



HEALTH & WELLNESS

An Introduction to Health & Wellness with a Focus
on Health and Productivity Management

A TripleTree Industry Analysis

SPOTLIGHT REPORT

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INTRODUCTION

Since our inception in 1996, industry knowledge has been the cornerstone of TripleTree's growing business. Our strategy has been to develop industry knowledge through in-depth research and to leverage that knowledge to provide our clients with customized investment banking services. The combination of thoughtful analysis of trends in the marketplace and practical interactions with the companies driving those trends is powerful. It allows us to bring unique, timely insights to each client engagement.

TripleTree has spent the last nine months analyzing a sector we feel is an area of emerging promise and one which we are uniquely qualified to cover - the Health & Wellness industry. TripleTree's Health & Wellness practice represents the convergence of our emerging human capital management focus with our longstanding healthcare background. We leverage years of collective knowledge, vision and relationships to provide in-depth strategic and financial advisory services.

The re-emergence of rapid double-digit increases in healthcare insurance premiums has made every business owner intent on gaining some sort of control over these costs. In the long run, the best strategy to control cost is to address the underlying factors that contribute to employee population health, but these factors are often overlooked. The focus of the Health & Wellness field is to create healthcare cost reduction through the combination of targeted interventions for the chronically ill with programs focused on illness prevention and health promotion for the remaining "at risk" population.

Attitudes and lifestyle choices often contribute to poor health and subsequent higher healthcare costs. Americans are working more, eating more and exercising less. Obesity has reached epidemic proportions. Depression, stress and fatigue are all too common. The Health and Wellness industry provides products, strategies and interventions to assist employees and consumers to rethink some of their lifestyle choices and to take the necessary steps to prevent illness and promote more healthy living.

This report provides a detailed analysis of the Health and Productivity Management category, including examples of real organizations, large and small, that are leading the way in the marketplace. These examples have been selected as indicative of where we believe the market is headed. The report also offers our thoughts on how these companies will affect established players in other key segments, including human capital management (HCM), consumer driven healthcare (CDH), disease management and several smaller sub-segments within the healthcare industry.

The dynamic and fast growing Health & Wellness industry will gain increased attention and investment over the coming months. Our research has uncovered numerous developments and various trends within the industry, providing our reader with a solid basis for decision making and understanding of this constantly evolving business landscape.

SUMMARY OF EMERGING THEMES AND OPPORTUNITIES

TripleTree conducted dozens of focused calls and meetings with leaders in the Health & Wellness industry. Our conversations included investors interested and/or engaged in the space and numerous C-level leaders with companies in all segments of the industry including: Employee Assistance Programs (EAP), Work/Life Balance, Absence Management, Health & Productivity, Human Resource Outsourcing (HRO), Benefits Consulting, Disability and Disease Management (DM).

We begin our analysis of Health & Wellness with a summary of the most pertinent opportunities, threats and challenges facing companies and investors either operating or interested in the space. These thoughts are meant to spark conversation and dialogue amongst the industry's numerous constituents. Needless to say, TripleTree would encourage readers to contact us to speak further about these and other opportunities in this highly dynamic space.

We believe the Health & Wellness industry has reached an important point in its evolution and feel there are a number of developments and trends that companies in and around the space could capitalize on for greater growth and value creation. Seven of the most pertinent issues include:

1. INTEGRATION OF MULTIPLE SERVICES IS DRIVING GROWTH AND CHANGE IN THE MARKET

Whether self-insured or through their healthcare plans, corporate customers are demanding more robust and integrated services. Disease management programs continue to be in high demand, but are no longer enough. Companies are seeking long-term cost savings and an increase in work-force productivity by providing their entire employee population with illness prevention and health promotion programs and services. The move towards total population health management is driving a number of noteworthy trends and creating opportunities across the Health & Wellness industry. Currently, providers of Integrated Health & Productivity Management are experiencing

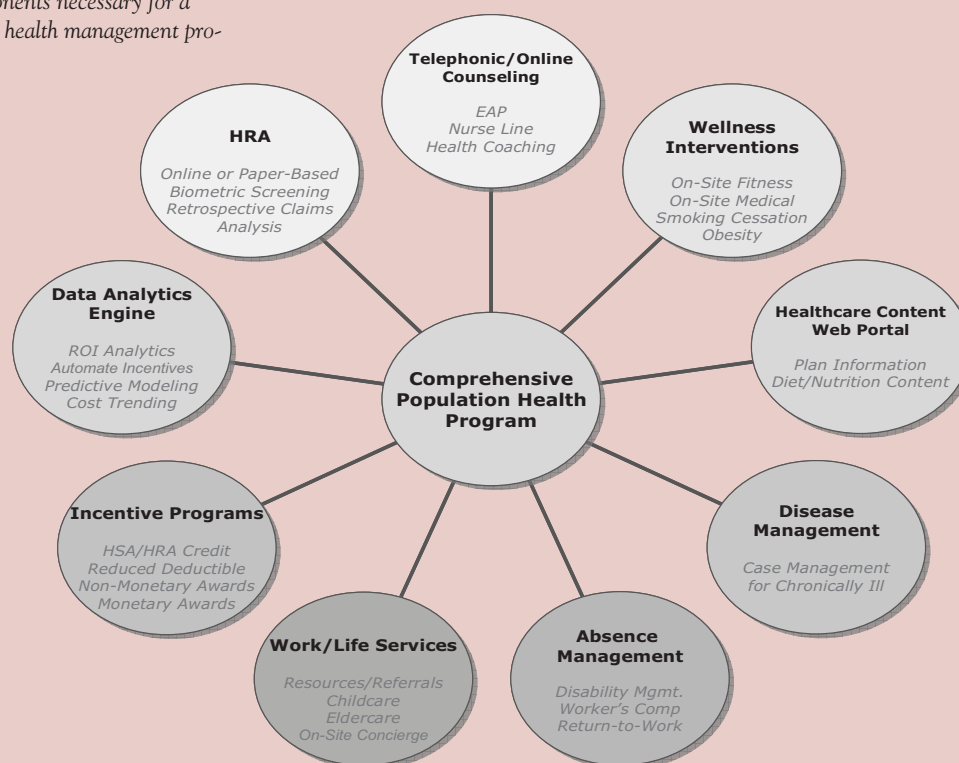
record growth. Although relatively small in comparison to EAP and Disease Management firms, numerous companies in the health and productivity space are growing at over 30-50% per year (with select firms forecasting 100% growth in 2005).

Companies in neighboring H&W categories see health and productivity promotion as a competitive advantage/differentiator -- EAP providers and HR Outsourcing firms are targeting select companies for partnership and acquisition (reducing the "inventory" of quality firms available). The EAP business has reached maturity and as a result, many providers have already taken part in the consolidation of their own industry and most have made the move into the Work/Life Balance arena. EAP providers have begun to target the Health & Productivity sector as an attractive horizontal move. Likewise, Health & Productivity vendors themselves may be smart to further integrate their services through the purchase of a digestible yet scalable EAP provider while public valuations remain low.

As a harbinger of further consolidation to come, Disease Management firms have increased their partnering with Integrated Health & Productivity Management providers. TripleTree views this trend as a win-win for providers, clients, and employees alike. Similarly, current requests for proposal (RFPs) in the Disease Management space call for comprehensive population health management services for the "at-risk" populations in addition to traditional services for the chronically ill. In order to win proposals, disease management firms must continue to forge partnerships with Health & Productivity providers, likely leading to eventual acquisitions such as **Matria's** recent purchase of **Miavita** and **WinningHabits**.

The most effective approach is to combine the cost savings and higher-end medical treatment offered by the DM firms with the population-based health and fitness interventions offered by the Health & Productivity vendors.

Figure 1: H & W Offerings Overview
 Depicts the various components necessary for a comprehensive population health management program.



Source: TripleTree, LLC

We believe that the future of Health & Wellness will be dominated by the combination of medically focused treatment services for the chronically ill patients with customizable, assessment-based health intervention programs for the “at-risk” population.

Our expectation is that some of the leading companies in Disease Management will move down the care continuum and acquire some of the more attractive players in the Health & Productivity space over the next few years. Similarly, other players such as pharmacy benefit management firms, employee assistance program providers, and disability management companies may see value in the leading integrated Health and Productivity players.

Not to be forgotten, large healthcare companies including **UnitedHealth Group** and **WellPoint** are developing their own holistic approaches to care that include both health promotion and disease management capabilities. As these groups are financially mature and

have the financial resources to make bold moves, we expect the healthcare companies themselves will be major consolidators of the Health & Wellness industry.

No true leader exists in the Health & Productivity space today. A handful of interesting firms exist which could serve as the basis for building an impressive platform, but timing will be critical. In late 2004 and early 2005, many health and productivity companies have been focused on supporting strong organic growth. Some firms have sought equity infusions to gain rapid market share. Many of the companies in the space are closely held, private businesses. As those firms begin to reach critical mass in the next 6-12 months, TripleTree expects to see a dramatic increase in M&A.

Additionally, as few companies have the kind of scale necessary to test the public markets on their own, strategic mergers may provide the growth necessary to consider a future IPO in the space. As various players consider M&A alternatives, others

may be forced into a deal themselves in order to remain competitively relevant rather than stand by as their market share slips away to larger more robust businesses.

2. TECHNOLOGY-LEVERAGED PROGRAMS THAT PROVIDE ROI WILL BE IN HIGHEST DEMAND

In the past, Wellness companies suffered from an inability to provide concrete program analytics and demonstrate ROI, thereby limiting customer adoption and program acceptance. To address the current focus on outcomes-based program design, leading providers have developed technology to better analyze program utilization and measure effectiveness. The leading programs today track aggregate changes in the population health, implement interventions to address the most prevalent issues and work towards greater interoperability with disease management and healthcare claims data to accurately assess program ROI.

Analytics are increasingly becoming a sought after component and a way for the leading firms to differentiate themselves. Utilizing more sophisticated software to identify employees who may move into the higher health risk categories in the future, as well as indicating where programs are having the most or least success are key aspects of modern health and productivity programs that will only grow in importance in the years to come.

Many leading firms currently rely on Health Risk Assessment (HRA) tools offered online, with improving analytic capabilities to demonstrate ROI and more importantly, to effectively target customized intervention programs on an individual basis. Additionally, call center capabilities have been the workhorse of numerous EAP and Health & Productivity programs for many years. A recent development in Health & Productivity expands the customer base for telephonic services with the addition of health coaching services. Companies are now bolstering their telephonic intervention services with unique individualized online programs and more robust "coaching" offerings.

Characteristics of a Successful Wellness Program

- ✓An overall program perspective that strives to improve employee health and to more effectively manage health plans, sick leave, worker's compensation, disability management and productivity costs associated with health conditions for employees and their spouses.
- ✓An annual health risk assessment (HRA) for each employee and spouse to raise awareness of health and wellness issues unique to the individual, in order to plan and conduct group and individual interventions and to evaluate program effectiveness.
- ✓A telephonic or face-to-face lifestyle coaching process for those with multiple and specific health risks.
- ✓A set of incentives to help provide motivation for participation and for adopting and maintaining wellness behaviors.
- ✓A means of helping individuals acquire new behavioral skills around the health and wellness issues they are motivated to address. This should include a range of group and individual learning options.
- ✓A set of structured opportunities to practice the new behavioral skills.
- ✓A significant amount of integration of wellness activity with other organizational efforts.
- ✓An adequate level of organizational support for wellness and the removal of environmental and cultural barriers to wellness behaviors.
- ✓An annual evaluation process that helps to refine the wellness program and further enhance its effectiveness.

Source: Larry Chapman, Chairman, Summex Health Management, and TripleTree.

3. CUSTOMIZATION AND INCENTIVES WILL PLAY INCREASINGLY IMPORTANT ROLES

More and more, integrated health and productivity providers are offering individualized programming. This approach taps into each individual's readiness and ability to change, as outlined by Dr. James Prochaska's *Transtheoretical Change Model*, and it has become the bedrock for many of today's work-site wellness initiatives. Customizing the services and programs for each individual based on their own needs, readiness and willingness to change and adopt healthier lifestyles has certainly contributed to the effectiveness of many programs. Likewise, a deeper understanding of how each person thinks, learns and is motivated will allow better targeted solutions, delivered in the right way at the right time. Not only will individualized programming increase the effectiveness of the integrated program, it will undoubtedly save time and money through increased efficiencies.

