

Has Healthcare M&A Already Turned the COVID-19 Corner?

Merger and acquisition activity in the healthcare industry continued its torrid pace in the second half of 2019, driving the annual total to a decade-high 1,829 transactions. In our last report (Q2 | Q3 2019), we predicted this pace would continue through at least the first quarter of 2020, before being slowed by a contentious election year cycle and an uncertain regulatory future. Little did we know that a once-in-a-century pandemic would soon wreak havoc on the U.S. health system as perhaps no election or recession ever had.

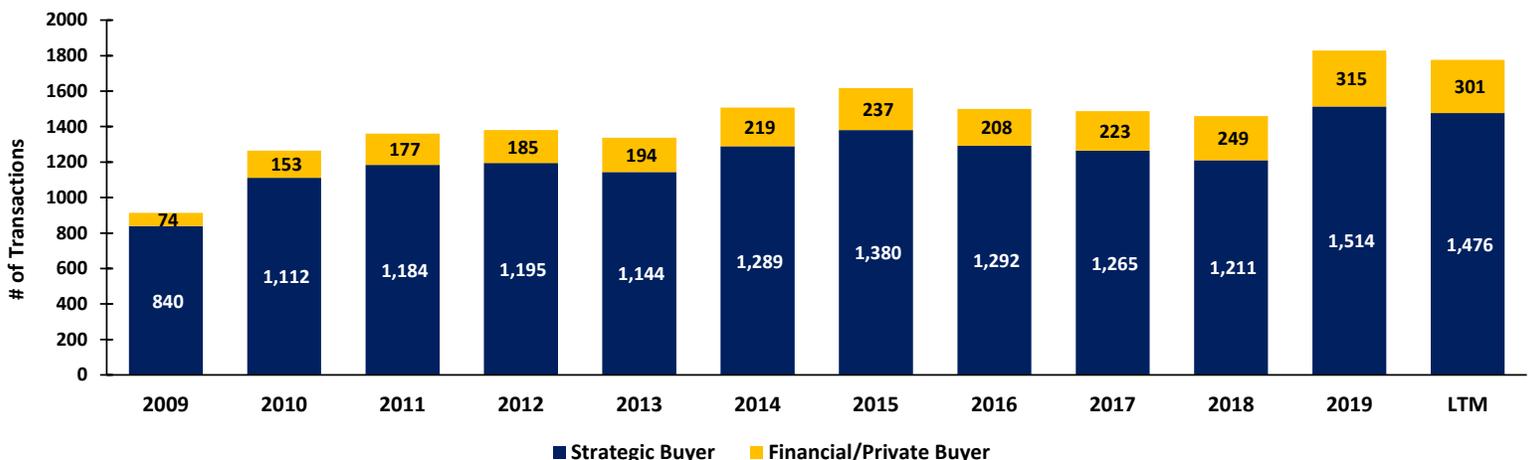
Investors have long viewed healthcare as a recession-resistant safe haven, and private equity has aggressively pursued specialties such as dental, dermatology, and ophthalmology - niches that offer higher margins, greater private pay opportunities, and less exposure to reimbursement risk. Alas, it was these sectors that were hardest hit as a rapid succession of governors and state health directors issued stay-at-home orders to “flatten the curve” and restricted elective procedures in an effort to conserve personal protective equipment (PPE).

Publication of this report was delayed to allow EdgePoint to gather additional transaction data for April and May and to understand the recent trends better. As the chart on the following page illustrates, healthcare M&A volume appears to have hit bottom in April and then transaction activity experienced a slight rebound in May, led by the BioTech, Pharma, & Life Sciences sector. After dropping precipitously from its high in January, transaction volume for the Providers & Services sector appears to have stabilized as a continuing decline in transactions involving physicians is offset by increases in other subsectors.

Outside a few exceptions described later in this report, we anticipate that transaction volume will remain soft but stable as the upward momentum of a restarting economy is mitigated by the uncertainty of the upcoming election. However, the demographic tide of aging baby boomers, the need to adapt to a post-pandemic world, and a still highly fragmented industry will assure high levels of M&A activity in all subsectors by both strategic and financial buyers in years to come.

