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MultiPlan: Private Equity Necrophilia Meets The Great 2020 Money Grab

In the great present-day money grab known as SPAC promotion, egregious mistakes will be made – such as missing an impending customer defection that could cost ~35% of revenue within two years. A business model that incentivizes promoters to do *something – anything* – with other people's money is bound to lead to significant value destruction on occasion. That's even more true when a SPAC buys a business from the fourth consecutive private equity group to have owned it. C'mon, man.

Muddy Waters is short shares and credit of MultiPlan Corp f/k/a Churchill Capital Corp III. Our key reasons are:

- MPLN is in the process of losing its largest client, UnitedHealthcare ("UHC"). UHC has formed a competitor to MPLN that offers significantly lower prices and fewer conflicts of interest. The competitor is called Naviguard.
- We understand that by the end of 2022, Naviguard aims to convert all key UHC accounts, which constitute the majority of MPLN's UHC business.
- We estimate that this defection and competition will decrease 2022E revenue by 35% and levered free cash flow by 80%, while net leverage should balloon to more than 8.0x.
- MPLN was already in financial decline, and its financial statements were engineered to obscure this existing deterioration. We understand that in 2018, MPLN released revenue reserves, dropping them from approximately 30% to 10% of revenue, which we believe enabled MPLN to show 2018 EBITDA growth amid shrinking sales.
- MPLN's SPAC sponsor has touted that the seller, private equity firm Hellman & Friedman ("H&F"), is keeping a significant equity stake. That reasoning seems faulty. We believe that the SPAC was H&F's last acceptable option to unload MPLN. We understand that H&F had already taken a significant portion of its investment off the table through dividends (that increased net leverage).

We believe that MPLN is public because of a grievous oversight in due diligence by the SPAC promoter. MPLN's largest client, UHC, has formed a competing business called Naviguard that significantly underprices MPLN. In addition to the cost savings, Naviguard, has fewer of the conflicts of interest that have saddled many MPLN members with major out of pocket expenses. We estimate that lost UHC revenue alone will reduce 2022E sales by 23%. To the extent that other MPLN customers defect to Naviguard, which already covers one million UHC lives, MPLN's revenue loss will be even greater. As a result of UHC and other customer losses, we see MPLN losing 35% of 2022E Sales, while net leverage should balloon to more than 8.0x.

In our view, which we believe is shared in the health insurance industry, MPLN is not on "right side of healthcare". Rather, it is a conflicted middleman that actually profits when individual members are regularly stuck with balance bills. As a result, we see MPLN having limited stickiness and pricing power. The frustration with outsize health plan payouts to MPLN and the persistent balance billing has become a key issue for plan sponsors, which is why, in contrast to

MPLN, Naviguard offers free claims repricing as well as blanket balance billing resolution to UHC customers.

We understand that by the end of 2022, Naviguard aims to convert all key UHC accounts, which constitute the majority of MPLN's UHC business. Naviguard already covers approximately one million lives. We understand that Naviguard plans to expand coverage to 2.4 million insureds as of January 1, 2021. At least one other major national insurer has already contracted with Naviguard.

One of Churchill's main selling points for MPLN is that H&F is keeping a significant equity stake. We believe that reasoning is faulty. H&F is the fourth straight private equity firm or consortium to own MPLN, a fact pattern that usually means there's little more than a corpse of a business left. More importantly, we understand that H&F attempted to merge or shop the business, but failed. In other words, our impression is that a partial exit through a SPAC was the closest H&F could come to unloading MPLN. It therefore seems that shareholders who acquired shares in the SPAC paid a premium above and beyond what any other buyer was willing to pay. It is also notable that H&F has already recouped a significant portion of its investment through dividends (that added net leverage).

MPLN's financials have been financially engineered to obscure the decay in its business, which was already evident prior to UHC forming Naviguard. We understand that in 2018, MPLN released revenue reserves, dropping them from approximately 30% to 10% of revenue, which we believe enabled MPLN to show 2018 EBITDA growth amid shrinking sales. As MPLN's revenue has declined since 2017, MPLN has misleadingly blamed "idiosyncratic customer behavior", yet we see nothing idiosyncratic. Our research indicates that its carrier customers have continually extracted price concessions from the company, while MPLN's exclusivity contracts with carriers are unenforceable.

