



*Healthcare M&A Checkup - Q3'19*

# Private Equity-Fueled Consolidation Remains Heightened Across the Continuum of Care

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## Private Equity-Fueled Consolidation Remains Heightened Across the Continuum of Care

Intrepid's Healthcare Group continues to see a high volume of consolidation activity across all segments of healthcare. An extraordinary breadth of strategic acquirers and financial sponsors are seeking M&A targets to partner with and expand through add-on acquisitions and organic growth initiatives. The Intrepid team is responding to this demand, actively managing numerous healthcare engagements nationally, with areas of focus spanning from physician practice management to genetic testing innovators. As the volume of activity in this sector continues to grow, **Intrepid is expanding its own healthcare investments, adding to our team our newest Associate, Joseph Wisniewski.**

Joe is an experienced healthcare services investment banker who has deep experience advising on consolidation activity within the physician practice management sector. One of the many areas that Joe has been closely watching is the orthopedics and sports medicine physician specialty. While many healthcare niches have experienced waves of consolidation in the past few years, orthopedics and sports medicine, in particular, have undergone an unusually fast increase in the volume of private equity platform investments over the last year.

In the following article, we outline some of the reasons why orthopedics is quickly becoming one of the industry's most exciting areas of focus. We also highlight robust activity in several sectors, including revenue cycle services, genetics, pathology, eyecare, autism services and pharma outsourcing services. Each of these dynamic niches has unique opportunities driving M&A and investment activity.

We are excited to race to a successful conclusion of 2019! Please don't hesitate to reach out with any questions about the sectors covered in our industry report.

Regards,



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### In This Issue

- Recent Market Activity in Orthopedics
- Review of Recent Transformative Transactions
- A Selection of Intrepid's Recent Healthcare Experience

### Read our Banker Insights

- 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

## Recent Market Activity in Orthopedics

Following several years of private equity (PE) interest in national ambulatory surgery centers, regional orthopedic physician groups have recently begun a new wave of accelerated consolidation, starting first in 2016 with Frazier Healthcare Partners' investment in The CORE Institute of Phoenix, Ariz. Since then, seven additional PE firms have made new platform investments across the Mid-Atlantic, Northeast, Midwest, and Southeast. While this consolidation wave brings the number of platforms to eight, orthopedics is under-penetrated as compared to the close to 25 dermatology and ophthalmology platforms that have closed since 2011. High quality orthopedics practices should generate strong investor interest for many years to come.

We may start to see multi-regional platforms emerge as consolidation activity matures and PE firms sell their investments to other secondary investors to realize their return on investment. In the first PE exit within orthopedics, Frazier Healthcare Partners exited its investment in The CORE Institute in August 2019, with experienced healthcare services investors Audax Group and Linden Capital Partners acquiring the platform. Audax is a long-tenured physician services investor and brought the first institutional equity into the dermatology, gastroenterology, urology, and OB/GYN sectors. Audax's investment into CORE is a leading indicator that consolidation activity will accelerate soon, as other investment firms look to model their investment strategies after seasoned physician practice management investors.

Orthopedics provides a compelling investment thesis due to the large quantity of physicians and independent practices nationally, an aging and growing patient demographic, the individual productivity of orthopedic doctors and extenders, and the diverse ancillary services that can be built out to complement an orthopedic physician group. We would expect that large orthopedics practices would generate considerable investor interest from high-quality healthcare services investors.

## Intangible Value Added Through Relationships and Expertise

PE investors look to add value to their investment partners in several ways. Often, they rely upon their experiences from prior successful investments to deploy best practices in board governance, financial reporting and information systems. When appropriate, they can help supplement leadership improvement opportunities by calling upon their vast network of relationships either for mentorship of the existing team or to supplement management with newly recruited executives.

PE capital can leverage their balance sheets and lender relationships to fund organic growth initiatives to establish new ancillary services, such as physical therapy or medical imaging, finance the recruitment and onboarding of new providers, invest in leading edge and scalable operational infrastructure and make add-on acquisitions of other practices both locally and outside the region.

In addition to capital, some investors choose to be very hands-on, looking to regularly discuss strategy and provide operational improvements, as well as remain active in corporate development and add-on acquisition efforts. Other PE firms may passively oversee portfolio investments, reviewing a company's strategic direction with management less frequently, on a quarterly or bi-annual basis.