Healthcare Transactions by Year

(Strategic Buyers Include Private Equity Owned Companies)



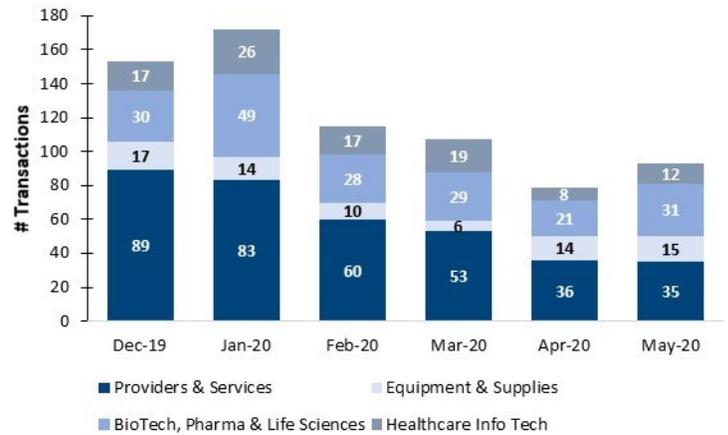
Source: CapIQ

Impact of the COVID-19 Pandemic

After climbing to its highest point of the last 12 months in January, healthcare M&A transaction volume plummeted 33% in February and more than 54% overall by April. The decline was broad-based as Providers & Services, BioTech, Pharma & Life Sciences, and Healthcare Information Technology all declined more than 50% from January to April.

As evidence mounted in early May that the “flatten the curve” strategy had successfully prevented the U.S. health system from being overwhelmed and attention turned toward reopening the economy, buyers started closing on deals that had been put on hold in February and March. At least that was true within the BioTech, Pharma, & Life Sciences, and Information Technology sectors, the two sectors furthest removed from direct patient care. Conversely, the Providers & Services sector is expected to rebound more slowly, with some subsectors likely to decline further first.

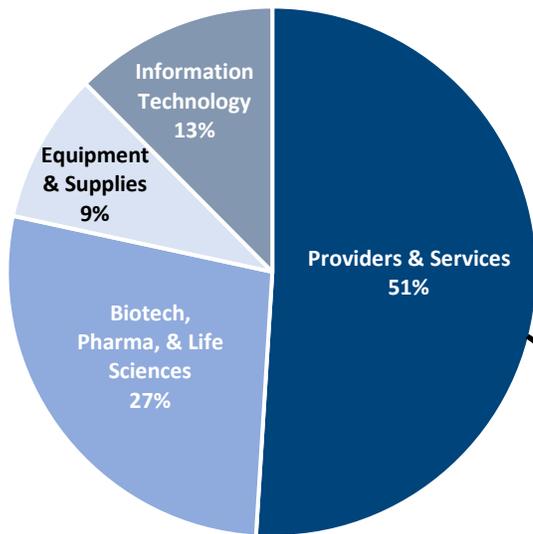
Healthcare Transactions—Last 6 Months



Source: CapIQ

Transactions by Sector (LTM)

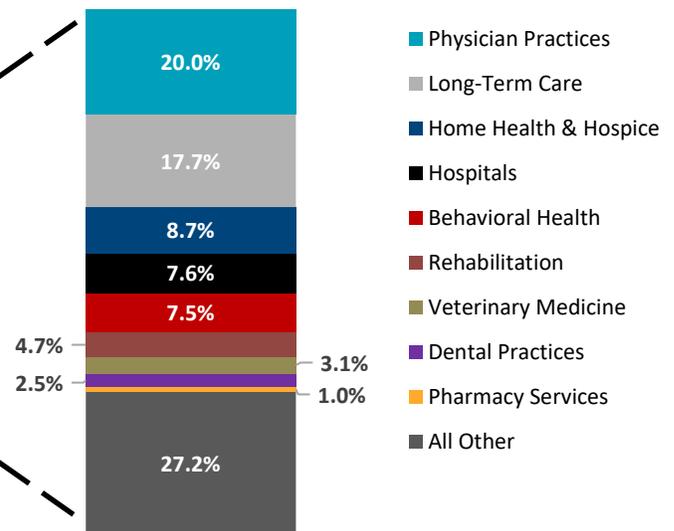
Healthcare Transactions by Sector (LTM)



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

Most transaction activity in the healthcare industry during the last twelve months occurred in the Providers & Services sector (51%). The remaining announced and completed transactions were comprised of Biotech, Pharma, & Life Sciences (27%); Equipment & Supplies (9%); and Information Technology (13%). The share of transactions by sector was weighted towards the Providers & Services sector due to the predominance of consolidation among regional providers in many subsectors of the industry. Within the broad Providers & Services sector, EdgePoint noted significant deal activity in the following subsectors