MPLN's recent $140 million acquisition of HST from a former MPLN executive appears to us to be an attempt to buy an inferior, significantly smaller Naviguard stand-in, and at a premium price. We that believe MPLN management are desperate to stem the coming revenue hemorrhage, but if HST is any indication, MPLN cannot buy back the hundreds of millions in sales it stands to lose.

We believe that after Naviguard rolls out across the United States, the margins in MPLN's Data iSight business, which generates the majority of its profits, will be indefensible. MPLN's heavily indebted capital structure should exacerbate the impacts of a sales, EBITDA, and cash flow crunches in 2021 and 2022. We estimate that the company will fall short of 2022E revenue and EBITDA by 35%, while we estimate that Levered Free Cash Flow in 2022E will be $74.3 million, or 80% lower than what forecasts imply.

MPLN's Failings Led UnitedHealth to Launch Naviguard

UnitedHealth began incubating Naviguard to cut healthcare costs for its employer customers and to protect members from balance billing. According to a Naviguard executive, United customers described MPLN's fee structure as a "scam", while complaining of persistent member balance billing in claims where MPLN was involved.[1] We learned from two former MPLN executives and a MPLN customer that MPLN's billing model may enable it to get paid more per claim than the healthcare providers whose bills it reprices. We understand that major insurers have forced MPLN to reduce its take rate in recent years, in some cases reportedly cutting MPLN's take rate from 12% to 6% of "savings".[2] MPLN has not disclosed this development in its bullish presentations.

Naviguard seeks to improve significantly on MPLN's shortcomings by eliminating fees, providing deeper cost savings, and preventing member balance billing. Naviguard uses a statistical pricing methodology that examines costs of services on a per-location basis based on UHC claims data, while factoring in Medicare and Medicaid rates to yield an appropriate price. According to employer feedback during a Naviguard pilot involving 125,000 UHC members, Naviguard had a 30% to 40% pricing advantage over MPLN.[3]

For MPLN's analytics-based services and complementary network segments, which form the majority of its revenue, the company contracts primarily with insurers' commercial plans to lower out-of-network bills. These commercial plans are mostly self-insured, meaning that the employer pays the costs of healthcare claims, which incentivizes employers to use MPLN to lower healthcare costs. However, unlike Naviguard, which takes no fees from United customers at present, MPLN tries to extract significant profits from employers.

MPLN's analytics-based service revenues rely on the company's pricing tool, which is called Data iSight. Data iSight generates a claim price that serves as a basis for claims resolution, which may include negotiations with the provider or facility. MPLN typically takes between ~6% and ~20% of the difference between the billed and resolved amounts, even as national plans have squeezed significant price concessions out of MPLN in recent years.[4] Naviguard, on the other hand, not only offers its services for free to UHC customers, but Naviguard does not have the significant indebtedness that pressures MPLN to try to maintain a high take rate.

One former MPLN executive explained to us the apparent secret of MPLN's 76.3% Adjusted EBITDA margin. The executive stated that MPLN's most profitable type of user tends to utilize the Data iSight functionality only, without involving MPLN's negotiations team, thus eliminating almost all human intervention by MPLN.[5] If a provider or facility accepts the lower bill generated by Data iSight, MPLN can report significant savings to the carrier and employer, collecting a fee for virtually no additional work. The twist is that providers and facilities can balance bill the member to recoup the rest of their billed charges.[6] This hidden cost has led to acrimony between MPLN and its customers, per ex-executives. The reality is that MPLN's

[1] Interviews with Naviguard Executive, July and August 2020
[2] Interview with Former MPLN Executive A, October 2020
[3] Interview with Naviguard Executive, August 2020
[4] Interview with Former MPLN Executive A, October 2020
[5] Interview with Former MPLN Executive B, October 2020
[6] Interview with Former MPLN Executive B, June 2020

