



Healthcare M&A Checkup – Q2'18

Robust Dealmaking Continues Across the Healthcare Industry

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Robust Dealmaking Continues Across the Healthcare Industry

Will healthcare dealmakers take summer vacations? They may need to after a particularly active healthcare M&A season in Q2'18. Macro M&A trends combined with sector-specific healthcare deal drivers were a catalyst for significant growth in transaction volume this quarter. Abundant sources of cheap capital, a stable and growing economy, and heightened valuations created a compelling backdrop for healthcare dealmaking across several subsectors.

Private equity (PE) continues to lead the charge in acquiring physician practice specialties such as ophthalmology, dermatology, and even emerging niche areas such as pain management, gastroenterology and allergy. In Q2, we tracked several new platforms created by top-tier investors in physician services as well as a flurry of add-ons where existing operators continue to bulk up. Provider groups that can demonstrate success in managing population health appear to be generating the most interest across all sectors.

There has also been a frenzied level of activity in the diagnostics space, fueled by innovation and market dynamics emphasizing the benefits of scale and consolidation. Other areas experiencing robust deal volume were telemedicine (as technological innovation and cost pressures drive market adoption), population health (fueled by the paradigm shift towards value-based care), and revenue cycle management (where consolidation and efficiency gains are king).

Our team closed two unique healthcare transactions this quarter. First, we assisted our international partner Oaklins (Oaklins Germany) in the sale of Acutronic Medical Systems to Vyair Medical, a portfolio company of Apax Partners. Acutronic is a global leader in developing and manufacturing neonatal ventilation equipment and is based in Switzerland and Germany. This is our second transaction in the space, as a follow-up to our successful sale of Newport Medical Instruments, a leading developer of ventilators for a broad range of applications, to Covidien. Second, we advised American Logistics Company (ALC) on its dividend recapitalization with Comerica and Fifth Third Bank. ALC is a rapidly growing and dominant market leader in the non-emergent medical transportation industry with a particular focus on managing the logistics for transporting special needs patients and students.

We remain excited for an active third quarter of healthcare deals. Please do not hesitate to reach out to us if we can be of assistance or if you have questions.

Best regards,



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In This Issue

- Review of Recent Transformative Transactions
- A Selection of Intrepid's Recent Healthcare Experience

Read our Banker Insights

- Myriad Acquires Counsyl—Consolidation Continues in Genetic Diagnostics
- Lessons From a Recent Diagnostics Conference: "Don't Fear Change, Embrace It!"
- What Are Healthcare Investors Looking for Next? Fundamentals.
- PAMA Pain or Opportunity?
- On the Front Lines of Healthcare M&A and Charitable Public Service



Recent Healthcare Industry Transactions

“Seeing” Opportunity—Rapid Consolidation of Ophthalmology Practices Continues

Ophthalmology practices have seen tremendous consolidation across the nation in recent years, and show no sign of letting up. PE sponsors have led the charge, driven by the large addressable vision care market, favorable trends toward aggregating practices as opposed to remaining independent and stable reimbursement. In June, HIG-backed American Vision Partners (formed through the combination of Intrepid’s former client Southwest Eye and Barnet Dulaney Perkins) announced its first add-on, the Miles Eye Center, which comes amid a flurry of M&A activity in the sector. In March, Centre Partners expanded their One Vision Eye Partners platform with the acquisition of Maryland Vision Institute to build further scale and density in its core markets in Western Maryland and West Virginia. One day later, LLR Partners announced that it formed Eye Health America through the acquisition and combination of three groups in Florida and South Carolina: The Eye Associates, Clemson Eye, and Piedmont Surgery Center. In May, CEI Vision Partners launched through the recapitalization of Cincinnati Eye Institute, the largest ophthalmology organization in Ohio, with funding from Revelstoke Capital Partners.



