Healthcare executives maintain a relatively positive outlook for the upcoming year. The majority remain optimistic, expecting similar growth to last year in revenue, prices, volume and capital spending. Many other non-financial trends within the industry are also seen as having a beneficial impact on consumers and the quality of care being delivered.

For one, trends around M&A are increasing from last year, with a general optimism about the impact, especially on the industry side, for efficiency and revenue. About three-quarters of executives also believe that increased M&A may result in a greater focus on care (over business administration).

Second, most executives anticipate a continued—and increasing—reliance on technology that should improve quality and reduce costs. But with higher stakes, the challenge will be how to seamlessly incorporate technology industry-wide without compromising security.

Despite the optimistic tone, however, healthcare costs continue to be an untenable uphill battle for consumers, with no improvement over last year. Executives perceive that these overwhelming costs are damaging care and that many consumers may be sacrificing care to save money. Many executives claim they are working to figure out ways to alleviate this problem. In addition, executives are more open to government involvement with regulating the industry, but there is very little consensus on how to measure success and utilize outcomes.

In order to understand these current trends and challenges for the healthcare industry, Harris Poll on behalf of CIT, a leader in financing and advisory services to the healthcare sector, conducted research online from February 18, 2016 to February 29, 2016 among 164 U.S. middle market healthcare executives.
When reflecting on fiscal year 2016, most healthcare executives are optimistic about various key gauges of business strength including: revenue, price growth and volume growth. Executives demonstrate the most confidence in revenue. About 7 in 10 envision at least some increase, and about 4 in 10 feel the increase will be sizeable (exceeding 5%). The expectation for volume growth is similar to revenue, though not quite as strong. And while, price growth receives a slightly less ringing endorsement, a slight majority still see it expanding in 2016; for the most part in the range of 1-10%.

With a promising financial outlook, it is not surprising that about 1 in 2 executives also believe that capital spending will increase in the coming year. Moreover, the need for financing is expected to hold steady or increase. The key - but not widespread - priorities for financing and investment include: IT, new hires, and acquisitions. In fact, executives are significantly more likely to mention seeking financing for and investing in acquisitions in 2016 compared to 2015.

**FORECASTS & PROJECTED EARNINGS**

Those indicating an increase in revenue for FY2016 mention forecasts and projected earnings as well as a larger patient volume as reasons.

- "The projected earnings for that year seem to suggest the increase based on a quality sales year."
- "Our projected budget for the year reflects financial stability and profit margins of 3-5% over the previous year."
- "We are gaining more patients as well as expanding."

Of those who think capital spending or financing will increase, the top plans are for:

<table>
<thead>
<tr>
<th>Capital Spending</th>
<th>IT</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renovation</td>
<td>43%</td>
<td>28%</td>
</tr>
<tr>
<td>New Goods/Services</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>New Hires</td>
<td>36%</td>
<td>29%</td>
</tr>
<tr>
<td>Renovation</td>
<td>28%</td>
<td>16%</td>
</tr>
<tr>
<td>Acquisition</td>
<td>26%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**SLIGHTLY OVER HALF (55%)...**

believe their company is likely to seek financing in the next year

**WHICH IS SIGNIFICANTLY MORE THAN 2015 (44%)**

**OVER THE NEXT TWELVE MONTHS**

46% think the majority of their growth will come from opening of new practices

**FOLLOWED BY ACQUISITIONS (29%)**
Mergers and Acquisitions (M&A) is on the Rise in the Healthcare Industry, for Better and Worse

Just as observed last year, in the next year, a slight majority of healthcare executives imagine that M&A activity will increase across the industry as a whole; the remainder believes it will remain stable. More so than last year, M&A seems to be driven by purchase price multiples and valuation over strategy. When preparing for M&A, most executives believe companies are typically accurately valued; but when there are discrepancies, it tends to be slightly more on the side of companies being valued too high, not too low.