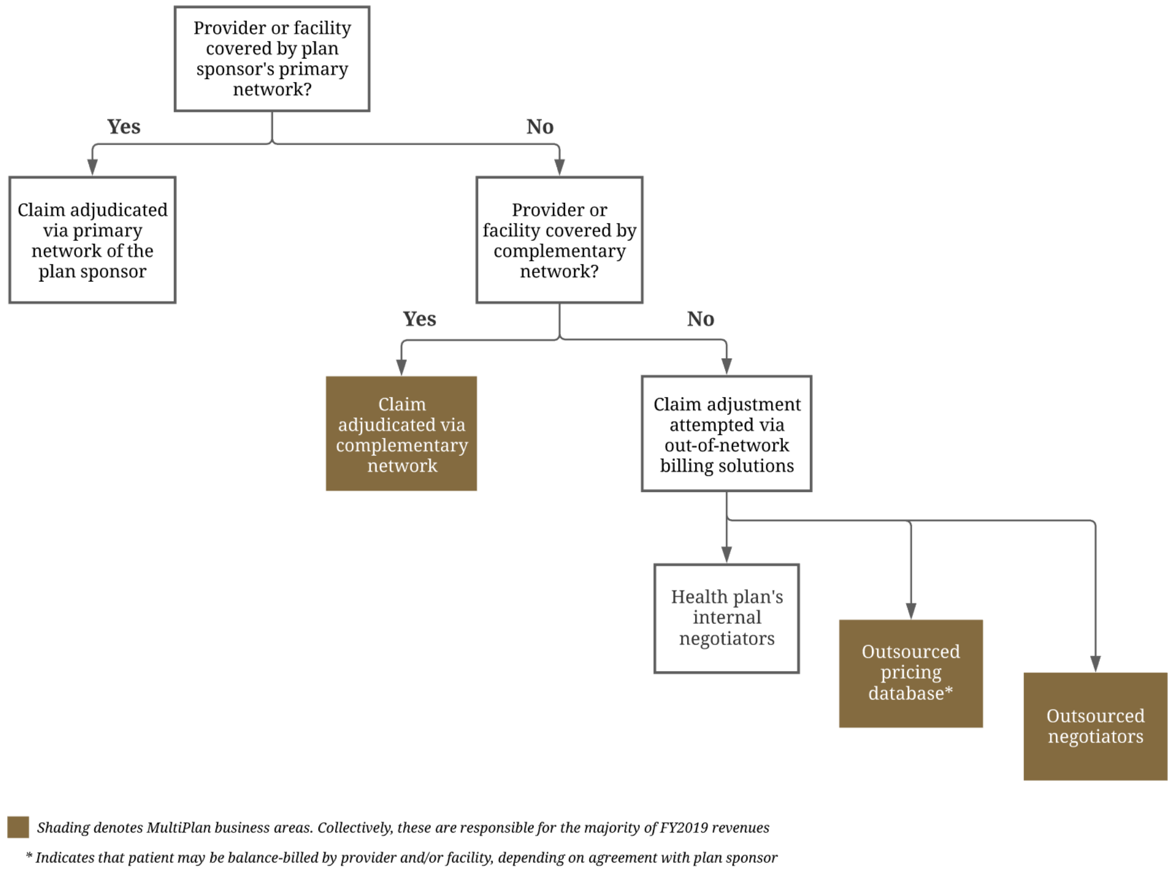
revenue model actively encourages balance billing: Customer relationships that most expose members to balance bills are the “type of revenue-generating customer that MPLN wants”, per one former executive.[7] Naviguard solves these problems by removing misaligned incentives that cause potentially ruinous financial and legal situations for members.

In the case of MPLN’s complementary network, MPLN enters into agreements with providers for discounts of 10% to 30% to their out-of-network amounts. To access this network, employers pay MPLN a similar take rate as with Data iSight. However, the importance of the complementary network appears to be decreasing as the most egregious errors and fraudulent billing get mitigated. A top-five national health plan executive told us that Naviguard’s Payment Integrity function, by virtue of being better than MPLN’s at catching fraud and waste in bills, also made complementary networks like MPLN’s “much less” necessary by containing the most egregious out-of-network billing.[8] By contrast, it bears noting that a former MPLN executive described MPLN’s Payment Integrity unit as “years, years away” from industry leaders in Payment Integrity, directly contradicting MPLN’s claims about the division.[9]

Below is a summary of scenarios in which MPLN typically generates revenue through its analytics-based services and its complementary network:

[7] Interview with Former MPLN Executive B, October 2020
[8] Interview with Senior Executive at a Top-Five National Health Plan, October 2020
[9] Interview with Former MPLN Executive B, October 2020

How MPLN's Largest Segments Fit Into a Generalized Insurance Claim Workflow



Naviguard has the full backing of UHC: We understand that UHC is funding its operations and providing the means to reach millions of insured lives quickly. We believe that there are few obstacles for commercial clients to switch to Naviguard, other than approval from unions where applicable.