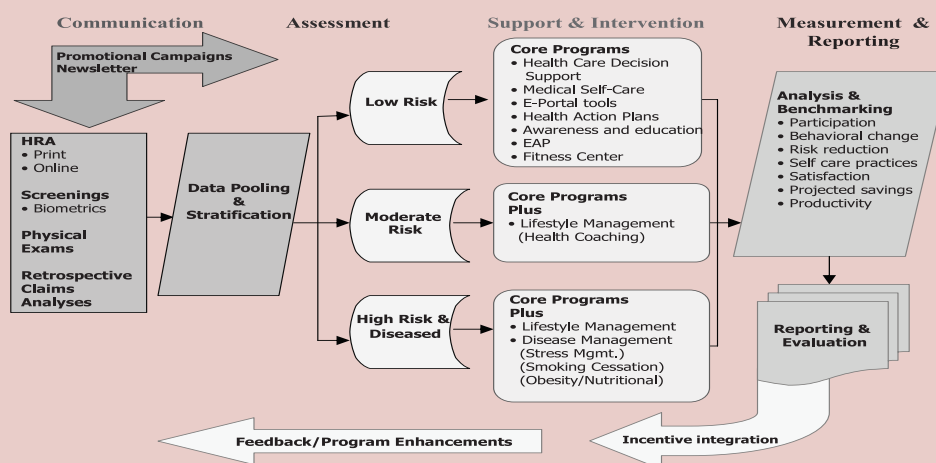
As part of the customization of programs, companies providing real time, human-to-human coaching interaction over the web (such as **Hummingbird Coaching**) will grow in popularity. Working with an employee via the internet and/or telephone, personal coaches can help employees to properly exercise, reduce stress, and manage their weight, in accordance with their pre-determined intervention plan. Through technology-enabled services, each coach has all the tools needed

to create, manage, educate and motivate their assigned members on customized/individualized health and fitness programs. Via email and real-time chat technology, online coaching provides the communication tools needed for efficient interaction with end-users, resulting in increased utilization and improved outcomes.

Health & Wellness programs embraced by employees have the best chance of making a real impact on cost savings and increased productivity. However, motivating employees to use such programs has been a challenge faced by providers since the earliest program inception. TripleTree has found that meaningful and effective incentive programs that increase participation motivate employees to succeed in their health goals.

Today's leading companies are leveraging technology and innovation to provide incentives that generate positive results and simultaneously tie back into the HRIS (Human Resources Information System) and benefits platforms utilized by the corporate customer to track compliance, monitor effectiveness and demonstrate ROI. Companies in the Health & Wellness sector that possess such capabilities will set themselves apart from the competition and will consequently garner increased value.

Figure 2:
H & W Program
Characteristics



Source: John Harris,
HarrisHealth Trends

4. NEW PLAYERS AND HYBRID MODELS WILL AFFECT THE INDUSTRY

The Health & Productivity Management sector became a little more crowded in the last year as companies from divergent industries recognized the tremendous growth opportunities in the sector. Traditional fitness center businesses are leveraging their large sale forces and national brands to target the corporate market. These players have made the move into the corporate fitness realm by either developing programs in-house or more commonly, partnering with point solution providers to deliver increasingly comprehensive health and fitness solutions. Large chains such as **Life Time Fitness** can leverage geographic presence to pursue the middle and small business markets in a way most health and wellness companies cannot. This gives them an edge in the fast growing health and productivity field.

Diet and nutrition companies are also beginning to market their corporate offerings more aggressively and could become acquisitive in the near future. Diet centers and weight loss programs continue to gain in popularity and market share. If these efforts continue, the traditional employer-focused companies will be affected.

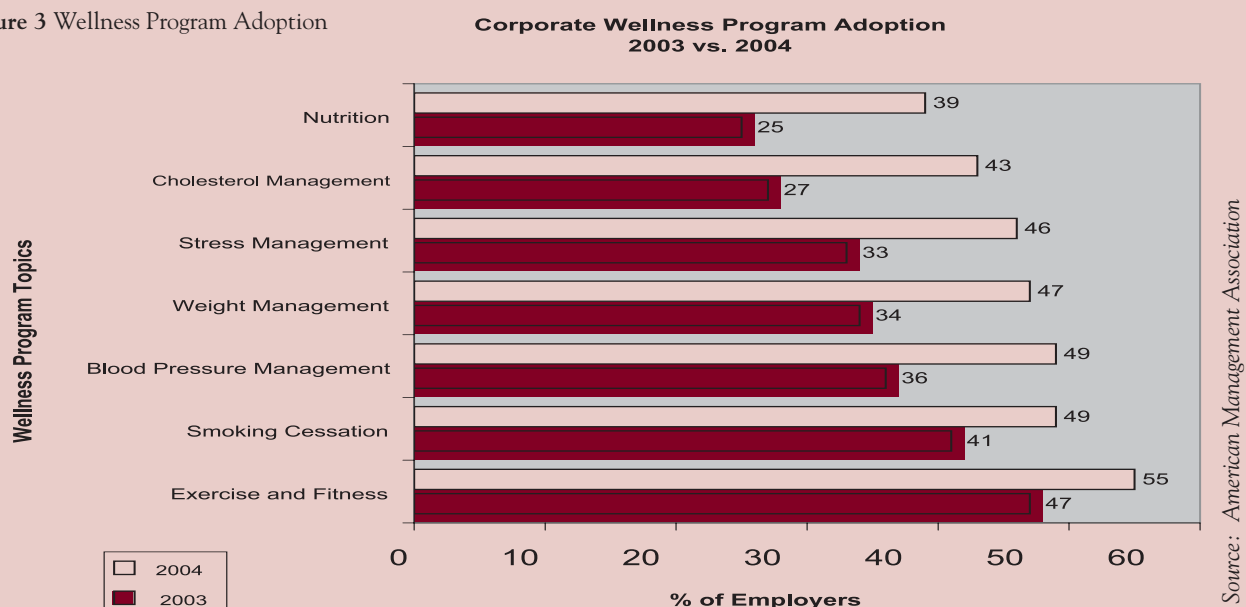
The diet and weight loss industry is about three

times the size of the fitness industry (which in turn, dwarfs the corporate health and productivity segment). Diet and weight loss companies have yet to develop a proven long-term success model for their customers but these companies could nonetheless prove to be formidable adversaries to traditional health and wellness companies or attractive acquirers in years to come.

Also, some consumer-oriented players are testing the waters of the Health & Wellness landscape and may eventually target the corporate market. Consumer electronics giant **BestBuy** has developed a wellness-focused, "big box" retail store devoted to healthy living products and services. More recently, **AOL** veteran Steve Case launched a \$500 million health and wellness focused vehicle called **Revolution**, with which he hopes to accelerate the change in the healthcare industry towards a more consumer-focused model.

Traditional competitors in the space have also restructured their business models to attack the market in new and innovative ways. Disease management firm **iTrax's** acquisition of **CHD Meridian** over a year ago provides credence to the model of leveraging one's corporate on-site presence to provide additional healthcare-related services (in this case, DM programs coupled with on-site healthcare and pharmacy benefits manage-

Figure 3 Wellness Program Adoption



PERSPECTIVE...Moving Towards a Single Source Provider Solution

An increasing number of employers are looking for a single source solution in order to streamline management of employee and dependent health issues. The over-reaching benefit to this single source provider approach lies in the ability to address all of the underlying factors that contribute to employee health and productivity. The direct correlation between overall employee population health and total health care costs is well documented. Historically, the lack of integration between medical care, case management, disease management, employee assistance programs, fitness programs, and safety initiatives has led to redundant communication and inefficient use of health service resources. By integrating a broad range of services and programs under a single, on-site provider, the provider is better able to impact the diverse contributors to an individual's and a population's health. The on-site presence also gives the provider a unique ability to deliver certain services, such as disease management and wellness coaching, which are commonly provided telephonically or electronically, with a higher degree of personalization, customization and follow up that produces lasting behavioral change.

Jim Hummer is President and CEO of Whole Health Management, a Cleveland-based leader in the integrated on-site health service sector. Whole Health has been setting the standard for health and productivity at leading organizations for almost 25 years and includes such blue chip clients as Nissan, Continental Airlines, Sprint, Harrah's Entertainment, and Capital One.

ment). This model has several distinct competitive advantages including cheaper delivery, improved participation rates, and heightened program effectiveness. We believe firms with strong on-site corporate customers will look to leverage those assets into additional "high-value" services to improve profitability and achieve impressive revenue growth.

Only time will tell which industry segments and business models will ultimately become successful. What we do know about these potential entrants is that they are formidable in terms of sales and marketing prowess, distribution capabilities, and access to capital. We anticipate their entry into the corporate Health & Wellness sector will be a catalyst to further growth, change and deal making opportunities.

5. Consumer-Driven Healthcare and Pending Legislation Will Transform the Current Market

As consumer driven healthcare continues to grow in popularity, the role prevention plays in healthcare will take on increased importance. As employees are given more control and power over their healthcare spending, taking better care of

one's health by changing behaviors and adopting a healthier lifestyle will drive the demand for health and wellness programs. As employers and health-care plans require employees to pay a greater share of their own costs, employees (and in many cases, their unions) will demand greater access to tools with which to lead healthier lifestyles.

More specifically, as HRA plan designs begin to design "use it or lose it" spending accounts specifically earmarked for wellness prevention products and services with account balances that do not roll-over at the end of the year, overall industry spending will increase dramatically. As HSA plans become more prevalent, employees will recognize that the avoidance of costly health expenditures could drastically improve the consumer's quality of life throughout the retirement years by reducing the out-of-pocket expenses that consume a large portion of total income for much of the elderly population. This realization will drive "maintenance" spending and result in significant market growth for those operating in the wellness field.

In the last two years, Health & Wellness has gained increased attention from federal lawmakers.

Two relevant pieces of legislation were re-introduced in the Congress in 2005 that could have a meaningful and lasting impact on the field. The first bill, the Health Promotion FIRST (Funding Integrated Research, Synthesis and Training) Act, was initially introduced in the U.S. Senate as S2798 on September 14, 2004. Its purpose is to develop the basic and applied science of health promotion and to formulate plans to integrate health promotion into all aspects of society.¹ The second bill, the Healthy Workforce Act, was re-introduced on May 18, 2005 as part of the HeLP (Healthy Lifestyle and Prevention) American Act, S2558, part of which would provide employers a 50% tax credit for workplace health promotion programs, up to \$200 per employee per year.²

A \$200 expenditure per employee per year would cover the entire cost of many health and productivity programs. The market will grow substantially if these new laws come into effect. With tax credit legislation on the horizon, the companies that establish themselves as the leaders now will be well positioned to reap potential windfalls if and when the government establishes health promotion program mandates.

6. MEDICARE HEALTH SUPPORT PROGRAMS IN DISEASE MANAGEMENT COULD HAVE RIPPLE EFFECTS IN HEALTH & WELLNESS

In December of 2004, the Centers for Medicare & Medicaid Services (CMS) awarded nine disease management vendors three-year contracts valued collectively at between \$100 million and \$200 million. The agency ordered three-year trials for beneficiaries with chronic obstructive pulmonary disease (COPD), congestive heart failure (CHF), and complex diabetes. The nine vendors in the Medicare Health Support Programs (MHSP) trial must demonstrate that DM saves the Medicare program money and improves patient health. If the DM firms are successful, the program will be expanded

¹ O'Donnel, Michael P., "Health Promotion Advocates History and Current Focus," *The Art of Health Promotion*, January/February 2005.

² From Website: <http://healthpromotionadvocates.org>.

PERSPECTIVE...

How the Consumer Driven Healthcare Movement Creates Significant Opportunity for Wellness Firms.

Consumer-directed healthcare (CDH) is gaining in popularity and offers unique opportunities for H&W firms. H&W companies should understand plan designs and product offerings to capitalize on new opportunities to market directly to the consumer. The underlying goal behind consumer directed initiatives is exactly that of the wellness industry: create a long-term solution to rising healthcare costs by promoting healthy lifestyles and preventing high-cost conditions. A few key examples of how CDH and H&W can work hand-in-hand include:

Personalized Decision Support and Cost Comparison Tools - help patients make intelligent decisions about their health. These tools are relevant to both healthy members and those who are chronically ill. For healthier members, these tools can maximize HRA or HSA savings by highlighting the alternatives available to unnecessary and expensive treatment options. Often times, these less costly alternatives involve sub-clinical, wellness and prevention solutions. Decision support tools can help the end-user to find cost effective ways to stay healthier and increase the utilization of H&W programming.

Health Risk Appraisal Tools - used by patients to create personal health risk profiles along with a report card on suggested areas for improvement. By using these tools, specific risk factor management programs can be created and then funded from an account carved out for these needs. Consumer driven healthcare rewards consumer self-monitoring and increases participation in health risk appraisal and subsequent health improvement programs offered by wellness companies.

Online Personal Health Records - allows members to maintain their own personal health history and share such information with nurses, doctors or physicians. CDH can make personal health records portable, long-term, and continuous, providing wellness providers with better data on efficacy of health improvement or chronic disease management programs, health utilization behavior, outcomes, and on the role of incentives in affecting healthy behaviors.

