Q&A

HEALTHCARE

LEGAL

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HEALTHCARE POSITION MONITOR

Sentiment Score[1]	Investment Ideas - Longs		Trade	Trend	Tail
	LONG				
6	ATHN	athenahealth, Inc.	✓	✓	✓

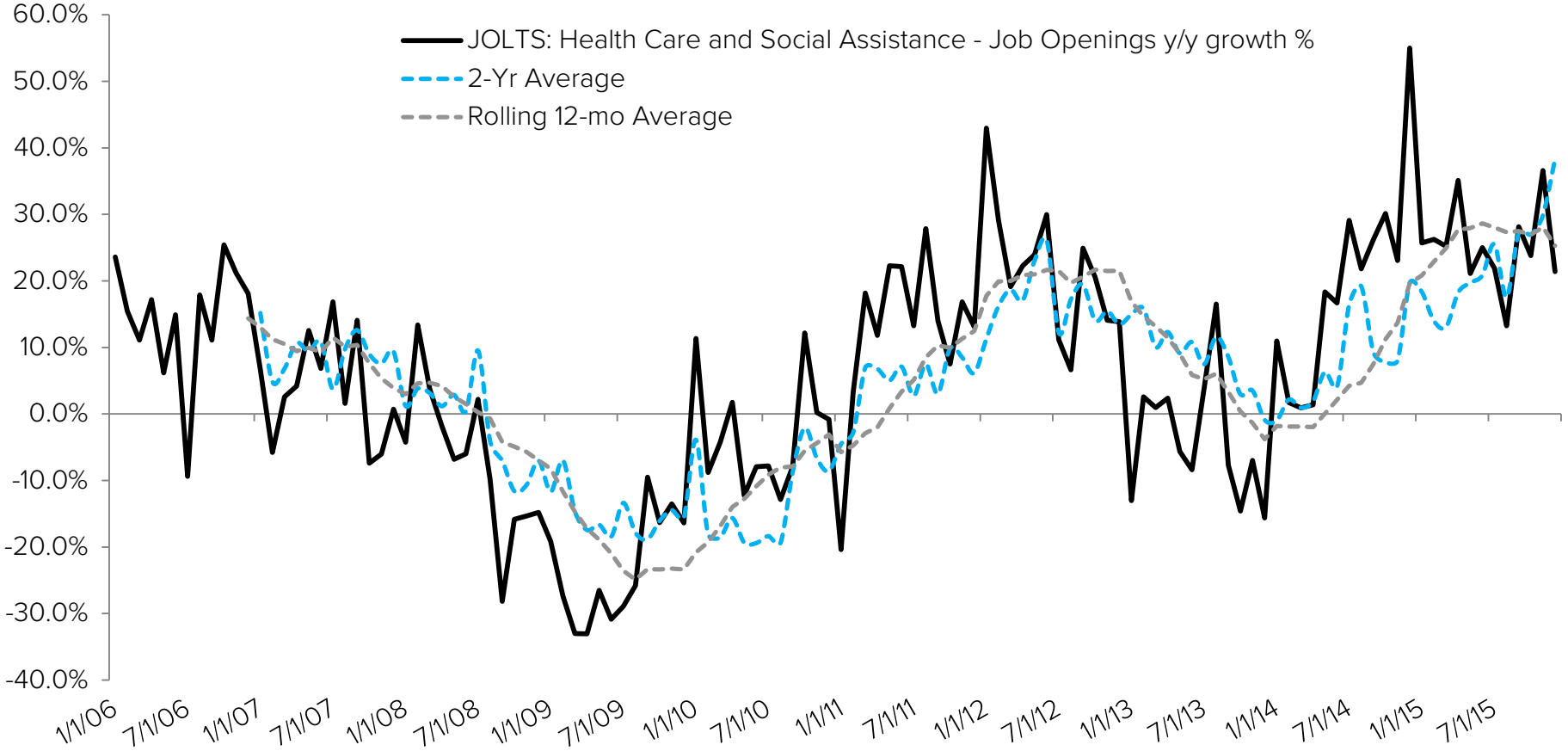
Sentiment Score[1]	Investment Ideas - Shorts		Trade	Trend	Tail
	SHORT				
93	ZBH	Zimmer Biomet Holdings, Inc.	---	×	×
90	AHS	AMN Healthcare Services, Inc.	---	×	×
62	MD	MEDNAX, Inc.	×	×	×
45	HOLX	Hologic, Inc.	×	×	×
24	MDRX	Allscripts Healthcare Solutions, Inc.	---	×	×

Sentiment Score[1]	Long Bench				
	LONG				
35	CSLT	Castlight Health, Inc. Class B	---	---	---
76	EVH	Evolent Health Inc Class A	---	---	---
82	CERN	Cerner Corporation	---	---	---

Sentiment Score[1]	Short Bench				
	SHORT				
n/a	CPHD	Cepheid	---	---	---
100	VRX	Valeant Pharmaceuticals International, Inc.	---	---	---
94	MDSO	Medidata Solutions, Inc.	---	---	---
89	ILMN	Illumina, Inc.	---	---	---
81	WOOF	VCA Inc.	---	---	---
72	ICLR	ICON Plc	---	---	---
69	CYH	Community Health Systems, Inc.	---	---	---
64	ISRG	Intuitive Surgical, Inc.	---	---	---
61	Q	Quintiles Transnational Holdings, Inc.	---	---	---
56	CRL	Charles River Laboratories International, Inc.	---	---	---
45	DVA	DaVita HealthCare Partners Inc.	---	---	---
38	LPNT	LifePoint Health, Inc.	---	---	---
29	QSII	Quality Systems, Inc.	---	---	---
24	LH	Laboratory Corporation of America Holdings	---	---	---
19	HCA	HCA Holdings, Inc.	---	---	---
17	PRXL	PAREXEL International Corporation	---	---	---
1	DGX	Quest Diagnostics Incorporated	---	---	---
1	CPSI	Computer Programs and Systems, Inc.	---	---	---

