** which will end their relationships developed over time
- As per a recent article by Cidrap.umn.edu, CDC has announced state funding of **\$75.8 million** to go to **50 state health departments, six of the country's biggest local health departments, and eight territories and US affiliates** to help strengthen their response to a variety of infectious diseases **by paying for more than 1,000 full and part-time positions in health departments**, including epidemiologists, laboratorians, and health information systems staff

- As per Newsok.com, Pennsylvania has **requested for an confirmation on the waiver to switch tens of thousands of Pennsylvania children to Medicaid** which according to the state will cost a little more and may not be popular among doctors
- As reported by Modern Healthcare, the Michigan Senate approved, on a narrow vote, expanding Medicaid to nearly **half-million low income Michigan residents within a few years** making it the 24th state to do so. Many residents are expected to be eligible in 2014 if the state receives federal approval
- According to the California Department of Health Care Services, California will start rolling out a **10.0% cut in Medi-Cal fees** to providers on Sept. 5 (with three groups exempt) subject to federal approval. The state also plans to go back and recoup payments for services provided on or after June 1, 2011 which won't start until the prospective cuts are implemented
- As per Bloomberg, although Oregon has embraced President Barack Obama's Affordable Care Act, **people won't be able to complete their purchase without help from a certified insurance broker or community group**, a step back, which suggests that **the states don't have enough time** to comply with next year's core implementation of the 2010 health law as Obama envisioned
- The Miami Herald reports that after the Republicans argued that policyholders need to **know how federal reforms will affect their premiums**, the Florida Cabinet has passed a **law requiring a disclosure form** that will tell policyholders how the Affordable Care Act will impact their premiums
- According to a report from the HHS, in case Alabama decides to expand Medicaid, **95.0%** of its uninsured and Health Insurance Marketplace eligible population **may qualify for tax credits to buy health insurance or enroll in Medicaid**

Strategy

- As per Moody's, federal government's decision to keep Medicare reimbursement rates nearly flat for fiscal 2014 will strain costs for non-profit hospitals with the announcement that **Medicare rates would rise by 0.7%** next year, being credit-negative for non-profit hospitals since **hospital costs are expected to increase by 2.5%** next year
- According to reports, while high-deductible health plans help keep insurance premiums down, hospitals across the U.S. are registering an increase in bad debt with **many patients not paying their bills that are due** under those plans
- The U.S. Bureau of Labor and Statistics reported that the **hospital sector lost about 4,400 jobs in July**. While the broader health care sector added 2,500 jobs, **it is still sluggish** compared to the 14,800 jobs added in June
- **The Bureau of Labor Statistics' July Producer Price Index report**, which measures average changes in selling prices received by domestic producers for their output, indicated that prices across the range of healthcare industries were **0.3% higher than in June**, and 1.2% higher than a year ago
- Advocate Health System announced that **a theft, believed to be the second biggest HIPAA breach ever reported**, occurred at one of its Advocate Medical Group administrative building in Park Ridge, Illinois on July 15. **Four million patient names and their addresses, dates of birth, Social Security numbers, and clinical information** were all contained on the breached computers
- According to Healthcareitnews, citing concern about vendor readiness and "significant investments" in EHR technology going waste, Medical Group Management Association leadership **has asked HHS for an indefinite**

moratorium on meaningful use penalties for physicians who have completed Stage 1 meaningful use requirements mentioning that without appropriate software upgrades and timely vendor support, the eligible providers will be unfairly penalized

- As reported by Healthcarefinancenews, hospitals are facing difficulty in establishing ROI for EHRs even as most of their capital spending has been taken up for meeting meaningful use and ICD-10 requirements. **The capital expenditure per bed for IT has grown by 62.0%** between 2010 and 2011, whereas **total capital expenditure per bed has grown by only 2.6%**
- FDA has released its final guidelines on wireless healthcare devices which are **intended to guide both device manufacturers and healthcare providers toward the safe and secure use of wireless medical devices**. The guidelines though have no relation to the impending guidance from the agency about how it will regulate apps that turn smartphones and tablets into medical devices
- As per Healthcareitnews, with **physicians and clinicians consistently citing training as a primary concern for ICD-10 implementation**, American Health Information Management Association, being one of the four cooperating parties responsible for maintenance and guidance of ICD-10 national coding policy, will **offer new ICD-10 online trainings in partnership with implementation**
- According to New York Times, with the new provisions under the Affordable Care Act, payment and delivery reforms, and changing healthcare economics, the industry is experiencing **a wave of merger which will help small independent hospitals succeed with the resulting supersized hospitals** having geographic dominance and economies of scale
- As reported by Bizjournals, with Affordable Care Act phasing in, many U.S. employers are now offering self-funded insurance plans, with many of the them purchasing stop-loss insurance plans from insurance providers, to **avoid Obamacare regulations** when the law takes full effect in 2014
- According to federal records, medicare, as part of the second round of the government campaign called 'The Penalty Program' will levy **\$227.0 million** in fines against hospitals in every state in an effort **to reduce the number of patients readmitted** within a month with some hospitals losing 2.0% of their payments
- According to news released by the Small Business Administration, a one-stop-shop website has been created by the federal government **to provide employers with educational materials on how the Affordable Care Act may affect their businesses** with information on tax credits and other provisions of the law. It includes a tool that is tailored based on size and location, so businesses can learn how the law helps them provide affordable coverage options to their employees while still meeting their bottom line
- CMS reported that it has paid more than **\$9.3 billion** in Medicare EHR Incentive Program payments between May 2011 and June 2013 and \$5.8 billion in Medicaid EHR Incentive Program payments with more than 405,000 eligible professionals and hospitals registered with the CMS program