Maintenance or Prevention Spending Accounts - can be structured to incentivize and influence consumer healthcare spending. Accounts specifically established for maintenance or prevention may be offered as part of the CDH plan. Setting up specific accounts, such as prevention accounts that do not roll-over and must be used before the year's end, can help influence patients to use these funds for preventative services and improve their health.

Dr. Amit K. Gupta is Co-Founder, President & COO of CareGain Inc. Founded in 2001, CareGain is a privately held company which enables health plans to flexibly, rapidly and cost-effectively create and administer consumer directed health plans, while leveraging their own internal systems and infrastructure.

nationally, which could in turn, expand the disease management industry tenfold to \$10 billion. As discussed earlier, DM and H&W firms are beginning to partner to provide a more comprehensive approach to population health management. If the trials are successful CMS is likely to expand into other disease states such as obesity and depression – traditionally the focus of H&W firms. Successful outcomes from the MHSP trial could be a tremendous boon to wellness firms either through increased partnership and revenue sharing opportunities or acquisition of firms in the H&W sector by disease management firms.

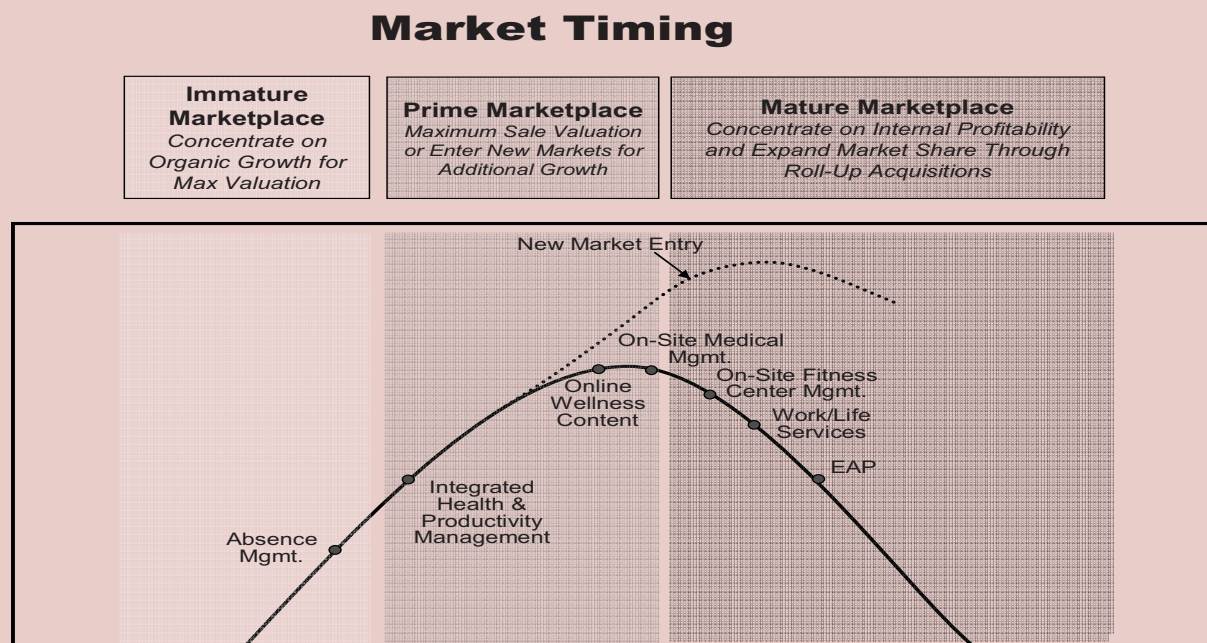
7. OPPORTUNITIES FOR VENTURE CAPITAL AND PRIVATE EQUITY FIRMS TO CAPITALIZE ON A RAPIDLY CHANGING MARKET

Private equity players currently have an opportunity to invest in individual companies while firm values remain reasonable in a young marketplace. There are numerous individual investment opportunities in the H&W space and potential build-out strategies that could transform the market. One notable platform build-out is led by Ben Lytle, the

former CEO of **Anthem**. His new company, **AXIA Health Management** intends to bring together a number of prevention and wellness focused businesses under one roof, offering all or “a la carte” services to health plans. Acquisitions to date include **HealthCare Dimensions** and **American Whole Health**. With significant private equity backing and industry contacts, AXIA will certainly be a force to be reckoned with in the future. However, as the space is relatively young, many other opportunities exist.

H&W is reaching an inflection point in its growth. Clearly, there are real customers for the services offered by H&W companies feeling significant pain. The escalating healthcare costs faced by employers are backbreaking. Lower cost treatment of illness and disease is a start, but it isn't enough. Prevention is the key and makes good business sense. There are proven companies in the space that have survived the downturn and are now thriving. There are significant build-out opportunities for private equity firms that are ready to add growth capital to a select group of leading companies in the space or to provide financial backing for a strategic build-out of leading providers.

Figure 4: Market Timing



Source: TripleTree, LLC

IN-DEPTH EXAMINATION OF THE HEALTH & WELLNESS INDUSTRY

MARKET FORCES

All organizations today face challenges posed by double digit increases in healthcare costs. The primary goal of H&W programs is to rein in these spiraling costs through effective and meaningful health promotion and intervention. Additionally, today's highly competitive knowledge economy requires increased investment in human capital in order to achieve productivity gains. Controlling healthcare costs and increasing productivity of the workforce are the two primary goals behind the health and wellness industry.

1. Lowering Healthcare Costs

The critical driver of most health and wellness programs over the last three decades is undeniably the cost savings that can be achieved through lowering overall employee healthcare claims expenses. As healthcare costs have recently grown at double-digit rates, employers and insurance plans alike have looked to prevention and intervention via health and wellness programs as a cost saving alternative.

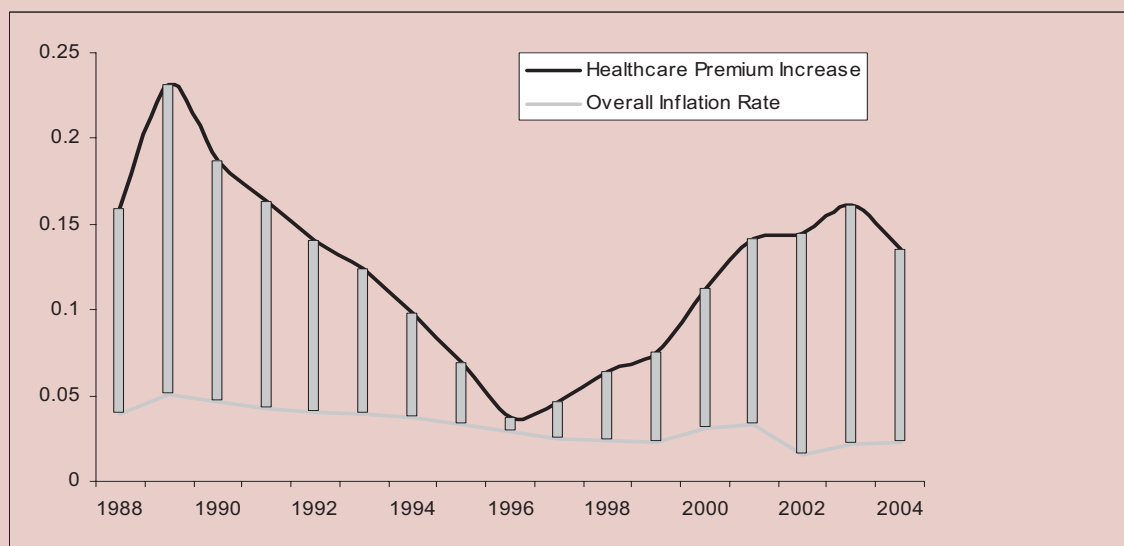
The U.S. Chamber of Commerce reported in 2001

that health insurance was the most expensive single benefit cost, accounting for about one-fifth of total benefits. Recent years of double digit increases have raised the average amount spent on healthcare benefits to a troubling \$5,670 per employee in 2003.³ Today, General Motors spends more money per vehicle providing healthcare for its assembly workers than it does on steel. The eye popping costs related to poor health in the workplace are tremendous challenges for corporate America.

It is well-known that approximately 70% of all healthcare-related expenses are generated by just 10% of an entire employee population. The entire disease management industry is dedicated to dealing with that ten percent of the population, but health and wellness looks to address the problem at its core. Effective illness prevention and population health promotion are effective ways to keep the "at risk" population from developing one or more costly chronic diseases, thus avoiding major healthcare costs.

³ Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Groups.

Figure 5: Healthcare vs. Inflation



Source: TripleTree, Kaiser Family Foundation/Health Research and Educational Trust, Employer Health Benefits, 2004 Annual Survey, September 2004

2. Increasing Productivity

In addition to mounting healthcare costs, the less obvious economic burden caused by low employee productivity related to stress and overwork is staggering. A recent study in the *New York Times Magazine* calculated that "Presenteeism" (the opposite of absenteeism - being at work when one should be at home) costs American businesses more than \$150 billion per year in decreased productivity.⁴ Controlling costs remains the key driver of Health & Wellness. However more companies are adopting health and wellness programs from a standpoint of human capital investment. Investing in the health and wellness of one's employees is a sound business investment. The improved mental and behavioral attitude that is associated with improved health directly improves the bottom line by reducing turnover, increasing overall output, and decreasing total disability and sick leave utilization.

Health Risk Assessments (HRAs)

The HRA is a measurement of one's current health status. This tool helps individuals become aware of the health needs and lifestyle practices that determine personal well being and can help to identify high-risk populations. HRAs are typically the front end of any comprehensive health and productivity program.

In a paper written for the Wellness Councils of America, one of the leading professional organizations serving the wellness industry, Wendy Lynch, a Wellness consultant to some of the nation's largest corporations, points out that poor health does not just add to costs, "poor health interferes with one's ability to do work and be at work. Poor health di-

minishes work capacity. Poor health erodes human capital."⁵ Conversely, Lynch notes as employees increase their health and wellness, their ability to produce quality work is increased. Thus, investments in wellness are investments in human capital. As today's economy relies more and more on the knowledge and skills of the worker, creating a competitive advantage via increased health and productivity will become even more prevalent.

Reducing or at least controlling costs is a leading concern of most businesses, large and small. Thus, comprehensive health and wellness programs that improve employee health and lead to lower overall benefits costs and improved productivity make good sense. The low overall cost of implementation and management of Health & Wellness programs makes them a sound investment. In fact, H&W benefits such as EAPs and various resource and referral services make up less than 1% of employee benefit expenditures but their payback is enormous so there is no reason why all employers, including small employers, shouldn't offer health and wellness benefits, including such programs as EAP, Health & Productivity Management, Work/Life Balance, and others.

⁴ Zengerle, Jason, "Presenteeism," *New York Times Magazine*, December 12, 2004

⁵ Lynch, Wendy, D., "What is a Healthy Employee Worth?", *Absolute Advantage*, 2002 Wellness Councils of America

HEALTH & WELLNESS SEGMENTATION

TripleTree divides the Health & Wellness segment into four primary categories; **Health and Productivity Management, Employee Assistance Programs (EAPs), Work/Life Balance, and Absence Management.** Each of these categories are generally impacted by or interrelated with more traditional healthcare categories such as managed behavioral health, disease management and disability management.

This report focuses on the core H&W areas outlined above and when appropriate, identifies the interrelationships and/or synergies these core areas have with related categories.

Primary Segmentation Category Definitions

Health & Productivity Management (HPM)	Health & Productivity Management is the management of data and services related to all aspects of employee health that affect work performance and includes measuring the impact of targeted interventions on both health and productivity. These programs include company offerings that are targeted at improving physical health. The programs supplement traditional benefits with illness prevention strategies, on-site fitness facilities, and nutrition programs/education.
EAP	Employee Assistance Programs involve the confidential services directly related to mental and/or behavioral health. These services include stress management programs, marital counseling, 24-hour crisis hotlines, substance addictions programs, etc.
Work/Life	Work/Life Balance programs assist employees with personal issues that often may reduce an employee's ability to focus on their work or require time away from work, leading to lower productivity and/or higher absenteeism. Examples of Work/Life services include: child care, elder care, legal advice, financial advice, and personal convenience services.
Absence Management	Absence Management programs allow employers to analyze employee attendance data through the utilization of technology. The programs are designed to provide employers with insights as to where absence problems exist within their organization and what may be causing these problems. These programs usually include a more human-intensive consulting aspect to develop strategies and interventions to correct/reduce problems.

Parallel Healthcare Sectors

Disease Management	Disease Management is a system of coordinated healthcare interventions and communications for populations with conditions in which patient self-care efforts are significant. DM supports the doctor/patient relationship and care plan, emphasizes patient empowerment and evaluates clinical and economic outcomes on a regular basis.
Managed Behavioral Health	Managed Behavioral care creates an organized system where medically necessary mental healthcare is delivered by trained healthcare professionals using practice guidelines that are intended to produce the best results for patients. MBH aims to improve a patient's quality of care by delivering services along the full care continuum including: in-patient, residential, partial hospitalization, intensive and normal outpatient care.
Disability Management	Disability Management programs offer a variety of services for short- and long-term disability coverages that advocate an employee's early return to work. These services may include: absence reporting, disability evaluations, referrals to PPOs, medical case management, return to work (RTW) program administration/design, and integrated reporting.

