

Will A Tumultuous Election Cycle Finally Slow Healthcare M&A?

Merger and acquisition activity in the healthcare industry has accelerated throughout 2019, increasing steadily from 385 transactions during the third quarter of 2018 to 468 transactions during the third quarter of 2019. While valuation multiples of EBITDA for M&A transactions remain at historically high levels, they have begun to decrease; however, the values of public healthcare companies continue a three-year climb, and are now at their highest in more than a decade as evidenced by the multiples of publicly-traded companies depicted on the final page of this report.

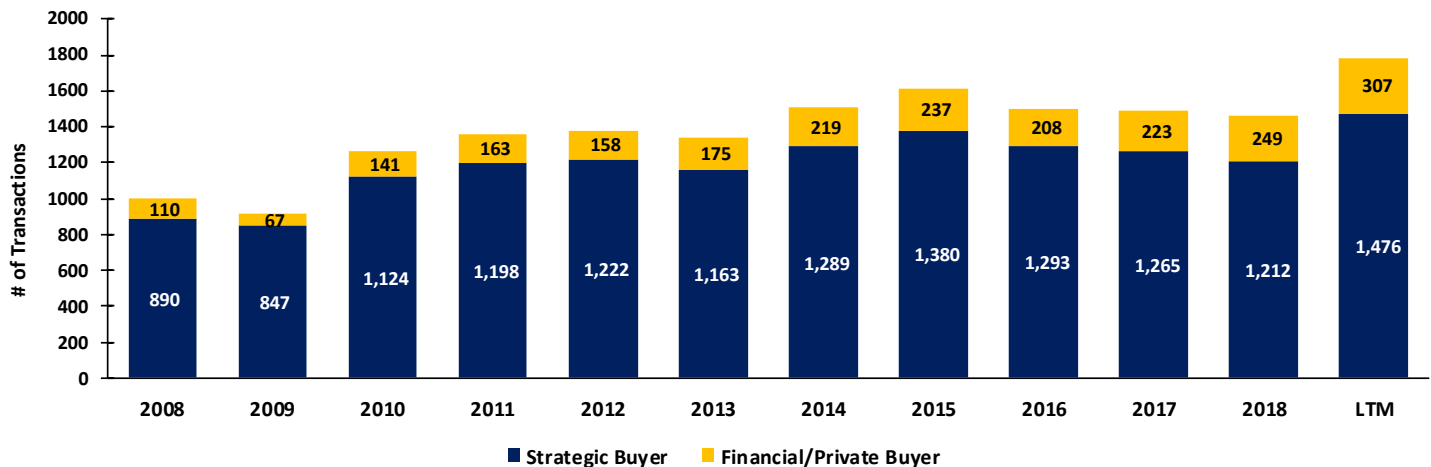
Overall, there were 1,783 M&A transactions in the healthcare industry in the LTM period, up from 1,460 in 2018 and exceeding the 10-year high of 1,617 transactions in 2015. This increase in activity is partly driven by the growing investment in healthcare by private equity firms. As described in several following sector profiles, private equity dollars tend to chase those healthcare niches that offer higher margins, greater private pay opportunities, and less exposure to reimbursement risk. This

leads to greater activity and higher valuation multiples in sub-sectors such as ophthalmology and dermatology compared to other physician specialties, and addiction treatment and autism programs compared to full-service behavioral health clinics.

While most other industry sectors are keeping a watchful eye out for an economic downturn, the historically recession-resistant healthcare M&A market is more likely to slow in mid-2020 as a contentious election unfolds. That said, the demographic tide of aging baby boomers, the need to lower the total cost of care per patient, and a still highly fragmented industry will assure high levels of M&A activity in all sub-sectors by both strategic and financial buyers.

In summary, we expect healthcare M&A activity to remain robust, while transaction valuation multiples continue to slowly fall from historic highs as investors seek lower-risk opportunities in advance of an uncertain election cycle.