Portfolio Companies

- According to a report from Bizjournals, Independent Health has launched a new nutrition benefit program with Tops Friendly Markets **that will offer money-back rewards to members for purchasing fresh fruit and vegetables**. The benefit offers members **\$1.0 in credit for every \$2.0 spent** on fresh produce, with the points coming back to members quarterly in the form in the form of a co-branded Tops gift card redeemable for anything in the store except tobacco products

Industry Activity

- As per the KPMG M&A Predictor, **the healthcare sector in North America (dominated by the U.S.) was one of the leading industries for potential M&A activity** and would see growing activity in the coming year. **Healthcare experienced a 20.0% increase** in forward P/E compared to June 2012, with forward **net debt to EBITDA declining 59.0%**, indicating the heightened probability of activity
- Bizjournals reports that **Medtronic has acquired telehealth provider Cardiocom for \$200.0 million** which moves Medtronic into the field of providing solutions for keeping the patients from going back to the hospital. The deal also provides Medtronic a new relationship with hospitals and insurers
- A recent article by Healthcareitnews says **XIFIN, which makes revenue-cycle software, has acquired pathologist software developer PathCentral** which expands XIFIN's technology platform. In addition it also advances its ability to support the convergence of diagnostics between the laboratory, anatomic pathology, radiology and other diagnostic service providers to improve health outcomes and lower the costs of healthcare management
- According to Education.tmcnet.com, **Parallon Business Solutions, a subsidiary of HCA Holdings, has bought Nashville based Vision Consulting** which will help Parallon offer a deeper service portfolio across the entire continuum of care – including administrative, financial, clinical and patient care systems
- According to a report from Bizjournals, **Wilmington-based contract research organization Pharmaceutical Product Development has acquired clinical trial patient-enrollment service firm Acurian**, which utilizes proprietary software analytics to customize what's intended to be an efficient and cost-effective approach to patient recruitment. Acurian will continue to operate under its own name as a separate business unit and PPD will be able to offer its patient-recruitment services to its own clients
- Emrdailynews.com reports that, **First Databank, a provider of clinical drug knowledge, has acquired Design Clinicals**, a health IT company providing clinician-friendly solutions for improving medication reconciliation and the delivery of patient care
- As reported by Onlineprnews.com, **Orange Health Solutions has acquired ExtendMD**, a health IT company focused on increasing the communication between patients and doctors to reduce overall healthcare costs and saving lives, to take advantage of emerging patient self-monitoring and decision support tools, and direct patient-doctor communication platforms
- According to Cleveland.com, **Community Health Systems, partnering with the Cleveland Clinic, will buy up the majority of Akron General Health System** in Summit County which will expand the Clinic's national reach and improve efficiency among the more than 130 hospitals that CHS operates nationwide
- As per Bizjournals, **South Texas Dental**, which operates 38 family dental centers, owned entirely their dentist partners, in Houston, Dallas, Fort Worth and San Antonio has acquired the 12 offices of the All Smiles general dentistry practice in North Texas. Each of the acquired offices **has been re-branded as South Texas Dental** and will accept Medicaid, CHIP and most insurance providers
- Bizjournals reports that **the Center for Orthopedic Research and Education Institute (CORE) has acquired Premier Orthopedics**, which brings CORE's number of locations to 15 in Arizona and four in Michigan. CORE currently has more than 95 providers and 400 employees
- According to Bizjournals, **Baltimore pain medication monitoring company Ameritox has acquired Prium, a Georgia medical cost management** company, in an effort to expand its menu of services and reach a wider market

- As reported by Yahoo Finance, **Digital Insurance**, the nation's largest and a technologically advanced employee benefits-only agency, **has acquired Strategic Employee Benefit Services– Wellesley, Providence and Springfield**, provider of employee benefits programs while delivering cost-saving solutions, whose clients will now receive even greater value with Digital's communications platform and the company's emerging private exchange solution