UHC's internal healthcare plans have also switched to Naviguard. This action placed a UHC seal of approval on the Naviguard product. In fact, internal Naviguard deployment at United swayed a top-five national insurer customer in deciding to contract with Naviguard. One executive at this top-five United States health plan attested that UHC's decision to use Naviguard was an important positive signal in that plan's choice to use Naviguard. The executive praised UHC's combination of analytics and execution, stating that when UHC builds a new product line, "they'll investigate and do the best in class. The best reference for Naviguard *was* United."[10]

After achieving significant adoption among UHC customers, Naviguard intends to roll out its services broadly to other insurers. Such a move endangers the remainder of MPLN's revenues,

[10] Interview with Senior Executive at a Top-Five National Health Plan, October 2020

which are concentrated among Cigna, Anthem, and other carriers, *even as at least one other top-five national plan has already contracted with Naviguard*.

We believe that customers have been seeking to do less business with MPLN for years, but MPLN has not been straightforward with the investing community about this fact. In our opinion, management misled investors earlier this year when describing MPLN's revenue decline from $1.06 billion in 2017 to $983 million in 2019 as "idiosyncratic". The company attributed the fall to "idiosyncratic customer behavior that began in Q3 2018".[11] However, we have heard from former MPLN executives that the company is instead experiencing ongoing pricing pressure from its insurer customers, which can shut off their claims flow to MPLN with no consequence.

In our view, the problem with MPLN is that the company stopped giving customers the level of service that they wanted several years ago, as private equity firms were looting the business for cash.

MPLN's Competitive Position Has Been Eroding For Years, and Insurers Have Noticed

Though MPLN contends it is "on the right side of healthcare", our discussions with former executives and customers revealed a company whose interests conflict with those of its clients, and whose customers seem to perceive it as out of touch.[12] MPLN benefits from providers and facilities that bill exorbitantly, and MPLN often leaves members with balance bills. Member balance billing frequently results in acrimony and hidden costs for the employer. Our discussions with industry executives indicate that employers are upset, and they have begun to take issue with MPLN's practices. Insurers, meanwhile, have apparently cut MPLN's "commission" in half, from ~12% to ~6% for national health plans, which we view as a reflection of MPLN's weak value proposition.[13]

Naviguard solves this problem by protecting members by default. Naviguard has significant safeguards in place to mitigate balance billing. A core feature of the platform is obtaining the member's consent to negotiate on his behalf. A top-five national insurer customer of Naviguard's spoke highly of its patient advocacy efforts and the lengths to which Naviguard staff went to guide members through out-of-network bill savings. The customer stated that, "…[for] the others, like MultiPlan, it's just a business. They neglected the member side of it, and the member sensitivity, whereas Naviguard is very engaged with the member about the explanation of benefits. It's not just they get the bill and there's some black box."[14]

As we understand from two former MPLN executives and a Naviguard executive, employers using MPLN are broadly dissatisfied with the price and quality of the out-of-network services provided to them. They view as egregious the fact that MPLN and other out-of-network pricing

[11] MPLN Analyst Day Presentation, p. 49
[12] MPLN Analyst Day Presentation, p. 15
[13] Interview with Former MPLN Executives A and B, October 2020
[14] Interview with Senior Executive at a Top-Five National Health Plan, October 2020

vendors get paid on the spread between the billed and resolved amounts, as this incentivizes exorbitant provider and facility billing in the first place. As we noted above, it is these excessive fees that UHC is seeking to bring down with Naviguard.