## Private Equity Exit and the "Second Bite of the Apple"

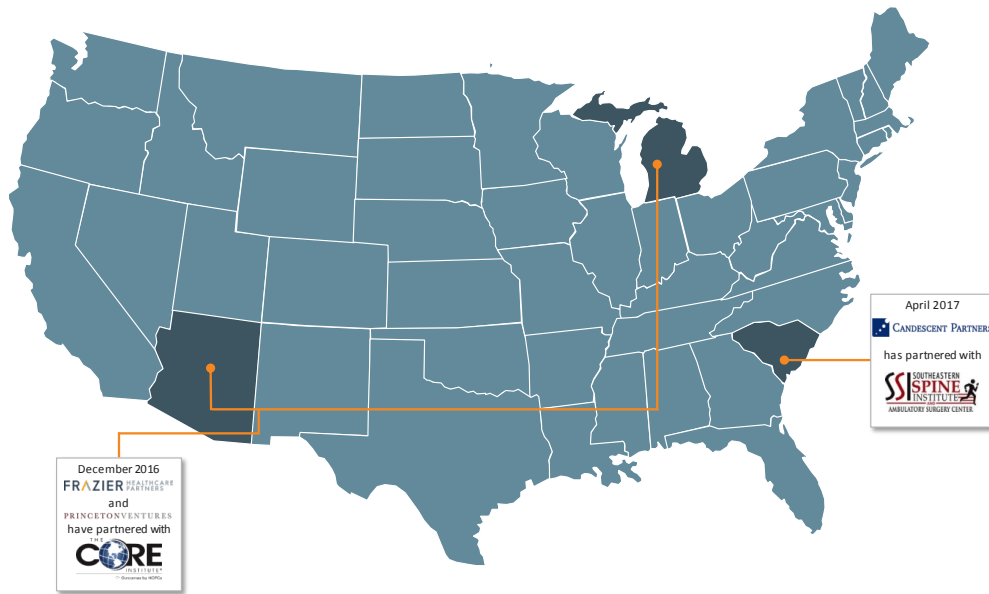
PE firms will eventually exit their position to realize a return on their invested capital. A standard PE investment strategy targets a 3x-5x return on the fund's invested capital over a period of three to seven years. These partnerships allow shareholders to retain a significant minority stake in the platform to share in the equity appreciation of the business alongside their PE partner. As the business scales into new geographies and services, the ownership stake becomes increasingly diversified when compared to a more concentrated equity stake in a practice in a single market.

Given that the orthopedics sector is in the earlier stages of consolidation throughout the country, there is a unique opportunity to gain a first-mover advantage and quickly realize a level of scale on a regional or national level that creates a market leader in the space, in order to remain at the forefront of consolidation efforts over the next decade. Intrepid expects these factors to drive acceleration in the volume of platform and add-on transactions in orthopedics over the next several years.