Providers & Services Transactions by Subsector

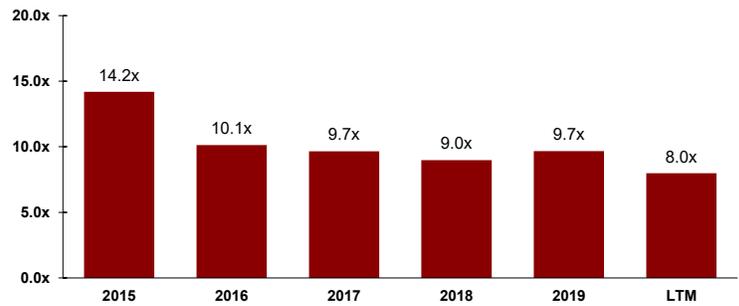


that are profiled in the remainder of this report: Behavioral Health, Physician Practices, Home Health & Hospice, Pharmacy Services, Long-Term Care, Rehabilitation, Dental Practices, and Veterinary Medicine. We have also profiled the Equipment & Supplies sector. Each of these subsectors is experiencing rapid consolidation by strategic and financial buyers alike, as healthcare providers seek opportunities to expand geographies, integrate additional services, and improve efficiency. Transactions involving hospitals have also been active, but they are not profiled in this report.

Behavioral Health Sector Profile

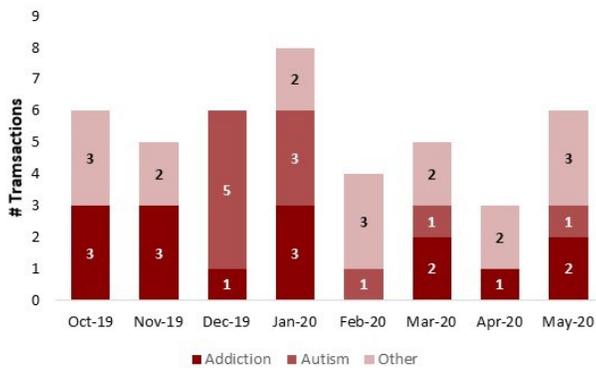
Behavioral Health continues to be an active sector for M&A transactions, consistently delivering five or more transactions each month. For the six-month period ended in March, there were 34 transactions, with 12 of them related to the acquisition of clinics that specialize in addiction recovery. Clinics serving children with autism or developmental disabilities were also favored targets for acquisition with 10 completed transactions over the past six months. 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