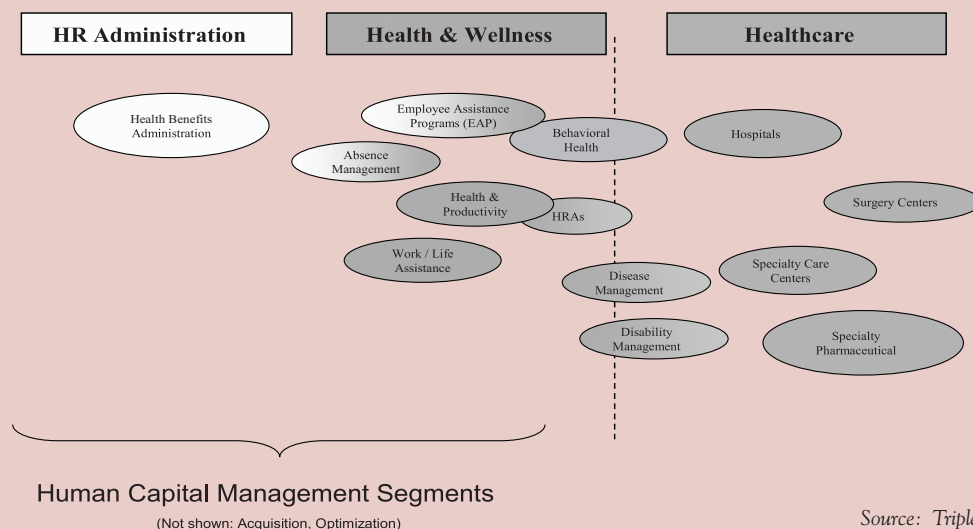
HEALTH & PRODUCTIVITY MANAGEMENT

Unhealthy lifestyle choices are often to blame for poor health. Alcohol, tobacco and drug use, poor diet, lack of exercise and high stress all place an individual at high risk for developing chronic health conditions and even death. Individuals with high risk lifestyles also have substantially higher medical costs.⁶ Seventy percent of the nation's \$1.7 trillion annual medical care costs can be attributed to lifestyle-related chronic diseases.⁷

The problem of unhealthy lifestyle is getting worse. Over 60% of the nation's population can be classified as obese or overweight and obesity among children is growing at alarming rates. According to the Centers for Disease Control and Prevention, the incidence of diabetes has jumped nearly 50% in the past 10 years. Smoking continues to be a leading cause of chronic disease. Poor dietary choices and lack of exercise are the rule rather than the exception. These problems cost

American business a fortune each year, with obesity alone reaching into the billions. The National Business Group on Health (NBGH), a consortium of major employers working to control health care costs, reports obesity costs U.S. companies an estimated \$12.7 billion annually.⁸ Despite the negative trends, research also points out that these unhealthy lifestyle choices can be changed, resulting in lower medical costs, higher productivity, and longer healthier lives. However, change does not come easy for most. In an effort to assist individuals with changing their behavior and taking greater responsibility for their health and well being, innovative programs and services have been developed over the last 20 or so years. Health & Wellness programs, along with the rise of Disease Management programs, have proven effective in assisting individuals to change their behaviors, effectively deal with illness, generally live more healthy and productive lives, ultimately leading to reduced healthcare costs and improved productivity.

Figure 6: TripleTree's Primary H & W Segmentation



Source: TripleTree, LLC

⁶ Goetzel RZ, Anderson DR, Whitmer RW, Ozminkowski RJ, Dunn RL, Wasserman J. "The relationship between modifiable health risks and health care expenditures: An analysis of the multi-employer HERO health risk and cost database," *Journal of Occupational & Environmental Medicine* 1998; 40:843-854.

⁷ Fries JF, Koop CE, Soklov J, Beadle CE, and Wright D. "Beyond Health Promotion: Reducing Need and Demand for Medical Care," *Health Affairs* 1998;17(2):70-84.

⁸ Grossman, Robert J., "Countering a Weight Crisis," *HR Magazine*, March 2004 Vol. 49, No. 3

HEALTH PROMOTION AND ILLNESS PREVENTION GO HAND-IN-HAND

Rapid increases in healthcare costs have forced employers to face difficult choices, ultimately leading to the rise in consumer-driven health plans. As TripleTree pointed out in our 2002 Spotlight Report, "A Prescription for Healthcare," only when the consumer (or in this case, the employee) understands the cost of healthcare and has a significant economic incentive to do so, will they make better choices about their health. Employers have embraced these concepts. In addition to consumer-driven health, employers have instituted strategies to cope with the ever-rising costs, including modifying coverage and adopting health and wellness programs with a focus on prevention.

Prevention programs are the cornerstone of the health and productivity services offered to employees. Prevention services include clinical screenings, counseling, immunizations and health promotion programs focusing on such things as smoking cessation, stress management, nutrition improvement and physical activity initiatives. Services such as these can play an important role in reducing healthcare costs by reducing cardiovascular disease, diabetes, depression, cancer, obesity and other

Clinical preventive services include those services that directly prevent diseases such as vaccinations and those that detect diseases in pre-disease or early disease states such as screens for cancer, hypertension, diabetes and obesity. These are generally services performed by providers in a clinical setting.

Behavioral preventive services or wellness promotion programs are those programs and initiatives that act to change individual behaviors that either lead to disease or exacerbate existing diseases or conditions. Such initiatives encourage employees to adopt healthy lifestyle choices that can include not smoking, exercise, healthy diet, managing stress and establishing strong social relationships."¹⁰

chronic diseases and conditions.⁹ The Center for Prevention and Health Services classifies prevention services under two broad banners: those that are clinical in nature; and those that are behavioral (see insert, bottom left).

For over two decades, companies have offered numerous forms of health and productivity programs focusing on both prevention as well as health promotion. As the industry has matured, the offerings have grown more sophisticated and complex. Today, broad-based programs not only assess the health risks of an employee population, they also include customized and individualized programs and interventions to address the health and wellness needs of the employee, while tracking the participation, utilization and effectiveness of the program to provide quantitative feedback to the employer. Those quantifiable results provide a foundation to an economic ROI.

THE HEALTH & WELLNESS INDUSTRY'S RELATIONSHIP TO DISEASE MANAGEMENT

Disease Management (DM) has witnessed dramatic growth over the last decade. The DM field contains a number of large and fast growing businesses, possessing strong valuations. The two main public companies in the sector are **American Healthways** and **Matria**. There are several fast-growing private companies including **Health Dialog**, **LifeMasters**, **CorSolutions** and **Cardium**. These companies target the most expensive group of individuals, working with the 10-20% of chronically ill that result in anywhere from 70-80% of total healthcare costs. Disease Management programs tend to be more medically focused and have less to do with prevention and more to do with effective and efficient case management for the "sickest of the sick." Health & Productivity Management programs, on the other hand, hope to address the other 60-80% of the population. Health & Productivity focuses on identifying individuals at various levels of risk and delivering the appropriate prevention and health promotion programs to reduce those risk factors and help them to achieve or maintain a healthier lifestyle.

⁹ Improving Health. Improving Business. Center for Prevention and Health Services, National Business Group on Health. 2005.

¹⁰ Ibid.

Disease Management

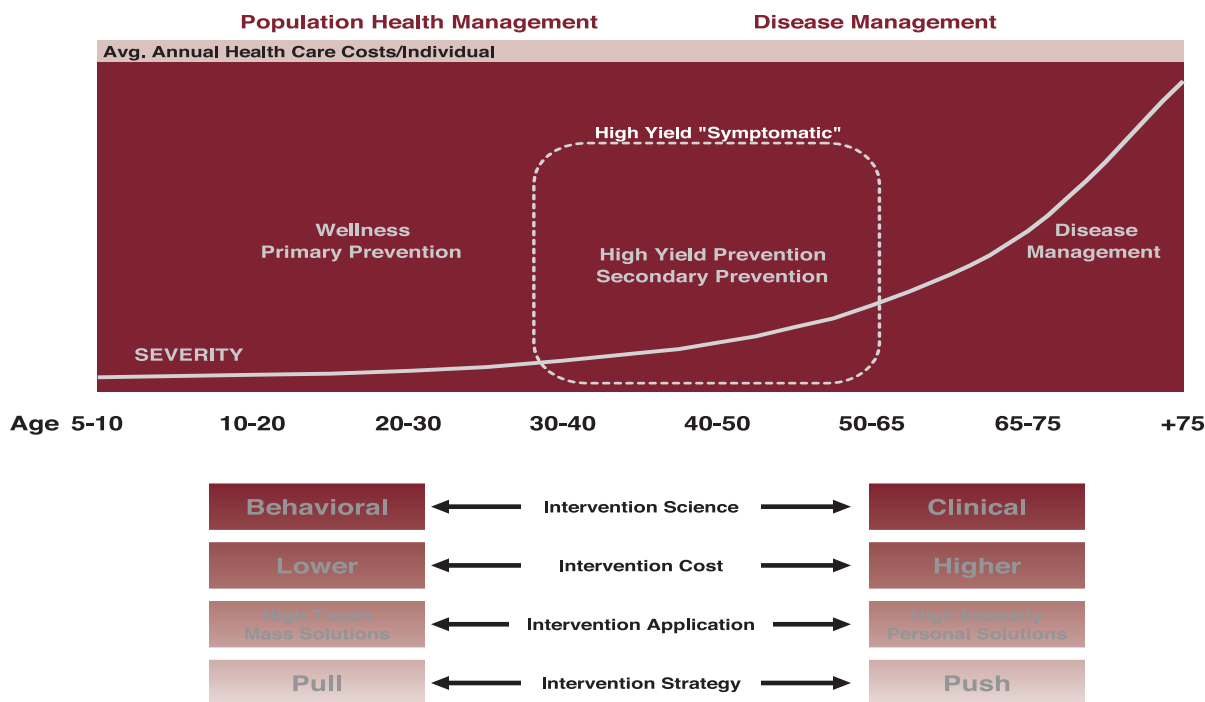
1. Post-Disease, major health event prevention:
 - Prevention in terms of angioplasty, major surgery, chemotherapy, etc.
 - Treat the "Sickest of the Sick" (Level 3 Stratification)
2. Predominantly Health Plan and Health Customers
3. Physician and Clinical Treatment Oriented
4. More In-Depth Claims Analysis, Easier ROI Proof than PHM
5. PBM Services
6. Case Management Focus

Health & Productivity Management

1. Pre-Condition Prevention
 - Prevention in terms of exercise to avoid obesity, smoking cessation to avoid respiratory disease, etc.
 - Treat those that will soon be sick (Level 1 & 2 Stratification)
2. Mainly Corporate Customers
3. Behavior and Health Coaching Oriented
4. More Challenging To Prove A Concrete Return on Investment

Source: TripleTree, LLC

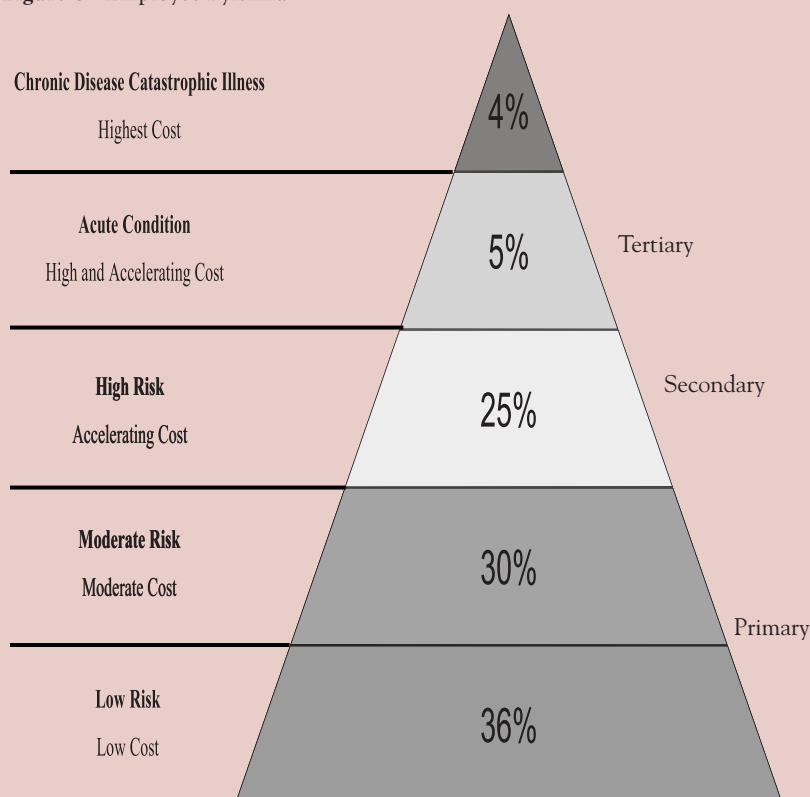
Figure 7: Population Health Management Would Include DM in Addition To Health & Wellness Programs for Those "At Risk"



Source: Axia Health Management

Lately, the lines of demarcation between Health & Productivity and Disease Management have begun to blur. Increasingly, HPM providers are offering "DM-lite" programs directed at diabetes and heart disease, among others. Likewise, DM firms have increased their attention to weight control, diet, smoking cessation and stress management - all areas generally focused on by HPM providers. DM providers are increasingly reporting request for proposal (RFP) requirements from benefits consulting firms and self-insured employers that require prevention and promotion programs as a component to a comprehensive population health management strategy. Employers are essentially requesting that something also be done for the other 70-80% of their employees. Increasingly, DM firms have sought out partnerships with HPM providers and in Matria's case, acquired companies (MiaVita) that provide them with more tools to address the broader employee population.

