



Healthcare M&A Checkup - Q2'19

Back to Basics—Investors Find Value in Novel Areas

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Back to Basics—Investors Find Value in Novel Areas

While hot sectors like ophthalmology, dermatology, genetics, and behavioral health continue to draw a lot of attention in the media, we are seeing an emerging group of middle-market private equity groups and lenders becoming quite creative in finding new sectors to explore while they re-discover previously abandoned niches to find unique growth opportunities.

This summer, Intrepid completed three healthcare transactions since our last industry report. Intrepid advised on the sale of Los Angeles-based Mini Pharmacy, one of California's largest distributors of diabetic supplies and insulin; the majority recapitalization of Frontier Dental Lab (Frontier), a Northern California based multi-national manufacturer of high-end cosmetic dental prosthetics; and the debt capital raise for Utah-based Advice Media, which develops and manages the online footprint of medical practices nationwide. These transactions reinforced our perspective that the pace and valuation of healthcare transactions continue to remain at all-time highs, but the landscape of what defines an attractive asset is broadening as financial sponsors look to aggressively deploy capital across the healthcare sector.

Diabetic care and its resulting specialty distribution services and disease management tools appear destined for a wave of investment activity. Building on Linden Capital's 2018 recapitalization of San Diego-based Solara, one of the country's largest specialty distribution businesses focused on diabetes, there appears to be renewed interest in diabetes and chronic disease management. **Intrepid recently advised Mini Pharmacy on its sale to Angeles Equity Partners.** Mini has been in operation for nearly 40 years and has grown to become one of the largest distributors of insulin and diabetic supplies. This deal announcement comes just a few months after digital care management company Omada raised \$70 million and industry leader Livongo announced its intention to go public in a July IPO. After Amazon's \$1 billion acquisition of tech-enabled pharmacy packaging company PillPack, investors were concerned that Amazon might soon dominate the specialty distribution sector, but there appears to be renewed investor attention on opportunities in chronic disease management.

On the other side of the healthcare market, it's no secret that routine dental care and its related high-margin ancillary services are a frothy market for private equity investors, but not all aspects of dental have been deemed so attractive. When it comes to the market for investing in dental labs, the specialty manufacturing facilities that fabricate veneers, crowns or implantable artificial teeth,

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- The Healthcare M&A Party Continues...But for How Much Longer?
- Best Practices for Preparing Your Healthcare Company for a Transaction



have recently drawn lukewarm investor sentiment. The largest multi-facility labs have experienced eroding margins amid price competition and continued technological advancement. As with all sectors, though, industry innovators can sometimes produce highly-differentiated, high-margin businesses, and Intrepid found that in Frontier, a full-service, multi-site dental laboratory that provides high-end dental prosthetics, removable dental products and implants primarily for the cosmetic dentistry industry, leveraging a novel social media outreach strategy. In our [recent sale of Frontier to O2 Investment Partners](#), private equity investors showed strong interest in Frontier's differentiated go-to-market strategy and positioning as one of the industry's highest-quality brands serving its most discerning cosmetic dentists.

In addition to our firm's collective experience with these two private equity counterparts, our digital media colleagues also witnessed a similar robustness during their [debt capital raise for Utah-based Advice Media](#). We learned that highly value-added companies serving medical practices nationwide have both the downside protection and growth potential to attract a wide variety of attractive potential transaction counter-parties. Clearly, healthcare activity remains alive and well!

We remain excited to continue representing diverse healthcare clients in a constantly evolving M&A market. Please do not hesitate to reach out to us if we can be of assistance or if you have questions.



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Regards,



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Selected Transaction Highlights

Diagnostics Arms Race Continues With Several Strategic Tuck-Ins

Recent M&A activity involving diagnostics companies points to an increase in consolidation to expand technological and platform differentiation. In April, Meridian BioScience (NASDAQ: VIVO) acquired GenePOC for up to \$120 million, leveraging GenePOC's state-of-the-art revogene™ molecular diagnostics platform to provide gastrointestinal disease and core respiratory illness diagnostic solutions to its current and new customers. Prescient Medicine Holdings acquired AutoGenomics to further develop its INFINITI® Neural Response Panel and provide physicians with objective information to aid in identifying the risk of oral opioid addiction. On the direct to consumer front, Everlywell raised \$50 million in financing to expand its digital platform and scale existing partnerships with the goal of providing consumers with access to transparent and insightful lab tests. In June, Invitae Corporation (NYSE: NVT) acquired Singular Bio to make routine non-invasive prenatal screenings more widely available. This recent activity highlights substantial growth opportunities in the diagnostics industry and suggests that consumers can expect greater access and choice in the future.



