Private Equity Groups Continue Consolidating U.S. Physician Practices
Summary of Recent Industry Developments

Intrepid’s Healthcare Group is dedicated to helping a variety of middle-market companies realize their financing and M&A objectives and achieve considerable growth and liquidity. We remain active in the healthcare marketplace and most recently advised:

- Southwestern Eye Center [a premier provider of comprehensive optometry and ophthalmology services across the Southwest] on its strategic investment by H.I.G. Capital.

This transaction is representative of the rapid consolidation across the physician practice management sector, which we highlight in more detail in this newsletter. We expect robust levels of M&A activity to continue, driven by cash-rich strategics and private equity firms seeking to aggressively deploy capital in this highly attractive sector.

We hope that this report serves as a useful tool for you. As you evaluate opportunities, feel free to call us at 310.478.9000 for more pointed insight.

Thank you,

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In This Issue

- Private Equity Groups Continue Consolidating U.S. Physician Practices
- Review of Recent Transformative Transactions
- A Selection of Intrepid’s Recent Healthcare Experience

Read our Banker Insights

- Intrepid Advises Southwestern Eye Center on Strategic Investment by H.I.G. Capital
- Why Are Investors Focused on Autism Services?
- Emerging Software Solutions Driving Healthcare M&A Activity
- PBM Slamming Could Spur Out-of-the-Box Strategic Alternatives
- Is Revenue Cycle Ready for Value Based Care?
Private Equity Groups Continue Consolidating U.S. Physician Practices

A Win-Win for Physicians and Investors
The U.S. healthcare industry witnessed an M&A spree in recent years that led to the consolidation of hundreds of independent physician practices. Practice consolidation helps physicians in many ways, such as mitigating cost pressures, providing access to preferred managed care contracts and freeing physicians from practice administrative burdens so they can focus on treating their patients. Larger groups are better able to fortify their market positions, expand their geographic reach and create new revenue streams. Florida-based Mednax (NYSE:MD) and Colorado-based Envision, are two leading providers of multi-specialty physician practice management services that continually add-on small private practices to their nationwide networks.

The Evolution of Physician Practice Consolidation
Although independent physicians and smaller groups account for a larger share of the market, the overall landscape has been rapidly changing. Physician data from the Centers for Medicare & Medicaid Services for the past two and a half years clearly indicates that the ratio of small-to-large groups has inverted, such that the number of larger groups is increasing while smaller groups are contracting and continuing to shift toward larger practices. This trend is likely to accelerate as independent physicians continue to experience decreasing compensation and anticipate higher earnings through joining larger groups that can reduce costs through centralization of administrative and operational tasks and drive higher volume at preferred payor rates.

The Emergence of Managed Services Organizations Driving Further Consolidation
A typical physician practice partnership model assists physicians with a limited set of services, such as scheduling, billing and payroll, in exchange for an administrative fee. However, a professionally managed shared services center (often called a managed services organization or MSO) can consolidate a much broader set of potentially duplicative administrative functions, thereby reducing practice expenses and creating a powerful legal structure to protect the interests of the group’s physician partners.
Intrepid’s senior bankers have advised on such transactions in a wide variety of industry sectors, such as anesthesia, hospitalist medicine, radiation oncology and primary care, and are now seeing new waves of investor interest in new physician specialties, such as emergency medicine, ophthalmology and dermatology.

In the past two months alone, there has been an extraordinary pace of consolidation in eye care. Eight private equity groups have announced acquisitions of large regional ophthalmology practices, including H.I.G. Capital’s recapitalization of Southwestern Eye Center, an Intrepid client.

Clearly, there are many paths to liquidity for successful physician groups across the U.S. today.

Recent Healthcare Industry Transactions

**GRAIL Raises $900 Million in Series B Funding, Surrendering Illumina’s Board Control - March 2017**

GRAIL, a genetic biomarker technology company, received more than $900 million in its series B equity round led by existing investor Arch Venture Partners, L.P., and included participation from a broad group of investors, such as pharma industry heavyweights Bristol-Myers Squibb Company, Johnson & Johnson, and Merck & Co., but also unexpected investors such as online retailer Amazon and radiation oncology equipment manufacturer Varian Medical Systems. This transaction furthers GRAIL’s separation from Illumina and GRAIL will use the proceeds to continue validation of its promising blood tests for early-stage pre-symptom cancer detection.