Figure 8: Employee Pyramid



Source: Watson Wyatt Worldwide; Harris-HealthTrends; StayWell Health Management; D. Edington, University of Michigan; Health Fitness Corp.

WHO IS PROVIDING HPM TODAY?

Within the Health & Productivity Management segment, it is useful to further segment companies into two primary categories:

- 1) **Point Solution Providers** - companies offering one or more health promotion or risk intervention programs including assessment, diet, exercise and smoking cessation.
- 2) **Integrated Solution Providers** - companies combining numerous offerings into a comprehensive package of services that generally begins with a health risk appraisal and includes interventions and programs designed to meet the individual needs of each employee depending on their level of risk and overall health.

There are numerous point providers in a variety of categories (see page 19). Some point solution providers may

in fact offer a number of programs from various categories. For example, a corporate fitness provider may also include diet and nutrition programs (either developed internally or outsourced). A number of the companies recognize the benefit of moving more towards offering a more robust solution. Some companies currently choose to partner, while others may acquire in the future to complement their current offerings.

While many of the point providers are fairly small, it is worth noting that the diet and nutrition businesses, which have historically catered to the consumer market, are moving into corporate-focused sales. As a few of these players have substantial scale and established brand recognition with consumers, they clearly have the muscle to make aggressive moves, whether it be through their extensive marketing and distribution campaigns or via strategic acquisitions to buy corporate customers and gain a better foothold in the business market.

Examples of Point Solution Providers

Screening/HRA/Coaching

Health Solutions
Wellness, Inc.

Health Content

HealthAtoZ
Mayo Clinic
Miavita
myRenewell
WebMD

Smoking Cessation

Free & Clear
SelfHelp Works

Stress/Behavioral

Midwest Centers for Stress
Health Integrated

Diet/Nutrition

SparkPeople
eDiets

Corporate Fitness Providers

MedFit
Club One
Lifetime Fitness
Health Fitness Corp.
ProFitness

INTEGRATED SOLUTIONS PROVIDERS - CHARACTERISTICS OF THE BUSINESS

Integrated providers, on the other hand, have taken a much more comprehensive approach to delivering health and productivity management solutions. There are fewer players in this category but like their counterparts in disease management, the top competitors in this space boast blue chip client rosters and serve tens of thousands of employee lives. A select group of firms has reached or surpassed the \$10 million mark in revenues and have the critical mass necessary to grow quickly. The majority of the firms TripleTree interviewed for this report are experiencing rapid growth (over 30% per year and some forecast as much as 100% growth). The disease management industry's recent focus on providing services to a broader level of employees is undoubtedly one of the growth drivers. Industry veterans also point to the fact that health promotion and illness prevention are finally being championed by key buyer segments; self insured employers and healthcare plans, each looking for ways to control costs.

Today's leading firms differ considerably from years past. Managing onsite workout facilities, a relatively low margin business, is being replaced or augmented by more sought after health risk appraisal and targeted prevention programming. Keeping the low risk employee fit, determining who is at risk and developing programs to keep employees from becoming chronically ill are the current areas of focus of integrated providers. Most of the leading integrated health and

productivity providers have been in business for over ten years and have benefited immensely from years of experience with large employer populations. The majority of the players are still privately held and few have been venture backed (with the exception of **Gordian Health Solutions**). Most of these companies started out as consulting firms, founded by ex-corporate health and wellness advocates or H&W thought leaders, including **Summex's** Larry Chapman and John Harris of **HarrisHealthTrends**.

While individual programming may be drastically different from firm to firm, most providers of integrated health and productivity generally focus on four key areas: Stress and Depression; Smoking Cessation; Diet/Fitness; and Substance Abuse. Programs may involve telephonic, online or face-to-face counseling. Increasingly, health coaching, which takes a one-on-one holistic approach to helping individuals achieve or maintain a healthy lifestyle, is growing in popularity. Content continues to be a valuable feature as well. Firms in the space generally provide health and wellness information, resources and tools, either online or via mailings to reinforce messages and improve outcomes.

Generally, each company utilizes some form of health risk assessment tool. Some providers prefer to remain HRA agnostic, as their corporate clients often already have a tool in place, while others may focus a considerable amount of their business around the HRA itself, offering highly tailored and customized tools to their clients at a premium. As part of the assessment phase, some offerings may include biometric screening

Examples of Integrated Solution Providers

Sumex Health Management

Wide variety of programs and consulting services in the Health & Wellness space.

Resources for Living

Programs for depression and obesity disease management; lifestyle modification programs: smoking cessation, stress management, substance abuse; return to work, integrated EAP and work life.

Harris HealthTrends, Inc.

Progressive health & productivity management company with strong strategy towards "outcome-based" program objectives and goals.

Gordian Health Solutions (*Acquired July 2005*)

Gordian provides wellness and disease management solutions that manage healthcare costs for employers managed care organizations, hospitals and other, providers of healthcare.

StayWell Health Management

Large integrated player with a more long track record of providing HRA and other H&W services

Whole Health

Provider of on-site healthcare services including primary and urgent care, preventative health and wellness programs.

features, often outsourced to a third party. Increasingly, HRAs are moving online, carving out costs and helping to modernize the back-end reporting features.

The second step in most programs is a population stratification effort. Many programs move employees into three main categories based upon level of risk. *Level 1* are independently healthy and need no real intervention (although making online health information available is a low-cost item and nice reward). *Level 2* employees do not currently have any ailments, but based on lifestyle, genetic history and/or biometrics, they are "at-risk" of developing a chronic condition. The *Level 3* employees currently have a chronic condition. Often times these employees are referred directly to a disease management vendor, but as mentioned above, many HPM vendors are beginning to develop programs for certain chronic conditions.

Once the population is stratified, the real work of developing comprehensive intervention strategies begins. Here too, each business brings with it unique skills and capabilities. However, most of the leading providers can fulfill their client's needs across a wide spectrum including diet, nutrition, weight loss, physical fitness programs, smoking cessation, stress reduction programs, etc. Delivery of services can range from telephonic counseling to worksite fitness centers to web-based programs.

Integrated Health & Productivity providers typically operate under one of two common payment

models: the per-eligible employee model and the per-participant model. Under the per-eligible employee model, companies pay a flat fee per eligible employee regardless of the types and amounts of services offered. Under this model, the vendor assumes greater responsibility for delivering cost-effective services that improve the health of its clients as they bid at a pre-determined price. Proponents of this model like the accountability factor involved as providers contract to deliver a certain level of results for a certain set price. However, the model may leave little room for customization and delivery of tailored services.

The alternative is the per-participant model in which an employee population is divided based upon the population stratification principles discussed above. Services provided differ depending on one's level of risk. Program costs differ depending on employee needs and the services delivered. This model allows for greater customization but the downside may be that service providers focus disproportionately on the higher-risk/higher-price categories, while limiting services to those in the lower risk categories.

Regardless of which model is utilized, corporate purchasers can expect to pay in the neighborhood of \$100 to \$150 per eligible employee, per year.¹¹ Return on investment in integrated health and productivity programs is just beginning to gain crediti-

¹¹ From TripleTree discussions and interview with Ron Goetzel, "The Cost of Wellness," Wellness Councils of America, 2004.

bility. Numerous documented studies indicate ROI averages of \$3 for every \$1 invested¹² and at least one recent study had the return as high as 16 to 1.¹³ Wellness expert Dr. Ron Goetzel, of Cornell University and healthcare information company Medstat, points out however, that companies must be patient with their wellness programs. Goetzel states, "worksites typically don't realize returns, until about three years into the program. So, if an organization is willing to wait two or three years, it will be capable of achieving this magnitude (3 to 1) of ROI."¹⁴ Integrated services contracts typically take the above into consideration as 3 year contracts seem to be a growing standard.

One final noteworthy item regarding the nature of the integrated health and productivity business involves how these programs are marketed and sold. Very few vendors employ professional sales forces. In fact, most of the leading providers have no true sales force to speak of. Most major vendors are in the enviable position of being able to grow their business solely through referral and limited marketing efforts. Referrals via the major HR consulting firms seem critically important in the RFP process. Undoubtedly, developing and nurturing strong relationships with these influential players is a very important aspect of succeeding in the market. As previously noted, disease management firms are under increased pressure to provide additional services, traditionally the domain of the HPM providers. In numerous discussions with providers on both fronts, RFPs for HPM services and programs are at record levels. Demand seems to be at an all time high and firms in this space are forecasting record growth in 2005.

¹² From TripleTree discussions and interview with Ron Goetzel, "The Cost of Wellness," Wellness Councils of America, 2004.

¹³ Aldana, Steven; Merrill, Ray; Price, Kristine; Hardy, Aaron and Hager, Ron.; "Financial Impact of A Comprehensive Multisite Workplace Health Promotion Program," *Preventive Medicine*, 40, 2005 pages 131-137.

¹⁴ Ibid.

PERSPECTIVE...

Food, Pharma and Healthy Hearts

American consumers are taking greater notice that foods can provide promising health and wellness benefits. In turn, food/beverage companies and pharmaceutical firms all hope to have a slice of this multi-billion market. Recent industry announcements including General Mills' aggressive step of making all of their ready-to-eat cereals whole grain, their launch of plant sterol-infused granola bars as well as their multi-vitamin partnership with Leiner Health Products, gives proof to the influence health claimed foods are having on the marketplace.

There is clear convergence between food sciences and biomedicine, hence, new opportunities are created to combat disease and promote wellness through foods and beverages. "Healthy Heart" is helping to drive this convergence; heart disease will set the road map for other treatment strategies for "functional foods and bioactive ingredients."

The FDA-approved heart health claim is catching on with consumers interested in reducing their risk of heart disease by incorporating cholesterol reducing agents into their diet as part of a healthy lifestyle. Food/Beverage, Pharma, Biotech & the 'reinvented nutraceuticals' recognize tremendous opportunities to promote heart health on a global basis through foods enriched with naturally-occurring bioactives.

The quest for healthy hearts may be right under our nose. Emerging players are looking to simple, yet disruptive, alternatives to foods/beverages that are spiked with plant sterols by bringing to the market foods that will eventually be 'certified' for naturally-occurring anti-cholesterol bioactives, which, of course, will be found within the very food itself. The reduction of 'bad' LDL cholesterol claims are strengthening around omega-3 fatty acids in walnuts and fish, isoflavones in soy, and naturally-occurring antibodies to cholesterol and LDL within milk itself.

Not lost on the large food companies, nutraceuticals, functional foods, and naturally-occurring, food-derived bioactives are gaining significant attention and should help to shape the food/beverage industry. In the years to come, General Mills, Kraft and Nestle may start to look a lot more like Novartis, Pfizer and Astra Zeneca... and visa versa.

The outcome of this convergence will be intellectual property around natural ingredients from commodity-based foods resulting in new consumer-driven companies that will be serving their own health care solution to Americans.

Dr. Shawn J. Green serves as life science advisor to TripleTree and is a co-founder of Origo Living Foods.

EMPLOYEE ASSISTANCE PROGRAMS (EAPs)

Mental illness is the number one cause of disability for American business and industry and is only second to cardiovascular disease in total disability costs. Recognizing the tremendous financial burden placed upon business due to lost productivity, leaves of absence and medical costs, progressive employers developed EAP programs as an effective alternative to expensive psychological and medical treatment. EAPs do not replace mental health-care. Generally, they are used as a "first line of defense" for employees experiencing behavioral or emotional struggles. EAP programs, often offered telephonically, provide counseling and referral programs for employees seeking assistance with problems ranging from emotional, relationship, chemical dependency and other behavioral issues.