Research

- According to a report by Kaiser, **employer-sponsored family health coverage costs went up an average of 4.0%** in 2013 compared to last year, which marked an overall slowdown in the rate of growth seen in the past decade, bringing a period of moderation in premiums which will help private sector to reduce costs
- As per Chilmark's clinical analytics market report, with the shift toward new payment models and the huge amount of clinical data available through in electronic health records, more and more healthcare groups are looking to analytics solutions for population health management with **the clinical data analytics sector growing at a CAGR of 37.9% from 10.0% adoption in 2011 to 50.0% adoption by 2016**
- According to Technology Business Research Inc.'s new SourceIT Healthcare Report, **HealthIT spending** at large North American healthcare organizations **will cross \$34.5 billion in 2014** spurred by current regulatory trends and spending will be spread across industry applications, business applications, productivity applications, business intelligence and analytics, database and technology, and systems management
- The Q2 2013 Randstad Healthcare Employee Confidence Index reports that, the confidence levels of American healthcare workers remained fairly consistent **decreasing by one-fifth of a point to 54.3 and the demand for health IT talent is high with large IT projects and ICD-10 as key drivers**
- A new study from Rand Corp. suggests that **premium increase expectation due to Obamacare may be overstated**. On the contrary, **many states will see little to no change or decline** in premium due to federal subsidies. People witnessing an increase in premium may experience it due to better plans
- According to a report from Aon Hewitt, as healthcare costs for employers continue to rise, they are **taking steps to control costs and manage risks** with a common approach of moving coverage of their retirees older than 65 from their group plan to the individual Medicare market or a Medicare Advantage plan to avoid the ACA requirement of essential health benefits having no lifetime limits and extending dependent coverage to age 26
- A recent article by Leavitt Partners says that **Medicare accountable care organizations now outnumber non-Medicare ACO contracts** and make up more than half of the 488 ACOs nationwide which is also improving the quality of care as physician and other care providers are paying more attention to patient's needs
- According to a report from Hay Group, **physicians' median salary is projected to increase 2.4% in 2014 where** doctors in group-based practices can expect to see larger pay increases (3.7%) than those in hospital-based settings (2.2%). At the same time, physicians are being tasked with a growing list of new demands from learning EHR systems to navigating new cost and business model structures which are influencing how employers want to address compensation increases
- According to Roz Cama, board chair of the Center for Health Design, for hospital construction and design, the decisions around what is built and how it's built all have significant **impact on not only an organization's bottom line and ROI, but also the quality of care given to patients**

- BMJ Quality and Safety which examined malpractice claims over 25 years, identified **more than 100,000 cases that involved diagnostic error, with an average price of \$386,849.0 per claim** and has estimated that **diagnostic errors account for 40,000 to 80,000 hospital deaths yearly** in the U.S. EHR adoption along with CDS tools are expected to reduce such diagnosis
- As per a study from Kaiser Family Foundation, **48.0% of families currently buying their own coverage would be eligible for tax credits next year**, averaging \$5,548.0 per family or 66.0% of the average cost of a benchmark "silver" policy offered through new state insurance markets
- A survey by Devenir says that as employees are expected to pick up more of their healthcare tab and healthcare benefits costs rise for employers, **Health Savings Account assets will grow by 25.0%** (up from 2012's 22.0% growth) **to reach \$19.4 billion** – \$17.0 billion in employee deposits and \$2.3 billion in investments – among 10.0 million accounts (from the current 9.1 million)
- A new study from Frost and Sullivan states that the clinical informatics industry **is expected to be worth an estimated \$6.5 billion by 2013** - a major increase from the estimate in 2009 of \$973.0 million as more population moves towards CMS & Medicare Advantage program
- National Health Foundation reports that, **a concentrated effort due to Patient Safety First initiative to eliminate hospital-acquired infections** saved 3,576 lives and an estimated \$64.0 million in healthcare costs
- A new study from National Health Foundation projects that **Medicaid could gain 18.0 million more enrollees if all states expanded programs** and the rate of uninsured in each state would fall below 15.0% if the ACA's Medicaid were fully implemented in all states
- According to a report from Health Affairs, **patients who received transitional care were 20.0% less likely to experience a readmission** in the first year following hospital discharge than clinically similar patients who received standard care

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About Mansa Capital:

Mansa Capital is a health care private equity investment firm specializing in high growth companies in the health care services and health care technology sectors. Mansa focuses on companies as they prepare for expansion, acquisition, privatization or IPO. We integrate strong expertise in health care policy, regulation, and reimbursement with vast experience in health care operations, marketing, finance, and medical administration. Mansa makes equity investments in operating companies with enterprise values up to \$150 million. We build shareholder value by working with management to implement strategic initiatives that grow top-line revenues. Mansa's Managing Partner and CIO, Ruben J. King-Shaw Jr., directs the firm's investment activities, in addition to managing the firm's equity portfolio. The firm has offices in Boston, MA, New York, NY, and Miami, FL.

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