



Healthcare M&A Checkup

The Emergence of Patient-Centered Deal-Making



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Due to the advent of consumer-directed healthcare, Intrepid's Healthcare team is seeing meaningful changes develop in the key value attributes that distinguish premium-priced healthcare companies. As business owners and investors consider their strategic alternatives, they should evaluate these emerging characteristics to put themselves in the best position for successful outcomes. Most notably, because today's healthcare patients are acting more like consumers and informed customers than at any time in the history of healthcare, we are seeing buyers place more priority on healthcare targets' customer service differentiators, such that we might be witnessing the emergence of patient-centered deal-making.

Out-of-network reimbursement and non-covered services have long frustrated acquirers, sellers, and patients, but seem to be making a comeback of sorts—this is relevant evidence of the emergence of patient-centered deal-making. Business owners who in the past would have presented strong cash flow driven by higher-than-normal out-of-network reimbursement were often subject to buyers assembling pro forma financial models that illustrated their businesses after reduced pricing to in-network rates. As challenging as this was for sellers, acquirers dreaded discussing this topic with sellers, as it often led to an abrupt ending to the M&A dialogue. It was a necessity, as not too long ago most acquirers assumed that providers would be forced to go in-network to gain or retain additional volume. Further, patients hated the surprise of an unexpected thousand (or multi-thousand) dollar bill from an unknowingly out-of-network provider. This was bad customer service.

Given the growing consumerism of healthcare, out-of-network reimbursement and even non-covered services are in some cases demanded by patients and no longer necessarily warranting a discount in M&A transactions. Today's patients have access to better eligibility and benefits information and are capable of more easily determining if a provider might be in-network. They can research and select specialists, now entering a care setting with a better chance of knowing the specific price of their service. The new healthcare consumer is making informed decisions, such as selecting the supplier for their medication or implanting a specific manufacturer's value-added device (such as a high-end intra-ocular lenses), both of which might be deemed non-covered services by a commercial insurer but considered worthy of the additional price by today's patient.

As transaction advisors quarterbacking our clients' M&A processes, we are seeing several other trends just like this that are changing the way buyers approach deal-making and suggest acquirers

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

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- Fertility Services: The Next Wave of Physician Specialty Investment?
- Observations from the Autism Investor Summit
- The Healthcare M&A Party Continues...But for How Much Longer?
- Best Practices for Preparing Your Healthcare Company for a Transaction



are much more focused on a patient's voice than at any time in recent memory. For example, as specialty home health and autism services continue to draw heightened interest from investors, these companies must articulate to potential investors how they can create patient satisfaction even in venues where a patient cannot actually communicate; the complicated relationship between patients, families, friends, and their caregivers has always been challenging to describe to buyers but it is now of paramount importance due to the extra emphasis placed on patients' voice. In several of our recent transactions, buyers have sought more comprehensive vendor, supplier, and even patient interviews to gain visibility into our clients' quality and outcomes, but also the perceptions that patients have about the company.

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Whereas just a few years ago, the scientific merits of a pharmaceutical compound, the clinical trial utility of a new device, or simply the geographic density of a specialty physician practice might be the most important attributes in an M&A transaction, it is becoming clear that investors have a greater need to prove why a company's patients or referral sources choose them (and might continue to do so) to justify the often high multiples demanded by today's healthcare deals.

If you have questions about how the emergence of the patient-centered deal-making might impact a future transaction with your company, let us know.



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Recent Healthcare Industry Transactions

Large Diagnostics Technology Players Continue Shuffling Assets to Position for Growth

Several large diagnostics supplies and tools companies have completed acquisitions and dispositions to try to reposition their businesses for maximum growth. In January, Thermo Fisher Scientific (Thermo) sold its pathology business to PHC Holdings for \$1.4 billion, disposing one of the leading providers of microscope slides, instruments and consumables. One month later, Thermo announced its acquisition of viral vector manufacturer Brammer Bio for \$1.7 billion in cash (approximately 6.8x 2019E revenue) to position itself in the rapidly-evolving gene therapy treatment field. In February, Danaher Corporation expanded its Life Sciences portfolio with the \$20 billion acquisition of GE Biopharma (a 17x multiple of expected 2019 EBITDA). This follows a flurry of recent Danaher transactions, including its acquisition of Integrated DNA Technologies in March 2018 and spin-off of its dental business in July 2018. This barrage of deal activity from large diagnostics suppliers and tools companies demonstrates aggressive pursuit of growth opportunities in this space.

ThermoFisher
SCIENTIFIC

PHC
Healthcare with Precision

brammer bio
Manufacturing Personalized™

DANAHER  **GE Healthcare**
Life Sciences

IDT
INTEGRATED DNA TECHNOLOGIES

Recent Deals Signal Pathology Labs Migrating Into Genetics

Traditional pathology labs seem to be on the heels of a surprising consolidation trend. Earlier this year, Sonic Healthcare drew a lot of attention with a traditional expansion play, acquiring Aurora Diagnostics for \$540 million (an implied multiple of 1.7x LTM revenue), adding capacity and new geographies to their reach. However, more recent transactions in the space suggest an expansion of the traditional reference lab, adding genetic testing capabilities into traditional pathology labs. In February, Water Street provided a strategic growth investment in Pathnostics, paving the way for its progression from a traditional pathology services provider into a cutting-edge genetics diagnostics business focused on the urology market. In March, Discovery Life Sciences announced its acquisition of HudsonAlpha's Genomic Services Laboratory, a leading gene sequencing and bioinformatics provider. This transaction adds genetic testing capabilities to the traditional biospecimen and analytic services that Discovery provides to the global pharma and diagnostics industries. These deals also appear to signal growing conviction that genetic testing can proliferate across the healthcare ecosystem in the near-term.

