



Employer-Sponsored Healthcare

TPAS AND BENEFITS SOLUTION PROVIDERS SECTOR SPOTLIGHT

Q1 2023

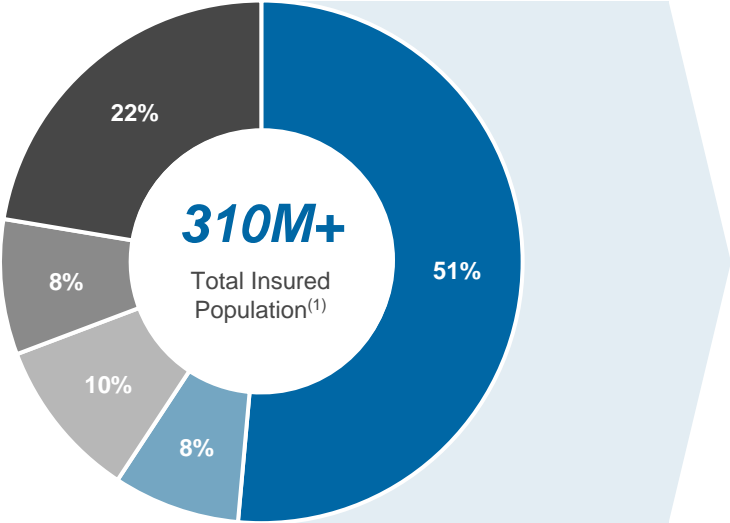


Houlihan Lokey

Large and Growing Addressable Market

U.S. Health Insurance Market by Coverage Type

- Employer-Sponsored
- Individual
- Traditional Medicare
- Medicare Advantage
- Medicaid



~105M Lives
Employer Self-Funded

~55M Lives
Employer Fully Funded

Health Plan by Coverage Type

Fully Insured Health Plan

~55M Lives Covered (35%)

- Employer purchases health insurance from a carrier; carrier assumes financial risk of providing healthcare for employer’s beneficiaries
 - ✗ Carrier keeps any surplus
 - ✗ Limited insight into cost drivers
 - ✗ Lack of dedicated support
 - ✗ Lack of customization
 - ✗ No rate, access, or repricing control
 - ✗ Misaligned incentives

Self-Funded Health Plan

~105M Lives Covered (65%)

- Employer pays for claims incurred by beneficiaries and partners with TPA for claims administration, stop-loss, and value-add solutions, including data analytics and cost containment
 - ✓ Employer keeps surplus
 - ✓ Not tied to carrier’s rates, fees, or restrictions
 - ✓ Plans customized to employer’s specific health benefit requirements and goals
 - ✓ Complete visibility into each claim incurred and active management of costs
 - ✓ Options to address cost drivers through incentives and educational resources

Employers are increasingly moving toward self-funded health plans in order to reduce costs and retain surplus; the TAM will continue to increase, benefiting innovative TPAs prepared to capitalize on new SMB lives entering the market

Sources: Kaiser Family Foundation – Employer Health Benefits Annual Surveys; Wall Street research; (1) As of 03/27/2023

Self-Funded Strategies Prevailing



Recent changes in the U.S. healthcare system have created a favorable environment for alternative healthcare insurance options



Employers are frustrated with the escalating insurance premiums associated with fully insured coverage



The widespread adoption of self-funded insurance strategies, **especially by SMBs**, has amplified the TAM