New Dermatology Platforms Signal Continued Investor Interest More Than “Skin Deep”

Investor interest in dermatology practices has not subsided, with strong M&A activity continuing in Q2 due to the attractiveness of multi-site, branded healthcare and the ability to capture valuable ancillary revenue as practices scale up. Early this quarter, Susquehanna Private Capital invested in Skin & Cancer Associates, a dermatology practice based in South Florida providing care through a partnership network of over 25 dermatology practices. In May, Riata Capital Group and Welsh, Carson, Anderson & Stowe (WCAS) formed Select Dermatology, a vehicle created to acquire and operate dermatology practices, and commenced operations with the acquisition of Mindful Dermatology in Dallas. Gryphon Investors followed in June, with its majority recapitalization of Water’s Edge Dermatology, a sizeable independent dermatology provider group with more than 34 offices in Florida.



Are Allergy, GI and Pain the Next Areas of Specialty Physician Investment Activity?

There have been several notably unique specialty physician group transactions in Q2, which could be an early indicator of the consolidation previously seen in other practice management specialties. Always on the lookout for fragmented healthcare specialties with favorable trends pointing to consolidation, PE groups have seen a rich deal environment. In April, Prairie Capital recapitalized Family Allergy & Asthma, an allergy provider group with more than 20 locations throughout Kentucky and Indiana. Later in April, Gastro Health, backed by Audax Group, announced its acquisition of South Florida Gastroenterology Associates, a 15-physician practice specializing in diagnostic and therapeutic digestive health services. This deal represents Gastro Health’s eighth add-on since Audax’s investment as they follow a well-established growth playbook. In May, Spindletop Capital Management recapitalized Tri-City Pain Associates and Interventional Pain Management, operators of pain management care clinics, ambulatory surgery centers, and ancillary patient treatment services across Texas. Our team is keeping a close watch on these and other specialty physician practices for future investment activity in the sector.





Recent Healthcare Industry Transactions (cont.)

Genetic Diagnostics Land Grab Evolving With Large and Small Players Trading Hands

M&A activity in genetics continued at a frenzied pace in Q2, as the macro trends driving growth in genomic sequencing for personalized healthcare continue. There were three notable Genetic Diagnostics transactions in May: Illumina acquired Edico Genome (a bioinformatics data processing company with proprietary software that reduces both data footprint and time to results); GRAIL (a diagnostics laboratory focused on blood screening tests for early cancer detection) raised \$300 million in an oversubscribed Series C financing; and, Myriad Genetics acquired Counsyl (a genetics laboratory focused on non-invasive prenatal testing) for \$375 million. Also, Bio-Techne Corp. acquired Exosome Diagnostics, a developer of exosome-based real-time diagnostics technology that helps guide treatment decisions, with a purchase price highly contingent on future performance: \$250 million cash up front and contingent consideration of up to \$325 million based on future revenue targets. However, the largest of these genetics transactions occurred in June, when Roche announced it had acquired the remaining 43% of Foundation Medicine, a genetic diagnostics laboratory focused on liquid biopsies for oncology. This \$2.4 billion transaction, which came after CMS provided Foundation with a favorable reimbursement coverage decision, implied an enterprise value (EV) of \$5.6 billion or a 31x EV/revenue multiple. Just three and a half years after Roche's initial \$1 billion investment which implied an EV of \$1.6 billion and 26x EV/revenue multiple, this reinforces the growing momentum in genetic diagnostics M&A.







Growth in Telemedicine Deals Signals Path Towards Virtual Care Standardization

As virtual care shifts from luxury to necessity, strategic buyers are looking to M&A rather than building capabilities in-house. In April, Avizia, an acute care telemedicine implementation solution for large health systems, was acquired by American Well Corp., a telehealth platform that connects hospitals, insurers, employers and consumer technology companies to deliver healthcare to patients remotely. Shortly after, American Well raised more than \$290 million from healthcare technology conglomerate Phillips and insurer Allianz Group. InTouch Technologies announced its acquisition of REACH Health, a telemedicine platform that helps hospitals overcome traditional time, distance, and resource obstacles associated with acute care delivery, for \$21 million. Industry giant, Teladoc, acquired Advance Medical, a virtual care provider to more than 25 million patients internationally, for \$360 million (5.7x EV/revenue). Acquirers' desire to consolidate best-of-breed functionalities to create a comprehensive virtual care platform that can drive standardization is a major area of focus.