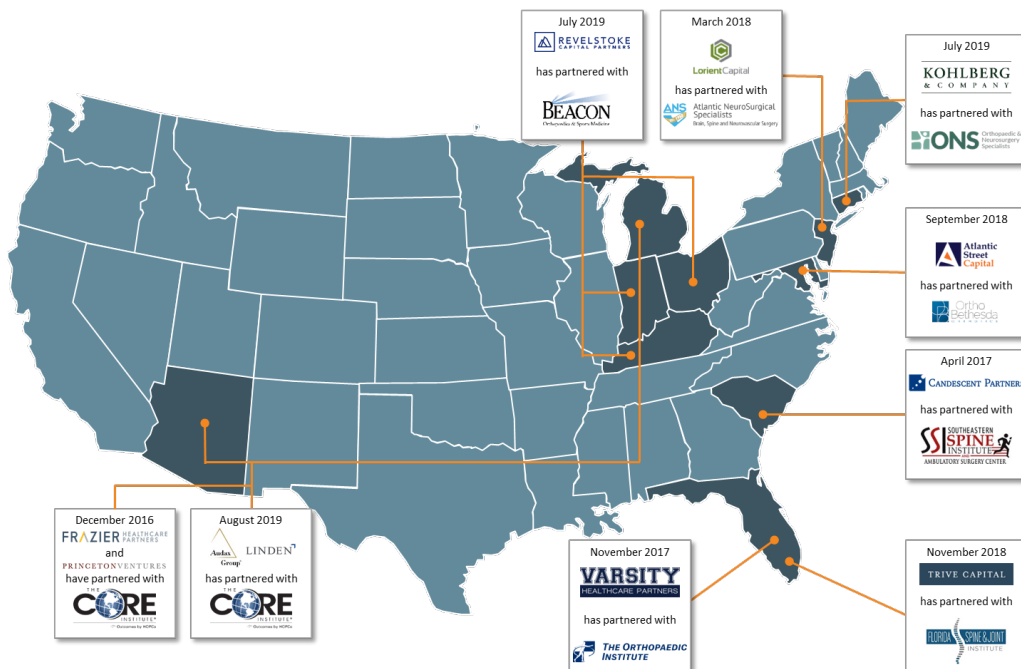


## Orthopedic Private Equity Platform Transactions

Following Frazier's investment in The CORE Institute, experienced multi-site healthcare service investor Candescant Partners successfully closed its partnership with the Southeastern Spine Institute in Mount Pleasant, South Carolina in April 2017.




Since April 2017, the rate of new platform announcements in the sector has accelerated, with three new platforms established and one platform exit in the last 12 months.






## First-Mover Advantage in Orthopedics - The CORE Institute Case Study



**THE CORE INSTITUTE**



**HOPCo**  
Healthcare Outcomes Performance

- Founded in 2005 by Dr. David Jaconfsky
- Leading physician practice management company for orthopedic, neurology, spine physician practices, and hospital service lines
- Provides management services nationally through HOPCo MSO 200 providers, including 88 physicians
- Recently entered into a 50/50 joint venture with Banner Health to provide musculoskeletal care to Medicare Advantage patients on a fully capitated basis
- 55,000-plus lives under management

### Select Practices Managed by HOPCo



**THE CORE INSTITUTE**  
Outcomes by HOPCo



**SOUTHEAST ORTHOPEDIC SPECIALISTS**



**Banner Center for Orthopedics**



**NORTHERN ARIZONA ORTHOPAEDICS**  
Outcomes by HOPCo



**THE CORE INSTITUTE**  
Center for Orthopedic Research and Education  
at Torretta



**THE CORE INSTITUTE SPECIALTY HOSPITAL**  
Outcomes by HOPCo



**Virt2 Health**

### Partnership Overview

Frazier Healthcare Partners, alongside a consortium of venture capital firms, invested in The CORE Institute in December 2016 with a focus on developing the IT and operational infrastructure of the practice to create a leading Management Services Organization (MSO), branded as Healthcare Outcomes Performance Company (HOPCo). Frazier successfully recruited Dr. Norm Payson (Healthsource, Concentra, Apria) and Dr. Lynn Massingale (Team Health) to join the Board of Directors to help guide the company's growth strategy. Throughout the partnership, the company made significant investments to improve hospital performance, revenue cycle management, and IT systems and after just over 2.5 years of rapid growth, Frazier sold The CORE Institute to Audax Group and Linden Capital Partners in August 2019. Under the ownership of Audax and Linden, The CORE Institute will continue to expand nationally through organic and acquisition efforts.

#### December 2016 - August 2019



**FRAZIER HEALTHCARE PARTNERS**

Seattle, Wash.  
Fund size \$782M  
AUM \$4.2B

Firm focused on investing in companies in the pharmaceutical, healthcare services, medical products, and biotechnology sectors

**Select Portfolio Companies**



**U.S. RENAL CARE**



**UNITED DIGESTIVE**



**SOLIS Mammography**



**UNITED DERMPARTNERS**

#### August 2019 - Present



**Audax Group**

Boston, Mass.  
Fund size \$3.5B  
AUM \$16B

Early investor in PPM, including first PE investor in dermatology, GI, urology, and OB/GYN sectors

**Select Portfolio Companies**



**AXIA WOMEN'S HEALTH**



**ADVANCED DERMATOLOGY & COSMETIC SURGERY**



**GASTRO HEALTH**



**UNITED UROLOGY GROUP**



**LINDEN**

Chicago, Ill.  
Fund size \$1.5B  
AUM \$2.25B

Experienced investor across multi-site healthcare service providers

**Select Portfolio Companies**



**SMILE DOCTORS**



**AVALIGN Technologies**



**SAGE DENTAL**



## Recently Closed Transactions

### Revenue Cycle M&A Pace Remains Strong

Transaction volume in the revenue cycle management (RCM) sector has increased as more companies look to M&A to bolster their product capabilities and reach. In July, iMedX acquired both Prevalent and Axcension, whose combined analytics technologies will allow clients unique insights into their operations and billing functions. In the same month, Healthcare Financial Resources (HFRI) acquired PARA Healthcare Financial Services to expand its RCM capabilities by integrating PARA's front-end reimbursement, pricing, coding and contract management competencies into HFRI's accounts receivable solutions.

