



Healthcare M&A Checkup – Q3'17

Robust M&A Activity Continues Across All Healthcare Sectors in Q3'17

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The third quarter of 2017 ended on a high note for our Healthcare team as **we closed the sale of Ambry Genetics to Konica Minolta in a deal valued at US\$1 billion**. This acquisition secures a leading position for Konica Minolta in precision medicine and introduces the world's most comprehensive genetic diagnostics solutions to Japan, Europe and other markets. It also highlights the continued demand for high quality companies across the Healthcare industry.

Our team continues to see robust activity in nearly all sectors and is proud to be actively advising a select number of leading healthcare companies as they explore a range of strategic alternatives. At the center of all the buzz in healthcare is CVS's \$66 billion rumored takeover of health insurance provider Aetna, which has the potential to challenge the traditional competitive landscape and send tremors throughout the entire healthcare industry. Pharmacy giant CVS is said to be executing on a bold strategy to counteract Amazon's expected entry into the retail pharmacy space by partnering up with one of the country's largest health insurance providers, to lock up a steady stream of patients. While the effects of this contemplated transaction are unknown, it remains clear that silo-breaking healthcare M&A will be in play for the foreseeable future.

In this industry report, we highlight several transactions from the past few months that caught our attention, including Navicure's merger with ZirMed to form a revenue cycle software powerhouse and Concentra's merger with U.S. Healthworks to create the undisputed leader in urgent care and occupational medicine. We also touch on why we think there could be substantial investment imminent in areas such as gastroenterology, pain management and allergy management.

As Intrepid's Healthcare Group continues to focus on these and many other segments of the industry, we welcome your input and would be happy to discuss any of these observations.

Regards,



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In This Issue

- Which Single Specialty Physician Practices Are Gaining the Most Traction as Investment Platforms?
- Review of Recent Transformative Transactions
- A Selection of Intrepid's Recent Healthcare Experience

Read our Banker Insights

- Intrepid Acts as Financial Advisor to Ambry Genetics - Deal Valued at US\$1 Billion
- On the Front Lines of Healthcare M&A and Charitable Public Service
- Substance Abuse Epidemic Augments M&A Wave: Will Investors Ever Sober to the Model?
- Intrepid Advises Southwestern Eye Center on Strategic Investment by H.I.G. Capital



Which Single Specialty Physician Practices Are Gaining the Most Traction as Investment Platforms?

While institutional investors have been deploying capital in healthcare companies since the earliest days of private equity and leveraged finance, only in the past few years have professional investors found a consistent footing in single specialty physician practice groups. Several specialties have recently proven lucrative to investors and beg the question which segments of the physician services sector might be the next up and what are the areas of competitive auctions that drive up premium valuations.

In the past, the “stroke of pen” risk that Medicare could significantly reduce reimbursement scared off investors. Sectors such as radiology and radiation oncology stood as a warning for investors, as those areas had experienced a significant investment in the '90s and '00s only to find CMS, and eventually commercial insurance carriers, significantly reduce reimbursement rates. As a result, investors have carefully evaluated new areas to attempt to forecast and mitigate the risk of significant reimbursement compression. Eventually, waves of consolidation across specialty areas have given investors more confidence that they can pick their spots in selected specialties.

Over the past 10 years, investors have found success in areas such as anesthesia and hospitalist medicine. For example, senior bankers at Intrepid advised Integrated Anesthesia Medical Group* on its sale to Emergent Medical Associates as well as hospitalist medicine practice management company PCCMG (Primary Critical Care Medical Group*) on its sale to Team Health, both of which were competitive processes that generated interest from both financial and strategic investors and served to pave the way for further consolidation in niche single specialty practice areas. Industry sectors such as dermatology and dental practice management have also attracted considerable investor interest over the past 10 years. In addition, Intrepid advised Southwestern Eye on their recent recapitalization with private equity firm HIG, amidst a wave of rapid consolidation in the eye care sector. Investors are drawn to these types of transactions because these sectors are highly fragmented, benefit from improved revenue cycle functions and have multiple add-on opportunities that help to arbitrage the purchase price multiple and make these very lucrative investments.

One of the first notable transactions in the gastroenterology (GI) sector was GastroHealth's recapitalization with Audax in 2016. Since then, several large GI practices in Chicago, Texas and California have begun considering their strategic options. Driven by reliable reimbursement for non-emergent services, a movement to value-based and preventative care, as well as the opportunity for a variety of ancillary revenues that can be derived from lab-based pathology and diagnostics, the GI space may likely see significant consolidation in the years to come.