Executives identify both pros and cons to this M&A trend, but generally cite the benefits on the company side (having to do with greater efficiencies, higher revenues, and loss of competition) and the detriments on the consumer side. That said, about 3 in 4 healthcare executives do believe that M&A allow companies to focus more on the provision of care rather than business management.

OVER THE NEXT 12 MONTHS

About 1 in 2 expect M&A activity in the healthcare industry to increase similar to that observed in 2015 (56%)

Almost everyone else (41%) thinks M&A activity will stay the same

Different from 2015 where strategy seemed to be the driving force (61%):

HEALTHCARE EXECUTIVES ARE SPLIT on whether M&A activity in the healthcare industry is driven more by

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>PURCHASE PRICE MULTIPLES/VARIATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>46%</td>
<td>54%</td>
</tr>
</tbody>
</table>

When companies in the healthcare industry prepare for M&A

59% of Healthcare executives think companies are valued just right

For those who don't think they are valued just right, they are more likely to say...

25% COMPANIES ARE VALUED TOO HIGH

16% COMPANIES ARE VALUED TOO LOW

<table>
<thead>
<tr>
<th>Agreement Statements Regarding Mergers &amp; Acquisitions</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A help to keep revenue up for companies in the healthcare industry</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>M&amp;A allow for efficiencies to be realized</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>M&amp;A is removing competition</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>M&amp;A allow healthcare companies to focus on care rather than running a business</td>
<td>26%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Most healthcare executives believe that M&A typically benefit a company, but not consumers

2016: 74%  2015: 65%

© 2016 CIT Group Inc. CIT and the CIT logo are registered service marks of CIT Group Inc.
Mergers and acquisitions continue to play a critical role in the growth of the healthcare industry. As mentioned previously, when considering investment and financing plans, significantly more executives are considering acquisitions than even a year ago. And behind the opening of new practices, acquisitions are pointed to as a source of growth in the coming year.

Nearly 2 in 3 healthcare executives have personally been part of a merger or acquisition in the past year, much more commonly as the purchaser than the purchase. Among this group, most describe the experience as relatively favorable and don’t collectively cite any one prevailing challenge (though when pressed, finances tops the list, followed by operations).

63% HAVE BEEN PART OF A MERGER OR ACQUISITION IN THE PAST 12 MONTHS
much more on the purchasing side (50%) than being purchased (13%)

Of those who have been part of a merger or acquisition:

- The vast majority (93%) have found the experience to be at least somewhat positive. 40% say very positive.
- Nearly 6 in 10 (57%) would consider the nature of their acquisition activity mostly a large transformative acquisition rather than a small tuck-in acquisition (40%).

When prompted, executives mention finance (49%), operations (44%), and human resources (34%) as the greatest challenges of M&A integration.

EXECUTIVES ARE SIGNIFICANTLY MORE LIKELY...

to consider investment and financing plans for acquisitions in 2016

- Among those anticipating an increase in capital spending for 2016, nearly one quarter (26%) mention investment plans for acquisitions compared to 16% in 2015.
- In addition, those seeking financing within the next year mention establishing financing plans for acquisitions (2016: 27%, 2015: 14%)
Nearly one half (48%) of US physicians can share medical records electronically with clinicians outside of their medical practice. However, only about one quarter (27%) are satisfied with their EHR system.

Strategic Health Perspectives Study conducted by Nielsen; June 2015

Seven in 10 executives say their business has already switched to an electronic health record (EHR) system, which (more often than not) goes beyond their own system and communicates with other providers. In general, the transition to an EHR system has been smooth and on track financially, and any obstacles with implementation have been relatively uncommon, primarily involving personnel (like convenience, training or ease).

Communicating outside of their own network appears to be a key goal for the future. Most executives with currently limited communication say their business would like to expand the level of communication and is considering putting an even greater IT investment behind this goal. For those with experience using an EHR system that communicates more widely, the big concern (raised by most executives) is the security of the information being exchanged.