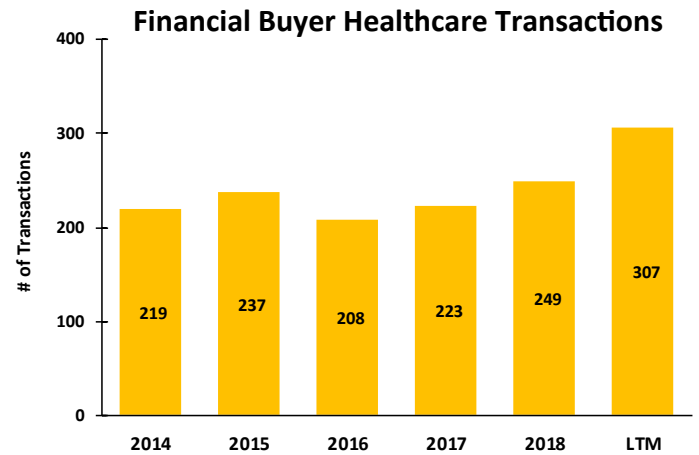
Healthcare Transactions by Year



Source: CapIQ

Increasing Private Equity Activity

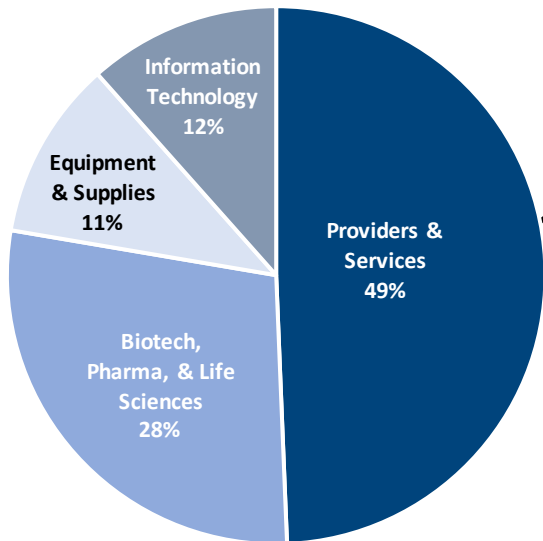
One of the most significant trends impacting the healthcare M&A environment is the ever-increasing investment from private equity firms. Over the LTM period, more than 300 transactions observed by EdgePoint were completed by private equity firms or PE-backed companies. This is not surprising given healthcare offers many appealing characteristics to institutional investors, including high levels of fragmentation, increased spending, and recession resistance. As noted on page 1, private equity firms tend to prefer consumer-friendly, alternative care-delivery models, following the broader market shift away from inpatient care in search of higher margins. Only time will tell if an increasing pool of funds, and a decreasing pool of companies meeting those criteria, will eventually lead private equity firms to the less attractive sectors most in need of the change their investments could bring.



Source: CapIQ

Transactions by Sub-Sector (LTM)

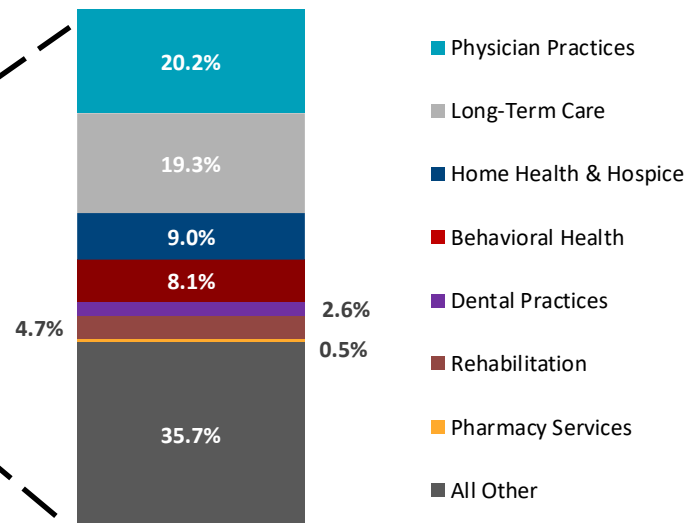
Healthcare Transactions by Sub-Sector (LTM)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

The plurality of transaction activity in the healthcare industry during the last twelve months occurred in the Providers & Services sector (49%). The remaining announced and completed transactions were comprised of Biotech, Pharma, & Life Sciences (28%); Equipment & Supplies (11%); and Information Technology (12%). The share of transactions by sub-sector was weighted towards the Providers & Services sector due to the predominance of consolidation among regional providers in many sub-sectors of the industry. Within the broad Providers &