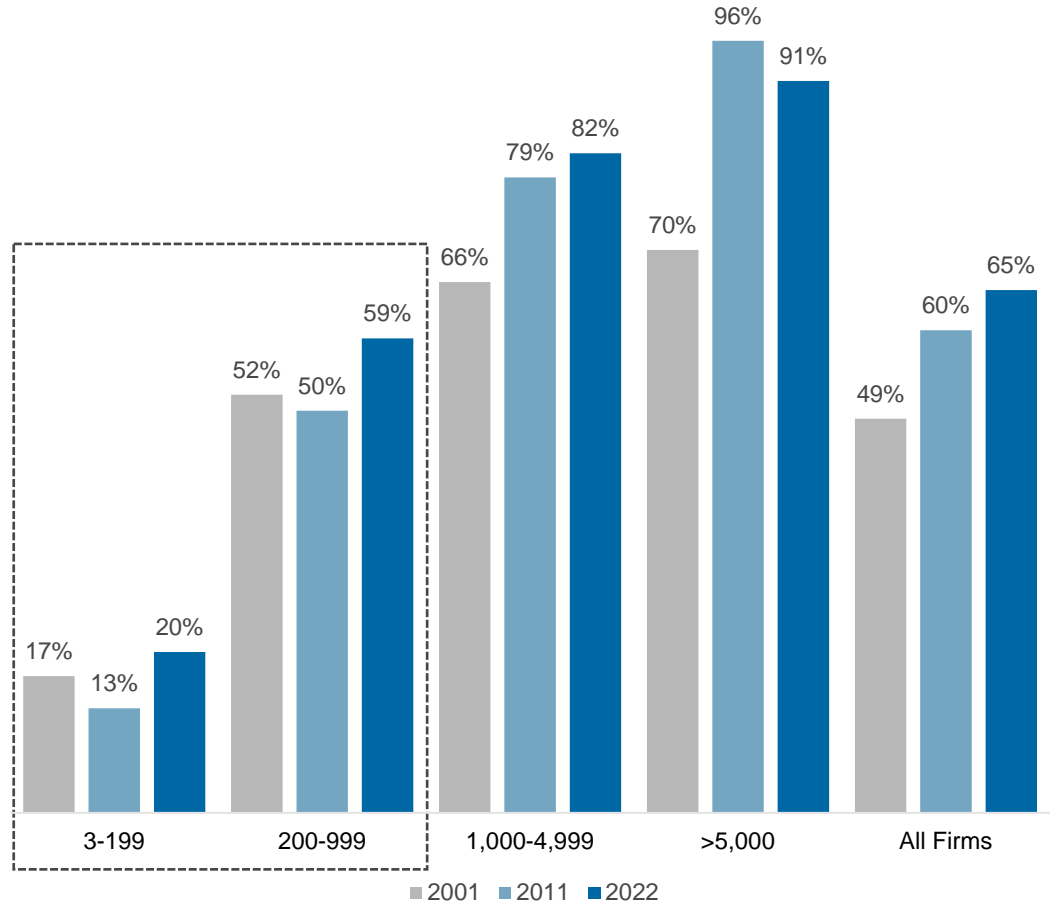


Large employer trends (5,000+ employees) have caught on by SMEs capable of carrying stop-loss insurance (100+)



Collectively, since 2001, the number of companies electing to self-insure has increased by 16 percentage points

Estimated Workers Covered in Self-Funded Plans by Firm Size



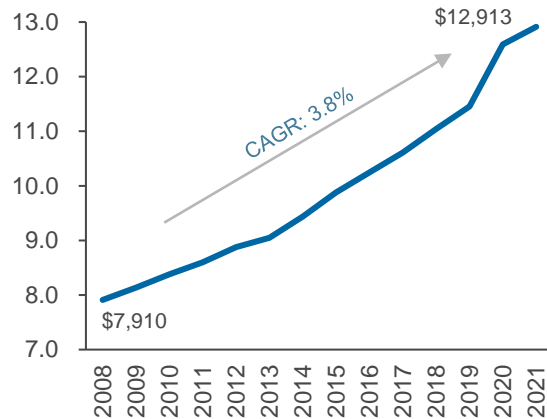
As employers take more control over rising healthcare costs for their employees—increasingly implementing self-funded strategies—they will look to their TPAs for ROI-generating cost containment strategies to minimize risk

Tailwinds Accelerating Self-Funded Strategies

Unsustainable healthcare cost trends, rising insurance premiums, and the potential for cost savings are driving the adoption of self-funded health plans.

Healthcare Cost Per Capita

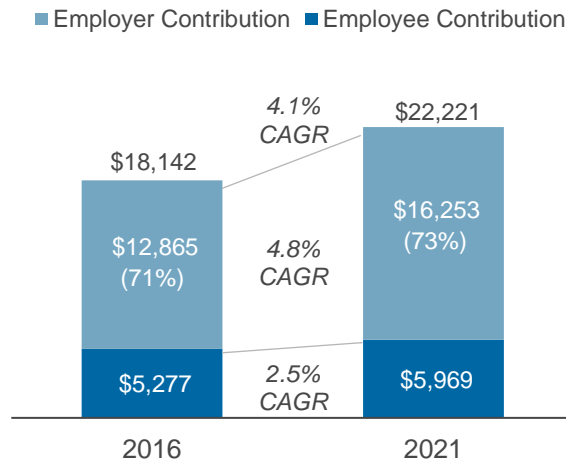
Regulation and an aging and increasingly chronic population drive growth in healthcare spending (\$ in 000s)



- Healthcare costs are currently at all-time highs
 - At \$4.3 trillion today, healthcare spend represents ~19% of GDP
 - Spend is projected to grow to \$6.8 trillion by 2030

Annual Contributions for Coverage

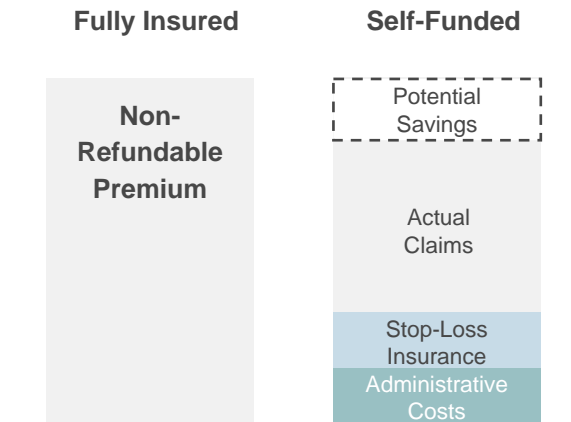
Employer and employee contributions have continued to increase



- Health benefits are a key component of attracting and retaining employees
- Continued increase in employer burden of employee healthcare costs
 - 4.8% CAGR in average employer premium over the past five years

Fully Insured vs. Self-Funded Plan Costs

Self-funding provides employers with additional visibility into healthcare costs compared to fully insured plans



- Self-funded plans provide greater price transparency, breaking down costs by component, and flexibility through customizable plans and solutions
- Opportunity to keep savings due to effective management of healthcare costs and reduced utilization

