



HEALTHCARE ADMINISTRATION AN INDUSTRY STUDY

Things you will learn from this whitepaper:

1. How do current regulations affect the healthcare administration industry?
2. What advantages are produced by the advancement of technology?
3. How has consolidation affected the industry's landscape?
4. What other industries have an economical impact in the health care administration industry?

This whitepaper will have special interest to:

1. Attorneys consulting with healthcare administrators considering mergers or acquisitions.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Financial & income tax advisors.
5. Those concerned with the valuation of healthcare administration.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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The administration of healthcare services is a small segment of the entire healthcare industry, and likewise, is a small subset of the overall Third Party Administration (“TPA”) industry. TPAs provide continuing professional outside claims and benefit plan administration for client employers and benefit plans. TPAs often become the employee benefits office for the covered workers and employers in the client plan.

Healthcare TPA services include, but are not limited to, patient claim processing, physician credentialing, and employee benefit consulting. The industry is highly complex and regulated. Prospective TPA clients face a myriad of options from large and small providers. Healthcare Maintenance Organizations (“HMO’s”) and the Medicare Drug Card Program present alternatives to traditional industry services. Other types of TPA plans include government, single-employer, pension and profit sharing, Preferred Provider Organization (“PPO”) plans, managed care, and provider sponsored plans.

Third party healthcare administrators provide easy access to their services. However, because of various entry barriers, it is difficult for new companies to establish themselves in the market. The most significant obstacles for new and smaller providers are their ability to enlist physicians to join their network and their capability to comply with industry and government regulations. It is also difficult to maintain a productive employee base, since knowledge of these regulations and procedures are critical to their functions. In recent years, the industry has experienced a significant amount of consolidation, creating larger companies that impose an increased challenge to local, regional and smaller competitors.

Outsourced business services have experienced rapid expansion during the past several years, with some estimates noting 10% annual market growth. TPAs have expertise in administration and technology to handle transaction volume, record maintenance, and knowledge of the complex laws and regulations required to deal with insurance and employee benefits. As large employers and associations consider becoming self-insured, there is an increased desire to outsource these claims and services. Even insurance companies find outsourced administration attractive for certain lines of business. This is because TPAs are often able to provide plan administration for approximately 40% of what insurers and other kinds of providers charge. Additionally, TPAs play a vital role in helping clients navigate the laws, regulations, technical decisions, opinions, court cases, interpretations, and other rulings from about 300 government entities which plans, employers and/or administrators must obey.

There are 1,200 to 4,000 claims administrators/TPAs in the highly fragmented domestic market, including those with full and limited service that are strong prospects for consolidation. The industry is thought to be in a dynamic time as consolidation is expected to continue to accelerate. In assessing the TPA market, potential acquirers may seek the following Company attributes:

1. Technology - Claims management has an increasing reliance on technology vs. telephone/paper claims; TPAs should highlight their technological efficiencies, expertise, and detail capital committed to system advancement.
2. Administration - Business can be sensitive to competition and profitability can depend on efficiency of administration. The cost and timing of changing administrators can make businesses fairly loyal if an administrator is performing well. Given the increasing laws and



regulations that have to be kept up to date, as well as the employee turnover and volume of transactions, an efficient operator can mean a difference in profitability.

3. Service - Typically, the smaller TPA's have emphasized service and their willingness to do just about anything for clients, such as customizing plan designs and conducting detailed claims reporting. Offering consumer-driven products can be an added benefit; TPA's can integrate a program to include services such as determining eligibility, utilization review and program communications management.

Large insurance companies, brokers, private equity firms and other TPA's that are looking to complement their product lines and geographic reach may begin acquiring TPA's at attractive prices as healthy economic conditions allow sellers to monetize their ownership positions at favorable levels.

Private equity firms also have become active in the TPA market. Interest has been driven by the growth potential in claims management services among large and mid-sized players, fee-based revenue, consolidation opportunities, increased profits through expense reductions and technology enhancements, an abundance of available debt capital, low capital expenditure requirements and attractive valuations for TPA companies.

In 2003, private equity firm Platinum Equity acquired the claims administration and risk management services of Kemper Insurance Cos., which was renamed Broadspire. In early April, Broadspire announced the sale of its disability administration business to Aetna Inc. for about \$160 million and recently Crawford announced that it had agreed to buy the rest of Broadspire for \$150 million. Also, private equity firm GTCR Golder Rauner L.L.C. announced that one of its portfolio companies, Solera Inc., had completed the acquisition of Automatic Data Processing Inc.'s Claims Services Group for \$975 million. Solera, a provider of consulting, outsourced services and strategic technology solutions focused on claims, will reap the benefits of CSG's operating companies, revenues in excess of \$410 million and a global network of customers/associates in 31 countries. And in May, New York-based Odyssey Investment Partners L.L.C., a private equity fund, completed its acquisition of Parsippany, N.J.-based York Insurance Services Group Inc., an outsourcer of specialty claims management services. Additionally, global investment group Investcorp Inc. agreed last September to buy CCC Information Services Group Inc., which sells software for auto claims processing.

Some TPA's may find it difficult to compete with the scale and technology of total benefit outsourcing firms. As a result, the TPA market has seen smaller firms join forces or sell to larger entities. We would expect this trend to continue.



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