

Strong Momentum for Walk-In Medicine

2014 Forecast Issue

If there was a consistent theme coming out of the 2014 ConvUrgentCare Strategy Symposium it was, "This is going to be a big year." Many factors point to continued growth in both the urgent care and retail clinic markets in 2014. The demand for more primary care services from these walk-in venues will mean more patients and more clinics. Higher co-pays and deductibles mean fewer trips to the emergency room and more trips to these lower-cost alternatives. And a larger pool of self-insured employers will drive more direct-bill services for wellness, episodic illnesses and injuries. Many urgent care centers are already acting in the capacity of a patient-centered medical home. Others are getting involved in care coordination to help reduce hospital readmissions.

This year will also be a break-out year for other services that are converging with urgent care and retail clinics: direct primary care, telehealth, and near-site clinics. Worksite clinics will likely peak this year, as the mar-

ket becomes saturated with too many vendors chasing too few companies who have enough employees at one site to justify a clinic. But near-site clinics will be perfect venues for the growing base of smaller, self-insured employers. Telehealth platforms will be limited only by the scope of services that policy makers be-

Urgent Care

The acquisition of Concentra by Humana, and the acquisition of U.S. HealthWorks by Dignity were confusing to the urgent care market not just because of the valuations, but the resulting discussion of strategies and even a reduction of clinics.

To the investment community,

Concentra tells a story of continuing to play in the urgent care market, but using the physician management capabilities of the company as a basis for primary care acquisitions and increased primary care services. Concentra will likely have a much different year in 2014 than it did in 2013. Last year Concentra took stock of under-

performing locations and closed some clinics in markets that were no longer strategic for the company. But this should not be seen as a trend that will continue into 2014.

"2013 was a year of repositioning," explains Alan Ayers, vice

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One of the most popular presentations at the ConvUrgentCare Strategy Symposium was TJ Schier on what the restaurant and hotel industry can teach healthcare.

lieve can be offered efficaciously. Despite those limits, the telehealth market is large and 2014 will see a significant reduction in regulatory barriers.

We'll start with forecasting openings from the major clinic operators. Most of those numbers point to significant growth.

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president of market development for Concentra. "We evaluated our portfolio, and we made some tough decisions on clinics that were underperforming. Over time we realized that there are certain markets, usually smaller markets, that are more difficult to manage and staff, and may not be strategic for us. In 2014, our focus will be on building out the markets that remain strategic."

One of Concentra's strategies will be to relocate many of its centers and give them a more retail look and feel, making them more suitable for an urgent care environment.

"Many of our centers are still in business parks or industrial locations," says Ayers. "So you have signage that reads urgent

care, but with the location being where it is, and the hours being 8-5, the volume in urgent care is thin. But when we move from a business park to a shopping center, we can retain 100 percent of that center's business while extending its hours, and start to expand urgent care on top of that."

Ayers noted that these relocations would be primarily driven by lease expirations. The company would not specify the number of new clinics, but it seems likely we will start to see Concentra increase its clinic footprint again in 2014.

As U.S. HealthWorks approaches the two-year anniversary of its acquisition by Dignity Health, we believe that company

too has completed most of its integration activities and will resume expanding their clinic footprint. In an investor conference call last year, Dignity made it clear that U.S. HealthWorks had a net positive cash contribution and there was no sign that the urgent care focus would change.

But both Concentra and U.S. HealthWorks still have a significant portion of their businesses based in occupational medicine and are now part of large, complex organizations, both of which will create some headwinds as the two companies try to innovate. That is not the case with most of the other multi-state urgent care players.

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Top Urgent Care Operator Clinic Forecast for 2014 (10 or more clinics)