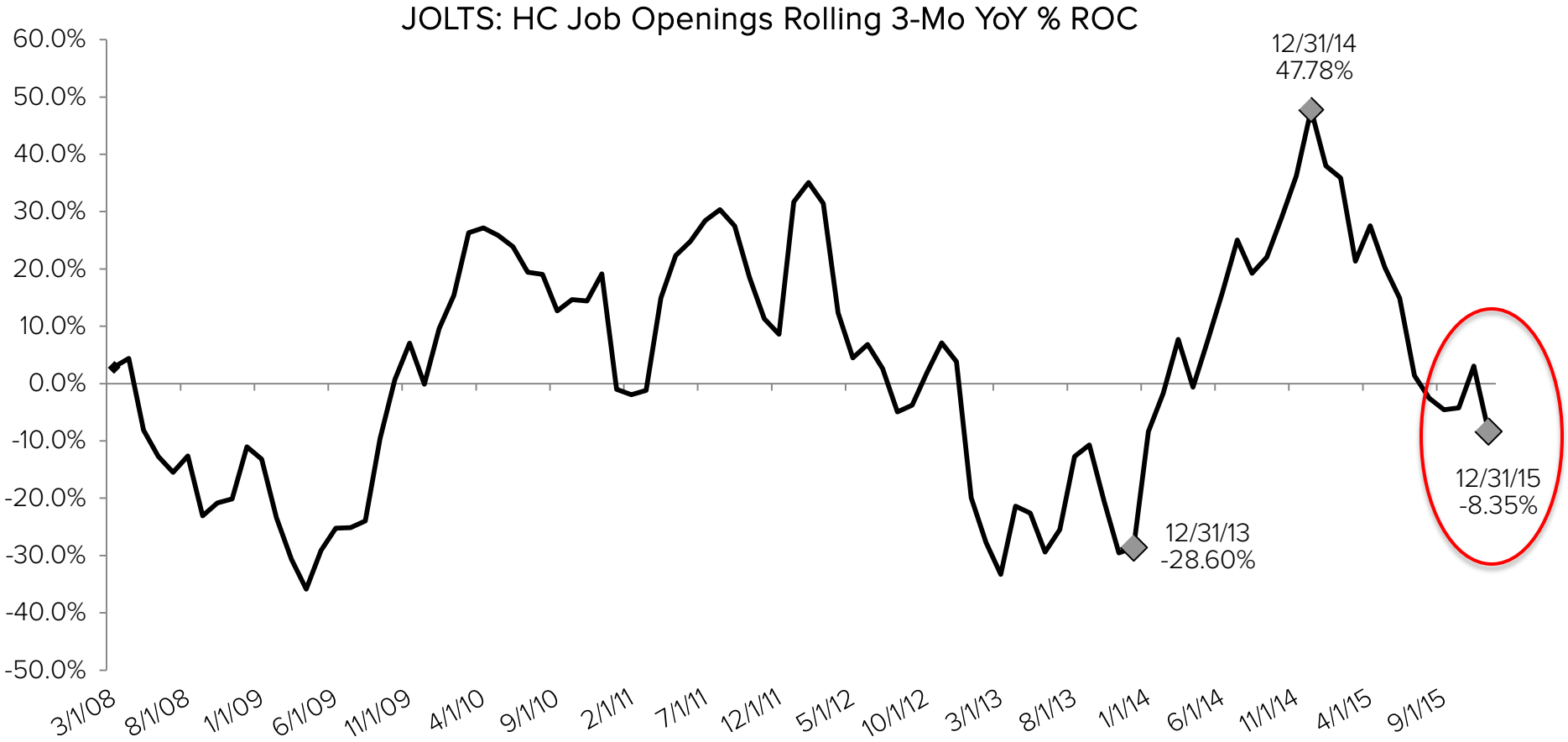
DATA SOURCE: FACTSET

HEALTHCARE JOLTS



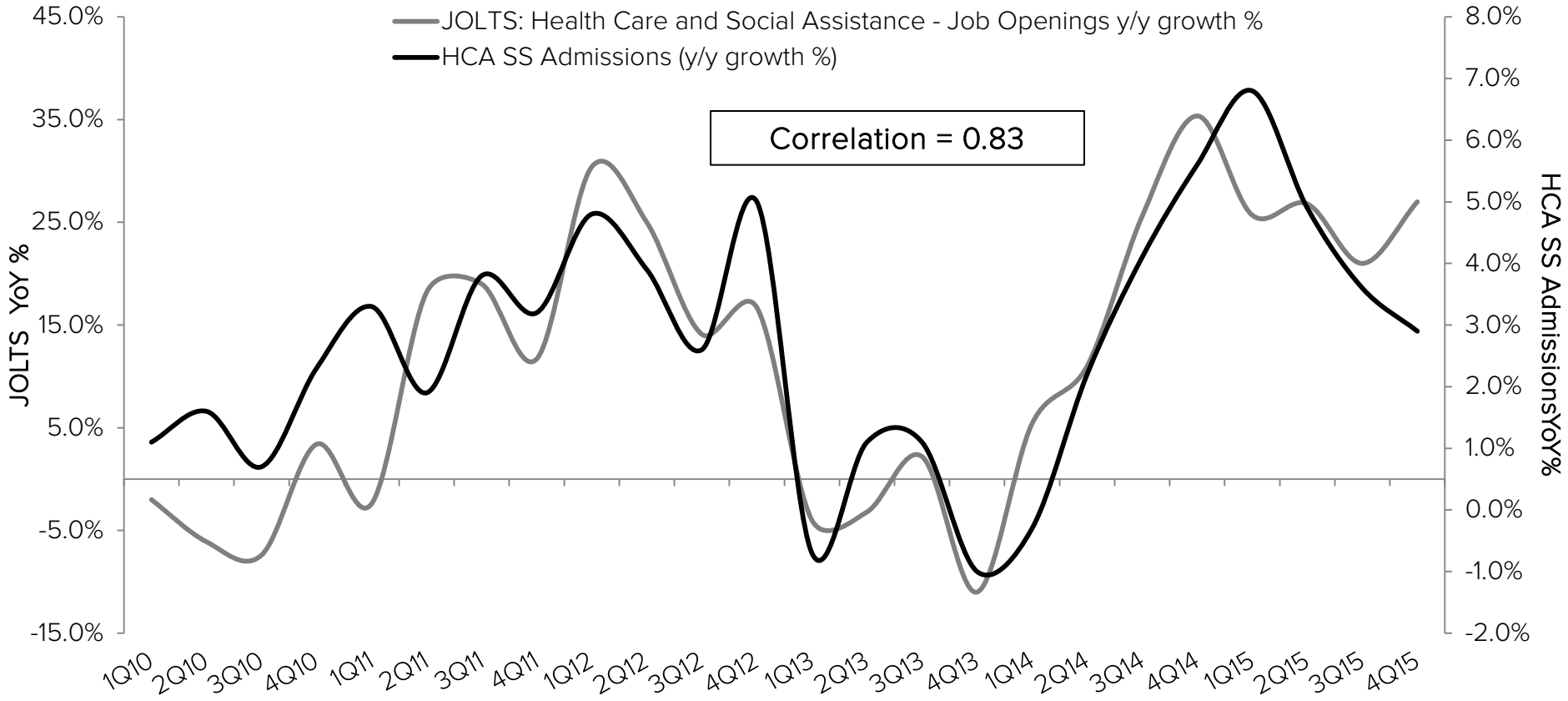
DATA SOURCE: BLS

HEALTHCARE JOLTS SLOWING



DATA SOURCE: BLS

HCA | ADMISSIONS VS JOLTS



DATA SOURCE: BLS AND COMPANY FILINGS

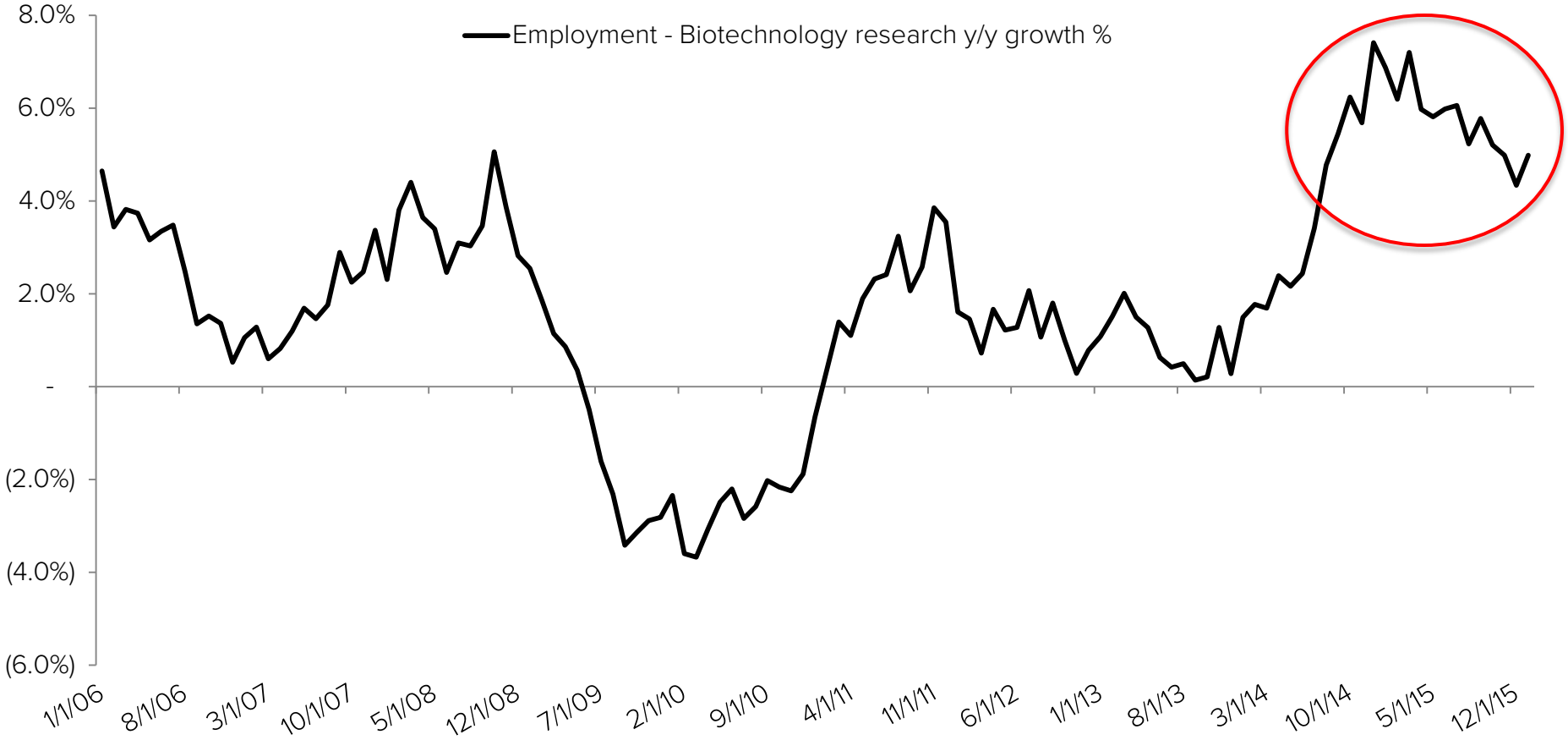
HEALTHCARE EMPLOYMENT

DATA SOURCE: BLS

HOSPITAL EMPLOYMENT

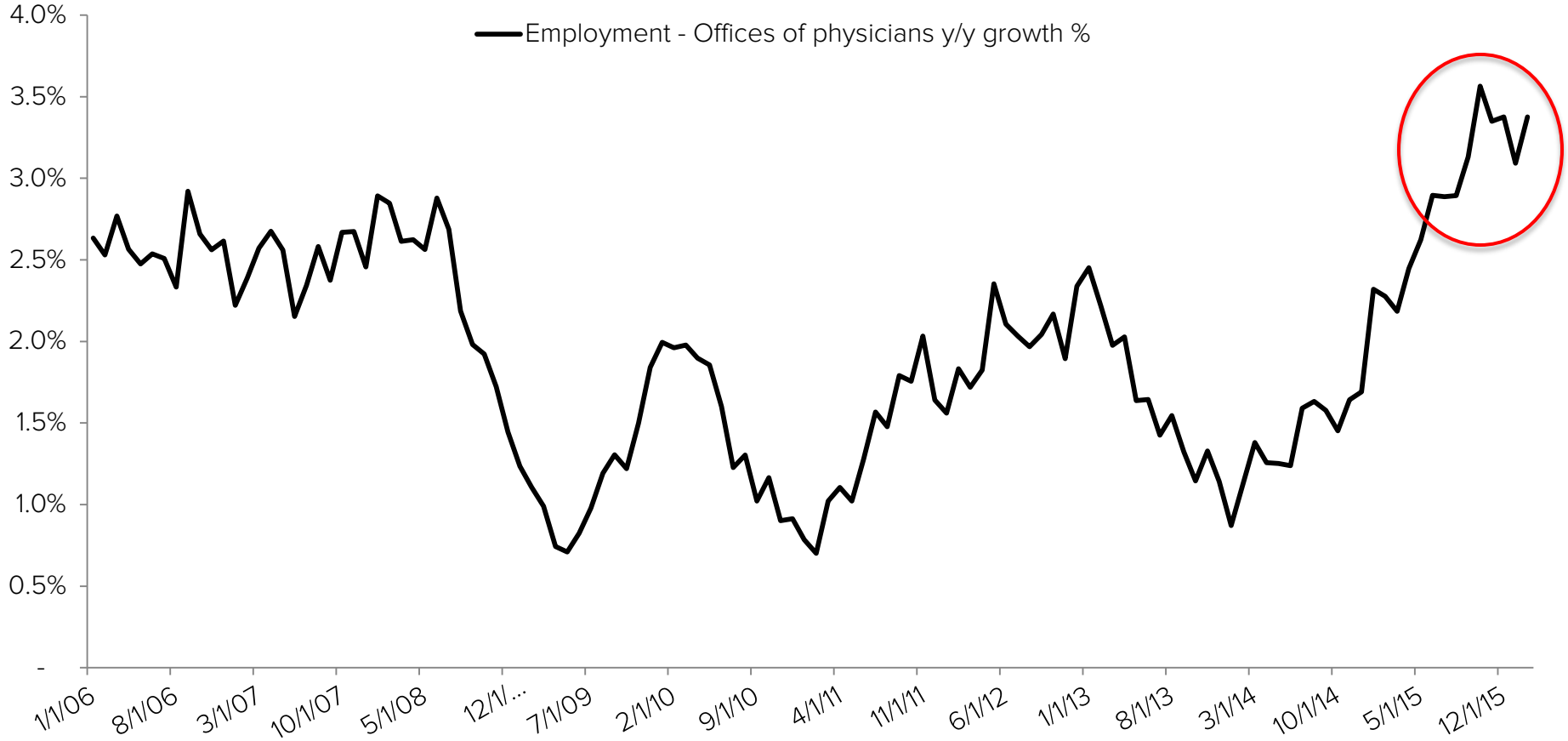
DATA SOURCE: BLS