Among those who have an EHR system that communicates with others, over 2 in 3 (67%) are at least somewhat concerned about the security of the information being exchanged.

Of those who didn’t, they typically invested more (34%) not less (7%).

Among those who have an EHR system that communicates with others, over 2 in 3 (67%) are at least somewhat concerned about the security of the information being exchanged.

7 IN 10 SAY THEIR BUSINESS HAS AN ELECTRONIC HEALTH RECORD (EHR) SYSTEM

Of those, most say their EHR system can be used to send communications to other providers regardless of their network/system (53%)

56% HAVE INVESTED about what they anticipated in their EHR system compared to their original budget/expectations.

Among those who have an EHR system that communicates with others, over 2 in 3 (67%) are at least somewhat concerned about the security of the information being exchanged.

7 IN 10 ARE CONSIDERING OTHER IT INVESTMENTS so that their EHR system can communicate with providers within and outside their network/system
The majority of executives continue to believe that current healthcare costs are too high, including within their own sector. Executives overwhelmingly feel that consumers will be unable to endure any higher costs than what they face right now, and that these elevated costs have already forced consumers to make more selective or creative choices for their care. More than 8 in 10 believe that consumers occasionally avoid follow-up visits, even when potentially necessary, to dodge any extra costs.

On the industry side, most executives see overpowering costs as causing a deterioration in the quality of care that consumers receive. And, most do not believe that the industry can continue to spend more money—even at a lower rate.

The vast majority of executives believe that high healthcare costs have impacted consumers in the following ways:

Three in four (73%) consumers mention their overall medical care is a financial burden and 58% are concerned about paying a bill that is not covered by insurance.

Strategic Health Perspectives Study conducted by Nielsen; June 2015

**NEARLY 2 IN 3 (63%)** healthcare executives think healthcare costs are too high similar to 2015 (69%)

- In their healthcare sector specifically, most (70%) continue to think that healthcare costs are a problem. 20% characterize costs as a very big problem.
- For those who were insured prior to the ACA, more than three-quarters (77%) say out-of-pocket costs have become a problem. 19% say they have become a very big problem.

**IN TERMS OF THE INDUSTRY, MOST BELIEVE THAT**

- **87%** Recent increases in healthcare expenditures are not sustainnable
- **86%** The pressure of healthcare costs is impacting quality of care
- **76%** The lower growth rate of healthcare spending is not sustainnable

 aren't sustainable

- An increase in healthcare expenditures are not sustainnable
- The pressure of healthcare costs is impacting quality of care
- The lower growth rate of healthcare spending is not sustainnable

© 2016 CIT Group Inc. CIT and the CIT logo are registered service marks of CIT Group Inc.
Many Executives Feel Responsible and Take Action to Reduce Costs

Most healthcare executives feel that healthcare providers, insurance companies and pharmaceutical companies all share some responsibility for bringing healthcare costs down. Most have personally witnessed their own company taking steps to minimize the rising costs within the macro-level system and for their employees. About 1 in 2 have explored negotiating with insurance companies, updating their technology, and eliminating some procedures. And about 4 in 10 have offered (or seen other companies offer): prescription plans, wellness programs, and potentially different carriers or vendors. A similar proportion of executives have observed other companies (more so than at their own company) altering the level of competition by reducing their number of plans or moving to the marketplace.

At least 1 in 2 executives believe the following groups are primarily responsible for bringing down healthcare costs:

- **Insurance companies**: 56%
- **Healthcare providers**: 52%
- **Pharmaceutical companies**: 50%

US consumers indicate the following have a lot or some of the blame for the high costs of healthcare:

- Insurance companies (88%)
- Pharmaceutical companies (86%)
- Hospitals (77%)
- The way doctors and hospitals are paid (76%)