Urgent Care Operators	States	UC Clinics End 2012	UC Clinics End 2013	Change	% Change	Forecast End 2014	Year Change	% Change
Concentra	38	340	298	-42	-12%	320	22	7%
MedExpress	9	98	126	28	29%	140	14	11%
American Family Care DRX	22	96	108	12	13%	125	17	16%
Nextcare	8	72	96	24	33%	120	24	25%
FastMed	NC/AZ	49	65	16	33%	80	15	23%
CareSpot	5	30	52	22	73%	65	13	25%
Doctors Care	SC/TN	50	52	2	4%	52	0	0%
Patient First	3	43	49	6	14%	55	6	12%
Texas MedClinic	TX	32	32	0	0%	32	0	0%
Physicians Immediate Care	3	20	28	8	40%	30	2	7%
ZoomCare	3	14	22	8	57%	30	8	36%
AccessMD	OH/MI	27	23	-4	-15%	23	0	0%
CareNow	TX	23	23	0	0%	23	0	0%
Fast Pace	TN/MS	8	19	11	138%	30	9	47%
Premier Care	NY	14	14	0	0%	14	0	0%
MD Now	FL	8	12	4	50%	20	8	67%
MHM	LA	6	11	5	83%	14	3	27%
Primary Health	ID	11	11	0	0%	11	0	0%
Urgent Team	TN/MS	15	15	0	0%	8	-7	-47%
Lake After Hours	LA	10	10	0	0%	10	0	0%
Righttime Medical Care	MD	9	10	1	11%	14	4	40%
Total		975	1076	101	10%	1216	140	13%

Top Hospital-Run Urgent Care Operator Clinic Forecast for 2014 (8 or more clinics)

Urgent Care Operators	States	UC Clinics End 2012	UC Clinics End 2013	Change	% Change	Forecast End 2014	Year Change	% Change
U.S. HealthWorks	16	155	144	-11	-8%	155	11	8%
Aurora	WI	37	30	-7	-23%	30	0	0%
Intermountain	UT	25	28	3	11%	30	2	7%
Carolinas HealthCare	NC	22	24	2	8%	25	1	4%
Centra Care	FL	20	23	3	13%	25	2	9%
St. John's	MI	18	17		-6%	17	0	0%
HealthPartners	MN	13	15	2	13%	15	0	0%
Advocate	IL	11	12	1	8%	12	0	0%
Norton	KY	12	11		-9%	11	0	0%
UPMC	PA	8	9	1	11%	11	2	22%

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Both MedExpress and NextCare saw significant growth in 2013 and we expect that will continue in 2014. MedExpress added 28 centers last year. The company declined to provide an

estimate of openings in 2014, but six sites are already listed on its web site as "opening soon." We do not expect the company to open as many clinics this year, but we do expect it to go well beyond the six locations listed on

its web site.

NextCare ended 2013 with 96 clinics in eight states. The company has demonstrated growth both organically and through acquisitions. We expect that trend to continue in 2014 as NextCare crosses the 100-clinic barrier.

The only that that would impact both MedExpress' and NextCare's growth would be an ownership change. Vic Schmerbeck, executive vice president of Emerus Holdings and a speaker at the recent ConvUrgentCare Strategy Symposium, pointed out that both are nearing the five-year mark with their current private equity owners, which is typically the time that private equity investments turn over. It is not unusual for clinic openings to slow as a significant equity transaction approaches.

Other operators to watch in 2014 are companies like American Family Care/Doctors Express, FastMed, Patient First, CareSpot, MD Now, Zoom Care, Fast Pace, MHM and Right-time. We expect growth from all of these organizations. The chart on page 1 summarizes our forecast for the top urgent care

Top Independent Urgent Care Operator Monthly Changes

Urgent Care Operators	UC Clinics 1-Jan-14	UC Clinics 1-Feb-14	Change
Concentra	298	298	0
MedExpress	126	128	2
American Family Care DRX	108	111	3
Nextcare	96	96	0
FastMed	65	65	0
CareSpot	52	53	1
Doctors Care	52	52	0
Patient First	49	49	0
Texas MedClinic	32	32	0
Physicians Immediate Care	28	28	0
ZoomCare	22	24	2
AccessMD	23	23	0
CareNow	23	23	0
Fast Pace	19	19	0
Premier Care	14	14	0
MD Now	12	13	1
MHM	11	11	0
Primary Health	11	11	0
Urgent Team	15	10	-5
Lake After Hours	10	10	0
Righttime Medical Care	10	10	0
Total	1076	1080	4

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operators.

Two companies are worth special note because of their unique models. In 2013 Fast Pace Urgent Care grew from eight clinics to 19, all in rural areas of Tennessee. The company also doubled patient visits from 2012 to 2013, with 175,000 visits in 2013. The company is headquartered in Brentwood, TN, and operates with a nurse practitioner staffing model, but features multiple exam rooms as well as lab testing and x-ray. Fast Pace intends to continue its growth with plans to open between eight and 10 clinics in 2014, with hopes of reaching 40 clinics in the next two to three years. This is the first multi-site urgent care operator with a focus on rural areas. Fast Pace's CEO, Rob Pantoja, is the former CFO at retail clinic operator The Little Clinic.