BIOTECH EMPLOYMENT



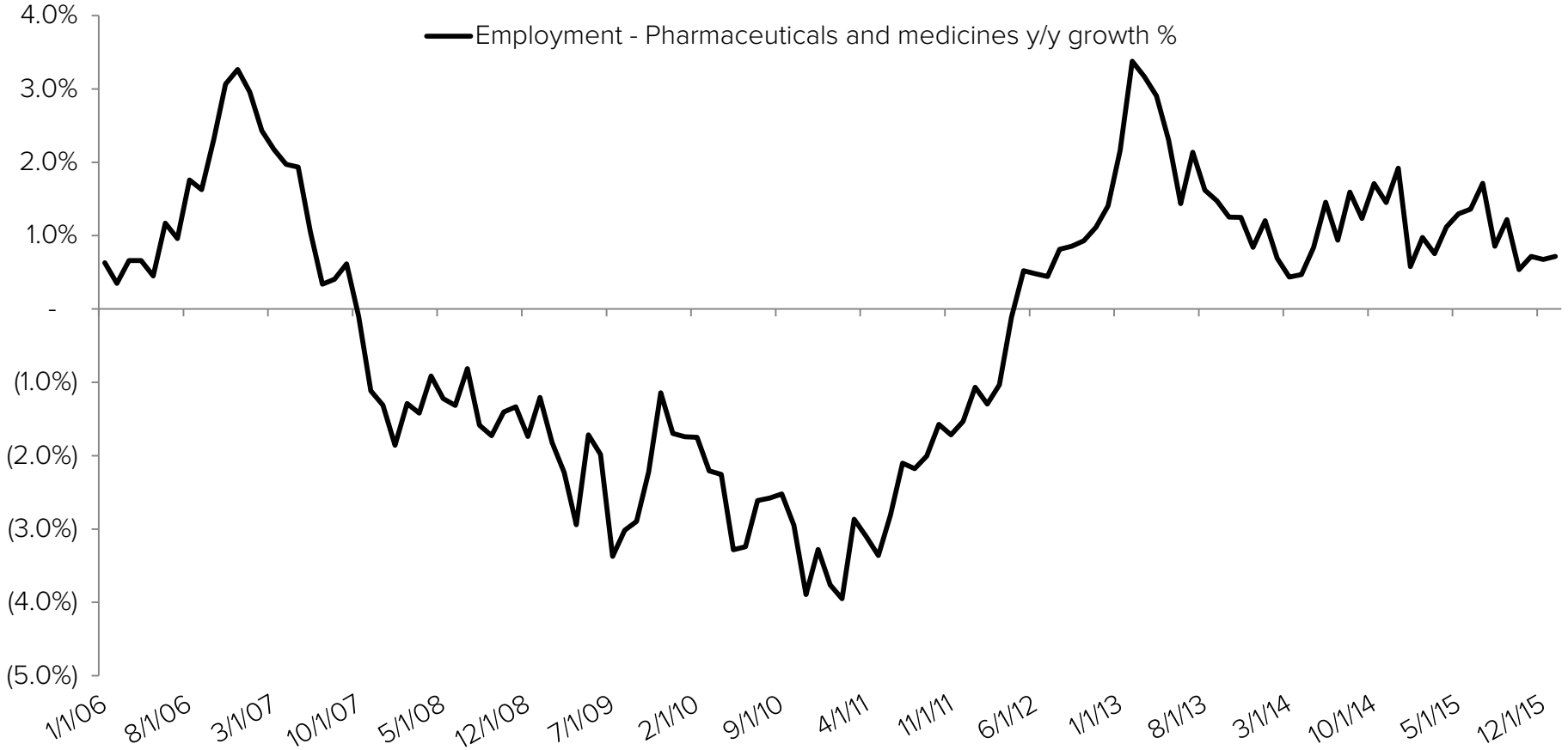
DATA SOURCE: BLS

PHYSICIAN OFFICE EMPLOYMENT



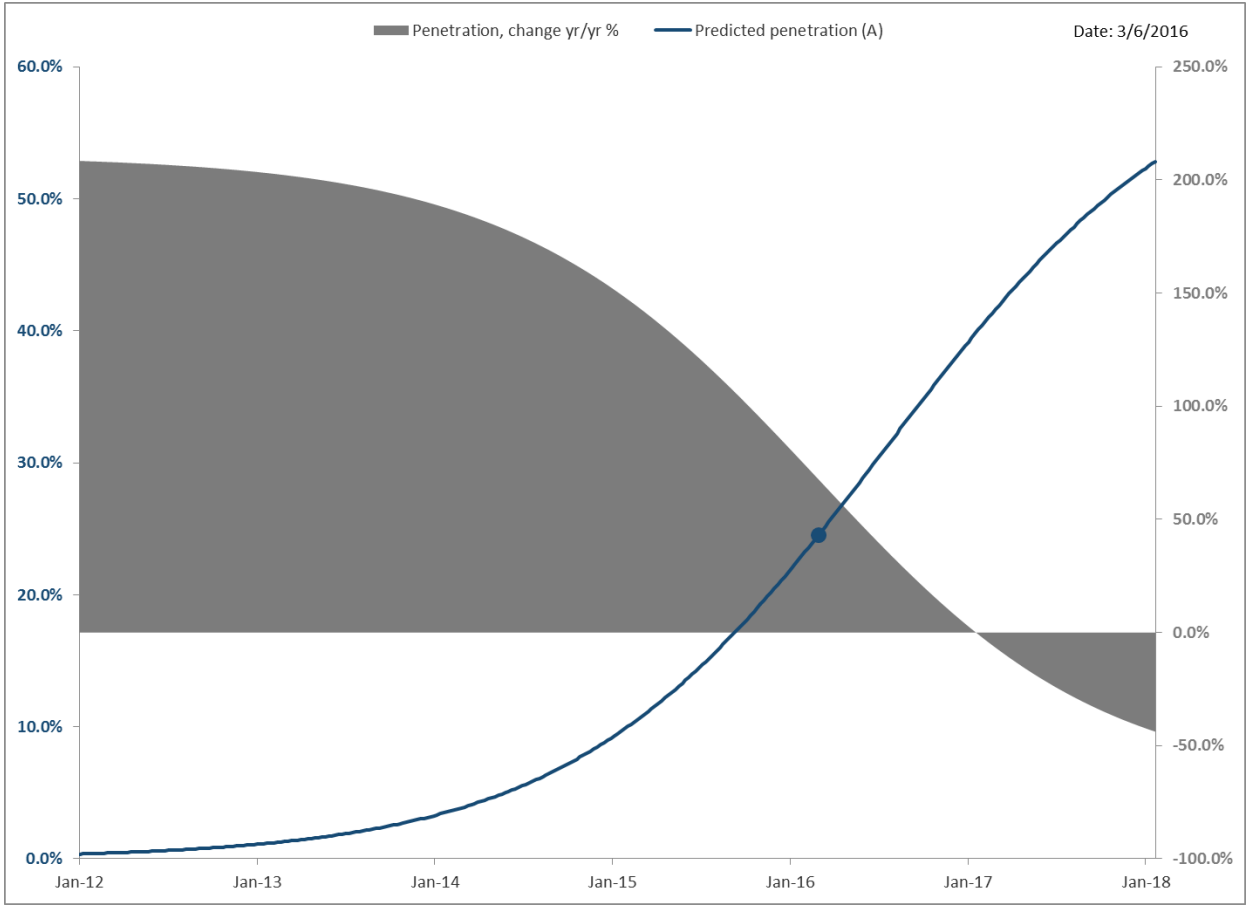
DATA SOURCE: BLS

PHARMA EMPLOYMENT



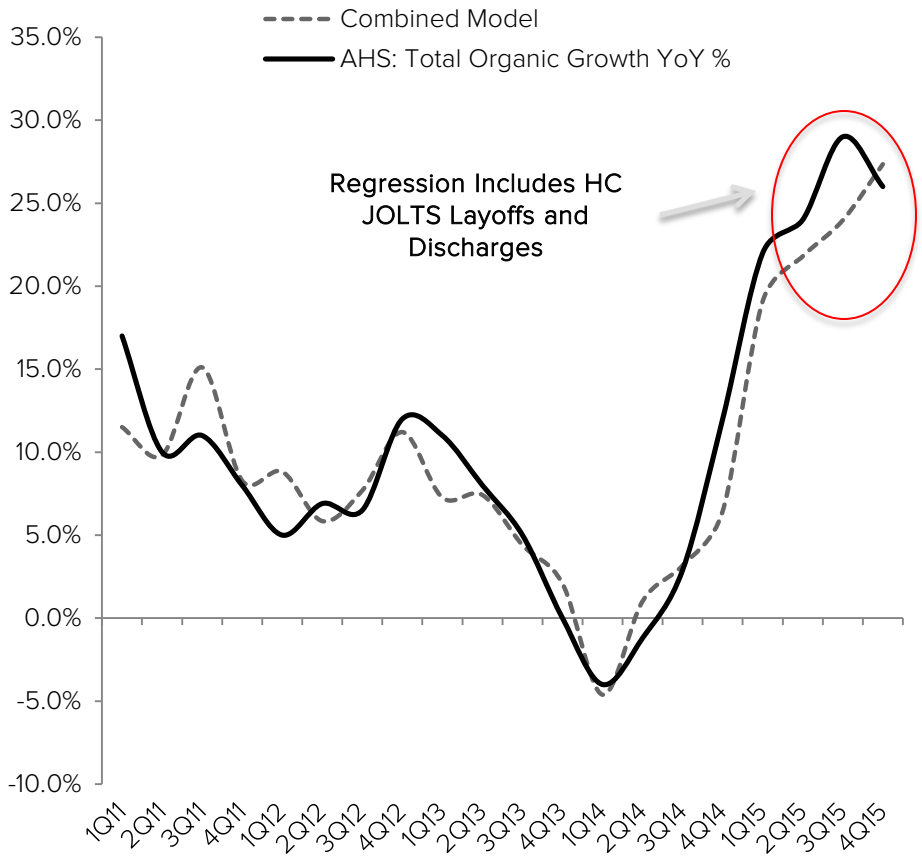
DATA SOURCE: BLS

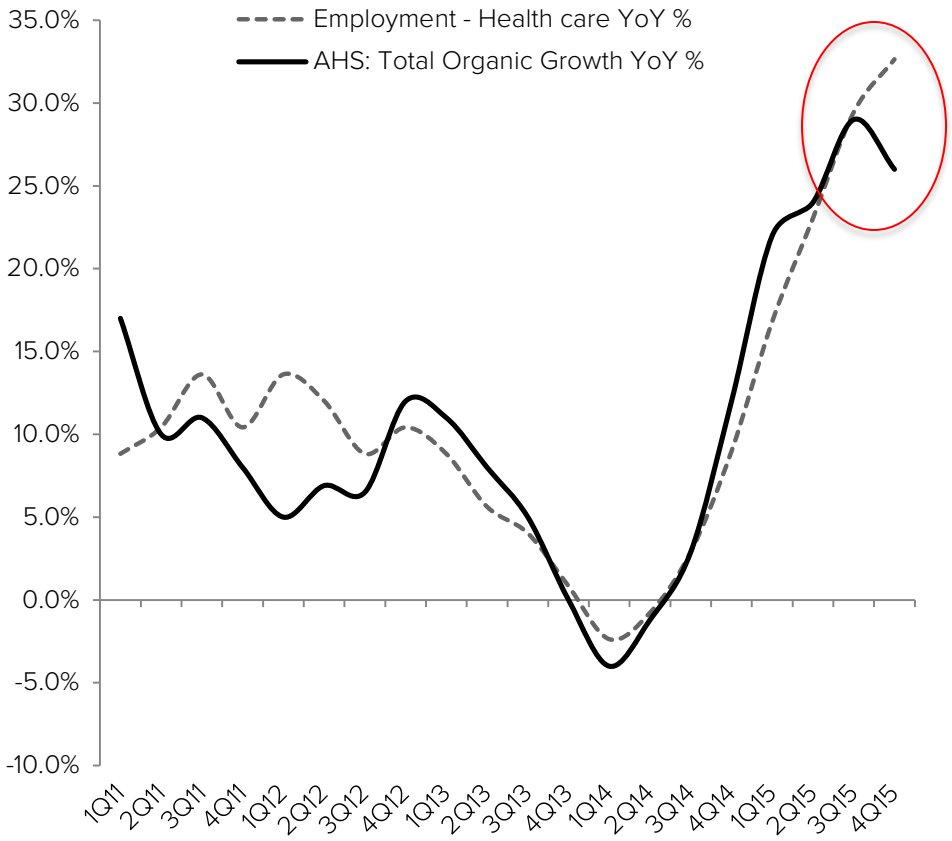
HOLX | 3D TOMO TRACKER – 3/6/2016



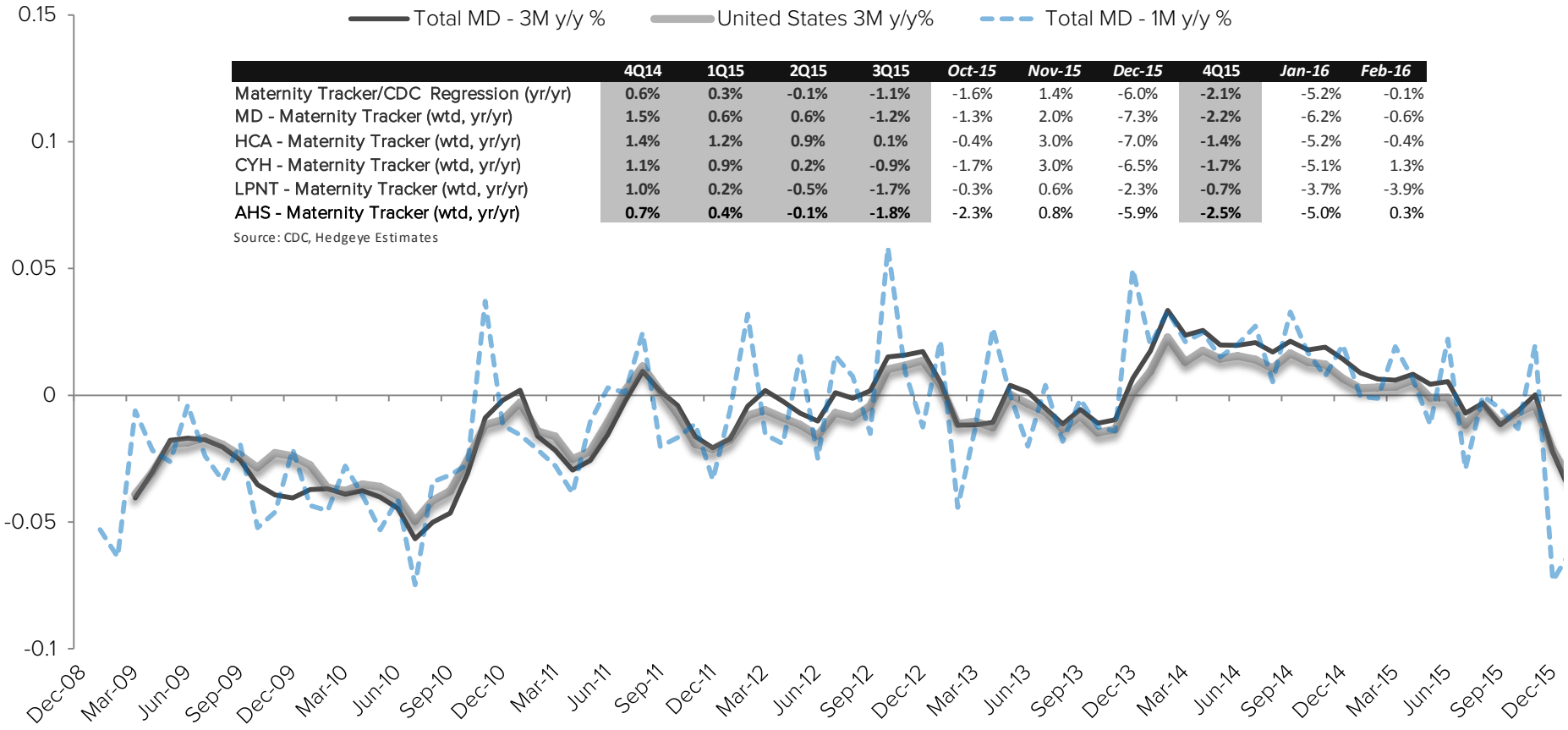
DATA SOURCE: TOMO TRACKER