While MPLN secures a lower bill for employers, it often offers few balance billing protections for the member. If a member gets balance billed, he is required to pay the exorbitant remaining amount. After MPLN reprices the claim, the member can be left with *an even higher bill* than he had before MPLN got involved. This fraught situation frequently returns to the employer's doorstep, as the member tries to figure out how to pay the bill. In many cases, employers eat the balance bill, defeating the purpose of using MPLN in the first place.

Two former MPLN executives described to us that MPLN, in its efforts to acquire new business, promised minimal balance billing "noise" in discussions with health insurers. They told us that balance billing of MPLN members has grown significantly in recent years, and employers have become increasingly dissatisfied with the product. Per our conversations, poor customer satisfaction is why MPLN has been subject to repeated, recent price cuts from major insurers. This apparent fact that remains undisclosed by the company.

We understand that MPLN has had its take squeezed repeatedly by major insurers in recent years, with the take rate falling by half in some cases. Yet MPLN has not acknowledged this trend. MPLN holds itself out to investors as a "preferred partner" of major insurers, stating that it is "deeply integrated and embedded with all four" top United States insurance plans.[15] The price cuts suggest that MPLN is not at all a preferred partner, but one of several near-identical vendors that is a price taker.

We also believe that MPLN misleadingly touts proprietary data and deep customer relationships in an attempt to paint itself as a cost-cutting savior, rather than a commoditized tool reliant on billings bloat to grow sales. The claims repricing database and bill negotiation services offered by Data iSight are replicated by out-of-network claims pricing competitors like Zelis, and our conversations with industry professionals indicated that there is little difference between one pricing database and the other major players on the market.

To add insult to injury, one former MPLN executive stated that any exclusivity clauses in its contracts with insurers are virtually unenforceable. Carriers apparently control the flow of claims and are not required to offer any transparency to vendors. This means that MPLN's payor customers, most of whom are much larger than the company, can shift claims away from MPLN with no warning. Such tenuous economic relationships seemingly contradict MPLN's "key strategic partner" line.[16]

[15] MPLN Analyst Day Presentation, p. 24
[16] MPLN Analyst Day Presentation, p. 17

We Expect Significant Deterioration in MPLN's Financial Performance and Balance Sheet

Naviguard competes for the vast majority of MPLN's business: MPLN's Data iSight, Complementary Network, Financial Negotiation, and Payment Integrity businesses. These businesses constitute the vast majority of MPLN's revenues. We understand that UHC expects Naviguard be a "loss leader" to bring down healthcare costs.[17]

MultiPlan's Business is Vulnerable to Naviguard

Addressed by Naviguard	**2019 Segment Revenue** *($millions)*
Medical Reimbursement Analysis ($mn)	437.4
Complementary Network	178.9
Financial Negotiation	124.8
Payment Integrity	107.1
Total Addressed by Naviguard	**848.2**
Not Addressed by Naviguard	
Primary Network	135.6
Total MultiPlan Revenue, 2019	982.9
Percentage of Revenues Addressed by Naviguard	**85.7%**

Accordingly, we estimate that Naviguard will cause $385.8 million of revenue loss and $294.2 million of EBITDA erosion for MPLN in just two years.

UHC, which accounted for 35% of MPLN's 2019 revenues, is under no contractual restrictions with MPLN and can sell its Naviguard product to its customers immediately.[18] Our discussions with two insurance industry participants, and a presentation given by UHC this May indicate that United has already begun moving customers away from MPLN in favor of Naviguard.[19,20] After rolling out Naviguard to 2.4 million UHC lives in January 2021, expanding to four million UHC-covered lives by June 2021. We expect UHC to convert all key and national employer accounts to Naviguard by year-end 2022.[21] Accordingly, we estimate that MPLN will lose 40% of its business with United in 2021 and 75% in 2022. As a result, we estimate that 23% of MPLN forecast revenue stands to disappear over the next two years as UHC pulls its book of business.