Unsustainable Cost Trends



Increasing Employer and Employee Premiums



Increased Demand for Transparency

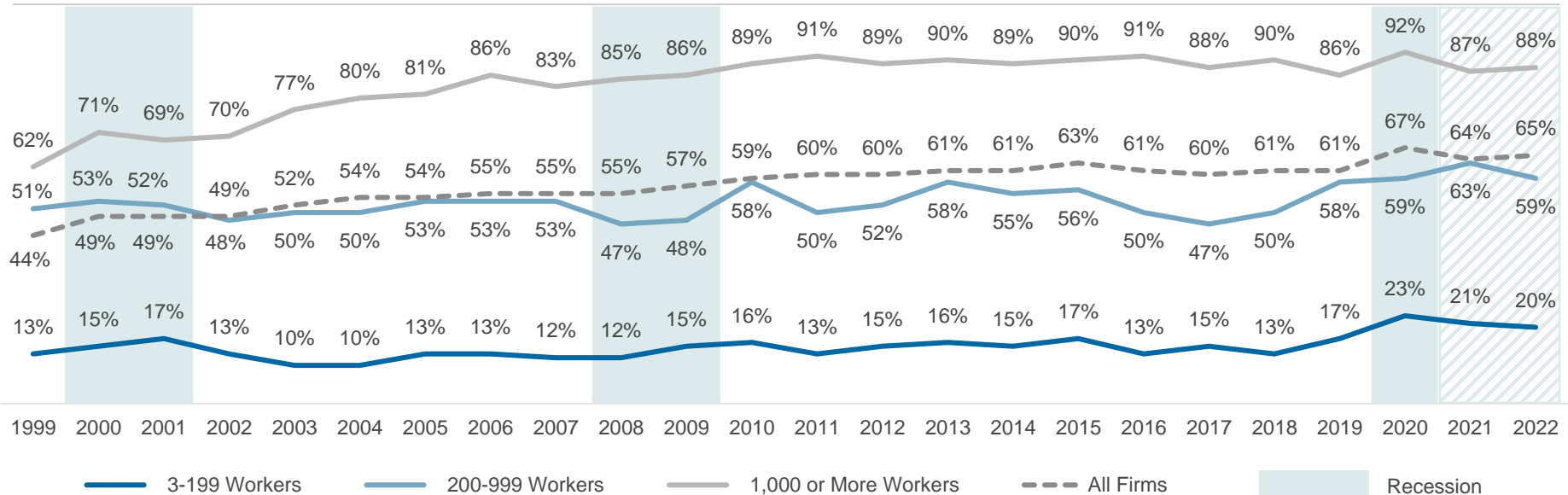
TPA Value Proposition Strengthening

TPAs are an essential component of a self-funded strategy and are in use now more than ever—orchestrating innovative cost containment measures for the payor and introducing difference-making advocacy services to members.

The Benefits of Self-Funded Plan Administration

- BSPs are designed to contain costs; employers (and other self-funded groups) can avoid perennial premium increases attributable to commercial payors, which they pass on to their employees
- BSPs furnish employers with full access to member claim data, allowing them to identify member cost drivers and design better cost management and member advocacy strategies within their plans to suit members
- In addition, as Transparency in Coverage proliferates, BSPs serve an essential compliance role

Lives Covered in Self-Funded Plans by Firm Size, by Year



BSPs weather economic cycles because of the value they deliver to self-funded clients; unlike typical vendors, this value proposition strengthens during an economic downturn because of the ROI generated

TPAs Effectively Orchestrating Innovative Strategies

The employer market has long attempted various approaches to control healthcare costs. In order to see greater success in cost containment, newer, more sophisticated strategies are emerging—these are now a top priority for employers.



Historical Approaches Have Failed to Effectively Reduce Employee Healthcare Costs

Disease Management

Helping members with chronic illnesses through behavior change and routine adherence

Utilization Management

Evaluation of the medical appropriateness of treatment, with the approval or denial of service or payment

High Deductible Health Plan

Putting the bulk of the financial burden on the member to be more mindful in their healthcare spending

Wellness

Preventative employer programs aimed at reducing the risk of chronic illness through compensatory incentives



Employers Demand Innovative Strategies to Combat Inflating Healthcare Costs



Payment Integrity

Ensuring the proper payment of claims, including medical bill review



Reference-Based Pricing

Replacing contracted provider network rates with transparent and fair pricing based on reference benchmarks



Direct Contracting

Enabling direct contractual relationships between providers and employers to drive cost savings



Narrow Networks

Restricting a network to a smaller set of providers or PPO in exchange for advantageous pricing or more stringent standards



Value-Based Contracts

Payment models focused on the quality of services provided, rather than just the quantity



Rx/Program Management

Prescription drug plan management to optimize cost savings, medication adherence, and patient outcomes

Forward-thinking benefits solution providers are essential centerpieces within the employer health market—conducting the most innovative, ROI-driving strategies to reduce costs for the payer and add value to the member

Regulations Mandating Transparency Spur Innovation

As regulators push for clarity around provider pricing, plan coverage, and balance billing through the introduction and amendment of enacted legislation, the competitive moat for scaled TPAs and other benefits solution providers will continue to deepen.

Transparency in Coverage Rule

- The Transparency in Coverage rule (TIC) requires employer-provided group health plans to provide cost-sharing information to members such as:
 - Negotiated rates for covered items and services between the plan and in-network providers
 - Historical payments and billed charges from out-of-network providers
 - In-network rates and historical net prices for all covered prescription drugs
 - Tools for enrollees to receive personalized out-of-pocket cost estimates for care
 - For plan years beginning in 2023, an online tool must provide cost-share estimates for 500 shoppable services, expanding to all covered services in 2024

Trends Driving Increased Usage of BSPs

- ✓ Greater need for guidance on TIC's impact on self-insured plans
- ✓ Increased risk of severe non-compliance penalties
- ✓ Demand for innovative solutions promoting plan transparency
- ✓ Tech-driven solutions provide insights and tools to better manage costs

No Surprises Act

- The No Surprises Act (NSA) includes several different requirements specifically affecting employer-provided group health coverage:
 - Prescription drug and healthcare spending reporting
 - An advanced explanation of benefits (EOB) requirement
 - Medical/Rx identification card disclosure requirements
 - Opportunity for consumers to appeal disputes over coverage
- This ruling will likely result in employer-sponsored plans being burdened by increased medical costs
- The plan sponsor of a self-insured plan can delegate reporting responsibility to a TPA, creating further demand for specialty outsourced solutions