Providers & Services Transactions by Specialty



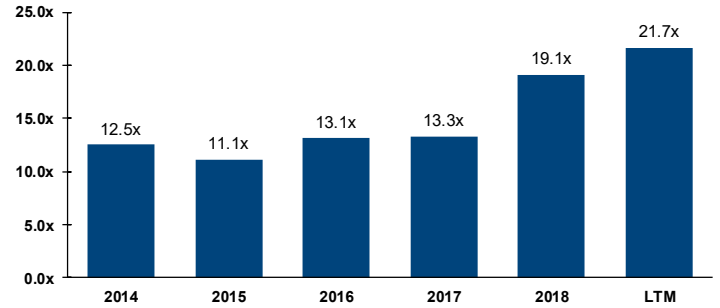
Services sector, EdgePoint noted significant deal activity in the following sub-sectors that are profiled in the remainder of this report: Physician Practices, Long-Term Care, Home Health & Hospice, Behavioral Health, Dental Practices, Rehabilitation, and Pharmacy Services. We've also profiled the Equipment & Supplies sector. Each of these sub-sectors is experiencing rapid consolidation by strategic and financial buyers alike, as healthcare providers seek opportunities to expand geographies, integrate additional services, and improve efficiency.

Home Health & Hospice Sector Profile

Home Health public company valuation multiples remain high relative to other healthcare service providers (see our comparison on page 8), as investors continue to place a premium on those services that lower the total cost of care and are well-positioned to benefit from the demographic tide of baby boomers hitting their 70s. After declining slightly in early 2019, valuation multiples for public companies rebounded to new highs as the Centers for Medicare & Medicaid Services (CMS) announced a reduction in the behavioral adjustment (from 8.01% to 4.36%) included in the Patient-Driven Groupings Model (PDGM).

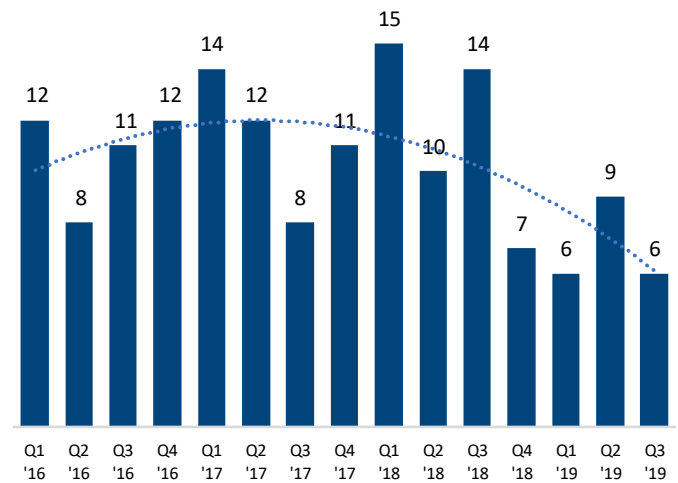
M&A transaction volume for Medicare-certified home health agencies (HHAs) dropped significantly after CMS finalized the new PDGM system in November 2018. Many buyers appeared to take a wait-and-see approach or turned their attention to hospice and personal care agencies. We expect this trend to continue into early 2020; however, by mid-2020, we believe those HHAs who have successfully adapted to the new payment model will go bargain hunting for market share, driving up transaction volume, but also depressing valuation multiples. If you are a regionally strong HHA with a strong management team, a well-defined strategy for managing the transition to PDGM, and a desire to take advantage of the opportunities coming in 2020, now is the right time to present your company to the private equity community as a platform opportunity.

Home Health & Hospice Public Company EV/EBITDA



Source: CapIQ

U.S. Home Health—# Closed Transactions



Source: CapIQ

Notable Home Health & Hospice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
08/26/2019 08/05/2019 11/05/2018	Addus Homecare	Home health and hospice providers	Hospice Partners of America, LLC Alliance Home Health Care, LLC VIP Healthcare Services, Inc	\$130.0 \$24.0 \$28.0	Not disclosed
08/08/2019 05/13/2019 05/06/2019	Care Advantage	Nursing and home care providers	Allegiance Home Care, LLC Coastal Home Care, Inc Capital City Nurses, LLC	Not disclosed	Not disclosed
08/01/2019 07/30/2019 02/26/2019 01/31/2019	LHC Group	Home health and hospice providers	Home & Community-based Services in OH Home Health of VNA of Virginia Home Health of Geisinger Health System Unity Health White County Medical Center	Not disclosed	Not disclosed
07/30/2019 02/19/2019 10/10/2018	Amedisys	Home health and hospice providers	Premier Home Health Care Services, Inc Compassionate Care Hospice Group, Inc RoseRock Healthcare	Not disclosed \$340.0 \$17.5	Not disclosed 12.62x Not disclosed
06/05/2019 05/02/2019	Cornerstone Healthcare	Home health and hospice providers	Preceptor Health Care Resolutions Hospice	Not disclosed	Not disclosed
04/01/2019	Encompass Health Corporation	Alacare Home Health & Hospice	Comprises nursing, rehabilitative, palliative, and hospice care services	\$217.5	Not disclosed