We expect an additional 12% of MPLN forecast revenue will fall away over the next two years as MPLN's non-UHC customers either go to Naviguard or extract further price concessions. We found that Naviguard has already contracted with a top-five national insurer and major MPLN

[17] Interview with Naviguard Executive, June 2020
[18] https://www.sec.gov/Archives/edgar/data/1793229/000110465920102281/tm2025258-2_prer14a.htm, p. 162
[19] Interview with Naviguard Executive, October 2020; Interview with Executive at Top-Five Health Plan, October 2020
[20] https://www.youtube.com/watch?v=C4ht5THJCYc
[21] Interview with Naviguard Executive, October 2020

customer, even as we understand that Naviguard will continue to exert pricing pressure while rolling out its product further to other carriers.[22] For these reasons, we project declines for the remaining, non-United MPLN business of 10% and 20% over 2021 and 2022, respectively.

Altogether, these components sum to $385.8 million of lost MPLN revenue in 2022, which translates to an organic Adjusted EBITDA and Levered Free Cash Flow decline of $294.2 million:

Naviguard Stands to Erode MultiPlan's Business Even In the Near Term

($millions)	2019 (Base)	Attrition, 2021E	Impact, 2021E	Two-Year Attrition	Impact, 2022E
MultiPlan Revenue From UnitedHealth	344.0	*(40%)*	(137.6)	*(75%)*	(258.0)
MultiPlan Revenue From Others	638.9	*(10%)*	(63.9)	*(20%)*	(127.8)
Total Revenue Lost to Attrition			**(201.5)**		**(385.8)**
EBITDA & Levered FCF Impact			**(153.6)**		**(294.2)**

2021E and 2022E EBITDA impact assume same EBITDA margin as 2021E S&P forecast

S&P recently published estimates that also come in significantly below MPLN's 2021 guidance, and yet management has not withdrawn this guidance. The rating agency's release dated October 20, 2020 shows a much dimmer view of MPLN's sales and EBITDA:

MultiPlan Revenue and Profitability Forecasts

(All projections at midpoint)	2019A	MultiPlan 2021E	S&P 2021E	Variance
Revenue ($mn)	982.9	1,105.0	1,000.0	**(9.5%)**
Adjusted EBITDA	750.4	860	762.5	**(11.3%)**
Levered FCF (Company) / Cash Funds From Operations (S&P)	223.5	437.0	350.0	**(19.9%)**

Sources: MultiPlan Additional Definitive Proxy Materials Filed September 28, 2020; "S&P GR Assigns MultiPlan Corp. 'B+' Rating, Stable Outlook", October 2020; MultiPlan Analyst Day Presentation, p. 52; MW Calculations

Neither MPLN's estimates nor S&P's recent forecasts account for MPLN's top customer carving out their core business. Therefore, when we factor in the loss of revenue, Adjusted EBITDA, and Levered Free Cash Flow arising from customer defection by United and others to MPLN's implied future performance, a significantly more dismal picture of the business emerges. Instead of the ~13% revenue growth painted by management, we expect double-digit revenue declines in 2021E and 2022E, while EBITDA should shrink by 23.7% and 10.7% in 2021 and 2022, respectively. Our 2022E MPLN revenue and Adjusted EBITDA fall short of implied 2022E numbers by 35.1%, while we estimate 2022E Levered Free Cash Flow of $74.3 million, or only one-fifth of the implied number.

[22] Interviews with Executive at Top-Five Health Plan and Naviguard Executive, October 2020

Naviguard Effect: Declining Revenue & Dangerous Leverage at MultiPlan	2021E	2022E
Forecast Revenue ($mn)	1,000.0	1,098.9
Revenue Impact from Customer Losses	(201.5)	(385.8)
MW Forecast Revenue	**798.5**	**713.1**
YoY Comparable Change (%)	**(23.2%)**	**(10.7%)**
Lower than Forecast By:	**(20.1%)**	**(35.1%)**
Forecast Adjusted EBITDA	762.5	837.9
Adjusted EBITDA Impact from Customer Losses	(153.6)	(294.2)
MW Forecast Adjusted EBITDA	**608.9**	**543.7**
YoY Comparable Change (%)	**(23.7%)**	**(10.7%)**
Lower than Forecast By:	**(20.1%)**	**(35.1%)**
Interest Expense (Cash Pay)	240.5	240.5
Interest Coverage	**2.5x**	**2.3x**
Gross Debt	4,941.0	4,941.0
S&P-Defined Leverage Ratio	**8.1x**	**9.1x**
Cash	479.0	553.3
Net Debt	4,462.0	4,387.7
Net Leverage Ratio	**7.3x**	**8.1x**
Forecast Levered FCF	313.6	368.5
FCF Impact from Customer Losses	(153.6)	(294.2)
MW Forecast Levered FCF	**160.0**	**74.3**
Lower than Forecast By:	**(49.0%)**	**(79.8%)**