Value Proposition for Innovative Benefits Solution Providers



Ability to contain costs and drive ROI



Guidance toward compliance and adherence



Responsibility for reporting

As transparency regulations stiffen, poorly capitalized competitors will be crowded out, catalyzing consolidation for carrier-owned TPA aggregators and increasing investment opportunities for employer-sponsored healthcare investors

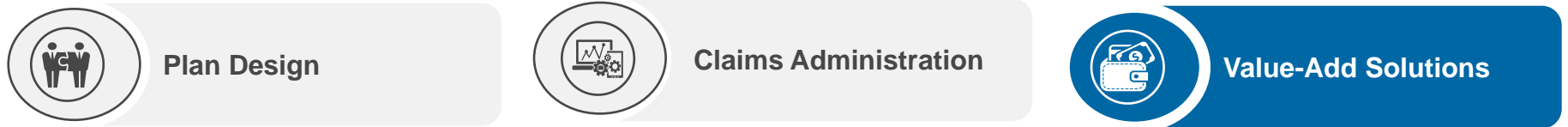
TPAs and Benefits Solution Providers – Services Offered

BSPs deliver a suite of high-value front- and back-end services to groups employing a self-funded health insurance strategy.

Market Participants by TPA Subsegment


































Service Offering



In addition to core plan design and administrative services, TPAs are increasingly offering ancillary value-add solutions to differentiate their capabilities and optimize wallet share from each client

Flexibility and Variety Are Advantages of Independent TPAs

Employers are increasingly partnering with independent benefits solution providers to design and implement custom self-funded strategies.

Category	Service	Description	 ASO	 Independent
 Plan Design	Benefit Design	Custom plan design services to structure health insurance plans		
	Member Enrollment	Distribution and collection of enrollment materials, EOB and initial member education		
	Member Service	Personalized member assistance and engaged management via call center and digital tools		
 Claims Admin	Reporting and Analytics	Data and insights into population health, utilization patterns, and ROI		
	Ancillary Benefits Admin	Administration of dental, vision, disability, life insurance, and other benefits		
	Back Office	Customized, white-labeled claims administration solutions, billing and operations support		
 Value-Add Services	Network Access	Partnerships with a variety of physician and health networks, including PPOs		
	PBM	Curated set of vendors to create and manage Rx plans to lower drug costs		
	Stop-Loss Placement	Securing protection against large claims exceeding predefined limits		
	Advocacy Programs	Guidance toward the highest quality and most cost-effective medical care		
	RBP and OON Claims	Out-of-network pricing based on established benchmarks		
	Prevention and Health Engagement	Improving outcomes through preventive care and health monitoring		
	Medical Cost Management	Solutions designed to lower the cost of care for chronic illnesses		

Independent TPAs thrive on flexibility and personalized services custom-designed for the plan sponsor's needs and can often provide more coverage, funding, and reimbursement options

Value-add services meaningfully differentiate independent TPAs by lowering costs and improving members' experience through enhanced network access, precise cost containment strategies, and high-touch advocacy programs

Unattached to a payor, independent TPAs provide holistic solutions that combine creative and flexible in-house plan design, powerful claims administration capabilities, and a variety of best-in-class value-add services to meet individual clients' needs

Illustrative TPA Market Map

For more information, contact the leadership team on pg. 19

The market map below is representative of select, notable Benefits Solution Providers operating primarily in the U.S.



Independent TPAs



Carrier-Owned TPAs

Commercial Payors



BCBS Affiliates







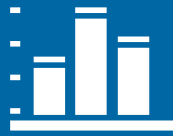

Approx. \$50M Revenue

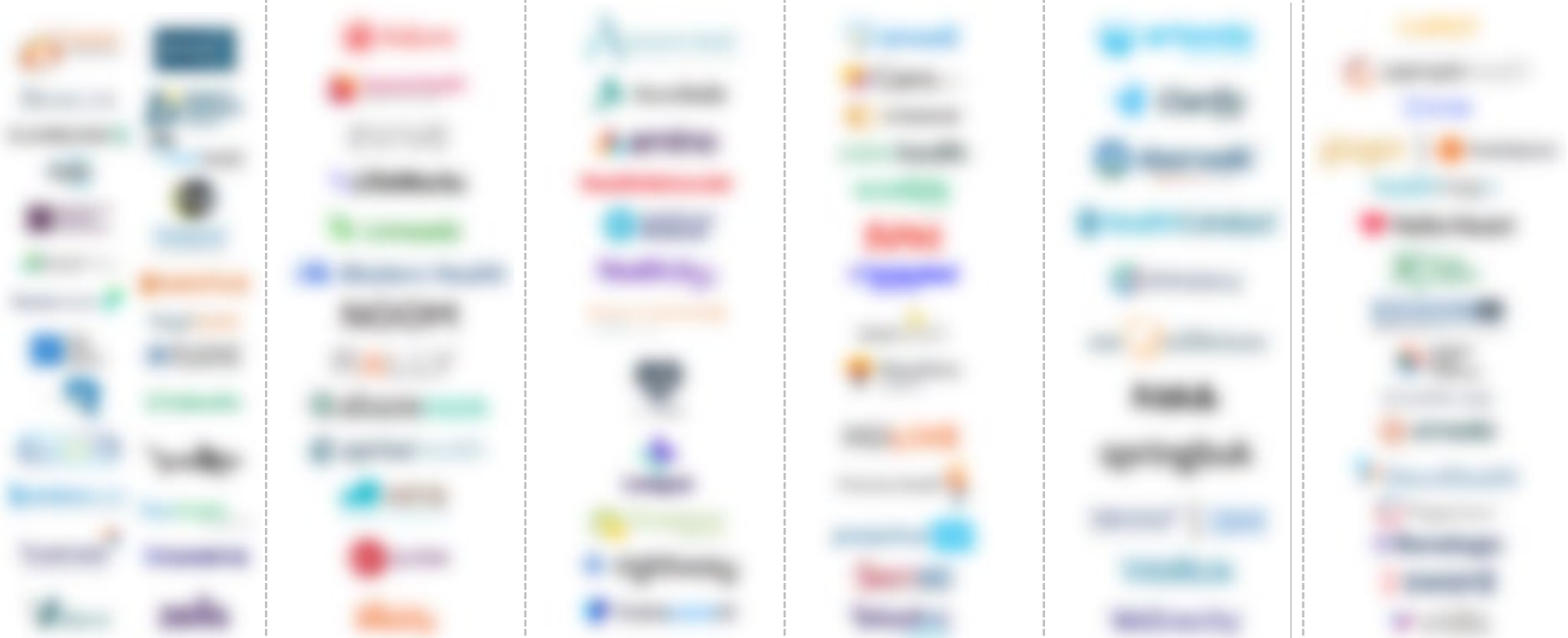
- Carrier-Owned TPAs now account for +50% of covered lives, continue to be acquisitive (especially BCBS affiliates), and offer steep discounts to retain existing and sign new members
- Independent TPAs are setting pace with flexibility, service, custom networks, and value-add owned and vended solutions to lower costs and improve members' experience
- Collectively, TPAs and other Benefits Solution Providers have attracted more private capital support than ever before
- Interest in TPA platforms and expansion via tuck-in M&A is at peak level