EAP is the most mature category within H&W. For over three decades, EAPs have been embraced by the mainstream as a cost effective method for providing employees with much needed assistance. According to the Employee Assistance Professional Association of America, a well run EAP can reap an employer the following savings: 33% less use of sick leave benefits, 65% lowered incident of workplace accidents, 30% reduction in worker's compensation claims and 35% decrease in health insurance expenditures.¹⁵ Part of the reason EAPs have been widely embraced is undoubtedly due to the "politically correct" nature of providing such programs to employees. However, as the above statistics demonstrate, EAP programs have proven an effective return on investment. In fact, U.S. Department of Labor has shown that for every dollar invested in an EAP, the employer saves \$5-\$16.

As the most mature category within health and wellness, EAP also boasts the largest companies. However, today, fewer and fewer stand alone EAPs exist. As the managed behavioral healthcare industry has grown, many EAPs have either been acquired and rolled into a managed offering or have been driven out of business, falling victim to pricing pressure from their larger managed care counterparts. Leading providers of managed behavioral health that also provide strong EAP programs include **Magellan Behavioral Health**, **Optum** (a division of **United Health Group**), **Ceridian**, **CIGNA Behavioral Health** and note-

worthy stand alone EAPs such as **ComPsych** and **Value Options**.

The EAP space is mature and as such is often viewed as commoditized. The merging of EAP and managed behavioral healthcare services began years ago. Today, in order to regain competitive advantage, a number of firms have sought to differentiate their offerings by expanding into other health and wellness categories.¹⁶ A growing number of firms have moved towards offering integrated EAP and Work/Life balance programs. In addition to providing more extensive service to their clients, integrated offerings also provide cost savings. Baxter International's director of work/life benefits, Alice Campbell, reflects on the growing trend to cut costs by combining the two services, "It's clearer and cleaner in terms of communicating the program to employees, and costs less," she says. Campbell estimates the move to one vendor for both EAP and Work/Life referral programs will cut costs by a third.¹⁷

In order to sustain long-term growth and profitability, EAP providers must move horizontally into higher-margin Health & Productivity offerings. In fact, global petroleum giant Chevron has already started rolling out such an offering to its employees.¹⁸ Additionally, the disease management space may pay increasing attention to the stand alone EAPs that could provide call center leverage in addition to expanded service offerings. These steps make sense, but we believe they should be taken even further. Currently, there are no companies offering a comprehensive, total employee population approach effectively addressing the emotional and physical health and well being of a corporation's employees. A business that offers the best of EAP, Work/Life Balance programs, and the full spectrum of health and productivity/disease management would be a true population health management company and would be clearly differentiated from the competition. The opportunity to create such a company exists today, but it will require substantial capital and operational excellence.

¹⁵ From website: <http://www.fishervista.com/statistics.htm>.

¹⁶ Workforce Management Online, April 2004. Excerpted from March 29, 2004 issue of *Business Insurance*, written by Judy Greenwald.

¹⁷ Ibid.

¹⁸ Ibid

WORK/LIFE BALANCE

Increasingly, U.S. workers spend more and more time on the job. Job cuts, down sizing, and outsourcing leave fewer people to do more work, leading to even less time for employees to take care of their personal responsibilities. As demographic shifts reduce the labor pool over the next few decades, finding qualified employees will become increasingly challenging. Employee retention will remain a top objective and salary and opportunity will not be enough to keep the best and brightest. Employees will increasingly seek assistance from their workplace in order to balance the many demands of their professional and personal lives.

Work/Life Balance programs have arisen as an effective means for addressing this increasing problem. Recent surveys indicate that nearly 60% of employers find that developing a benefits program that helps employees balance their professional and personal lives is the most important factor in employee retention.¹⁹ Work/Life Programs can range from referral services for child and eldercare, to legal and financial planning advice, all the way to concierge-like services including on-site dry cleaning, movie rental and shopping services (see insert on right).

Work/Life Balance is made up of numerous small companies generally focused on local or regional programs. However, there are a few emerging "national" providers, including HR outsourcing firms such as **Ceridian** and **Convergys** that offer various Work/Life programs as part of a larger package. There are also a handful of more focused firms such as **Workplace Options**, **LifeCare** and **Work/Life Benefits**, a division of **Accor Group**, the multi-billion dollar international hotel and services business. These providers primarily function as a referral mechanism to actual service providers. The business generally involves call center capabilities and robust databases of providers nationwide. These Work/Life companies perform the heavy lifting of collecting, screening and referring clients to the service providers that can best meet the needs of a particular employee.

In addition to the large referral-oriented businesses, the Work/Life sector is composed of numerous point solution service providers. Child care services and elder care services have traditionally been the most easily recognizable businesses in the Work/Life category and will most likely remain so in the years to come. On-site corporate child care is typically

outsourced to a professional provider and is a very popular benefit. In a study of employees with children in employer-sponsored child care programs, 93% of respondents said that work-site child care was an important factor in considering a job change.²⁰ In years to come, elder care services may be as important, if not more, to America's workforce. According to the Families and Work Institute, approximately 40% of workers currently provide some form of elder care assistance.

Despite their growing popularity, the return on investment for such programs is difficult to ascertain. Many of these programs "feel good" but measuring their real impact on the bottom line has been limited. As pointed out in *Workforce* magazine, a leading resource for the professional HR field, "A full decade has passed since leading corporations first installed comprehensive work/life programs. Despite the time and money poured into these programs, few claim unmitigated success, and on an aggregate level, little has changed. Data from the U.S. Bureau of Labor Statistics suggests slow or no growth in Work/Life programs in recent years."²¹ Work/Life is not seen as a growth area overall, as the services seem to be a "nice to have" rather than a "need to have."

Work/Life Benefits

- Family Day Care and Group Home Referrals
- Emergency, Back-Up and Care for Mildly Ill Children
- Nursery and/or Preschool
- Nanny/Au Pair Organizations
- Summer Camps
- Before/After School Programs
- Special Needs Programs and Services
- Parenting Groups and Education Classes
- Birthing Methods
- Exercise and Nutrition During Pregnancy
- Breast Feeding and Formula Feeding Information
- Lactation Information and Advice
- Adoption Support Groups
- Adoption Agencies and Attorneys
- Home Study Information
- School District Information
- Private School Information
- Vocational and Technical School Information
- Tutoring Programs
- Pre-College Testing and Preparation
- Colleges and Universities, Application Assistance
- Financial Aid Programs, Loans, and Scholarships

¹⁹ Met Life Study of Employee Benefit Trends, November 2001.

²⁰ Benefits of Work-Site Child Care, Simmons College, 1997 - from website.

²¹ Hansen, Fay, "Truth and Myths of Work/Life Balance," *Workforce*, December 2002, pp. 34-39.

ABSENCE MANAGEMENT

A relative newcomer, the Absence Management field utilizes technology and aggressive case management to track, identify and shorten employee absences. In addition to these core services, some companies are also providing "root cause analysis" to begin to explore the reasons behind each individual absence. The goal being an effort to reduce associated costs, including sick leave, hiring temporary workers, overtime costs and generally lower productivity. The costs of absence are incredible. According to the Center for Disease Control's National Health Interview Survey, absent workers cost U.S. companies \$2.6-\$3.4 billion each year. And it's not just a health issue. Research shows that less than a quarter of those people who call in sick are actually ill. Problems at home, personal needs, difficulties with a boss and numerous other non-illness issues are leading to unsubstantiated absence. Learning what is really causing the absence can lead to effectively dealing with the real problem.

Gaining insights from data collection is only the beginning of a comprehensive absence management program. Combining analytic software with high touch consulting is used to reveal and address the underlying causes of absence. Implementing interventions to address the causes of absence and ultimately reduce them is where the rubber meets the road with any absence management program. Additionally, demonstrating ROI is essential. Companies currently competing in this space include small start-up technology firms as well as larger HR consulting firms such as **Mercer**. As more companies are educated about the myriad associated costs of absence and the savings to be gained through implementing a comprehensive solution, undoubtedly this field will grow. In fact, many of the major HROs currently partner with an Absence Management provider or are developing/buying their own solution to meet growing customer demand.

CONCLUSION

This spotlight Report was authored to provide an industry landscape alongside some wellness definitions with a goal of framing this rapidly changing and growing field. Additionally, we have provided our strategic thinking as to the direction of the industry and what we believe will be the defining themes moving forward. Once again those themes are:

1. The integration of multiple services is driving growth and change. Larger vendors are entering the space with highly diverse offerings across all wellness categories. These vendors are forcing smaller point solutions to integrate and partner to effectively compete.

2. Technology-leveraged programs that provide ROI will be in highest demand. Progressive wellness firms are on the cusp of providing concrete ROI results for integrated wellness programs and that capability will effectively enable corporate America to justify wellness expenditures and fuel long-term industry growth.

3. Customization and incentives will play increasingly important roles providing a cost-effective way to dramatically increase participation and improve overall population health. The ability to integrate incentive programs with CDH spending accounts will be a critical differentiator within the industry.

4. New players and hybrid models will affect the industry. Players from several different industries with substantial financial leverage are entering the field, looking for breakout strategies. In the end, "the customer is king" and those who satisfy the customer will come out on top.

5. Consumer-driven healthcare and pending legislation will transform the current market. The growth of spending accounts and government intervention could have consumers spending someone else's money to purchase wellness-oriented products and services.

6. Medicare Health Support Programs in Disease Management could have ripple effects in H&W. Successful outcomes from the MHSP trial could lead to increased partnership and revenue sharing opportunities for H&W firms. Additionally, as Medicare begins to cover additional disease states, we could see DM firms acquire H&W firms to expand their capabilities.

7. There are good opportunities for venture capital and private equity firms to capitalize in this rapidly changing market. Strong cash flows coupled with a growing market make for perfect investment candidates. As the industry continues to grow, many firms are just reaching the scale to justify a professional investment.

Health & Wellness organizations will be facing complex strategic choices over the next 12 - 24 months. Through our ongoing research efforts and business activities in this and complementary industries, we believe we are uniquely qualified to assist companies and professional investors as they take on those challenges.

The Health & Wellness field is dynamic and growing. As competition heats up, today's leaders could easily find themselves tomorrow's laggards as new entrants, evolving technology and consumer-focused approaches help to change the landscape. New business models, consolidation, increased attention from the professional investment community - all these and numerous other factors will help shape the field in the months ahead.

CONCLUSION

WHAT STRATEGIC ALTERNATIVE IS RIGHT FOR YOUR BUSINESS?

Seek Growth Capital And Expand -

For a significant number of market participants, the current environment represents a terrific opportunity for growth. The key is determining whether your organization has what it takes to expand successfully. Some factors to consider:

- Do you have a strong, experienced management team?
- Are you delivering a unique and high quality suite of wellness services?
- Do you have a scaleable operating model?
- What is the quality of your operations?
- Do you have a leveragable technology platform?
- Have you replicated your model in other locations?
- Where and at what cost can you access growth capital?

Getting objective answers to these and other important questions is the key to determining whether to seriously evaluate specific growth opportunities in your market. It is usually advisable to get professional input regarding the answers to these and other questions before spending time and money seeking outside capital.

Stay the Course -

Oftentimes, the best thing an emerging company can do is stay the course and focus on organic growth. Nonetheless, as an advisor to numerous growth-oriented firms over the years, we have found that regardless of what strategic alternative is right for your company, all entrepreneurs and business leaders can benefit from an outsider's perspective. Ongoing dialogue with an advisor that possesses in-depth industry knowledge and insight can be a tremendous help as you focus on your goals.

Consider a Sale -

In the current environment, some market participants should consider a sale. Many firms in the

industry are self-funded and are still without professional capital. Some of these business owners are experiencing healthy cash flows and sitting on comfortable "lifestyle" businesses. Given the increased attention and the oncoming competition, these operators should consider a sale in the near term to avoid a likely reduction in growth, profitability and enterprise value.

There are a number of steps that can be taken to maximize the value of health and wellness companies during a sale:

Effective Positioning/Packaging - During the sale process, it is critical to position the business effectively, highlighting in a number of ways the key strengths of the organization.

Effective Process - Getting the right players to the table, including some unexpected strategic acquirers who might have an incentive to bid aggressively, ensures a competitive process. It is critical to conduct the process on the seller's rather than the buyer's turf and terms.

Correct Timing - Conduct the process when one or more purchasers have a strong desire to defend an existing position. Carefully evaluate the organization's performance and local market conditions and proceed accordingly.

As an investment bank with considerable experience in healthcare, business services and human capital management, TripleTree can assist your business to capitalize on the various strategic implications we have outlined in this Report. If we can be of help as you think through these and other emerging themes happening within your organization, please do not hesitate to call any member of our team.

APPENDICES

HEALTH & WELLNESS INDUSTRY HISTORICAL BACKGROUND

Health and Wellness began with the pioneering efforts of the famed retailer R.M. Macy and Co. and Northern States Power in 1917 when they instituted the first employee assistance program (EAP). In the late 1940s, Dupont and Ford followed suit and instituted their own EAPs. The first forms of employee assistance programs were alcohol addiction programs called "Occupational Alcohol Programs."