We think that gastroenterology, pain management and allergy management could be the next areas of exciting consolidation.

We would expect that in pain management, the growing opioid epidemic could lead to increased demand for pain management services. But, the ongoing trend of moving acute episodic services out of the watchful eyes of the hospital setting and into less carefully managed outpatient settings, should create substantially increased demand for outpatient pain management services that will likely be growing for many years to come. There have already been several investments in this area, such as earlier in October, when Pain Specialists of America, a portfolio company of CommonView Capital, acquired several Texas-based pain management practices. We expect to see many more similar transactions in the months to come.

We anticipate increased consolidation in allergy management, a relatively untapped market from the perspective of institutional investors. Due to our recent warmer winters, scientists are reporting an intense pollen proliferation expected to grow even worse in the coming years. This should result in more pronounced symptoms from seasonal allergies and motivate consumers

*Represents transactions executed by principals of Intrepid while at prior firms.



Specialty Physician Practices (cont.)

to more aggressively pursue allergy management services beyond traditional OTC options. The immune response can range from mild symptoms like headaches to severe problems like difficulty breathing and asthma that require physician interventions. We are aware of several financial sponsors that are already preparing a focused pursuit of specialty clinics and physician groups that offer healthcare services geared for addressing asthma and allergy problems. Companies like Serent Capital's United Allergy Services should be one of many private equity-backed platforms to find success in consolidating this high-growth sector.

Recent Healthcare Industry Transactions

Altamont Capital Partners Invested in Sequel Youth and Family Services

Sequel Youth and Family Services (Sequel Youth) sold a majority stake to private equity group, Altamont Capital Partners. This deal comes less than a year after a failed acquisition in January by Global Partner Acquisition Corp., a special purpose acquisition company that was set to facilitate an initial listing that valued Sequel at an enterprise value of \$423.3 million or nearly 11.5x projected June 2017 EBITDA. Sequel Youth is a leading, national provider of diversified behavioral health services for children, adolescents and adults with behavioral, emotional or physical challenges. Sequel Youth was founded in 1999 to operate a single school for adjudicated delinquent boys. It has since experienced tremendous growth and now operates 44 programs across 19 states in the U.S., serving approximately 9,000 clients from 42 states and U.S. territories.



Fidelity Acquired T-System for \$200 Million

In September 2017, Fidelity National Financial, through its investment arm, completed the acquisition of T-System Holdings for \$200 million. Since selling its medical billing services business to Intermedix in 2014, T-System has been exclusively focused on selling its software for emergency department (ED) clinical documentation and coding solutions, assisting ED physicians with diagnosing and treating patients as well as meeting regulatory compliance. Fidelity intends to pursue multiple acquisitions to bolster T-System's capabilities. Fidelity is a leading provider of title insurance and transaction services to the real estate and mortgage industries and holds equity investment stakes in a variety of companies, including human capital software provider Ceridian and restaurant chain Del Frisco's. The separation of T-System's services and software capabilities ultimately proved a successful strategic endeavor.



Levine Leichtman Announced Two Healthcare Investments: Capsa Healthcare and Therapeutic Research Center

In September 2017, Los Angeles-based private equity group Levine Leichtman Capital Partners invested in Capsa Healthcare (Capsa) and Therapeutic Research Center (TRC), announcing two investments in as many weeks after not investing in a healthcare business for nearly two years. Capsa is a leading provider of mobile workstations, medication management products, and pharmacy automation solutions for healthcare settings worldwide ranging from leading health systems, senior care communities and major retail and institutional pharmacies. Levine Leichtman acquired TRC from investor Francisco Partners to gain a leading provider of medication advisory and learning solutions for pharmacists, pharmacy technicians, and other clinicians. Nearly 500,000 healthcare professionals utilize TRC's educational content. These back-to-back healthcare investments are indicative of healthcare's appeal to an increasingly broad universe of equity sponsors.





Recent Healthcare Industry Transactions (cont.)

Eurofins Scientific Announced the High Multiple Acquisition of EAG from Odyssey Investment Partners

Also in September 2017, Eurofins Scientific (Eurofins), a global leader in bioanalytical laboratory testing, announced that it had signed an agreement to acquire EAG Laboratories (EAG) for \$780 million. Headquartered in San Diego, Calif., EAG is a leading global scientific services company that provides analytical testing and consulting solutions and has 21 laboratories in 18 locations worldwide. While generating approximately \$220 million in revenue from customers in more than 50 countries, EAG has established itself as one of the global leaders in the fast-growing Materials and Engineering Sciences markets. The implied 3.5x revenue multiple provides Eurofins entry into an entirely new business line and provides a platform with significant organic and inorganic growth potential. This transaction serves as continued evidence that valuations are strong in this and various other laboratory services sectors.