**Radiology Practice Management Sees a Meaningful Uptick in M&A Consolidation Activity - March 2017**

Envision Healthcare Corporation announced the acquisition of Imaging Advantage, a provider of radiology services for more than 400 radiologists. Partnering this leading physician practice management group with Envision’s 2015 acquisition of Virtual Radiologic, enables Envision to provide comprehensive imaging outsourcing services. After a period of deal inactivity, Envision’s acquisition is one of many recent transactions in the radiology sector over the past two years. In January 2017, MEDNAX announced its first acquisition of a radiology practice with the purchase of Radiology Alliance and Infinity Management, allowing this peer of Envision to provide a similar blend of on-site and teleradiology imaging services. In December 2016, Alliance Healthcare Services announced that Fujian Thaihot Investment Co., its largest majority stakeholder, would acquire the remainder of the company. Additionally, several other industry consolidators like RadNet and Radiology Partners are aggressively pursuing growth through a flurry of add-on acquisitions.
Recent Healthcare Industry Transactions cont’d

UnitedHealth Group Subsidiary Optum Announces Acquisition of Surgical Care Affiliates - January 2017
Optum announced its plan to acquire Surgical Care Affiliates (SCA), one of the leading providers of outpatient surgery, which strategically partners with health plans, medical groups and health systems to develop and optimize surgical facilities nationally, for $4.3 billion from TPG Capital. Optum is expected to merge SCA with OptumCare, its primary and urgent care business, to form one of the most comprehensive physician groups and providers of outpatient care services in the country.

Pamplona’s Newly Formed Formativ Health Acquires eTransmedia - January 2017
Formativ Health was created by Long Island, N.Y.-based health system Northwell Health and Pamplona Capital Management to provide revenue cycle management (RCM) services to physician practices across the country. Shortly thereafter, Formativ Health acquired eTransmedia, a leading healthcare information technology company launched in 2000 by brothers Vikram and Vikash Agrawal. The rapid buildout of Formativ’s physician-focused RCM team is a noteworthy parallel to Pamplona’s equally rapid growth in its hospital-based RCM platform nThrive, assembled in 2014 and 2015 through the acquisition of coding company Precyse and carving out MedAssets’ RCM services capabilities.

Mitsui to Acquire a Stake in Panasonic Healthcare Holdings - November 2016
The private equity arm of Japanese conglomerate Mitsui announced its plans to acquire a 22% stake in Panasonic Healthcare Holdings, a provider of healthcare devices focusing on blood glucose monitoring systems and diabetic test strips, from KKR & Co. for $494 million. Post transaction, KKR & Co. will still hold a 58% stake and Panasonic Corp. will hold a 20% stake in the company. Mitsui is one of several foreign investment groups that continue to pursue acquisitions of U.S.-based healthcare companies.
Select Healthcare Transaction Experience

- Southwestern Eye Center has completed a recapitalization with HIC Capital
- Avaap has completed a growth recapitalization with New Mainstream Capital
- Science Care has received a majority investment from American Capital Equity
- Enaltus has sold the brand to Perrigo
- IAMG* has been acquired by Emergent Medical Associates
- MiraMed has acquired MiraMed
- Primary Critical Care* has been acquired by Primary Critical Care Medical Group
- CRT Medical Systems* has been acquired by ICR Financial Masters
- Promises* has completed a recapitalization with Subacute Holdings, Inc.
- Autism Spectrum Therapies has been acquired by Learn It Systems
- A-Med Health Care has been acquired by Modern HC Pharmacy, Inc.
- Newport Medical has been acquired by Covidien (NYSE: COV)

*Represents transactions executed by principals of Intrepid while at previous securities firms.
Healthcare Team
Healthcare Information Technology | Healthcare Services | Medical Technologies | Hospitals

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About Intrepid’s Healthcare Group
Intrepid’s Healthcare Group is dedicated to providing strategic advice in capital raises and mergers and acquisitions across a broad range of healthcare sectors, including behavioral health, devices, hospitals, IT, pharmacy, physician practice management, post-acute care, and revenue cycle management. Our team maintains extensive relationships with strategic buyers and institutional investors across these sectors.