Variety of Value-Add Solutions

For more information, contact the leadership team on pg. 19

TPAs can differentiate through preferred relationships with integrated partners whose service capabilities provide a pathway to meeting a client's needs.

					
Cost Containment	Health Engagement	Navigation and Transparency	Providers	Data Analytics	Specialty Benefit Management



Fertile Buyer Landscape

The number of strategic acquirers pursuing add-ons and equity sponsors that desire a platform has resulted in a ripe, seller-friendly market for growing, differentiated benefits solution providers.

Strategic



Currently Invested in a Platform:



Currently Interested in a Platform:

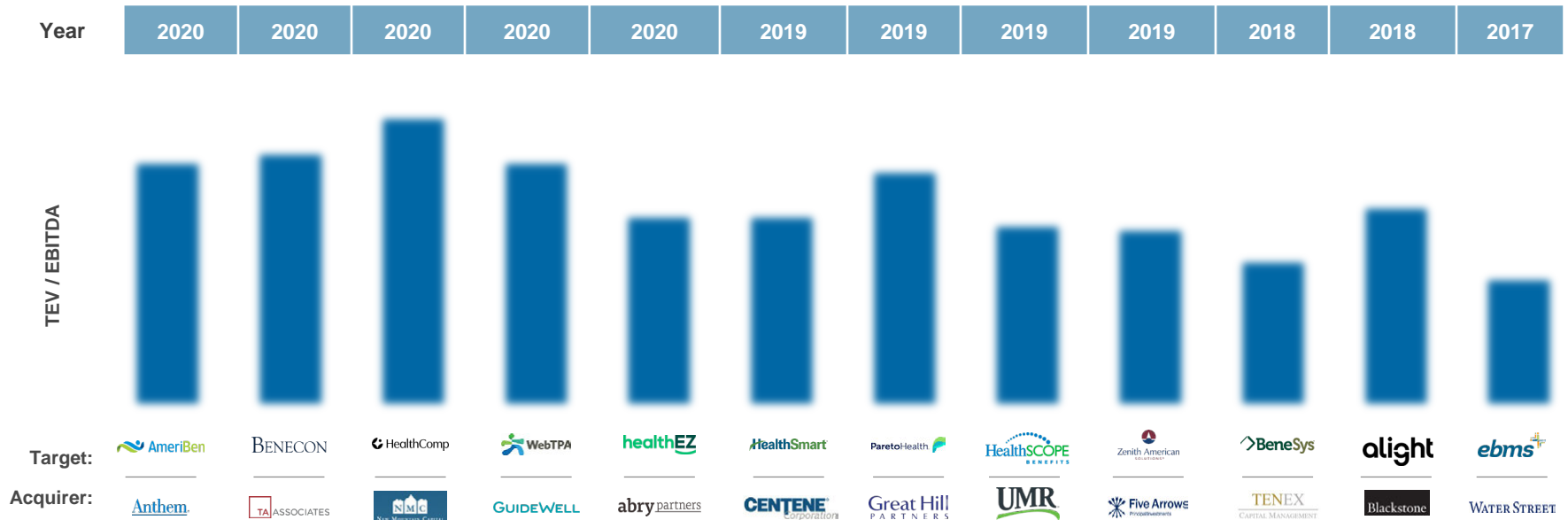
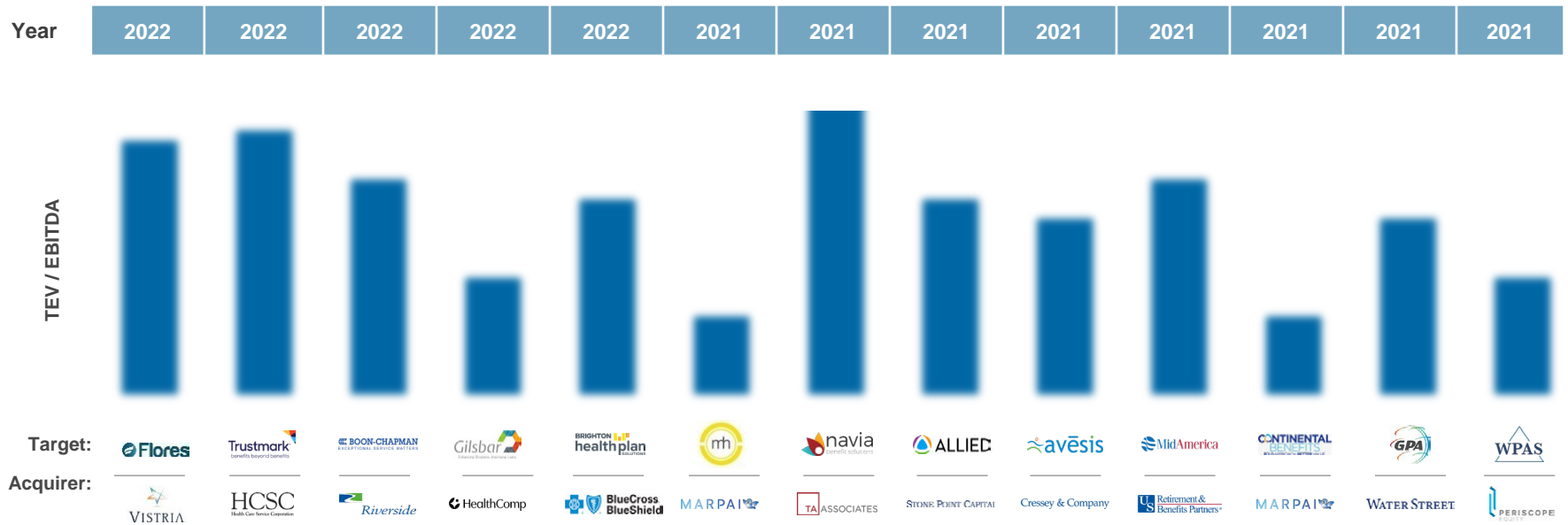