Navicare Acquired ZirMed for \$750 Million to Form Dominant Revenue Cycle Solutions Provider

Revenue cycle management (RCM) technology leaders Navicare and ZirMed announced their merger in September 2017. While Bain Capital-backed Navicare acquired ZirMed for \$750 million, the businesses are effectively merging, combining to serve 440,000 providers and 550 hospitals in both free-standing physician practices, hospitals, health systems and ambulatory services organizations. Bain Capital invested in Navicare in June 2016, and this is a transformative deal early in its investment horizon. During the transition period, the company plans to operate under both the Navicare and ZirMed brands and has hired a new CEO, Matthew Hawkins, to lead their consolidation efforts. The two companies will offer a comprehensive set of cloud-based claims management solutions and process more than \$2 billion annually in-patient payments. The combined company is well positioned to accelerate innovation in the industry to improve cash collections, the physician experience, and patient engagement by offering a single platform that can enhance RCM functions in virtually all care settings.



Select Medical and Dignity Health Announced Plans to Merge Concentra and U.S. HealthWorks

Dignity Health will combine its urgent care division, U.S. HealthWorks, with Select's Concentra, a joint venture created through a partnership of Select Medical and Welsh, Carson, Anderson & Stowe. U.S. HealthWorks is an operator of occupational healthcare centers with approximately 250 medical and onsite clinics in 21 states. Dignity will own a 20 percent equity interest in the merged company, which is valued at \$238 million. Concentra will redeem its currently outstanding equity interests to maintain a majority voting interest in the company. Select Co-Founder and Executive Chair Robert Ortenzio said the partnership "enables us to join forces and deliver best-in-class occupational medicine and urgent care to communities and corporate work sites nationwide."





Select Healthcare Transaction Experience

 **Ambry Genetics**[®]

has been acquired by

 **KONICA MINOLTA**

with participation from

 **INCJ**

\$1,000,000,000

Advisor to Ambry Genetics

 **Southwestern**
EYE CENTER[®]

has completed a
recapitalization with

 **H. I. G.**
CAPITAL

Advisor to Southwestern Eye Center

 **avaap**
innovation | solutions | outcome

has completed a
growth recapitalization with

 **NEW**
MAINSTREAM
CAPITAL

Advisor to Avaap

 **Science Care**[®]

has received a
majority investment from

 **American**
Capital
Equity

Advisor to Science Care

 **IAMG**
Integrated Anesthesia

has been acquired by

 **EMERGENT**
MEDICAL ASSOCIATES

Advisor to IAMG*

 **MiraMed**
A GLOBAL SERVICES COMPANY

has acquired

 **PLEXUS**
MANAGEMENT GROUP, LLC.
A MiraMed Global Services Company

Advisor to MiraMed*

 **PRIMARY CRITICAL CARE**
MEDICAL GROUP

has been acquired by

 **TEAMHealth.**

Advisor to Primary Critical Care*

 **CRT**
MEDICAL SYSTEMS

has been acquired by

 **Medical**
Mastermind
Intelligent Practice Management

a portfolio company of

 **BROOK**
VENTURE

Advisor to CRT Medical Systems*

 **PROMISES**
TREATMENT CENTERS

Westside Sober Living Centers, Inc.

has completed a
recapitalization with

Subacute Holdings, Inc. a
newly formed holding company
established by

 **FRAZIER**
HEALTHCARE VENTURES and  **NEA**
Healthcare Ventures

Advisor to Promises*

 **AST**
AUTISM SPECTRUM THERAPIES

has been acquired by

 **Learn It**
Systems

Advisor to Autism Spectrum Therapies

The Specialty Pharmacy Division of

 **A-MED**
HEALTH CARE
Solutions for living. Service for life.

has been acquired by

Modern HC Pharmacy, Inc.

a portfolio company of

 **ALTAMONT**
CAPITAL PARTNERS

Advisor to A-Med Health Care

 **Newport**
MEDICAL

has been acquired by

 **COVIDIEN**
(NYSE: COV)

Advisor to Newport Medical

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Healthcare Team

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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, diagnostics, 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.

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