In early August, DAS Health announced its acquisition of a Milwaukee-based healthcare conglomerate comprised of WRT Specialties, Easy PC Solutions, EasyMed Billing and Systech Solutions. In the same month, Aquiline Capital Partners-backed Aspirion joined forces with Specialized Healthcare Partners, adding denied and complex claims services and more than 200 hospital clients to the Aspirion platform. In addition, LaSalle Capital invested in Professional Recovery Consultants to help accelerate the company's organic growth through investments in operational and IT infrastructure. These recent transactions highlight the appetite for innovative services and technologies that reduce overall costs from the healthcare system.



### Genetics Players Turn to M&A to Defend Against Larger Labs' Consolidation

Within genetics, many companies have turned to M&A to compete with the efficiency and scale of larger industry rivals. In July, there was a groundbreaking deal **Exact Sciences and Genomic Health merged to form a \$2.8 billion platform** with enhanced scale and scope in cancer diagnostics. There were also several smaller but still notable deals, highlighting how many genetics businesses are seeking to consolidate.

In August, GeneCentric Therapeutics acquired Select ImmunoGenomics, with the combined company now uniquely suited to advance the development of immuno-oncology drugs with a new comprehensive set of RNA-based solutions.

In September, Praesidian Capital acquired a confidential integrated clinical and laboratory services company in the field of genetic medicine focusing on prenatal and hereditary cancer testing. In the same month, MyHeritage acquired Promethease, a DNA-focused literature retrieval service, and SNPedia, a wiki that contains a knowledge base linking genetic variants with medical conditions and traits, to further the company's foothold in consumer genetics services. With larger labs continuing to see growth across various service lines, we expect further investment and consolidation among smaller players to remain competitive in a fast-changing, dynamic industry.



### Pathology M&A Samples Closely Studied

M&A activity within the pathology laboratory space is gaining momentum. In July, LabCorp made an investment in PathAI, an AI-powered provider of technology for use in pathology, to accelerate PathAI's eventual integration with clinical laboratories.

In September, Pritzker Group-backed PathGroup acquired Southeastern Pathology Associates, a six-location anatomical pathology provider with 39 pathologists in Georgia, Florida, and South Carolina. This acquisition strengthens the platforms' presence in the southern United States and brings the total number of providers nationally to over 175. We expect to see additional pathology companies pursue PE partnerships and acquisitive growth strategies, following years of consolidation in other physician services verticals.





## Recently Closed Transactions (cont.)

### Life Sciences Workflow Software M&A Heating Up

The pace of M&A in the life sciences workflow software sector is gaining traction this quarter. In July, Invitae Corp. acquired Andreessen Horowitz-backed Jungla Inc. for approximately \$50 million in both stock and cash. This acquisition will help Invitae's mission to provide high-quality and lower cost genetic testing for use in mainstream medical care.

In August, former Intrepid client, GraphPad, acquired SnapGene, a provider of desktop software designed to assist clinical research workflow. As a function of the transaction, GraphPad formed Insightful Science, a parent entity established to support the company's growing portfolio of brands.

In September, Francisco Partners announced it is buying Orchard Software Corp., a laboratory information services company focused on enhancing clinical and pathology laboratory workflow. As innovation continues in the lab, we expect greater investment and M&A activity in the ecosystem of software and tools that support their missions.



### Continued Laser Focus on Eyecare M&A

Driven by PE-backed and privately-owned providers adopting acquisition-driven growth strategies, consolidation within the eyecare sector continued this quarter. In September, FFL Partners-backed Eyecare Partners purchased Associated Retinal Consultants, a 21-physician retina-focused practice with 16 locations in Michigan. In the same month, Shore Capital-backed EyeSouth acquired Eye Center of North Florida, marking the platform's second acquisition in Florida. Driven by the fragmentation of the sector and an increased prevalence in chronic eye diseases, further consolidation within this area of healthcare is expected with over 20 PE platforms in the sector today.