Financial Sponsors

Houlihan Lokey insights from multiple engagements inform real-time market intelligence from the most active market participants

Select Precedent M&A – Benefits Solution Providers

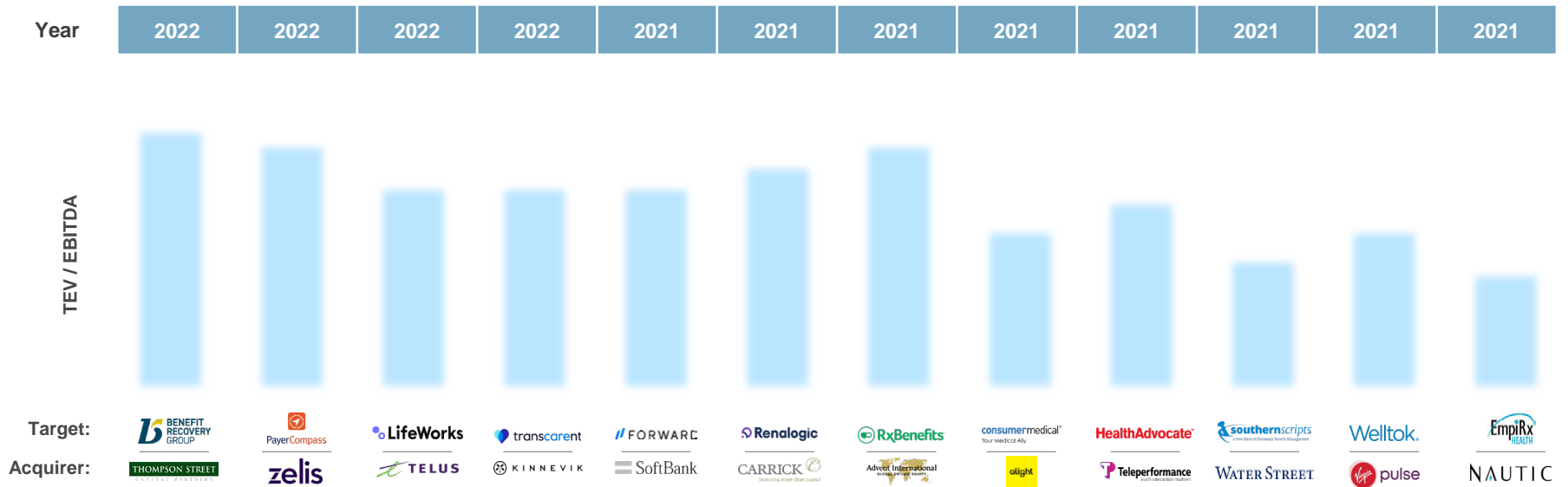
For more information, contact the leadership team on pg. 19



Source: Publicly available information

Select Precedent M&A – Value-Add Solutions

For more information, contact the leadership team on pg. 19



Source: Publicly available information



Company Profile

Allied Benefit Systems (Allied) is a national healthcare solutions company that supports healthy workplace cultures. Founded in 1980, Allied has grown to be one of the largest independent TPAs in the U.S. Allied provides customized benefits solutions, medical management, and cost control strategies to more than 9,000 small and medium-sized employers—the fastest growing segment of the self-insured market. In addition, the company offers a broad array of network options, pharmacy solutions, and care management strategies to enable its customers to reduce costs and drive improved member satisfaction.

Transaction Snapshot

The Houlihan Lokey deal team designed a quiet, custom sale process to maximize value while minimizing distraction. Houlihan Lokey maintained a highly competitive process through carefully targeted outreach while maintaining strict confidentiality throughout the entire process.