AHS | ORGANIC GROWTH MODEL





MD | MATERNITY TRACKER



	4Q14	1Q15	2Q15	3Q15	*Oct-15*	*Nov-15*	*Dec-15*	4Q15	*Jan-16*	*Feb-16*
Maternity Tracker/CDC Regression (yr/yr)	0.6%	0.3%	-0.1%	-1.1%	-1.6%	1.4%	-6.0%	-2.1%	-5.2%	-0.1%
MD - Maternity Tracker (wtd, yr/yr)	1.5%	0.6%	0.6%	-1.2%	-1.3%	2.0%	-7.3%	-2.2%	-6.2%	-0.6%
HCA - Maternity Tracker (wtd, yr/yr)	1.4%	1.2%	0.9%	0.1%	-0.4%	3.0%	-7.0%	-1.4%	-5.2%	-0.4%
CYH - Maternity Tracker (wtd, yr/yr)	1.1%	0.9%	0.2%	-0.9%	-1.7%	3.0%	-6.5%	-1.7%	-5.1%	1.3%
LPNT - Maternity Tracker (wtd, yr/yr)	1.0%	0.2%	-0.5%	-1.7%	-0.3%	0.6%	-2.3%	-0.7%	-3.7%	-3.9%
AHS - Maternity Tracker (wtd, yr/yr)	0.7%	0.4%	-0.1%	-1.8%	-2.3%	0.8%	-5.9%	-2.5%	-5.0%	0.3%

Source: CDC, Hedgeye Estimates

#HIMSS16 TAKEAWAYS

1

INTEROPERABILITY AT AN INFLECTION POINT

Interoperability was one of the top buzzwords of the conference. While the ability to share data between disparate EHR systems exists today, seamless interoperability between systems continues to be limited by the lack of workflow standards, a single patient identifier and vendor openness. However, emerging standards such as **FHIR** and a mandatory use of APIs to meet MU3 requirements is laying the infrastructure for data exchange beyond the current **C-CDA**.