Another notable entrant in the urgent care space is Optum, a subsidiary of UnitedHealth Care, which has begun opening health and wellness centers called Optum Clinic. The centers, referred to by Optum as concierge-style clinics, will give patients all of the convenience of a retail clinic, with a wide range of services, from x-rays to facials. Optum opened its first clinic in Kansas in December 2013, and another

in Houston last month. There are plans for a third clinic in Texas this month.

We also expect large health systems to grow their urgent care presence in 2014 through organic growth, acquisitions and partnerships. We don't expect the pace of that growth to keep up with the private-equity-backed operators, however.

It is worth noting that not all operators grew in 2013. In fact, some operators who were in growth mode in 2012 appear to have stalled, including WellStreet and Urgent Team (formerly Wellnow). Both experienced a net reduction in clinics last year. It would not surprise us to see others stall in 2014 as they hit what we call the "saturation wall." By this we mean they have entered markets where there are too many walk-in operators chasing too few urgent care visits.

The tables on pages 2 and 3 show the top independent and hospital-based urgent care operators in the country.

Retail Clinics

2013 was a mixed year for the retail clinic market. But for MinuteClinic, it was growth all the way, with a net increase of 164 clinics. We expect this business unit of CVS Caremark to add at least another 150 clinics in

2014, including new metro areas and new states. This means MinuteClinic will cross the 1,000-clinic mark sometime in 2015, if not sooner.

The big question for 2014 is what Walgreens will do in the retail clinic space. The company added 25 net new clinics in 2013, a 6-percent increase compared to MinuteClinic's 21-percent increase. There are rumblings of a major new effort in 2014, but it is unclear whether that will take the form of pharmacists doing more clinical screenings in the company's new consultation concept, or whether there will be significant capital investment in additional fully functioning clinics staffed by nurse practitioners and physician assistants.

It's hard to imagine Walgreens letting CVS gain significant market advantage in the retail clinic space. 2013 was a banner year for Walgreens and the company may be ready to move more aggressively in the retail clinic market. We are predicting that Walgreens will add 80 new retail clinics in 2014.

The Little Clinic and Target Clinic also grew in 2013, but, like Walgreens, by a lower margin than MinuteClinic. We expect moderate growth again by The Little Clinic. But Target Clinic is

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Top Retail Clinic Operator Clinic Forecast for 2014

Operator	End 2012	End 2013	Change	% Change	Forecast End 2014	Forecast Change	% Forecast Change
MinuteClinic	627	791	164	21%	950	159	20%
Walgreens Healthcare Clinic	364	389	25	6%	525	80	21%
The Little Clinic	91	111	20	18%	135	24	22%
The Clinic at Walmart	128	98	-31	-32%	75	-23	-23%
Target Clinic	53	69	16	23%	75	6	9%
RediClinic	30	30	0	0%	33	3	10%
FastCare	31	25	-6	-24%	30		-4%

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a question mark. Similar to the Walgreens experience during its ExpressScripts disruption, Target is experiencing a major distraction with its credit card security breach. Since retail clinics require significant capital investment and negative cash flow for a time, we may see a no-growth scenario for Target Clinic in 2014. The company would not comment on its growth plans.

Walmart is clearly backing off from its participation in the retail clinic market. As one hospital system operator of a retail clinic inside Walmart said, "It's like they don't really care if we renew our lease." That would explain the 23-percent drop in clinics inside Walmart during 2013. We expect a similar decrease in 2014.

Clinics inside CVS, Walgreens, Kroger, Target and Walmart represent 91 percent of the retail clinics in the United States. MinuteClinic alone represents half the market. Consolidation will continue in 2014 as more hospital system players exit this space, especially those leasing space in Walmart.

Other Walk-In Trends

As mentioned in the outset, we expect a number of trends to take hold in 2014, many of them well-summarized by Vic Schmerbeck at the symposium. At the macro level, the payer dynamics appear to be shifting from a traditional fee-for-service model to various new forms. Accountable care organizations (ACOs) and narrow networks will attract a number of large employers, translating into changes in negotiating strategies by both payers and providers. Beyond that, there will continue to be growth in the number of

self-insured employers, many of whom will be seeking direct-pay relationships with urgent care and retail clinic operators.

We will also see an expansion of hybrid models, including primary care and urgent care under the same roof, as well as appointment-based and walk-in models operating in parallel.