Physician Practice Sector Profile

While health systems and regional providers continue to acquire physician practices across many specialty and primary care areas to meet their local strategic goals, national PE-backed acquirers are primarily focused on those specialties with proportionately less exposure to reimbursement risk, and greater opportunities for higher-margin products and services such as dermatology, ophthalmology, anesthesiology and, more recently, gastroenterology. We are aware of several private equity groups exploring a wide array of other specialties including oncology, orthopedics, psychiatry, and urology, but we have yet to see multiple platform acquisitions in a given specialty initiating the race for add-on deals, as has been witnessed with dentistry, ophthalmology, and dermatology.

Notable Physician Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
09/23/2019 04/02/2019	Gastro Health	Gastroenterology practices	Puget Sound Gastroenterology Southeast Gastroenterology Associates	Not Disclosed	Not Disclosed
09/03/2019 07/22/2019 05/16/2019 05/01/2019	CRH Medical Corporation	Anesthesia practices	Central Colorado Anesthesia Associates Crystal River Anesthesia Associates South Metro Anesthesia Associates Arapahoe Gastro Anesthesia Assoc.	Not Disclosed \$2.1 \$1.8 \$2.3	Not Disclosed
08/15/2019	Audax Management Group	CORE	Center for Orthopedic and Research Excellence	Not Disclosed	Not Disclosed
07/08/2019 05/09/2019 05/07/2019	Pinnacle Dermatology	Medical and surgical dermatology	Bolingbrook Dermatology Doctor's Approach Dermatology Roberts Dermatology Center	Not Disclosed	Not Disclosed

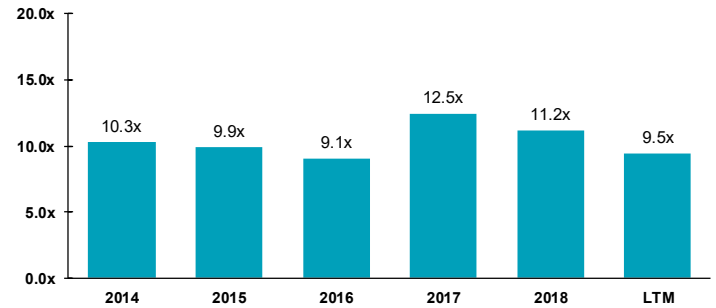
Equipment & Supplies Sector Profile

Companies involved in the manufacture and distribution of medical equipment and supplies accounted for more than one of every ten healthcare transactions over the past twelve months. Transaction value multiples, like those of public companies in this sector, remain strong at over 15x EBITDA, reflecting not only ongoing consolidation but also high multiples paid for new or proprietary technologies. We anticipate transaction volume and valuation multiples will remain elevated for the foreseeable future, as the need to decrease cost and improve outcomes drives innovation.

Notable Equipment & Supplies Transactions

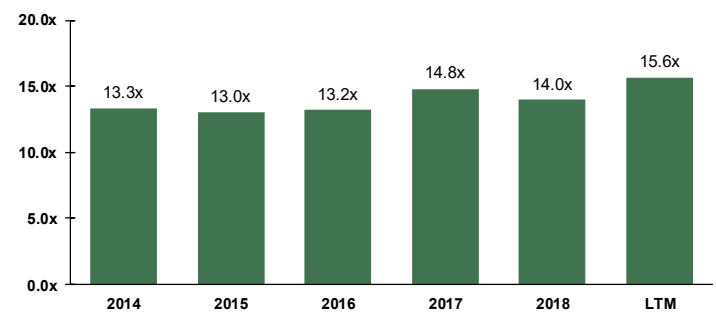
Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
09/09/2019 07/29/2019	Integra LifeSciences Holdings Corp.	Surgical tools and supplies	Rebound Therapeutics Corp. Arkis BioSciences, Inc.	\$102.1 \$56.1	Not Disclosed
09/04/2019	Stryker Corporation	Mobius Imaging, LLC	Manufacturer of CT imaging scanner	\$500.0	Not disclosed
07/30/2019	Cantel Medical Corporation	Hu-Friedy Manufacturing Company	Designs, manufactures, and distributes dental instruments	\$775.0	16.2x
05/02/2019	3M Company	Acelity, Inc.	Wound care and regenerative medicine	\$6,725.0	15.3x

