HCMG 890-001
ASP: Management of Health Care Service Businesses

Fall 2009 – Quarter 1
Tuesday 3:00-6:00, JMHH F55

Douglas Present
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Webcafe: https://webcafe.wharton.upenn.edu/eRoom/hcmg/890-fa09-1

Objectives

This course will provide students with a more detailed understanding of health care service businesses (defined as companies that manage, distribute or provide health care services). Health care services touch almost every area of our health care system and this course seeks to prepare students who may enter health care related fields in management, investment banking, consulting, venture capital or private equity. While we will cover health care services from this broad perspective, the emphasis will be on the management of these businesses rather than on detailed financial analysis. Our attention will be on larger for-profit business entities as opposed to individual physician or hospital providers.

Each 3 hour session will be broken down into two parts: Lecture time, where we will focus on the cross functional challenges that are common to all health care service businesses, and Sector Focus, where we will learn about different health care service business sectors and how the senior executives of these businesses handle the various challenges.

Lecture themes will include:

- Reimbursement by payor class including an overview of Medicare, Medicaid and Commercial markets
- The impact of government oversight and the challenges related to working in such a highly regulated environment
- Health care services from an investment banking perspective including public and private valuations, the building of equity value and obtaining financing
- Leadership and management styles that will be successful in health care service businesses

In our Sector Focus, students will learn from current industry leaders in a variety of health care service businesses. Speakers will be asked to draw upon their real world experience and discuss how they have addressed the common management themes we are reviewing during the class. Speakers will present an overview of their industry including an overview on their customer base and the competitive landscape in which they operate.

Students will work in small groups to develop a plan for the buyout of, or investment in, an actual health care service business that will address these common management issues and demonstrate how the company will succeed in the future. In the final class, students will have the opportunity to present their plans to a panel of leading health care services private equity investors who will critique their plan and the reasoning behind it.
**Grading**

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Class participation</td>
<td>25%</td>
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<td>Buyout plan</td>
<td>40%</td>
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<td>Final presentation</td>
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**Buyout Plan and Presentation**

Students will work in small teams to develop an investment memorandum that will be submitted in writing and then presented to an “Investment Committee” comprised of current health care services private equity investors. The plan will present the case for making an investment in the selected company and will include an investment thesis, company overview, industry sector overview, financial summary, investment concerns, and a going forward management plan that addresses significant issues the company will face in the future. While some minimal financial analysis will be required, the focus will be on the common management issues discussed throughout the course and how those management issues will be resolved in the target company. Students will be graded based upon the written plan and by the investor panel based upon the presentation of their final plan.

**Coursework and Readings**

Students will be expected to attend class, be prepared for the different industry speakers, and have at least a general understanding of that speaker’s sub-sector within health care services. Background readings on each of the sub-sectors will be made available and will include analyst reports and selected readings provided by our speakers.

**Class Schedule**

**Class 1 - September 15, 2009**

The first class will be an organizational session where we will outline course objectives, develop teams and discuss the end of term project. We will introduce the common management challenges faced by most health care service businesses. In order to give students the framework for their final projects, we will also discuss how private equity companies actually work and make money investing in health care services businesses. This will include a case study on Managed Health Care Associates Inc. a private equity backed Group Purchasing Organization.

**Speaker:** Douglas Present – Chairman & CEO Managed Health Care Associates

**Class 2 – September 22, 2009**

**Lecture Focus – Reimbursement and Margins:** We will cover the major different types of payor reimbursement including Medicare, Medicaid, Commercial and Self Pay. We will examine how each of these programs work and how a company’s payor mix, and their ability to get paid impacts the success of any health care service business. We will also discuss profit margin issues for health care services companies that have to operate in this environment where many believe the services provided should be for the “public good”.


Class 2 – September 22, 2009 - Continued

Sector Focus – Home Infusion/Specialty Pharmacy: As traditional Home Infusion services have expanded to include specialty and bio-injectable drugs, this industry has become far more complex than in its early days. The recent entry into the market by huge retailers, combined with increased demands for efficiency by government and commercial payors, has made this industry both increasingly complex and challenging. We will look at one company that has been able to gain scale through acquisition as well as through service diversification, in order to remain a true leader in this growing segment of the health care services sector.

Speaker: Dan Greenleaf –President, Coram Specialty Infusion Services –An Apria Healthcare Company.

Class 3 – September 29, 2009

Lecture Focus – Regulatory Issues and Their Impact: Health Care is a strictly regulated industry and many health care service businesses will have the government as its primary payor. We will explore how CMS functions, how to work within a regulated environment and how the government can positively or negatively impact the prospects for health care services companies. We will also review the major pieces of legislation that are currently driving our health care system such as the pending health care reform legislation, The Medicare Modernization Act and the Deficit Reduction Act.

Sector Focus: Home Health Care. As America ages and acute care services remain expensive, more and more health care is being provided in a home setting. We will look at this highly regulated and government reimbursement dependent industry and learn how one private equity backed company, that is entirely dependent on the government for its reimbursement, has managed to achieve continued growth and success.

Speaker: April Anthony, CEO – Encompass Health

Class 4 – October 6th, 2009

Lecture Focus – Health Care Investment Banking and Valuation: Given the huge potential market size, health care services have traditionally captured a large portion of investment dollars from venture capital and private equity firms. We will explore why some health care service businesses build equity value and obtain funding while others do not, as well as the current trends regarding what types of businesses are obtaining financing or premium valuations in today’s markets. We will also study how banks approach health care service businesses and the valuation methods employed. Finally, we will look at the traditional sources of funding for health care service businesses and different options available to these companies in light of issues being faced in today’s debt markets.
Class 4 – October 6th, 2009 - Continued

Sector Focus – Pharmacy Benefit Management (PBMs): With the continual increase in pharmaceutical spending, PBMs play an enormous role in managing costs and benefits for an increasing number of people in the United States. As this industry has become more competitive, the need for scale, technology solutions, automation, and mail order capabilities continues to determine who will thrive. We will look at one company that has managed to carve out a unique niche in this space and develop a variety of business solutions that enable them to compete well against the industry’s largest players.

Speaker – Mark Thierer- President and CEO, SXC Health Solutions Corp (NASDAQ: SXCI)

Class 5 – October 13, 2009

Lecture Focus – Leadership and Management of Health Care Services Businesses: We will explore some basic principles of leadership for every business and then discuss the unique issues faced by leaders of health care services businesses. We will look at different tracks for becoming a leader within a health care services business and compare and contrast different management styles that have allowed leaders to successfully run their companies in this unique environment.

Sector Focus – Physician Revenue Cycle Management: The ability to get paid for services rendered has become both more difficult and more complex. Many different types of companies have attempted to develop solutions to assist physicians become more efficient and collect a higher portion of their billed charges from managed care payors. We will look at this growing industry and see how one major player has set themselves apart from a large group of competitors and launched one of the more successful health care services IPOs in recent history.

Speakers
Jonathan Bush – CEO – Athenahealth (NASDAQ:ATHN)

Class 6: Final Class – Presentations October 27, 2009

Students will present their recommendations for the buyout of a health care service business. They will be asked to address the key management issues discussed throughout the course and to make a business case for investing in, or buying out the company they have chosen. Students will present to an “Investment Committee” comprised of leading health care services private equity professionals who will critique their performance and their understanding of the relevant issues.

Firms Expected to Participate On Our Private Equity Panel:
Advent International Global Private Equity
Diamond Castle Holdings
GTCR Golder Rauner
Sterling Partners