Telehealth, a hot topic at the symposium last month, will most likely move from a sideshow to a more common offering by walk-in operators, both to load balance patient volumes with available providers as well as to reach consumers who want to be cared for from the home, office or hotel

of patient queuing technologies, which were also in full view at our recent symposium. These technologies enable patients to get into "virtual waiting rooms" so they can be waiting for their turn while getting other things done. In essence, they can be in a queue without feeling like they need to be present in the waiting room. In fact, this technology may well eliminate or significantly reduce the space allocated to waiting rooms in walk-in settings.

The urgent care market continues to be fragments, with operators who own three or fewer clinics still dominating. Vic



At the ConvUrgentCare Strategy Symposium in January Vic Schmerbeck leads a discussion on major trends in 2014. From left are Clay Bitner of CareSpot, Aaron Handler of Elm Creek Partners, Loren Ruffino of Inova Health System, Schmerbeck and Tom Charland of Merchant Medicine.

room. A number of offerings are now production-worthy, giving walk-in operators an easy way to dip their toes into the telehealth space. As Noel Obourn from American Well said last month at our symposium, the regulatory environment is shifting in a positive direction for telehealth.

We will also see an expansion

Schmerbeck estimates that up to 80 percent of urgent care clinics still fall into this category. But consolidation will continue to be the trend going forward in 2014.

In the current healthcare environment, we are seeing a convergence on the acuity continuum, where low acuity is becoming

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more strategic, and acute and non-acute care delivery mixed under the same roof. Because of this, the strategies that are expected to stand out in 2014 are partnerships between health systems and urgent care operators, as well as acquisitions by large health systems and payers. These strategies will give them a chance to capture a growing population of insured patients who will be looking to find the most value for their healthcare dollar.

A Bullish Picture for Most

In summary, most trends are favorable for walk-in medicine in 2014 and beyond. As Vic Schmerbeck pointed out, there are still many markets with low clinic saturation rates, a topic this publication will cover in detail later this year. And there is ample capital available so long as the business plan includes good markets and a sophisticated management team. There is no doubt that consumer demand is growing and payers want patients to seek lower cost alternatives to the emergency room.

However, the increasing sophistication and changing payer environment will be challenging for smaller, independent operators, of which there are many. How these operators navigate the shifting landscape will have a major impact on what this market looks like a year from now.

Retail Clinic Openings and Closings

OPENED (12)

MinuteClinic (8 CVS)

- New Milford, CT
- Milton, FL
- Greenfield, MA
- Chester, MD
- Fayetteville, NC
- Lewis Center, OH
- Travelers Rest, SC
- Chester, VA

The Little Clinic (3)

- Parker, CO
- Louisville, KY
- Floyds Knobs, IN (Southern, IN)

Walgreens Healthcare Clinic

- Metairie, LA

CLOSED (0)

Retail Clinics By the Numbers

Retail Clinics on January 1, 2014: 1,604
 Retail Clinics on February 1, 2014: 1,616
 Net One-Month Change: +12
 Retail Clinics on Feb. 1, 2013: 1,425
 Net One-Year Change: +191

Retail Clinics by Operator Jan.-Feb. 2014

Operator	1-Jan	1-Feb	+/-
MinuteClinic	791	799	8
Walgreens Healthcare Clinic	389	390	1
The Little Clinic	111	114	3
Target Clinic	69	69	0
RediClinic	30	30	0
FastCare	25	25	0
Baptist Express Care at Walmart	18	18	0
Aurora QuickCare	10	10	0
Family Statcare*	10	10	0
Lindora Health Clinics	7	7	0
Mayo Express Care	7	7	0
Alegent Quick Care	6	6	0
DR Walk-In Medical Clinics	7	7	0
Access Health	5	5	0
Cox Health at Walmart	5	5	0
Family Medicine Specialists at Walmart	4	4	0
Family Quick Care	4	4	0
Living Well Express Care	4	4	0
Owensboro Medical at Walmart	4	4	0
PPH Express Care	4	4	0
St Vincent Health at Walmart	4	4	0
Carson-Tahoe Hospital at Walmart	3	3	0
Heritage Valley Health at Walmart	3	3	0
Memorial Care Health Express	3	3	0
Southwest Medical at Walmart	3	3	0
St Alphonsus Express Care	3	3	0
St Dominic Hospital at Walmart	3	3	0
Sutter Express Care	3	3	0
All Others (fewer than 3 clinics)	69	69	0
Total	1,604	1,616	12



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