Sources

2021E Forecast Revenue, Adjusted EBITDA, and Gross Debt: "S&P Global Ratings Assigns MultiPlan Corp. 'B+' Rating, Stable Outlook", October 20, 2020; MPLN 8-K dated October 27, 2020

2022E Adjusted EBITDA margin & revenue growth: assumed unchanged from S&P's 2021E margin and growth rate

YoY Comparable Change in 2021E: calculated vs. MultiPlan 2020E ex-COVID revenue of $1.040 billion and ex-COVID EBITDA of $798 million. Source: MultiPlan August 2020 Analyst Day Presentation, p. 49

Interest Expense: MW Estimate

Cash: Assumes 12/31/2020 cash balance of $319.0 million, consisting of $1,174 million MPLN year-end cash estimate as of August (Analyst Day Presentation, p. 63), less $715 million October debt issuance cash uses (8-K dated October 27, 2020), less $140 million assumed for HST acquisition

Forecast Levered FCF: Applies management 2021E proportional cash tax expense and capital expenditures, found in Additional Definitive Proxy Materials filed September 28, 2020, p. 4, to S&P-derived Adj. EBITDA & Revenue estimates

Financial Engineering Has Obscured MPLN's Existing Problems

MPLN has passed through the hands of four private equity consortia over the past 14 years, and we believe that H&F have taken MPLN public via a SPAC because they have no better options for wringing juice out of the business. We learned more details about private equity-style necrophilia from two former MPLN executives who spoke about H&F's stewardship of MPLN:

Former MPLN Executive A:

Their thinking wasn't, 'How do we innovate?'. It was, 'How do we continue to cut this to the bone so we can sell it for as much as possible?'… 'How do we play the game of just having enough resources to keep the lights on?' The hope was, there was going to be one more [flip]."

"You start to get into those levels of those valuation where you get bought for 7.5 [billion] and you're saying, 'we're not going to sell this for less than 10.' There's a lot of things you can buy for 10 billion dollars, a lot of good things, especially if you're a strategic… I didn't think they'd have another go of just selling the company outright."

Former MPLN Executive B:

"When we were at MultiPlan, we all were like, 'Who's going to hold the bag?' Who's going to be stuck with the chair? We figured it was going to be H&F, and it's… yeah. It's no secret that H&F have tried to flip this numerous times. The debts are due and they need cash, I guess."

Despite MPLN's worsening condition, its private equity sponsor has been unwavering in the quest to take money off the table. MPLN's revenue peaked in 2017, the year after H&F bought the business, and sales have been steadily declining since. In the face of this weakness, H&F apparently decided to take dividends, recouping a substantial portion of its equity investment in the process.[23] We believe that H&F pillaged the business as quickly as possible while looking for a buyer for the remaining corpse. As such, even pro forma for the SPAC transaction, MPLN's net leverage was a hefty 5.9x 2019 EBITDA.[24] However, as detailed below, we believe deterioration in the business will leave 2021E net leverage at 7.3x EBITDA, while 2022E leverage will exceed 8.0x.

It seems H&F dressed up the operating business using a major one-off provision change to mask that the business was declining. Based on our conversations with a former MPLN executive, we understand that revenue reserves have fallen from approximately 30% of sales to 10% of sales. We believe this accounting adjustment enabled MultiPlan to report an increase in 2018 Adjusted EBITDA margins even as sales fell YoY.

In our view, misleading disclosures at MPLN confirm that the business is eroding faster than management cares to admit. In its Analyst Day presentation in August, MPLN wheeled out the same $437 million in guided 2021E Levered Free Cash Flow that management had touted in July. However, unlike in the July merger presentation, there was a new disclaimer attached to this number for the Analyst Day: That achieving it "assumes successful implementation of Enhance, Extend, and Expand Strategy."[25]

$437M

2021 Forecast LFCF(1)

Source: MultiPlan and Churchill estimates.
(1) 2021 forecast; assumes successful implementation of Enhance, Extend, and Expand Strategy.