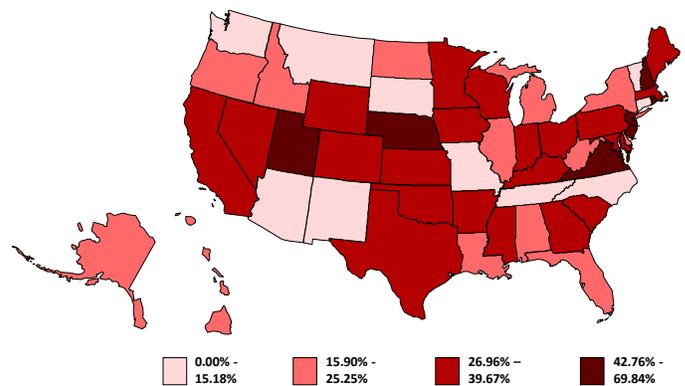
Source: CapIQ

Behavioral Health Transactions



Source: CapIQ

Mental Health % Need Met



Source: Kaiser Family Foundation

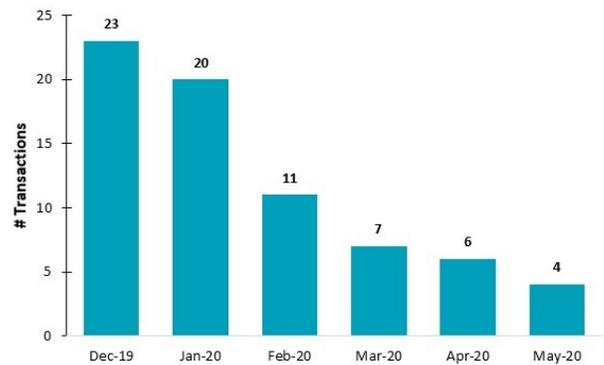
Notable Behavioral Health Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/23/2020	Refresh Mental Health, Inc.	Cielo House	Eating disorder treatment center	Not Disclosed	Not Disclosed
03/05/2020	Discovery Behavioral Health	Addiction treatment centers	New Hope Ranch, LLC	Not Disclosed	Not Disclosed
01/07/2020			Associated Behavioral Healthcare, Inc.		
11/15/2019			Authentic Recovery Center		
10/22/2019			New Life Addiction Counseling Services		
02/28/2020	Bay Psychiatric Associates	Lennox Hill TMS Psychiatric Assoc.	Psychiatric services and treatment for depression including TMS	Not Disclosed	Not Disclosed
01/30/2020	Acorn Health	ABA centers for children with autism	Macomb Center	Not Disclosed	Not Disclosed
12/09/2019			Behavior Therapy Specialists of IL & MO		
01/24/2020	Summit Behavioral Healthcare, LLC	PEAK Behavioral Health Services	Hospital and residential treatment Center in New Mexico	Not Disclosed	Not Disclosed
01/23/2020	Pinnacle Treatment Centers, Inc.	Aegis Treatment Centers, LLC	Network of clinics that provide outpatient narcotic treatment services	Not Disclosed	Not Disclosed
12/13/2019	Regal Healthcare Capital Partners	Kidz Therapy, Inc.	Evaluation and behavioral healthcare services for infants and children	Not Disclosed	Not Disclosed
12/05/2019	New MainStream Capital	Center for Social Dynamics, LLC	Programs include applied behavior analysis and adult transition	Not Disclosed	Not Disclosed

Physician Practice Sector Profile

M&A transactions involving Physician Practices hit a new high in December 2019 and remained active in January 2020. The reaction to COVID-19 was swift and deep as transaction volume dropped nearly 50% in February. Unlike Pharma and IT, the Physician Practice sector continued to decline through May, eventually falling more than 80% off the peak. Private equity buyers remain hesitant to close deals as patient volumes within their favored subsectors, dermatology, ophthalmology, and gastroenterology, remain soft. Meanwhile, other frequent buyers, hospitals and health systems, are experiencing significant operating losses as a result of the pandemic. We expect transaction activity to climb as patient volumes climb over the next 12 to 18 months.

Physician Practice Transaction Trend



Source: CapIQ

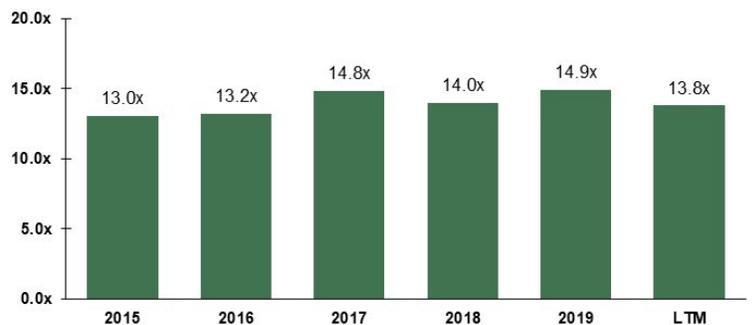
Notable Physician Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/03/2020	Webster Equity Partners	Retinal Consultants Medical Group, Inc.	Provides diagnosis and treatment of diseases of the retina and vitreous	Not Disclosed	Not Disclosed
02/24/2020 02/14/2020 12/04/2019	Banner Health	Anesthesia practices	Arizona Vascular Surgery Consultants, PC The Orthopedic Clinic Association, PC Phoenix Orthopaedic Consultants, PC	Not Disclosed	Not Disclosed
02/12/2020	Sun Capital Partners	West Dermatology Med Management	Dermatology provider in California	Not Disclosed	Not Disclosed
01/14/2020	Optum, Inc.	4c Medical Group	Multi-specialty physician group	Not Disclosed	Not Disclosed
01/07/2020	Bright Health, Inc.	Universal Care, Inc.	Multi-specialty medical and dental group	\$280.0	Not Disclosed

Equipment & Supplies Sector Profile

Companies involved in the manufacture and distribution of medical equipment and supplies accounted for nearly one of every 10 healthcare transactions over the past 12 months. Transaction volume in this sector rebounded more rapidly than other sectors, returning to pre-COVID levels in April and holding steady in May. Public company valuation multiples also remain strong, reflecting continually strong demand for products despite disruption to the supply chain as a result of the pandemic. We expect this sector to remain stable for the remainder of 2020 and to renew its upward trend in 2021.