2

REGULATORY HEADWIND/TAILWIND

There continues to be a lot concern among providers and vendors regarding the timing and requirements of MU3, PQRS, VBM and MIPS. These programs are complex and awareness within the physician community surprisingly low based on the CIOs we spoke with. For large health systems, the resources and processes needed to merely be able to submit quality metrics and avoid penalty are immense.

3

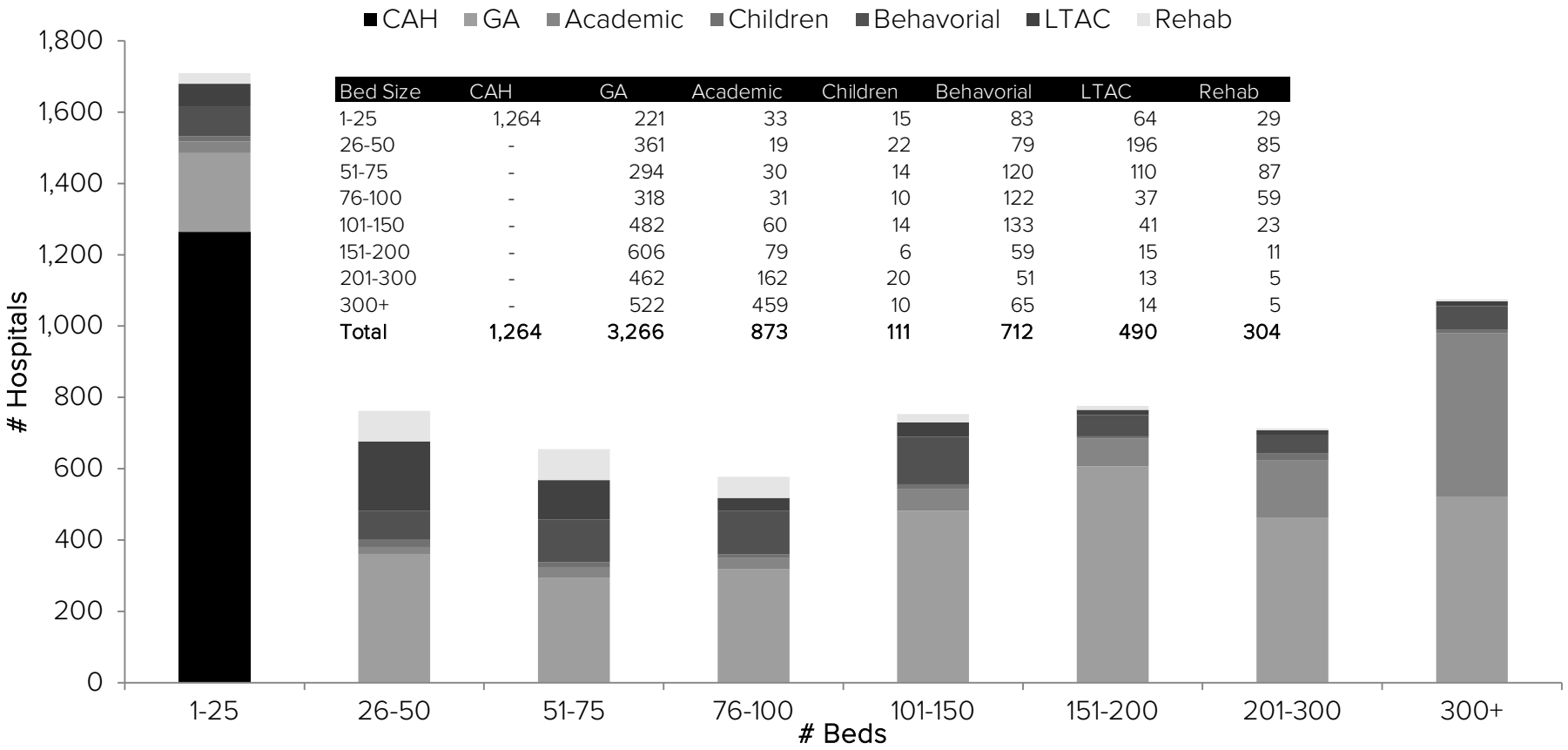
WINNERS AND LOSERS

The competitive gap is widening with ATHN, CERN and Epic in the lead, and CPSI, MDRX McKesson, MEDITECH struggling to keep their ground.

#HIMSS16 VENDOR BOOTH ACTIVITY

Low	Medium	High
Evident	McKESSON	Cerner
MEDHOST	Allscripts	Epic
MEDITECH Medical Information Technology, Inc.	Greenway	athenahealth
practicefusion		eClinicalWorks
GE		ORION HEALTH
NEXTGEN		
CareCloud		

HOSPITAL MARKET COMPOSITION

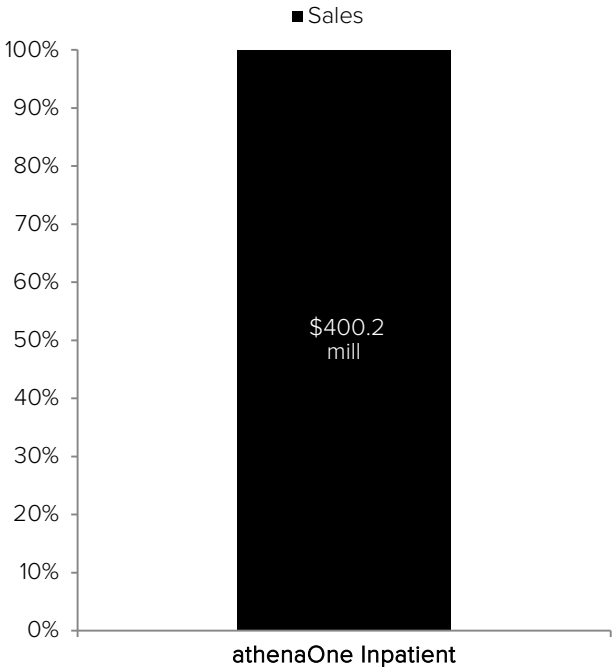


Bed Size	CAH	GA	Academic	Children	Behavorial	LTAC	Rehab
1-25	1,264	221	33	15	83	64	29
26-50	-	361	19	22	79	196	85
51-75	-	294	30	14	120	110	87
76-100	-	318	31	10	122	37	59
101-150	-	482	60	14	133	41	23
151-200	-	606	79	6	59	15	11
201-300	-	462	162	20	51	13	5
300+	-	522	459	10	65	14	5
Total	**1,264**	**3,266**	**873**	**111**	**712**	**490**	**304**