In February 2021, following a brief pause in summer 2020 due to COVID-19, Allied completed a majority recapitalization with Stone Point Capital. Stone Point's reputation as a value-add sponsor, along with its TPA experience, complementary portfolio, and value proposition to Allied shareholders, served as competitive differentiators in the process.

Client Testimonial

“We are thrilled to partner with Stone Point as we enter our next phase of growth. Stone Point’s network of relationships across the employee benefits brokerage and insurance ecosystems is second to none.”

– Mitch Wilneff, President, Allied Benefit Systems

Buyer Testimonial

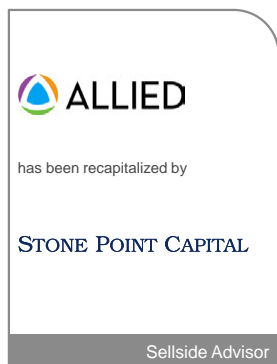
“We share management’s enthusiasm regarding the partnership...We believe that the group health TPA market is poised for consolidation, and the company’s full suite of innovative cost containment solutions, designed to help clients combat rising healthcare costs, will position the company for continued success.”

– Chuck Davis, CEO, Stone Point Capital

Houlihan Lokey Role

Houlihan Lokey served as the exclusive financial advisor to Allied and assisted in initiating, structuring, and negotiating the transaction on its behalf.

(\$ in millions)	
HQ	Chicago, IL
Employees	375+
LTM Revenue	\$100+
LTM EBITDA	ND
Transaction	Majority Recap.
Close Date	Nov. 2020



Case Study #2: Trustmark Health Benefits



Company Profile

Trustmark Health Benefits (Health Benefits) is a leading third-party administrator of self-funded, employer-sponsored health plans. Health Benefits designs, implements, and administers custom plans to manage costs through innovative solutions, data transparency, and member-centric support.

Health Benefits' parent, Trustmark, through its operating divisions and subsidiaries, offers specialized expertise in voluntary benefits, self-funded health plan design and administration for smaller employers, and the delivery of wellness, fitness, recreation, and injury prevention and treatment programs.

Transaction Snapshot

In October 2022, following a competitive, multistage process comprising varying buyer types and transaction structures, Trustmark completed the sale of Health Benefits to Health Care Service Corporation (HCSC).

In addition to favorable pricing and terms, HCSC's market reputation, cultural similarities to Trustmark, and retention of the existing management team served as competitive differentiators in the process. HCSC sweetened the deal by offering Trustmark incremental upside through a post-closing contingent consideration package and an ability to achieve it using HCSC's commercial capabilities.

Client Testimonial

"With this transaction, Health Benefits and its associates will be well positioned for future success... Trustmark will focus on markets where we can grow in the future, deliver differentiated capabilities for our clients, and... accelerate our efforts to become vastly more consequential in the markets we serve."

– Kevin Slawin, CEO, Trustmark

Buyer Testimonial

"With this acquisition, we're making it easier for employers of all sizes to access our expansive provider networks, our data-driven insights, and coordinated approach to care that focuses on quality and value."


– Kevin Cassidy, President, National Accounts, HCSC

Houlihan Lokey Role

Houlihan Lokey served as the exclusive financial advisor to Trustmark and assisted in initiating, structuring, and negotiating the transaction on its behalf. Houlihan Lokey also provided transaction advisory services.

(\$ in millions)

HQ	Lake Forest, IL
Employees	500+
LTM Revenue	\$150+
LTM EBITDA	ND
Transaction	100% Sale
Close Date	Oct. 2022



has sold its subsidiary,
Trustmark Health Benefits, to

Health Care Service Corporation

Sellside Advisor

Our Firm



**Houlihan
Lokey**

Houlihan Lokey is a leading global investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and financial and valuation advisory.

Our firm is the trusted advisor to more top decision-makers than any other independent global investment bank.

We invite you to learn more about how our bankers can serve your needs:

Learn More About
Corporate Finance

Learn More About
Financial Restructuring

Learn More About
Financial and Valuation Advisory

Learn More About
Our Industry Coverage

Key Facts and Figures



37
LOCATIONS
WORLDWIDE

~2,000
TOTAL FINANCIAL
PROFESSIONALS

300+
MANAGING
DIRECTORS⁽¹⁾

2,000+
CLIENTS SERVED
ANNUALLY

\$6B+
MARKET
CAPITALIZATION⁽²⁾

\$1.8B
REVENUE⁽³⁾

Our Ranking by Service

Corporate Finance

2022 M&A Advisory Rankings Global Transactions Under \$1 Billion

Advisor	Deals
1 Houlihan Lokey	381
2 Rothschild & Co	369
3 JP Morgan	217
4 Lazard	206
5 Goldman Sachs & Co	203

Source: Refinitiv. Excludes accounting firms and brokers.

No. 1 Global M&A Advisor Under \$1 Billion

Leading Capital Markets Advisor

Financial Restructuring

2022 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	58
2 PJT Partners Inc	30
3 Lazard	29
4 Rothschild & Co	25
5 Moelis & Co	21

Source: Refinitiv.

No. 1 Global Restructuring Advisor

1,500+ Transactions Completed Valued
at More Than \$3.0 Trillion Collectively

Financial and Valuation Advisory

1998 to 2022 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,232
2 JP Morgan	1,030
3 Duff & Phelps, A Kroll Business	938
4 Morgan Stanley	725
5 BofA Securities Inc	710

Source: Refinitiv. Announced or completed transactions.