### Clinical Trials Administration Transactions Gaining Steam

Consolidation within the clinical trials administration space has been bolstered by industry tailwinds and a desire to increase geographic reach and therapeutic focus areas via acquisitions. In August, WIRB-Copernicus Group, backed by Arsenal Capital, announced that its Clinical Services Division would acquire PharmaSeek, a provider of turn-key administrative, consulting, patient recruitment and training solutions for clinical research sites. In the same month, Great Point Partners' VitaLink Research acquired Comprehensive Clinical Trials to expand its women's health-focused clinical trial footprint to patients throughout the Southeast.

In September, Accelerated Enrollment Solutions (AES), a subsidiary of global contract research organization Pharmaceutical Product Development, acquired the clinical research site business of Bioclinica, expanding AES' global footprint across five continents, 20 countries and over 180 research sites.

In October, CNS Networks and Hassman Research Institute merged alongside an investment from Bison Capital Partners to form Apex Innovative Sciences, creating a new independent operator of clinical trial sites focused on complex clinical trial studies for central nervous system indications. With an increase in the spending and number of clinical trials being conducted, the rate of consolidation within the clinical trials administration sector will accelerate to meet rising demand.





## Recently Closed Transactions (cont.)

### Expanding Opportunities in Pharma Services Driving Several Strategic Mergers

M&A activity in the pharma services space is being driven by new and innovative companies proving to be attractive strategic acquisition targets for larger players. In July, PE-backed platforms Caprion Biosciences and HistoGeneX, announced they will merge to create a global leader in immune monitoring and biomarker development.

In August, Precision for Medicine acquired ProMedDx and GLAS, coupling the targets' specimen solutions capabilities with the buyer's global distribution network. As the pharmaceutical industry continues to spend billions on R&D, PE firms will continue to seek strong platforms that can provide value-added solutions that capture some of this massive spend.



### Autism Services Sector Continues Extraordinary M&A Activity

The autism services space continues to be white hot with mega funds increasing their bets on the sector, both with investments in new platforms and add-on acquisitions. In July, KKR-backed Blue Sprig Pediatrics announced its acquisition of Thrive Autism Solutions, a multi-state provider of ABA therapy services to children. In the same month, Norwest Venture Partners made a growth equity investment in Gateway Learning Group, a San Francisco-based provider of ABA therapy to children in 17 counties throughout California.

In August, Kadiant, an ABA provider backed by TPG, acquired Torrance and Sacramento, Calif.-based Behavioral Education for Children with Autism. In the same month, Alternative Behavior Strategies, with operations in California, Utah, and North Carolina, partnered with Morgan Stanley Expansion Capital alongside existing investor Petra Capital Partners.

In late September, Golden Gate Capital acquired Invo Holdings, a provider of ABA therapy with over 2,500 clinicians in 27 states, from its previous PE partner The Jordan Company. In addition, the Stepping Stones Group, an ABA provider backed by Five Arrows Capital Partners, acquired New England ABA in order to increase their national footprint. Industry tailwinds and robust PE interest are poised to continue driving M&A activity in this fragmented sector.







## Select Healthcare Transaction Experience

**MINI PHARMACY & MEDICAL SUPPLIES**  
*Trusted. Caring. Always.*

has been acquired by

**ANGELES EQUITY PARTNERS**

Advisor to Mini Pharmacy

**advicemedia**

has completed a recapitalization and growth financing with

**TREE LINE CAPITAL PARTNERS**

Advisor to Advice Media

**FRONTIER DENTAL LABORATORIES**

has received an investment from

**O2** O2 Investment Partners, LLC

in partnership with management

Advisor to Frontier Dental Laboratories

**a l c**  
AMERICAN LOGISTICS COMPANY

has completed a dividend recapitalization with

**Comerica**

and

**FIFTH THIRD BANK**

Advisor to American Logistics Company

**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

**Science Care**

has received a majority investment from

**American Capital Equity**

Advisor to Science Care

**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\*

**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

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





## 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 physician practice management, diagnostics and labs, revenue cycle management, behavioral health, hospitals, IT, pharmacy, post-acute care, and medical devices. Our team maintains extensive relationships with strategic buyers and institutional investors across these sectors.

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