Strategic Health Perspectives Study conducted by Nielsen; June 2015

**Solutions Adopted to Minimize Healthcare Costs for Employees**

- Offering prescription plans that include generic/low cost pharmaceuticals: 45%
- Adding wellness programs for employees: 43%
- Exploring different carriers/vendors: 43%
- Increasing co-pays and deductibles: 56%
- Offering discounts: 36%
- Encouraging employees to take more responsibility for their healthcare: 29%
- Reducing number of plans offered: 26%
- Moving to marketplace instead of providing private insurance: 25%
- Self-insuring: 21%
- Offering discounts: 33%
- Moving to marketplace instead of providing private insurance: 43%
- Increasing co-pays and deductibles: 41%
- Exploring different carriers/vendors: 43%
- Offering prescription plans that include generic/low cost pharmaceuticals: 40%
- Adding wellness programs for employees: 43%
- Increasing co-pays and deductibles: 43%
- Offering discounts: 36%
- Encouraging employees to take more responsibility for their healthcare: 33%
- Reducing number of plans offered: 26%
- Moving to marketplace instead of providing private insurance: 25%
- Self-insuring: 21%
- Providing telemedicine options for employees: 18%
- Offering prescription plans that include generic/low cost pharmaceuticals: 40%
- Adding wellness programs for employees: 43%
- Increasing co-pays and deductibles: 43%
- Offering discounts: 36%
- Encouraging employees to take more responsibility for their healthcare: 29%
- Reducing number of plans offered: 26%
- Moving to marketplace instead of providing private insurance: 25%
- Self-insuring: 21%
- Providing telemedicine options for employees: 18%
- Significant differences

ABOUT 1 IN 2 HAVE EXPLORED the following solutions to take costs out of the healthcare system:

- 52% negotiating with insurance companies
- 46% updating technology
- 46% eliminating unnecessary procedures
Some Government Involvement Increasingly Welcomed by Executives

For the most part, executives believe that the government should maintain at least some role and authority over the healthcare industry, with this desire increasing over the past year. And, the majority believes that current regulations have had a positive impact on their company’s growth, revenue and costs. Looking ahead to the next year, most executives can envision any additional regulations and changes being quite impactful, though there is no agreement on what exactly will have the greatest effect over their business.

Healthcare executives continue to be relatively supportive of the Affordable Care Act. Approximately 1 in 5 believe the ACA should remain in place without any changes, and another 1 in 2 like the basic framework, but just want to modify some of the details.

Most think regulations have had a positive impact on their company’s growth (65%); revenue (64%); and costs (57%), similar to last year (59%, 59%, and 47% respectively).

**What Will Have the Greatest Impact on Business...**

- **31%** Repeal of the ACA
- **15%** Additional regulations and guidelines added to current healthcare reform
- **15%** Potential change in healthcare reform impacting consumer out-of-pocket costs
- **15%** Current healthcare reform staying in place
- **12%** Potential shifts in technology and new regulations impacting its usage

Among those who want the ACA to remain in place, 8 in 10 (80%) say they have always been in favor of the ACA, are happy it is in place and feel it should remain so

- **11%** weren’t always in favor but wouldn’t change it given that it is working
Most are Right In Line with Industry Standards on Outcomes but Disagreement on How to Define Success

Approximately 3 in 4 healthcare executives feel that their sector is on track with the rest of the industry on how to best measure outcomes. And there is near unanimity that technology, data and quality of care will all play a role in measurement. But that is where the consensus across executives ends. They diverge on the best way to measure “success” now and in the near-term future. Between 1 in 5 and 1 in 3 executives place a priority today (in descending order) on satisfaction, profits, customer retention and clinical outcomes. And there is no uniformity (either philosophically or in actuality) on whether to align healthcare payments to outcomes, though the inclination is somewhat more positive than negative.

ON AVERAGE, EXECUTIVES SAY
Ways of Measuring Success Today and in the Future

72% believe their sector is ON TRACK compared to the total healthcare industry in terms of determining how best to measure outcomes.

This is a significant decrease from 2015 in which 83% indicated their sector was on track.

Of those that are not on track, they are slightly more likely to be behind (17%) than ahead (11%).