[23] Interview with Former MPLN Executive A, June 2020
[24] MPLN Analyst Day Presentation, p. 55
[25] MPLN Analyst Day Presentation, p. 7

We believe that this disclosure change serves as an admission that achieving the midpoint of MPLN's 2021E forecast requires consummating one or more acquisitions. We view this as a reflection of management's deteriorating confidence in the base MPLN business.

MPLN revealed what its acquisition strategy really looks like on November 10th, when it announced that it had bought a Medicare-based claim pricing company called HST for $140 million. HST uses Medicare as a reference price for claims and provides patient advocacy services to improve the member experience. To us, the HST purchase looks pricey: MPLN is paying $250 for each of HST's ~550,000 covered lives.[26] Ironically, HST's CEO seemed to trash MPLN's business model on a recent podcast when he said that HST uses per-employee-per-month pricing instead of taking a percentage of savings because "If you look at how these bills are inflated, in many situations…the vendor fees can actually exceed the medical cost of care. One, it's absurd, and two, it basically obviates the purpose of any type of plan like this."[27]

A SPAC Appears to Have Been H&F's Last Choice

It appears that a SPAC was H&F's Plan C at best. We learned in conversations with former MPLN executives that under H&F's ownership, MPLN attempted to acquire Equian, a health payments business. This apparently failed when UHC bought the company. A planned merger with healthcare analytics firm Cotiviti reportedly also fell through.

Several additional signs indicated that MPLN was pressed for strategic options. Per the MPLN merger proxy, the first time Churchill approached MPLN in March 2020, MPLN was contemplating a transaction "between MPLN and a third party".[28] However, by the time talks restarted in late April, there was no longer a mention of such a transaction. Meanwhile, though Churchill had initially suggested an EV of ~$12 billion for MPLN in March, in mid-May, Churchill floated a revised offer of ~$11 billion, which MPLN ended up accepting.[29] As a result of MPLN's declining business, debt markets had priced in significant refinancing risk prior to the Churchill merger announcement, with MPLN's 7.125% OpCo Notes due 2024 trading at 93 cents.[30]

Although MPLN has made much of the fact that H&F is rolling the majority of its equity stake into the public company, this ignores that H&F has reportedly taken a significant chunk of its investment off the table already, as discussed above. We find it telling that Churchill's preliminary proxy statement notes its valuation for MPLN was underpinned by the assumption that "H&F and other MPLN shareholders would rollover a significant stake of their equity in MPLN Parent in the transaction"; accordingly, we wonder whether H&F would have liked to sell more of its MPLN stake but could not because the optics would have been poor.[31]

[26] https://www.businesswire.com/news/home/20201110005645/en/MultiPlan-Corporation-to-Acquire-HST
[27] https://www.hstechnology.com/ed-day-interview-with-solving-the-healthcare-problem/

[28] https://www.sec.gov/Archives/edgar/data/1793229/000110465920102281/tm2025258-2_prer14a.htm, p. 103
[29] https://www.sec.gov/Archives/edgar/data/1793229/000110465920102281/tm2025258-2_prer14a.htm, p. 104
[30] Bloomberg data
[31] https://www.sec.gov/Archives/edgar/data/1793229/000110465920102281/tm2025258-2_prer14a.htm, p. 103

Conclusion

MPLN paints a rosy picture of its prospects, but these are inconsistent with the facts: its revenue peaked in 2017, and Naviguard is never once mentioned by management as a threat. Thus, we do not believe the company's 2021E forecasts from August can be relied upon. Given Naviguard's aggressive roll-out, we believe that MPLN has no choice but to try to buy some form of revenue growth to mask eroding fundamentals, which we see the HST acquisition demonstrating. However, with 2022E leverage that we believe will exceed 8.0x amid market share loss, MPLN's aggressive strategy is also risky. We do not believe MPLN has enough cash to buy sales and profits to replace lost business, and we are concerned that management's strategy carries the potential to bankrupt MPLN.