Population Health Now Straight Down Fairway for PE Investors

Based on payor interest in expanding capitated and risk-based payment programs to support value-based care, population health is breaking out as one of the hottest sectors in 2018. General Atlantic invested in Landmark Health, a provider of risk-based, home-based medical care to individuals with multiple chronic conditions. Clayton, Dubilier & Rice and Cardinal Health jointly acquired post-acute management solutions provider NaviHealth for \$291 million. NaviHealth's services include risk underwriting, benchmarking, and bundled payments. Also, EXL, an analytics services provider to the insurance, population health, and financial services industries, acquired SCIO Health Analytics, a healthcare analytics services company focused on claims payments and care optimization. As population health management increases its momentum, we expect to see several primary and secondary transactions in this sector in the coming months.






Recent Healthcare Industry Transactions (cont.)

Diabetes Drawing Renewed Interest

As the stakeholders in the healthcare industry explore ways to control costs and improve care, investors are paying close attention to massive chronic conditions like diabetes. There were several high-profile transactions this quarter, beginning with Platinum Equity's announced \$2.1 billion acquisition of Johnson & Johnson's LifeScan, a manufacturer of blood glucose monitoring equipment for both hospitals and home use. Shortly after, investments in diabetics-focused companies Livongo Health and Solara Medical Supplies were announced. Livongo, a consumer digital health company that provides tools and coaching to manage diabetes, received a \$105 million investment from General Catalyst and Kinnevik, who participated alongside existing investors. Solara, a direct-to-patient distributor of diabetes therapy products, received an investment from Linden Capital Partners, as they seek to innovate in a market focused on legacy distribution channels.



Shift Towards Value-Based Care Not Yet Impacting Strong Revenue Cycle Activity

Recent M&A activity in the revenue cycle management (RCM) sector indicates that the shift towards value-based care has not spooked investors...yet. Even though the healthcare industry is undergoing this radical transformation, RCM buyers are still actively seeking to achieve greater scale and offer more complete legacy revenue cycle services. In February, R1 RCM acquired Intermedix Corp. for \$460 million, a provider of RCM, practice management and analytics businesses. Cognizant Technology Solutions announced its acquisition of Bolder Healthcare Solutions for \$108 million, a provider of revenue cycle management solutions for hospitals, physicians, and other healthcare professionals. In May, TransUnion acquired Healthcare Payment Services (HPS), a leader in helping healthcare providers optimize Medicare reimbursement. And in June, NHI Billing Services, a provider of technology-enabled revenue optimization and quality of care services to health plans, healthcare providers, hospitals and health systems, was acquired by Centauri Health Solutions.





Select Healthcare Transaction Experience



AMERICAN LOGISTICS COMPANY

has completed a dividend recapitalization with



and



Advisor to American Logistics Company



has been acquired by



a portfolio company of



Advisor to Acutronic**



has been acquired by

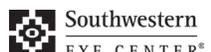


with participation from



\$1,000,000,000

Advisor to Ambry Genetics



has completed a recapitalization with



Advisor to Southwestern Eye Center



innovation | solutions | outcome

has completed a growth recapitalization with



Advisor to Avaap



has received a majority investment from



Advisor to Science Care



has been acquired by



Advisor to Primary Critical Care*



has been acquired by



a portfolio company of



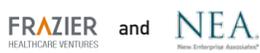
Advisor to CRT Medical Systems*



Westside Sober Living Centers, Inc.

has completed a recapitalization with

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



Advisor to Promises*



has been acquired by



Advisor to Autism Spectrum Therapies

The Specialty Pharmacy Division of



Solutions for living. Service for life.

has been acquired by

Modern HC Pharmacy, Inc.

a portfolio company of



Advisor to A-Med Health Care



has been acquired by



(NYSE: COV)

Advisor to Newport Medical

*Represents transactions executed by principals of Intrepid while at previous securities firms.
 **Served as co-advisor, leading outreach efforts.





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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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