ON AVERAGE, EXECUTIVES SAY
28% of their organization’s revenue is tied to risk (e.g., clinical outcomes)

There is increasingly mixed sentiment about the current desire to align healthcare payment to specific outcomes, but more positive (43% in 2016 and 37% in 2015) than negative (27% in 2016 and 24% in 2015).

Many are taking actions to align payment to outcomes, in particular having to do with the economy (cost reduction) or service (e.g., interaction/communication with customers).

ACTIONS THAT ALIGN PAYMENT TO OUTCOMES

“Cutting unnecessary cost and expenses
Customer satisfaction surveys
Communicating more freely; extending alternatives”
Expectation for Third Party Involvement Is On the Rise

When reflecting on the future of various types of insurance (Medicare, Medicaid, Commercial), most executives believe that third party authorizations; claim remittances; claim denials; and collection costs will hold steady or increase. Very few anticipate any declines. In Medicare and Medicaid in particular, there is an even stronger sense (from about 1 in 2 executives) that these third party activities will trend upward.

<table>
<thead>
<tr>
<th>Changes within Type of Insurance</th>
<th>Medicare Managed Care</th>
<th>Medicaid Managed Care</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Third Party Prior Authorization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>55</td>
<td>54</td>
<td>43</td>
</tr>
<tr>
<td>Stay the same</td>
<td>31</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>Decrease</td>
<td>4</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td><strong>Third Party Claim Remittance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>53</td>
<td>45</td>
<td>40</td>
</tr>
<tr>
<td>Stay the same</td>
<td>34</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Decrease</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>Third Party Claim Denials</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>49</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>Stay the same</td>
<td>36</td>
<td>37</td>
<td>40</td>
</tr>
<tr>
<td>Decrease</td>
<td>6</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>Cost to Collect Third Party Claims</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>47</td>
<td>50</td>
<td>39</td>
</tr>
<tr>
<td>Stay the same</td>
<td>36</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>Decrease</td>
<td>8</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>
Methodology

This study was commissioned by CIT and conducted online by Harris Poll within the United States between February 18 and February 29, 2016, among 164 executives within the healthcare industry. Defining characteristics are: Executive title: Board member (9%), CEO (22%), COO (6%), CFO/Treasurer (11%), Other C-level executive (7%), SVP/VP/Director (11%), Head of business unit (11%), Head of department (21%) Company revenue: $25 million to $99 million (66%), $100 million to $249 million (19%), $250 million to $499 million (10%), $500 million to $749 million (4%), $750 million to $1 billion (2%) Industry: Those represented include hospitals/medical centers (36%), healthcare technology (16%), primary care facilities (9%), skilled nursing facilities (9%), specialty care facilities (8%), medical devices and medical supplies (6%), pharmaceuticals (5%), home health and hospice (4%), biotech (3%), other inpatient hospital (2%), behavioral health facilities (1%), outpatient treatment facilities (1%), and other healthcare-focused (1%).

To ensure that the data are balanced and that they accurately reflect the population of interest for this study, the sample was weighted to ensure that it accurately represents the U.S. “Healthcare” industry. Figures for industry and revenue were weighted, where necessary, to bring them into line with the population of U.S.-based healthcare-related companies with annual revenue of $25 million to $1 billion, based on information obtained from D&B database sources.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, the Harris Poll avoids the words “margin of error” as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

About the Harris Poll

Over the last 5 decades, Harris Polls have become media staples. With comprehensive experience and precise technique in public opinion polling, along with a proven track record of uncovering consumers’ motivations and behaviors, The Harris Poll has gained strong brand recognition around the world. The Harris Poll offers a diverse portfolio of proprietary client solutions to transform relevant insights into actionable foresight for a wide range of industries including health care, technology, public affairs, energy, telecommunications, financial services, insurance, media, retail, restaurant and consumer packaged goods. Contact us for more information: ConsumerInsightsNAInfo@nielsen.com.