 **SONIC**
HEALTHCARE

 **AURORA**
DIAGNOSTICS

WATER STREET

 **Pathnostics**

 **DISCOVERY**
LIFE SCIENCES

 **Genomic Services Lab**
at HudsonAlpha

Rapid Autism Industry Changes Not Yet Slowing Down

The feverish pace of change in the autism activity continued in the first quarter of 2019. In January, TA Associates provided a strategic growth investment to Behavioral Health Works (BHW), which serves 1,800 clients in 11 states at a supposedly mid-teens multiple of EBITDA. Then, in February, TPG Capital announced it was joining forces with the founder of Trumpet Behavioral Health, committing \$300 million to launch of Kadiant, a start-up in search of consolidation opportunities in the autism therapy market. This was followed in March by Gryphon Investors' acquisition of a majority stake in LEARN Behavioral, which serves more than 4,000 families in 23 states. All of these transactions come on the heels of recent leadership changes at C.A.R.D., Autism Learning Partners, and 360 Behavioral, all of which support the notion that large players are in the midst of a massive land grab. (To learn more read "[Observations from the Autism Investor Summit](#)".)

 **TA ASSOCIATES**

 **BEHAVIORAL**
HEALTH WORKS

 **TPG**  **TRUMPET**
BEHAVIORAL HEALTH

 **kadiant**

 **LEARN Behavioral**

Dental Practice Recapitalizations Suggest Platform Multiples Are Still Robust

Even though the dental sector is one of the most mature areas of private equity investment with large scale platforms across the country, it appears that investors still view substantial enough growth opportunities within the industry to merit new dental services organization (DSO) platform investments. In January, CRG committed \$70 million to Mid-Atlantic Dental Partners for strategic growth and add-on acquisitions beyond its based in Colorado, Arizona, and New Mexico. In February, Sun Capital Partners acquired Simply Beautiful Smiles, with 20 locations in Pennsylvania and New Jersey. In March, ABRY Partners made a strategic investment in Dr. Dental Management, with 100 active dentists treating over 250,000 patients a year across New England. Dr. Dental will direct the capital toward opening new locations and completing acquisitions throughout the Northeast. Investor interest in consolidating dental practices does not appear on the verge of slowing down any time soon.

 **CRG**

 **MID-ATLANTIC**
DENTAL PARTNERS

 **SUN CAPITAL**
PARTNERS INC.  **Smiles**

ABRY
PARTNERS  **DR. DENTAL**



Recent Healthcare Industry Transactions (cont.)

Recent RCM Deals Demonstrate Demand for Differentiated Service Offerings

While there has long been steady demand for traditional billing and collections services, several recent revenue cycle management (RCM) transactions illustrate the increased value placed on uniquely differentiated RCM service offerings. In January, Excellere Partners invested in Concord Technologies, a provider of interoperability and automation technology for document-intensive healthcare services, highlighting the demand for improved paper-to-digital conversion services. In February, the 51-hospital Providence St. Joseph Health System acquired revenue cycle technology developer Lumedic to automate blockchain-enabled payment processing solutions. Furthermore, ZOLL, a manufacturer of medical devices and related software solutions, acquired Golden Hour, which provides emergency medical transport RCM solutions. Despite the steady volume throughout the RCM industry, competitive pressures are driving pricing down for traditional RCM services, and the more unique, value-added services highlighted by these transactions may be able to command premium pricing.



Contract Research Services M&A Activity Heating Up

2019 began with a significant amount of M&A activity among contract research organizations (CROs). While private equity typically avoids pharmaceutical development risk, CROs are an excellent means to invest in the tailwind of massive pharmaceutical R&D spending and outsourcing. In January, Factory CRO and Boston Biomedical Associates (BBA) announced a merger, creating the only device-focused CRO that offers services in US, EUR, AU, and NZ. Before January ended, Advent International acquired a majority stake in BioDuro, a CRO with one of the world's largest drug discovery market shares. A few days later, H.I.G. Capital announced its acquisition of Taconic Biosciences, a leading global provider of research models and services to the pharmaceutical, biotechnology, CRO, and academic research industries. In March, Behrman Capital invested in EMMES Corp., a CRO that has partnered with governments, foundations, and commercial clients on over 1,000 trials across Phase I-IV. As strong pharma drug development outsourcing continues, we expect private equity investors to continue to view CROs as ideal new platforms or logical add-on acquisitions.



Health Plan Consolidation at Top of Food Chain Overshadows Start-Up Struggles

While large health plans busily continued consolidating the top-end of the market, several smaller players that were once viewed as potentially disruptive to the status quo have struggled to even retain their workforce. As examples of the activity on the top-end of the market, in January, Centene acquired QCA Health Plan and QualChoice from Catholic Health Initiatives. Then, in March, Centene announced its acquisition of WellCare Health Plans for \$17 billion, creating a 22 million member plan covering all 50 states. Meanwhile, innovative insurance start-up Clover Health, which had grown to 40,000 members in seven states, announced layoffs of 140 employees, or approximately 25% of their workforce, less than a year after a \$500 million investment from Google Ventures and Greenoaks Capital valued the company at \$1.2 billion. Clearly, the biggest health plans intend to leverage scale to compete against the innovative newer entrants attempting to disrupt this foundational segment of the healthcare ecosystem.





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



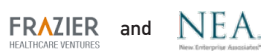
Advisor to CRT Medical Systems*




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, assisting with outreach efforts.





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About Intrepid's Healthcare Group

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