Fertility Still One of Healthcare's Hottest M&A Sectors

Fueled by increased demand, drastic technological advancements and increased insurance coverage, fertility services providers are growing rapidly and experiencing heavy M&A volume. In May, MEDNAX (NYSE: MD) purchased California-based Central Coast Perinatal Medical Group to add the company's high-risk pregnancy expertise to its affiliated network of physicians across multiple specialties. In June, Morgan Stanley Capital Partners completed an investment in Ovation Fertility, a leading provider of in-vitro fertilization laboratory services, genetic testing and a host of other fertility services. With the new capital, Ovation aims to drive down the average cost of pregnancy through more efficient and effective infertility care. In June, Persistence Capital Partners invested in Toronto-based Anova Fertility & Reproductive Health, which provides reproductive care services in what it believes is Canada's most proficient lab producing the country's highest patient success rates. Also, Wildcat Capital Management made an investment in Spring Fertility, one of the premier fertility care providers in Northern California. As women continue to wait longer to have children, industry experts believe fertility services will observe significantly increased demand, and the leaders in fertility technology and outcomes will likely see considerable attention from investors.



Vision Care Continues Its Strong M&A Trajectory

Several attractive characteristics of the ophthalmology and optometry industries have spurred more than two years of active private equity investment and consolidation, and three new platform deals in June suggest the industry still has substantial upside to come. Goldman Sachs' merchant banking division announced their plans to acquire Capital Vision Services and its more than 500 MyEyeDr optometry practices in 18 states for \$2.7 billion. Also, Sheridan Capital Partners made an investment in Atlantic Vision Partners in June for their meaningful scale in Virginia and growth potential. Finally, Alpine Investors invested in Northeast Ohio Eye Surgeons and its seven medical and surgical locations throughout Ohio. The increased prevalence of chronic eye diseases in the aging population, along with the remaining fragmentation of the vision care market, signals that there is still ample opportunity to realize synergies through consolidation and add-on acquisitions in this area of healthcare.





Selected Transaction Highlights (cont.)

Emergency Department and Urgent Care Deals Appear to Gain Momentum

A recent flurry of emergency medicine and urgent care transactions suggest emerging opportunities and threats to their business models. In early April, Great Point Partners announced a growth recapitalization of Little Spurs Pediatric Urgent Care that is intended to help grow Little Spurs' Texas-based urgent care presence. Later in April, Florida-based Emergency Care Partners (ECP) acquired Louisiana-based Ascension Emergency Physicians to grow its emergency medicine operations to 20 hospitals with 201 physicians and 223 mid-level providers. This is their second major add-on less than a year after ECP completed a recapitalization with Varsity Healthcare Partners. This May, CityMD and Summit Medical Group announced a merger and recapitalization with Warburg Pincus to combine CityMD's 120 urgent care practices with Summit Medical Group's 900 physicians and 80 primary and specialty care locations. Continued de novo openings of novel urgent care platforms, along with innovations in both employer-sponsored and retail-based primary care centers, is blurring the lines between primary care, urgent care and traditional emergency medicine, suggesting that these areas will observe years of jockeying for position.



Could Cancer Treatment Center Investments Be Making a Comeback?

Cancer treatment centers are showing signs of revival following years of bankruptcies and financial restructurings. The last wave of activity in this space occurred in 2016 when Fujian Thai Hot Investments purchased a majority interest in Alliance Healthcare and McKesson bought Vantage Oncology and another company in two simultaneous transactions totaling \$1.2 billion. Move forward to May 2019, when oncology hardware vendor Varian Medical Systems (NYSE: VAR) acquired Cancer Treatment Services International and its 10 India-based locations. Then in June, Silver Oak-backed Integrated Oncology Network (ION) swiftly acquired Tennessee-based e+CancerCare after Alliance Healthcare failed to secure financing for its previously announced deal. Corona Del Mar-based ION now boasts 51 locations and a comprehensive set of oncology service offerings, including Utah-based Gamma West Brachytherapy, which ION also acquired in June. It will be interesting to see if strategic and financial buyers pursue additional transactions involving healthy and growing oncology providers.



Autism Platforms Accelerate DeNovo Expansion and M&A Strategies

Autism services providers are experiencing an unprecedented level of M&A activity, and, as we highlighted in our [Q1'19 industry report](#), this sector continues to grow rapidly. KKR's Blue Sprig Pediatrics began Q2'19 by purchasing the assets of Tangible Difference Learning Center, a Houston-based autism therapy provider. This acquisition was followed later that month by another push into the Texas market with the acquisition of West Texas Autism Center. These acquisitions place Blue Sprig as Texas' largest Applied Behavior Analysis therapy services provider. But, Blue Sprig continues to acquire, securing Kentucky-based Verbal Behavior Consulting in June. TPG Capital-backed Kadiant, a fastgrowing multi-state autism services platform, flexed their \$300 million backing with a multi-state expansion into the West Coast by acquiring Kids Overcoming and Integrated Behavioral Solutions in April, as well as Central Valley Autism Project and STE Consultants in May. Later that month, Arsenal Capital Partners made the first investment of their new \$2.4 billion fund with the \$255 million acquisition of Hopebridge, a rapidly growing center-based provider based in Indianapolis that has relied exclusively on an aggressive de novo expansion strategy. Lastly, Pine Tree Equity helped recapitalize Texas-based Applied Behavior Analysis (ABA) autism services company Spectrum of Hope in June. Increasing demand and continued fragmentation reinforces the belief that the autism services industry represents a prime opportunity for a buy-and-build strategy for private equity firms and strategics alike.