DATA SOURCE: SK&A

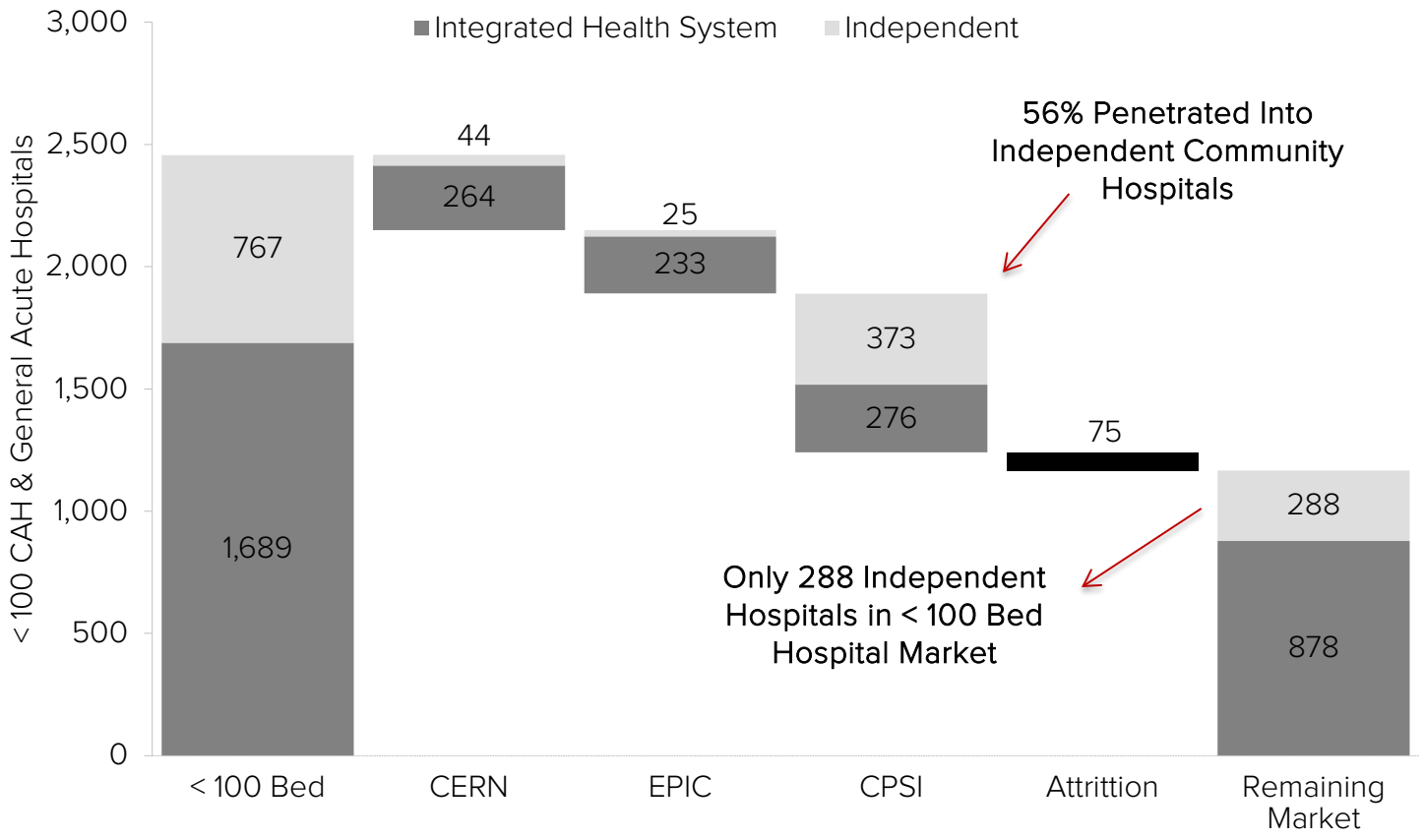
ATHN | $400 MILL SALES 7-10 YEARS +/-

athenaOne Inpatient	< 50 Bed	51- 100 Bed	100 - 300 Bed	300+ Bed
Days in year	365	365	365	365
Bed days available	10,950	27,375	54,750	164,250
ALOS	4.2	4.2	4.2	4.2
Admissions	2,607	6,518	13,036	39,107
Capacity utilization	30.0%	40.0%	50.0%	60.0%
Admissions	782	2,607	6,518	23,464
Revenue per admission	$ 11,000	$ 11,000	$ 11,000	$ 11,000
Inpatient revenue	8,603,571	28,678,571	71,696,429	258,107,143
% of Collections	6.00%	5.00%	4.00%	3.00%
ATHN Revenue per hospital	516,214	1,433,929	2,867,857	7,743,214
Addressable Market	$ 952,931,571	$ 877,564,286	$ 4,445,178,571	$ 4,041,957,857
Market Share	15.00%	10.00%	5.00%	5.00%
# Hospitals	277	61	78	26



DATA SOURCE: COMPANY FILINGS, SK&A

SMALL ADDRESSABLE MARKET



- 94% of CPSI Hospitals <100 Beds
- Hospitals and health systems using Epic and Cerner are unlikely to change systems due to high switching costs and commitment to one system
- CPSI install base skews toward independent hospitals at 57%. This makes sense given CPSI is a low cost provider.
- Conservatively assume 75 hospitals lost to competition outside of Epic and Cerner who will not consider CPSI
- **1,166 prospective hospitals, but only 288 Independent.**
- **35% penetrated into <100 bed GA and CAH market excluding Cerner/Epic**

DATA SOURCE: SK&A, HEDGEYE ESTIMATES

EHR VENDOR COMPARISON

Allscripts Touchworks

athenaOne