Physician Practice Public Company EV/EBITDA



Source: CapIQ

Equipment & Supplies Public Company EV/EBITDA

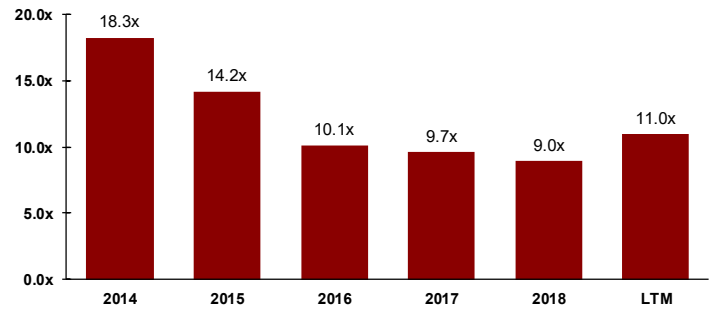


Source: CapIQ

Behavioral Health Sector Profile

Behavioral healthcare continues to be an active sector for M&A transactions. For example, over the past 12 months, EdgePoint observed 71 behavioral health transactions, with over one-third of those related to the acquisition of clinics that specialize in addiction recovery. Clinics serving children with autism or developmental disabilities were also favored targets for acquisition with 14 completed transactions over the twelve-month period ending September 30, 2019. We expect this focus on higher-margin niche services to continue; however, we also expect to see more health systems acquire or partner with behavioral health clinics, given the importance of integrating behavioral health with medical care to maintain good community health at a reasonable cost.

Behavioral Health Public Company EV/EBITDA



Source: CapIQ

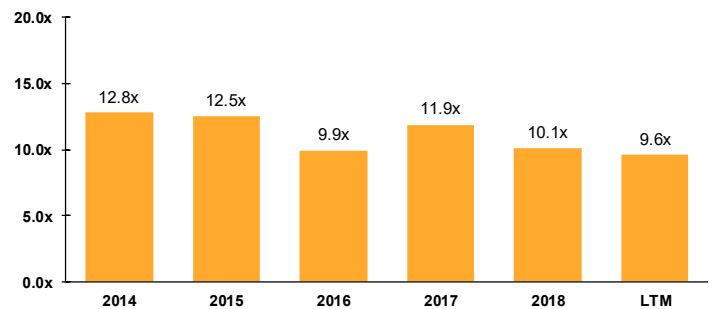
Notable Behavioral Health Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
09/24/2019 09/24/2019	Mark David Levine, MD Psychiatrists PC	Psychiatry and transcranial magnetic stimulation	Calabasas Behavioral Health and TMS Gelbart and Associates	Not Disclosed	Not Disclosed
07/19/2019 06/16/2019	AppleGate Recovery	Medication assisted treatment centers	KSPS Medical Consultants A.M.C. Nashville	Not Disclosed	Not Disclosed
07/11/2019 04/16/2019	Blue Sprig Pediatrics	Autism therapy clinics	Thrive Autism Solutions West Texas Autism Center	Not Disclosed	Not Disclosed
05/01/2019 11/05/2018	Acadia Healthcare	Drug and alcohol rehabilitation	Bradford Recovery Center Mission Treatment Services	\$4.5 \$22.5	Not Disclosed

Pharmacy Services Sector Profile

With only four recorded transactions in the past year, pharmacy services M&A activity is modest compared to other sectors due to the rapid consolidation of pharmacy providers that has already occurred over the past decade. Serial acquirers such as Omnicare and PharMerica were acquired themselves during 2015–2017, which significantly reduced the number of active buyers in the industry. We believe the entrance of Frazier Healthcare Partners portends a renewed interest in pharmacy services on the part of the private equity community, at least for institutional and specialty pharmacy.