Selected Transaction Highlights (cont.)

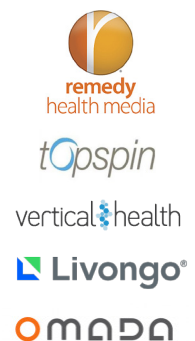
Addiction Treatment Continues to Draw Investor Interest

Addiction treatment centers show renewed acquisition and growth prospects propelled by the expanding insurance coverage of medication-assisted treatments and increased demand stemming from the opioid epidemic. In April, Sprout Health Group acquired Endeavor House North, a veteran in the drug treatment industry based out of New Jersey. A key rationale for this transaction is that Sprout now benefits from access to every major insurance carrier in New Jersey. Later in May, MAP Health Management (MAP) announced an investment from Triton Pacific Capital Partners on the heels of the \$25 million investment they received from insurer Aetna (a subsidiary of CVS Pharmacy, Inc.) in March. MAP has garnered wide attention from their specialized peer recovery support services, which has shown to improve post-treatment clinical outcomes. We look forward to seeing if additional addiction treatment transactions could follow.



Investors See ROI Potential in Disease Management and Coaching

The advancement of digital health technological capabilities and functional artificial intelligence have led to increasingly practical options for self-guided management of chronic healthcare needs. These online and app-based tailored services are quickly gaining popularity, reflecting substantial growth outlook for digital health companies. Remedy Health Media, backed by Topspin Partners, acquired Vertical Health in May, which has the potential to make Remedy the first media company to branch into condition-specific digital health for consumers and professionals. In June, disease management company Livongo Health announced its plans to raise more than \$200 million in an IPO, potentially doubling its \$1 billion valuation from its last capital raise in March. To better compete with Livongo, disease management competitor Omada Health raised \$73 million to continue the expansion of its digital healthcare platform. Digital health companies have made remarkable strides in leveraging technology to help manage chronic illnesses, and we expect to see more deals in this segment.



Payment Integrity and Specialty Revenue Cycle Services Spur New Deals

Hospitals and community healthcare services providers have been increasingly seeking novel payment integrity and specialty billing and collections expertise to improve their revenue cycles. Moreover, continued M&A in these areas has reinforced investors' confidence in their long-term sustained growth. In April, H.I.G Capital made an investment in Medusind Solutions and their end-to-end RCM solutions, highlighting a strategic play that could be followed by more add-on acquisitions. Also in April, Revint Solutions, a market leader in revenue integrity solutions for healthcare providers, acquired Payment Partners to extend its suite of revenue integrity solutions and services. In May, JPMorgan Chase (NYSE: JPM) acquired InstaMed for more than \$500 million to expand the bank's suite of healthcare payment services, and Discovery Health Partners complemented its portfolio of payment and revenue integrity solutions through the acquisition of HealthMind and its Rethink platform. Then, in June, MiraMed Global Services and Medac merged in a \$135 million deal to create an anesthesia revenue cycle management platform with comprehensive services that can improve the consumer experience. Despite the continued innovations in this sector, the healthcare revenue cycle is far from resolved and the need for continued investment remains prevalent.





Select Healthcare Transaction Experience

 <p>has been acquired by</p>  <p>Advisor to Mini Pharmacy</p>	 <p>has completed a recapitalization and growth financing with</p>  <p>Advisor to Advice Media</p>	 <p>has received an investment from</p>  <p>in partnership with management</p> <p>Advisor to Frontier Dental Laboratories</p>	 <p>has completed a dividend recapitalization with</p>  <p>and</p>  <p>Advisor to American Logistics Company</p>
 <p>has been acquired by</p>  <p>with participation from</p>  <p>\$1,000,000,000</p> <p>Advisor to Ambry Genetics</p>	 <p>has completed a recapitalization with</p>  <p>Advisor to Southwestern Eye Center</p>	 <p>has received a majority investment from</p>  <p>Advisor to Science Care</p>	 <p>has been acquired by</p>  <p>Advisor to Primary Critical Care*</p>
 <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Advisor to CRT Medical Systems*</p>	 <p>has been acquired by</p>  <p>Advisor to Autism Spectrum Therapies</p>	<p>The Specialty Pharmacy Division of</p>  <p>has been acquired by</p> <p>Modern HC Pharmacy, Inc.</p> <p>a portfolio company of</p>  <p>Advisor to A-Med Health Care</p>	 <p>has been acquired by</p>  <p>(NYSE: COV)</p> <p>Advisor to Newport Medical</p>

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



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