Employee assistance programs grew in popularity and were widely unchanged until the 1980s when programs began to involve relationship and emotional assistance. During this time we also began to see independent companies appearing in the space to take on the employee assistance needs of large corporations. By 1990, EAPs were widely used as a tool to reduce behavioral-health costs. Before implementation of such plans, behavioral health benefits were rapidly increasing and accounted for as much as 20% of total healthcare costs.

At the same time EAPs were gaining wide acceptance in the mid-80s, another employee-related problem began to capture attention from large corporations. Companies relocating to smaller cities tapped the capacity of local child care facilities and as parents scrambled to find adequate childcare, absenteeism rose dramatically. Work/Life services were born as "Work and Family" programs in 1984. The early Work/Life programs focused solely on providing in-house child care facilities to employees.

Employers began realizing that a much larger program with increased offerings would provide increased savings because studies proved that a substantial percentage of employees' work hours were dedicated to their personal lives. Corporations began offering resource banks to reduce the time it

took employees to organize their out-of-work familial duties. Corporate-sponsored elder care was introduced after it was determined a large percentage of employee absence was not based on personal illness, but on the illness of an elderly dependant.

In the age of cell phones, laptops, pagers and modems the typical American now works 47 hours per week. That obviously equates to less personal time for employees. In response, corporations have expanded work/life offerings to include legal and financial advice as well as personal concierge services allowing employees to take care of film development, banking, dry cleaning, etc.

Today, the obesity epidemic in the United States combined with seemingly inexorable increases in overall healthcare costs, are demanding significant corporate attention. As a result, prevention programs known as "wellness programs" have arrived in today's corporate setting. These programs are designed to improve the physical well-being of employees. Companies commonly install fitness facilities, provide nutritional education, assess overall workforce health, and screen for chronic disease. Various studies have determined that obesity leads to chronic disease and that chronic disease is inflating corporate healthcare spending. So far, these programs have proven to reduce the rate of increase in healthcare spending for large corporations.

Throughout the history of Health and Wellness, programs were first formulated within large corporations and slowly transformed into stand-alone businesses. In today's marketplace, many of the original stand-alone EAPs have become large companies themselves or have been acquired by larger healthcare plans/providers. Although still extremely fragmented, the consolidation of the EAP space has already begun. Additional areas of Health & Wellness are likely to follow EAP's lead in the months and years to come.

APPENDICES – VALUATIONS, TRANSACTIONS AND DEAL FLOW

HEALTH & WELLNESS Recent Mergers & Acquisitions Activity

Date	Buyer	Seller	Seller Description	Price	Revenue	Ebitda	P/R	P/Ebitda
7/28/2005	BCBS Tennessee	Gordian Health Solutions	Integrated health & productivity management provider	-	20.0	-	-	-
7/1/2005	AXIA Health Management	American WholeHealth Networks	Complementary and alternative medicine provider	-	-	-	-	-
6/8/2005	American Healthways	Health IQ Diagnostics	Provider of a unique health risk assessment	2.0*	-	-	-	-
4/11/2005	iVillage	HealthCentersOnline	Online Wellness content provider	12.0	-	-	-	-
3/14/2005	WebMD	Healthshare Technology	Healthcare decision support software and services	31.0*	-	-	-	-
3/9/2005	Matria	Miavita	Online wellness content provider	5.0*	1.5	-	3.3x	-
2/23/2005	Health Grades, Inc.	CompareYourCare	Interactive web-site designed to increase healthcare comprehension	-	-	-	-	-
1/25/2005	QCSI	MyHealthBank	CDH administration platform w/ wellness and prevention tools for consumers	-	-	-	-	-
1/10/2005	iVillage	Healthology	Online wellness content provider	17.0	-	2.0	-	8.6x
12/16/2004	Axia Health Management	HealthCare Dimensions	SilverSneakers Fitness Program designed exclusively for seniors	-	-	-	-	-
8/10/2004	Healthsquare.com	Choice Media	Online Wellness content provider	-	-	-	-	-
8/10/2004	DrKoop.com	Choice Media	Online Wellness content provider	-	-	-	-	-
8/10/2004	DrDrew.com	Choice Media	Online Wellness content provider	-	-	-	-	-
4/27/2004	SHPS, Inc.	Landacorp	DM and PHM services to healthcare payer and delivery organizations	56.0	27.5	5.3	2.0	10.6x
4/21/2004	LifeMasters	Medical Scientists	Predictive modeling for disease management industry	-	-	-	-	-
3/22/2004	I-Trax	CHD Meridian Healthcare	On-site clinical and wellness services provider	85.3**	-	9.3	-	9.2x
8/26/2003	Health Fitness Corp.	J & J - H&W Division	Fitness Center Management and Wellness Programs Business	4.8	23.2	(0.8)	0.2x	-
1/13/2003	Fiserv	AVIDYN, Inc.	DM, PHM, Case Mgmt. to employers, payers, and TPAs	11.9	8.0	(1.1)	1.5x	-

* Not Including Earn-Out Potential

**Including Earn-Out

Median	12.0	20.0	2.0	1.8x	9.2
High	85.3	27.5	9.3	3.3x	10.6
Low	2.0	1.5	(1.1)	0.2x	8.6

APPENDICES - VALUATIONS, TRANSACTIONS AND DEAL FLOW

HEALTHCARE SERVICES (\$ millions, except share price)

Ticker	Company name	Market Price 30-Jun-05	Market Cap.	Enterprise Value	LTM Revenue	LTM EBIT	LTM Net Income	EV/ Revenue	EV/ EBIT	Price/ Earnings
HEALTH INSURERS										
AET	Aetna Inc.	\$82.82	24,055	24,726	20,510	2,157	2,303	1.2x	11.5x	10.4x
AGP	AMERIGROUP Corp.	\$40.20	2,057	1,772	1,957	145	88	0.9x	12.2x	23.4x
CI	CIGNA Corp.	\$107.03	14,009	13,113	17,964	2,967	1,806	0.7x	4.4x	7.8x
CVH	Coventry Health Care Inc.	\$70.75	7,597	8,306	5,633	609	375	1.5x	13.6x	20.2x
HNT	Health Net Inc.	\$38.16	4,292	3,916	11,633	228	49	0.3x	17.2x	87.7x
HUM	Humana Inc.	\$39.74	6,431	6,883	13,205	471	322	0.5x	14.6x	20.0x
PHS	Pacificare Health Systems Inc.	\$71.45	6,225	6,487	12,748	578	322	0.5x	11.2x	19.3x
SIE	Sierra Health Services Inc.	\$71.46	1,909	1,922	1,503	216	126	1.3x	8.9x	15.1x
UNH	Unitedhealth Group Inc.	\$52.14	66,018	66,195	39,961	4,481	2,812	1.7x	14.8x	23.5x
WLP	Wellpoint Inc.	\$69.64	42,663	45,445	27,341	2,352	1,276	1.7x	19.3x	33.4x
								Average	1.0x	26.1x
								Median	1.1x	20.1x
DISEASE MANAGEMENT										
AMHC	American Healthways Inc.	\$42.27	1,420	1,377	297	59	34	4.6x	23.5x	41.7x
MATR	Matria Healthcare Inc.	\$32.23	519	566	305	30	30	1.9x	18.8x	17.3x
								Average	3.2x	29.5x
								Median	3.2x	29.5x
PRESCRIPTION BENEFITS MANAGEMENT										
BIOS	BioScrip, Inc.	\$6.00	222	209	671	12	7	0.3x	17.5x	34.0x
CMX	Caremark Rx Inc.	\$44.52	19,930	19,049	31,151	1,248	714	0.6x	15.3x	27.9x
ESRX	Express Scripts Inc.	\$49.98	7,415	7,538	15,326	556	294	0.5x	13.6x	25.3x
HLEX	Healthextras, Inc.	\$20.07	770	720	580	27	18	1.2x	26.2x	42.5x
MHS	MedcoHealth Solutions, Inc.	\$53.36	14,789	14,211	35,189	935	509	0.4x	15.2x	29.0x
								Average	0.6x	31.8x
								Median	0.5x	29.0x

CUSTOM CARE CENTERS (\$ millions, except share price)

Ticker	Company name	Market Price 30-Jun-05	Market Cap.	Enterprise Value	LTM Revenue	LTM EBIT	LTM Net Income	EV/ Revenue	EV/ EBIT	Price/ Earnings
HOSPITALS										
CYH	Community Health Systems Inc.	\$37.79	3,370	4,972	3,459	355	147	1.4x	14.0x	23.0x
HCA	HCA Inc.	\$56.67	25,001	35,504	23,747	2,595	1,315	1.5x	13.7x	19.0x
HMA	Health Management Associates Inc	\$26.18	6,455	7,514	3,355	572	342	2.2x	13.1x	18.9x
LPNT	Lifepoint Hospitals Inc.	\$50.55	2,825	2,953	1,025	171	88	2.9x	17.3x	32.2x
MDTH	MedCath Corp.	\$27.79	513	768	746	51	3	1.0x	15.2x	NM
PRV	Province Healthcare Co.	\$24.28	1,221	1,718	883	109	54	1.9x	15.7x	22.4x
THC	Tenet Healthcare Corp.	\$12.24	5,739	8,931	9,844	24	(2,521)	0.9x	372.1x	NA
TRI	Triad Hospitals Inc.	\$54.64	4,668	6,383	4,557	426	159	1.4x	15.0x	29.3x
UHS	Universal Health Services Inc.	\$62.18	3,612	4,449	4,047	358	185	1.1x	12.4x	19.6x
								Average	1.6x	23.5x
								Median	1.4x	22.4x

APPENDICES - VALUATIONS, TRANSACTIONS AND DEAL FLOW

CUSTOM CARE CENTERS (\$ millions, except share price)

TICKER	COMPANY NAME	MARKET PRICE 30-JUN-05	MARKET CAP.	ENTERPRISE VALUE	LTM REVENUE	LTM EBIT	LTM NET INCOME	EV/ REVENUE	EV/ EBIT	PRICE/ EARNINGS
SURGERY CENTERS										
AMSG	AmSurg Corp.	\$27.69	817	936	347	128	39	2.7x	7.3x	21.1x
NOVA	NovaMed	\$6.07	130	150	69	13	4	2.2x	11.6x	29.2x
ONH	Orion HealthCorp., Inc.	\$0.84	7	17	7	(4)	(8)	2.5x	NA	NA
USPI	United Surgical Partners International Inc.	\$52.08	1,501	1,735	415	94	87	4.2x	18.5x	17.3x
								Average	2.9x	12.5x
								Median	2.6x	11.6x
DIALYSIS										
DVA	DaVita Inc.	\$45.48	4,553	5,661	2,373	434	226	2.4x	13.0x	20.2x
FMS	Fresenius Medical Care Corp.	\$28.45	6,035	8,416	6,378	874	418	1.3x	9.6x	14.4x
RCI	Renal Care Group Inc.	\$46.10	3,138	3,674	1,441	268	125	2.6x	13.7x	25.0x
								Average	2.1x	12.1x
								Median	2.4x	13.0x
LABORATORIES										
BRLI	Bio-Reference Labs Inc.	\$13.88	177	192	150	12	8	1.3x	16.2x	22.1x
LABS	Labone Inc.	\$39.80	695	777	480	47	28	1.6x	16.5x	25.1x
LH	Laboratory Corp. of America Holdings	\$49.90	6,717	7,540	3,131	611	372	2.4x	12.3x	18.0x
TOX	MEDTOX Scientific Inc.	\$7.70	58	70	58	4	2	1.2x	16.6x	31.8x
DGX	Quest Diagnostics Inc.	\$53.27	10,779	11,547	5,190	923	515	2.2x	12.5x	20.9x
SP	Specialty Laboratories Inc.	\$8.41	194	182	140	(10)	(21)	1.3x	NA	NA
								Average	1.7x	14.8x
								Median	1.5x	16.2x
DIAGNOSTIC IMAGING										
AIQ	Alliance Imaging Inc.	\$10.46	515	1,059	432	83	1	2.4x	12.8x	NM
RGX	Radiologix Inc.	\$4.25	95	222	248	9	(15)	0.9x	24.2x	NA
								Average	1.7x	18.5x
								Median	1.7x	18.5x
OTHER										
CURE	Curative Health Services Inc.	\$2.28	30	243	304	14	(148)	0.8x	17.9x	NA
HGR	Hanger Orthopedic Group Inc.	\$5.04	108	570	570	56	(26)	1.0x	10.2x	NA
INMD	Integramed America Inc.	\$7.62	37	36	114	2	1	0.3x	16.5x	28.1x
OCA	Orthodontic Centers of America Inc.	\$1.88	95	178	401	46	(60)	0.4x	3.8x	NA
ODSY	Odyssey Healthcare Inc.	\$14.42	497	460	353	53	32	1.3x	8.7x	15.3x
TLCV	TLC Vision Corp.	\$8.19	577	487	248	24	45	2.0x	20.3x	12.8x
USPH	US Physical Therapy Inc.	\$19.18	228	210	121	18	7	1.7x	11.9x	31.8x
								Average	1.1x	12.8x
								Median	1.0x	11.9x