Pharmacy Services Public Company EV/EBITDA



Source: CapIQ

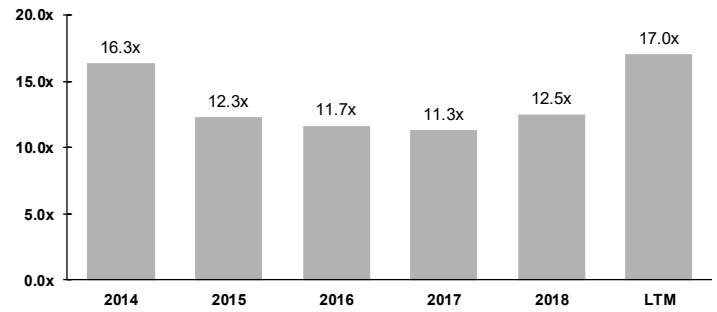
Notable Pharmacy Services Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
04/16/2019	Frazier Healthcare Partners	Comprehensive Pharmacy Services	Provides general and specialty pharmacy services, primarily to hospitals	Not Disclosed	Not Disclosed
01/15/2019	Trive Capital	Cochran Wholesale Pharmaceutical	Generic wholesale pharmaceutical distributor based in Monroe, GA	Not Disclosed	Not Disclosed
10/17/2018	Walgreens	MI Pharmacy	Rx operations of McLaren Health Care	Not Disclosed	Not Disclosed
10/04/2018	NuGenerex Diagnostics	Veneto Holdings	Provides specialty pharmacy services	\$38.8	Not Disclosed

Long Term Care Sector Profile

M&A activity in the long-term care sector increased from approximately 25 transactions per quarter in 2018 to nearly 50 per quarter through nine months of 2019. The increase is a result of smaller providers seeking safe havens prior to the implementation of the new Medicare Patient-Driven Payment Model (PDPM), which took effect October 1, 2019. The Ensign Group was particularly active, completing 12 transactions in the past six months. Valuation multiples for publicly-traded long-term care companies are at their highest level in five years, reflecting expectations that larger companies will be better able to adjust to PDPM and acquire small providers at favorable prices.

Long Term Care Public Company EV/EBITDA



Source: CapIQ

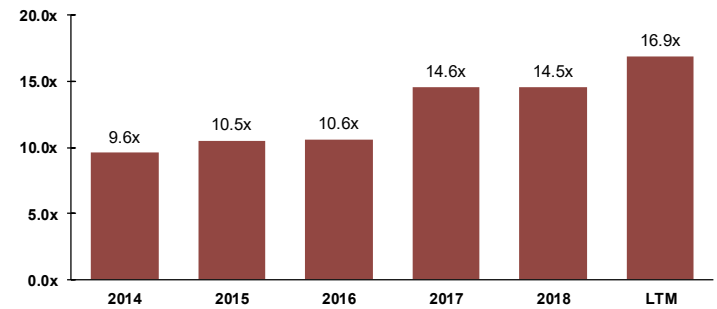
Notable Long-Term Care Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
09/24/2019		1 AL	Vista del Lago	\$12.5	
07/01/2019	CareTrust REIT	1 SNF	SNF in Nampa, ID	\$12.8	Not disclosed
05/03/2019		1 SNF	Lakewest Rehabilitation & Skilled Care	\$10.0	
09/04/2019 to 11/01/2018	The Ensign Group	Skilled nursing and assisted living	Q3 2019—7 transactions—6 SNFs, 2 ALS Q2 2019—5 transactions—5 SNFs, 4 ALS Q1 2019—1 transaction—1 SNF Q4 2018—2 transactions—2 SNFs, 1 AL	Not disclosed	Not disclosed
08/06/2019	Omega Healthcare Investors	58 SNFs and 2 ALs	Portfolio of skilled nursing and assisted living centers	\$735.0	Not disclosed
07/31/2019	KKR & Co.	Benchmark Senior Living	Portfolio of assisted living properties	\$1,850.0	Not disclosed

Rehabilitation Sector Profile

According to the U.S. Physical Therapy Investor Presentation, there are over 16,000 outpatient clinics in the United States with no provider owning more than 10% market share. Due to this high fragmentation and increased spending on rehabilitation services as a result of an aging population, this sector continues to be an attractive market for investors. Transaction volume for 2019 is on pace to double that of 2018. This volume is driven by companies like CORA Health Services which completed four acquisitions thus far in 2019, and PHOENIX Rehab & Health Services which completed its first add-on after being acquired by Audax Group in December 2018.