No. 1 Global M&A Fairness Opinion
Advisor Over the Past 25 Years

1,000+ Annual Valuation Engagements

Fully Integrated Financial Sponsor Coverage

24 Senior officers dedicated to
the sponsor community in the
Americas and Europe

1,000+ Sponsors covered, providing
market insights and
knowledge of buyer behavior

700+ Companies sold to financial
sponsors since 2015

Houlihan Lokey Is a Global Firm

Americas

Atlanta Los Angeles São Paulo
Boston Miami Washington,
Chicago Minneapolis D.C.
Dallas New York
Houston San Francisco

Europe and Middle East

Amsterdam Madrid Stockholm
Antwerp Manchester Tel Aviv
Dubai Milan Zurich
Frankfurt Munich
London Paris

Asia-Pacific

Beijing Hong Kong Shanghai
Fukuoka SAR Singapore
Gurugram Mumbai Sydney
Ho Chi Minh Nagoya Tokyo
City Osaka

(1) As of April 2023. Excludes corporate managing directors. (2) As of March 2023. (3) LTM ended December 31, 2022.

Our Healthcare Industry Group



**Houlihan
Lokey**

Houlihan Lokey's Healthcare Group has earned a reputation for providing superior service and achieving outstanding results in M&A advisory, capita raising, restructuring, and financial and valuation advisory services.

We provide in-depth knowledge, proven transaction experience, and an exceptional level of service to our clients.

2022 M&A Advisory Rankings—Global Healthcare Transactions Under \$1 Billion

Advisor	Deals
Houlihan Lokey	37
Rothschild	36
Jefferies	32
JP Morgan	24
Goldman Sachs	22
Lazard	22
Lincoln International	22

Source: Refinitiv. Excludes accounting firms and brokers.

[Learn More About Our Healthcare Industry Coverage](#)

Key Facts and Figures

No. 1

Global Healthcare Advisor for Deals Under \$1B

100+

Dedicated Healthcare Investment Bankers

200+

Transactions Closed Since 2016, the Most of Any Firm

93%

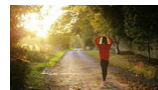
Close Rate Within the Past Four Years

86%

Transactions Closed in or Above Pitch Range

Industry Sector Coverage

We cover a broad array of sectors, with bankers dedicated to each of our primary coverage areas



Behavioral



Distribution



Global Healthcare Technology



Global Pharmaceuticals



Health Systems and Hospitals



Hospital/Outpatient Clinical and Outsourced Services



Managed Care/ Payors



Outpatient Services



Oral Health



Payor and Employer Services



Pharmacy



Pharmaceutical Services



Physician Practice Management



Post-Acute/Senior Housing



Retail Healthcare



Global Medical Technology Products and Services

Selected Healthcare Industry Transactions

DENTIVE
an operating company investment of
HGGC
has received strategic growth investment from
Sellside Advisor

PARADIGM ORAL HEALTH
a portfolio company of
InTandem CAPITAL PARTNERS
has been acquired by a fund managed by Blackrock, Inc.
Sellside Advisor

KabaFusion
an operating company investment of
PRITZKER PRIVATE CAPITAL
has been acquired by
NOVO holdings
Sellside Advisor

Trustmark
has sold its subsidiary, Trustmark Health Benefits, to
Health Care Service Corporation
Sellside Advisor

APOLLO
Apollo funds have partnered with and made a strategic investment in
GI Alliance
Buyside Advisor

Alisma DENTAL
a portfolio company of
has merged with
Sentine
STIDENTIST
a portfolio company of
PELTON
with equity financing from
KKR **HEARTLAND**
Sellside Advisor

astorg
has acquired
CORDENPHARMA
from
INTERNATIONAL CHEMICAL INVESTORS Group
Buyside Advisor

PLATINUM
a portfolio company of
STERLING PARTNERS
has merged with
WEST DERMATOLOGY
a portfolio company of
SUX CAPITAL
Sellside Advisor

Vet's Best Friend
a portfolio company of
LorienCapital **REVELSTOKE CAPITAL PARTNERS**
has been acquired by
rarebreed
a portfolio company of
REVELSTOKE CAPITAL PARTNERS
Sellside Advisor

ADVANCING EYECARE
a portfolio company of
Atlantic Street Capital
has been acquired by
CORNELL CAPITAL
Sellside Advisor

MEDIFOX DAN
a portfolio company of
Hg
has been acquired by
ResMed
Sellside Advisor

OCEANS
a portfolio company of
GENERAL CATALYST
has been acquired by
Webster Equity Partners
Sellside Advisor

MD NOW URGENT CARE
a portfolio company of
BRENTWOOD
has been acquired by
HCA Healthcare
Sellside Advisor

LCS
a portfolio company of
McCarthy Capital
has completed the recapitalization with
LEUCOP
Sellside Advisor

Our Employer-Sponsored Healthcare Team

Employer-Sponsored Healthcare Team



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Subsector Coverage

- Benefits Administration
- Care and Benefits Navigation
- Cost Containment
- Payment Integrity
- Pharmacy Benefits Mgmt.
- PPO and Specialty Networks
- Third-Party Administrators
- Value-Based Care
- Voluntary Benefits
- Workers' Compensation

Selected Sector Transactions

 a subsidiary of has been acquired by Sellside Advisor	 has sold its subsidiary, Trustmark Health Benefits, to Sellside Advisor	 has been acquired by Sellside Advisor	 has formed a strategic partnership with to accelerate growth for Guardian's subsidiary Sellside Advisor
 has been recapitalized by Sellside Advisor	 a portfolio company of has been acquired by Sellside Advisor	 See yourself healthy. a portfolio company of has been acquired by Sellside Advisor	 a portfolio company of has been acquired by Co-Advisor

Contact Us



Please reach out to Trey Marinello at 312.456.4777 to schedule a call to discuss insights on the sector or to explore how we can serve your business needs

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