APPENDICES – VALUATIONS, TRANSACTIONS AND DEAL FLOW

HEALTHCARE IT & OUTSOURCING (\$ millions, except share price)

TICKER	COMPANY NAME	MARKET PRICE 30-JUN-05	MARKET CAP	ENTERPRISE VALUE	LTM REVENUE	LTM EBIT	LTM NET INCOME	EV/ REVENUE	EV/ EBIT	PRICE/ EARNINGS
PAYOR & CLAIMS SOLUTIONS										
HAXS	Healthaxis Inc.	\$1.80	11	14	16	(5)	(5)	0.8x	NA	NA
HMSY	HMS Holdings Corp.	\$6.66	132	97	86	9	8	1.1x	10.6x	15.9x
NDC	NDCHealth Corp.	\$17.97	648	941	459	45	(23)	2.0x	21.1x	NA
PILL	ProxyMed Inc.	\$7.84	99	121	91	(3)	(5)	1.3x	NA	NA
TZIX	TriZetto Group Inc., The	\$14.01	594	572	281	18	17	2.0x	32.5x	34.7x
								Average	1.5x	21.4x
								Median	1.3x	25.3x
PROVIDER SOLUTIONS										
MDRX	Allscripts Healthcare Solutions Inc.	\$16.61	682	705	104	5	4	6.8x	NM	NM
AMCS	AMICAS Inc.	\$4.53	204	121	45	(11)	34	2.7x	NA	6.1x
CERN	Cerner Corp.	\$67.97	2,506	2,533	970	118	63	2.6x	21.5x	39.7x
CPSI	Computer Programs & Systems Inc.	\$37.27	391	374	91	15	10	4.1x	24.5x	41.0x
ECLP	Eclipsys Corp.	\$14.07	679	573	325	(28)	(27)	1.8x	NA	NA
IDXC	IDX Systems Corp.	\$30.14	936	726	561	55	39	1.3x	13.3x	24.1x
MCK	McKesson Corp.	\$44.79	13,532	12,933	80,515	1,010	(157)	0.2x	12.8x	NA
MEDW	Mediware Information Systems Inc.	\$9.96	78	65	37	5	3	1.8x	12.5x	23.8x
MEDQ.E	MedQuist Inc.	\$13.30	495	351	498	63	40	0.7x	5.6x	12.3x
MRGE	Merge Technologies Inc.	\$18.75	248	226	39	10	8	5.8x	21.8x	30.2x
OMCL	Omnicell Inc.	\$8.80	226	200	125	5	2	1.6x	43.7x	92.1x
PSTI	Per-Se Technologies	\$21.02	623	706	360	46	57	2.0x	15.5x	11.0x
QMDC	Quadramed Corp.	\$1.74	70	135	126	(15)	(40)	1.1x	NA	NA
QSII	Quality Systems Inc.	\$47.38	621	570	89	25	16	6.4x	23.2x	38.6x
QVDX	Quovadx Inc.	\$2.76	112	85	81	(15)	(13)	1.1x	NA	NA
HLTH	WebMD Corp.	\$10.27	3,523	4,098	1,193	57	43	3.4x	71.6x	81.0x
ZIXI	Zix Corp.	\$3.13	101	108	15	(40)	(41)	7.3x	NA	NA
								Average	3.0x	24.2x
								Median	2.0x	30.2x

APPENDICES

TRIPLETREE'S HEALTH & WELLNESS TEAM

The Team

TripleTree today has 20+ professionals with backgrounds as business builders, operators of public and private firms, lawyers, accountants, bankers and investors. Within Healthcare and Human Capital Management, we have a team with significant transaction and operating experience exceeding 100 years. Our team has completed dozens of Healthcare and Human Capital transactions and we have helped our clients create hundreds of millions of dollars of value for their owners.

Kevin Green, Managing Partner. Kevin advises companies on maximizing the value of their firm by leveraging 25 plus years of operational, M&A and capital raising experience. His broad industry background and relationships, extensive transactional experience, and hands-on operating experience bring unique perspectives to each client engagement. Prior to co-founding TripleTree, Kevin held several senior executive roles at private and public companies within the healthcare and technology industries. He served as CEO of both Summit Medical and Integrated Medical Systems (IMS). During his tenure, IMS grew from a start-up company to a high-growth business that was sold to Eli Lilly. Previously, he served as an executive at Cycare, which grew from a private firm to a NYSE company and was later sold to McKesson. Kevin started his career at Westinghouse.

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Rob McCray, J.D., Managing Partner. In managing TripleTree's San Diego office and advising healthcare and technology companies, Rob leverages over 25 years of experience as a business owner, senior operating executive, and legal and transactional advisor to private and public companies. Most recently, Rob was President, COO and an early investor in Digital On-Demand, Inc., a retail services technology company that operates under the brand name RedDotNet in chains includ-

ing Barnes & Noble, Circuit City, Best Buy, Blockbuster and Fred Meyer. Previously, he served as President and CEO of HealthCap, Inc., a venture capital-backed physician practice management company that returned 90% CAGR to its investors in a 1997 transaction. Rob also served as Managing Director of Caremark Physician Resources, directing its formation during its initial high-growth years prior to its sale to MedPartners, Inc. He also co-founded OnCall Medicine, Inc., a medical house calls company. Prior to his success as a business operator, he was a Managing Partner in his law firm and a partner in a predecessor firm, delivering healthcare and transactional legal and consulting services for over 20 years.

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Peter Erickson, Senior Principal. Joining TripleTree in 1998, Peter has played a number of roles in the company's growth. He has assisted TripleTree's clients execute numerous successful M&A transactions in Technology, Business Services and Healthcare, as well as helped develop the firm's business development and marketing efforts. As a Senior Principal, Peter is involved in the management of TripleTree's transaction and advisory services with a focus on human capital management and outsourcing services. This focus leverages Peter's research and transaction background spanning the technology and business services industries. Prior to joining TripleTree, Peter helped manage international development programs focused on Eastern Europe and Southeast Asia through the National Forum Foundation in Washington D.C. While attending the Carlson School of Management, Peter helped establish a student-led \$1.5 million investment fund that now serves as a cornerstone for the school's finance program. During this time, he also worked at Sit Investment Associates, a money management firm with over \$10 billion in assets under management.

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Scott Tudor, Senior Principal. Scott helps manage TripleTree's merger and acquisition and private placement engagements. Since joining the com-

APPENDICES

pany in January 1999, Scott has closed numerous transactions with leading global companies such as HP, Cardinal Health, Avanade and Ciber and has raised private equity for numerous firms in the application outsourcing and healthcare IT markets. Scott currently focuses on healthcare technology and outsourcing services, in addition to IT consulting and other business process outsourcing areas. His advisory work has included writing strategic business plans, creating financial planning tools and evaluating strategic growth alternatives including sophisticated buy-versus-build analyses to help senior management assess the merit of potential buy-side acquisition opportunities. Prior to joining TripleTree, Scott was a practicing attorney specializing in commercial and contract-related matters and also served as a securities analyst with EBF & Associates.

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Matt Scholl, Associate. As an Associate, Matt works across TripleTree's industry sectors and is a key contributor to TripleTree's efforts in health and wellness and human capital management, providing industry and company research as well as financial analysis in support of client engagements. Prior to joining TripleTree, Matt served as an associate with Harbour Ventures, a life sciences venture advisory firm in San Diego. While with the firm, Matt reviewed, analyzed and evaluated business plans, conducted competitor benchmarking and assisted with the fund raising and marketing efforts of early-stage companies. Prior to his venture work, Matt spent a number of years in the investor relations field, including agency account supervision and corporate IR department management. Matt began his career in coaching and counseling.

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Kevin Roche, J.D., Senior Healthcare Advisor. Specializing in the Healthcare industry, Kevin has participated in more than 75 merger, acquisition, divestiture and joint venture transactions. As a senior executive for more than 20 years, he has

worked with a host of large, small and start-up companies in the areas of strategic planning and transactions, board representation and corporate governance, legal and government affairs, and comprehensive healthcare operations and policy.

Most recently, Mr. Roche was Senior Vice President at UnitedHealth Group where he evaluated investment opportunities and researched and developed strategies regarding changes in technology and medical practices. Previously, he was founder and CEO of Ingenix Division, a health information and research company, where he grew the company from less than \$50M to over \$400M in four years.

Prior to his success as a business owner and executive, Kevin has and continues to act as counsel on numerous legal and regulatory matters in the healthcare arena. Kevin has an MBA from the University of Minnesota Carlson School of Business; a JD degree from the University of Minnesota Law School; and a BS from Pace University.

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Shawn Green, Ph.D., Senior Advisor. In advising biomedical and informatic companies, Shawn leverages over a decade of experience as an entrepreneurial scientist and as a senior operating executive of public and private companies. He has held teaching positions at various universities. Presently, Shawn serves on the Board of Directors for the Virginia Biotechnology Industry Organization and the Board of Advisors for the Foundation of Genetic Medicine. He is an advisor to Ernst & Young's Health Science Compliance Group and the School of Management for Biosciences at George Mason University.

Prior to joining TripleTree, Shawn was part of the founder's team of a privately held life science informatics firm that established a diverse network of partners and clients, including Bristol Meyers Squibb, IBM Life Sciences, Johnson & Johnson,

John Wiley & Son Publishers, Fijitsu, Itochu, and the State of Ohio.

Shawn has also served as Senior Vice President of Discovery Research at EntreMed, Inc., a Nasdaq-traded biotechnology company, which focused on the development of therapeutic strategies to combat cancer and blindness. He was responsible for business development activities and creating a multidisciplinary research program to identify novel therapeutics. Shawn successfully guided drug candidates from discovery to FDA clinical trials. He played an active role in fundraising at EntreMed and was co-founder of a privately-held medical device company focused on inserting biologics, drugs, and genes into targeted cells for the treatment of various diseases.

Shawn has authored over 50 book chapters and scientific publications in such journals as Science and NatureMedicine, and has been awarded a number of patents, including those for the treatment of infectious diseases and cancer. Over the past decade, he has received numerous awards, including the Meritorious Service Medal for work on infectious diseases while serving at Walter Reed Army Institute of Research, and acknowledgements in biomedical research and life science informatics, including the CIO Award by IDG, BIO-IT Leader by Bio-IT World Magazine, and he was named one of the 40 Next Network Entrepreneurs by Washington Business Forward Magazine. Shawn has served on editorial boards, scientific committees for SBIR-NIH and DOD, and has held academic appointments at McGill, Johns Hopkins, Howard, and Catholic University.

Shawn holds a Ph.D. in Cell Biology & Anatomy from Georgetown University Schools of Medicine & Dentistry and an MBA from Georgetown School of Business in Washington, DC.

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Ken Holec, Senior Advisor. In an advisory role, Ken works with the TripleTree team to build upon the firm's commitment to the human capital and software markets. He has extensive industry knowl-

edge within several software and business services sectors including business applications, human resources, content management and business intelligence. Ken draws from a distinguished career of leading several high-visibility software and services firms. As CEO & President of Lawson Software, Ken lead the rapid growth and development of the company from \$10MM to becoming a leading brand in the ERP industry. Ken then undertook the transformation of ShowCase Corporation, turning a static tools company into a market leader within business intelligence solutions. Under Ken's leadership, ShowCase saw its revenue grow from \$4 MM to \$50MM, enter the capital markets through a successful IPO, and ultimately negotiated the strategic sale of the company to industry leader SPSS. Recently, Ken leveraged his knowledge of the HR market gained at Lawson to assume the role as Interim CEO of Peopleclick, a leading recruiting and workforce management firm. Joining Peopleclick in 2002, Ken shifted the focus of the firm to a full software solution addressing workforce acquisition.

In addition to his role at TripleTree, Ken serves on the boards of Stellent, iCentera, HotGigs and SwiftKnowledge. He received his B.S. in Business Administration from the University of Minnesota.
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ABOUT TRIPLETREE

TripleTree is a leading investment banking firm dedicated to meeting the needs of technology, healthcare, and business services companies. Specializing in M&A, private placements and financial advisory services, the firm represents growth-oriented companies in pursuing strategic alternatives that drive premium valuations. Unlike most investment banking firms, TripleTree brings a unique approach to advisory services through the leverage of experienced executives, strict industry focus, and extensive commitment to research. Such a commitment has allowed us to build an investment bank focused on identifying and delivering strategic solutions that enable shareholders and business executives to maximize the value of their firm in a dynamic and rapidly changing marketplace.

For further information, visit our website at: <http://www.triple-tree.com>

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