Rehabilitation Public Company EV/EBITDA



Source: CapIQ

Notable Rehabilitation Transactions

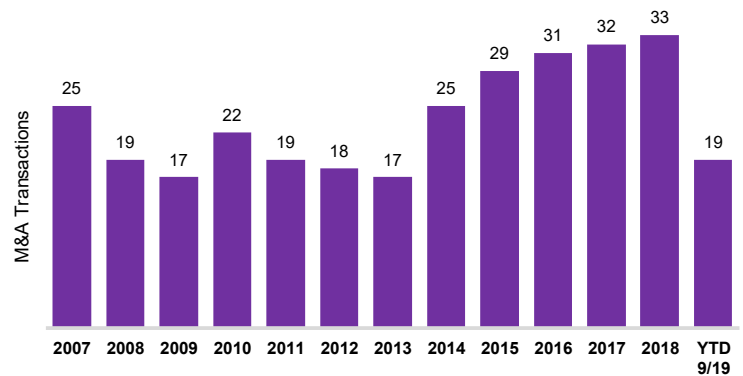
Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
09/05/2019	Phoenix Rehabilitation & Health Services	Black Mountain Physical Therapy	Provides physical therapy services	Not disclosed	Not disclosed
07/06/2019 05/30/2019 05/30/2019 05/30/2019	CORA Health Services	Physical therapy clinics	Orthopedic and Sports Therapy Institute Coastal Physical and Hand Therapy Dynamic Physical Therapy of Florence Elite Physical Therapy of St. Louis	Not disclosed	Not disclosed
04/30/2019	Advanced Medical Personnel Services	AMN Healthcare	Provides PT, OT and SLP staffing	\$220.0	11.6x
04/05/2019	Ridgmont Equity Partners	The Speech Pathology Group	Provides speech and language services for adults and children in California	Not disclosed	Not disclosed

Dental Practice Sector Profile

The pace of dental practice transactions, which had been steadily increasing since 2013, appears to have slowed in 2019, but still had a robust 19 recorded transaction through September. Private equity investment in dental service organizations (DSO) continues to drive M&A activity in the dental sector. Even though this industry consolidation strategy originated more than 20 years ago, the sector remains highly fragmented. Fewer than 9% of all dentists, and 18% of dentists under 35 years of age, are associated with a DSO (American Dental Association). This level of fragmentation, combined with consumer spending on dental services that is expected to grow at nearly 5% per year until 2025, creates a strong landscape for continued M&A activity in the dental sector.

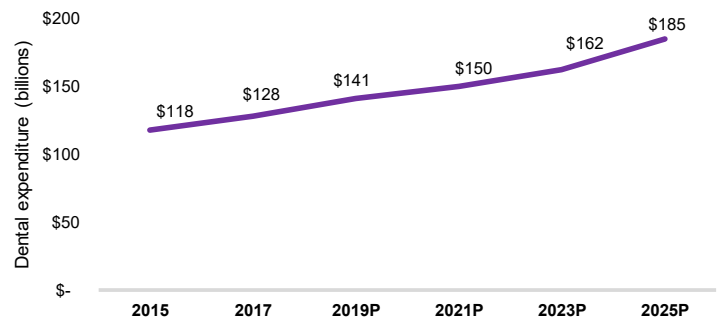
While market activity for the direct acquisition of small groups, and even solo dental practices, remains vigorous, we are also seeing an acceleration of secondary roll-up activity. Larger players like CORDENTAL Group are acquiring smaller DSOs such as AppleWhite Dental Partners, while more mature holdings like Abry Partners' North American Dental Group (NADG) are being sold, at least in part, to other private equity groups. In this case, Jacobs Holding AG, headquartered in Switzerland, has "embarked on a journey to create the leading global dental service organization" by adding NADG to its pan-European DSO holding, Colosseum Dental Group. While it seems unlikely new platforms will emerge, there can be little doubt the race for high-quality add-ons will keep transaction volume at historic highs.

