

Healthcare Services: Information Technology

Isn't That The Point of a GPO?

CONCLUSION

Three health systems in North Carolina are uniting to form a larger IDN in the hopes of bringing down costs by not only standardizing medical practice, but by leveraging aggregated purchasing volume to bring down supply costs. We believe this is another example of the decreasing efficacy of the GPO business model in the healthcare supply chain.

- **Three North Carolina health systems team up to drive supply costs down, increasing our concern that the traditional GPO model isn't working for hospitals.** Group Purchasing Organizations (GPOs) exist to aggregate purchasing volume for providers. They allow for standalone hospitals and physicians to band together into larger groups, and leverage the buying power to get vendor discounts. However, we're seeing an increasing number of health systems consolidating and/or teaming up to do this very task. We're not suggesting that MDAS or PINC stand to lose or gain from this transaction, but more implying that the overall GPO industry is losing its steam.
- **Background on the hospital groups.** Vidant is a 1,400-bed chain of eight hospitals based in Greenville. Wake Forest Baptist operates 1000 beds across 175 locations in Northwest North Carolina and southwest Virginia, and is affiliated with Wake Forest School of Medicine. Raleigh-based WakeMed Health & Hospitals has 900 beds and provides training to UNC-Chapel Hill physicians. Combined, they could represent the second-largest health system in North Carolina, and intend to reduce costs by standardizing medical practice and training, as well as leveraging increased buying power to reduce supply costs.

Sean W. Wieland

Sr Research Analyst, Piper Jaffray & Co.
415 616-1710, sean.w.wieland@pjc.com

Nina Deka

Research Analyst, Piper Jaffray & Co.
212 284-6132, nina.d.deka@pjc.com

Related Companies:	Share Price:
MDAS	21.40
PINC	32.42

MDAS: Underweight, PT \$16, (7.5x FY15 EBITDA assuming \$801M in net debt @ 60.9M shares outstanding)
PINC: Neutral, PT \$34, (23x CY15 EPS of \$1.49)

RISKS

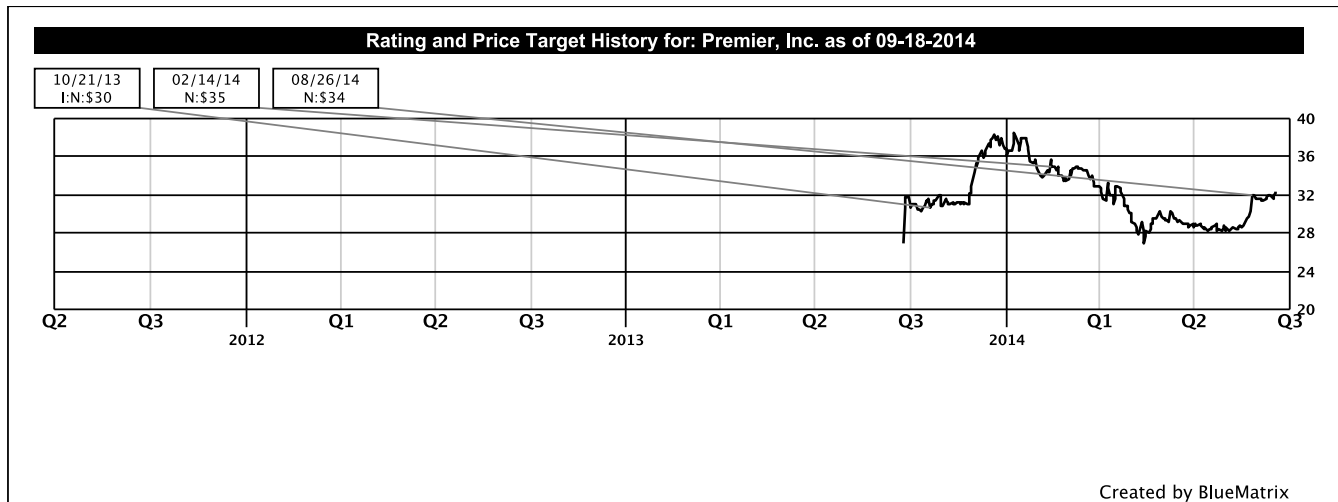
MDAS:

Risks include: Overall U.S. Healthcare spend increases at a faster rate than our estimate. The company maintains or decreases revenue share obligation as a percentage of admin fees.

PINC:

Significant upside (or downside) to overall healthcare utilization, alternatives to the GPO model, pricing pressure, or failure to adequately innovate.

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			Count	Percent
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Analyst Certification — Sean W. Wieland, Sr Research Analyst
— Nina Deka, Research Analyst

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