Dental Practice Transactions by Year



Source: CapIQ

Increasing Dental Expenditures



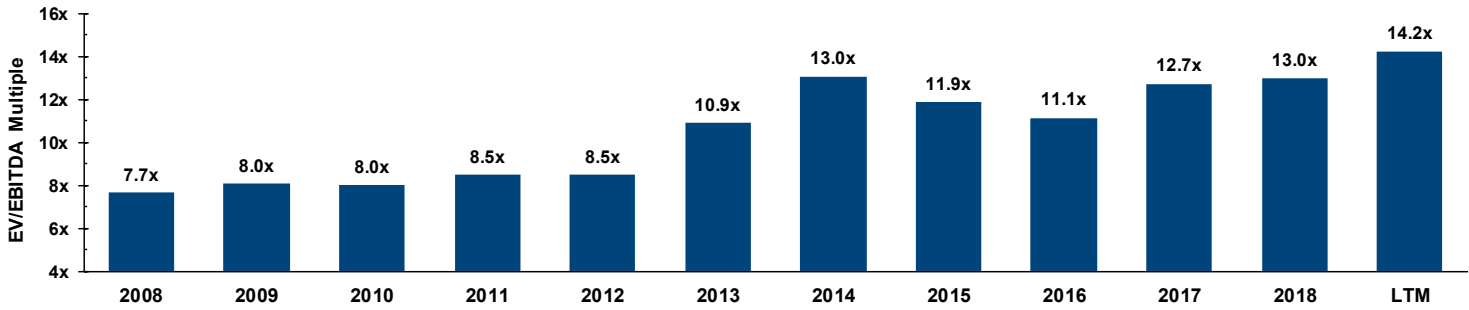
Source: American Dental Association

Notable Dental Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
08/28/2019	Smile Brands Inc.	Santa Maria office Calif. Dental Group	General dental care services	Not disclosed	Not disclosed
08/16/2019	Jacobs Holding AG	North American Dental Group	Provides general dental care and multiple specialty services under various brands	Not disclosed	Not disclosed
08/15/2019	42 North Dental, LLC	All Dental Holding & Management Co.	General dental care services	Not disclosed	Not disclosed
08/01/2019	Smile Brands Inc.	Culebra North Dental Care	General dental care services	Not disclosed	Not disclosed
06/03/2019	CORDENTAL Group	AppleWhite Dental Partners	Offers dental management services for practices in IA, MO, MN, WI and IL	Not disclosed	Not disclosed
05/16/2019	42 North Dental, LLC	Northborough Dental Associates	General dental care services	Not disclosed	Not disclosed
04/18/2019	Surge Private Equity	Access Dental Mgmt / LaCosta Dental Mgmt	General dental care services	\$30.0	Not disclosed

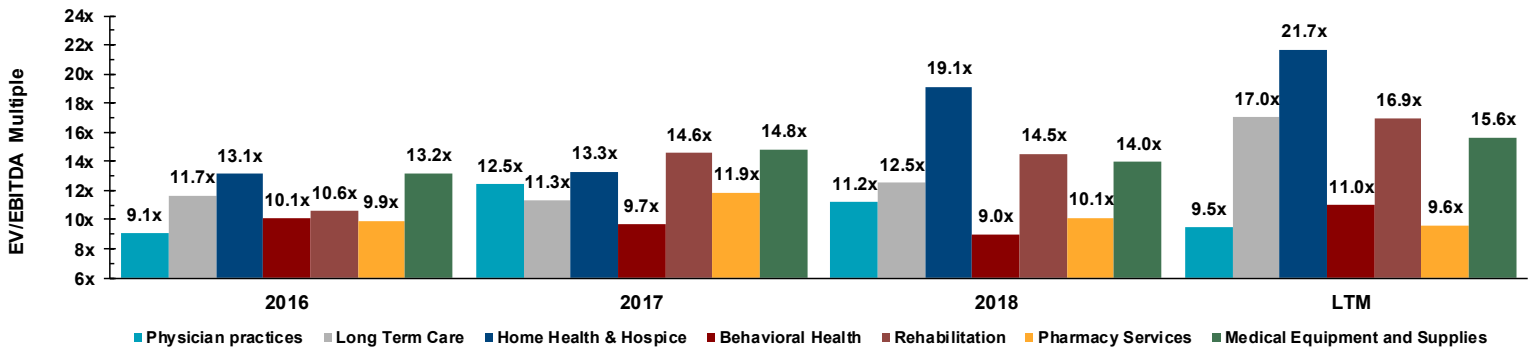
Public Company Comparisons Trading Multiples

Healthcare Industry Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of September 30, 2019

Healthcare Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of September 30, 2019

Representative EdgePoint Healthcare Transactions

<p>Sell-Side Advisory</p> <p>Gastroenterology of Greater Orlando has sold to an Undisclosed Private Equity Group</p>	<p>Sell-Side Advisory</p> <p>Savannah BPHARM Broughton Pharmaceuticals has sold to SL Group</p>	<p>Financing Advisory</p> <p>The Fibromyalgia & Fatigue Center has successfully completed a capital raise</p>	<p>Sell-Side Advisory</p> <p>STERIS Select Assets of Steris AB has sold to An Undisclosed Private Company</p>
<p>Buy-Side Advisory</p> <p>Med XS Solutions has acquired Health Quip, LLC</p>	<p>Sell-Side Advisory</p> <p>Providence Home Health Care has sold to A Private Equity Group</p>	<p>Sell-Side Advisory</p> <p>TransMotion Medical has sold to Winco Mfg., LLC</p>	<p>Sell-Side Advisory</p> <p>Accu-Tube has sold to Washington Equity Partners</p>



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