Equipment & Supplies Public Company EV/EBITDA



Source: CapIQ

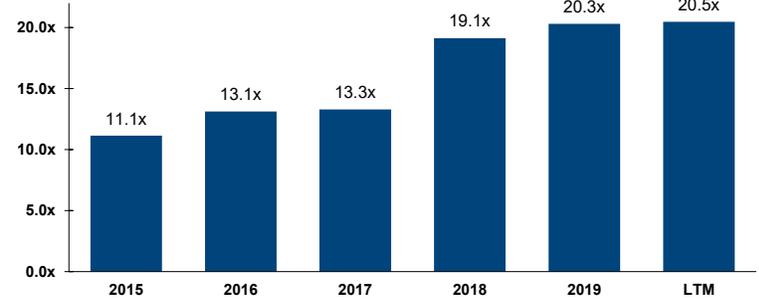
Notable Equipment & Supplies Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
02/11/2020	Incline Management	ASP Global, LLC	Wholesaler of medical supplies for large distributors and smaller hospital systems	Not Disclosed	Not Disclosed
01/06/2020 01/06/2020	Anika Therapeutics	Orthopedic devices and supplies	Arthrosurface, Inc. Parcus Medical, LLC	\$100.0 \$95.0	Not disclosed
12/09/2019	AdaptHealth Corp.	Advanced HomeCare, Inc.	Home medical equipment business	\$67.5	0.81x revenue
10/21/2019	Carlisle Companies	Providien, LLC	Manufactures and supplies medical devices and solutions	\$332.1	3.29x revenue

Home Health & Hospice Sector Profile

Home Health public company valuation multiples remain high relative to other healthcare service providers, and to historical valuations (see our comparison on page 8). Investors continue to place a premium on services that lower the total cost of care, are well-positioned to benefit from the demographic tide of baby boomers hitting their 70s, and cater to patients who are thinking twice about entering a nursing home due to COVID-19 related concerns. We anticipate that transaction volume will remain suppressed for the remainder of the year as agencies continue to adapt to a new reimbursement system, and serial acquirers seek to gain market share without having to pay for it, as smaller agencies struggle with the aftermath of the COVID-19 pandemic.

Home Health & Hospice Public Company EV/EBITDA



Source: CapIQ

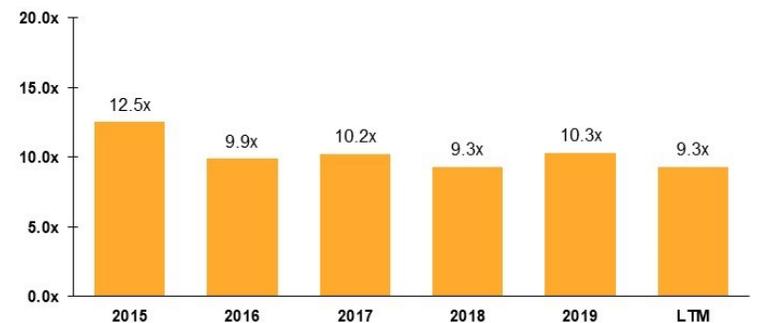
Notable Home Health & Hospice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/19/2020 03/19/2020 03/19/2020	Caregiver, Inc	Home health services	Absolute Care Cori Care, Inc. Personal Care Choices	Not disclosed	Not disclosed
12/03/2019 12/03/2019 10/18/2019	Care Finders Total Care	Home health and hospice providers	Philadelphia Home Care Agency, Inc. At Home Quality Care DanielCare Caring Choice, LLC	Not disclosed	Not disclosed
12/23/2019 11/19/2019	Traditions Health, LLC	Hospice providers	Guiding Hospice Inc Pathways Hospice, PLLC	Not disclosed	Not disclosed

Pharmacy Services Sector Profile

Pharmacy Services M&A activity has been modest recently with transactions occurring in only six of the past 12 months; however, there have been eight transaction in the six-month period from December 2019 through May 2020. The spur in activity includes Costco acquiring a large minority stake in a pharmacy benefit management company, and investments in specialty pharmacy services by two large insurers. After acquiring Diplomat, a distributor of specialty medications, in December, Optum added a provider of pharmacy discount cards in January. Similarly, Humana completed the acquisition of Enclara Pharmacia, the largest provider of pharmacy services to hospices in the United States, in January.

Pharmacy Services Public Company EV/EBITDA



Source: CapIQ

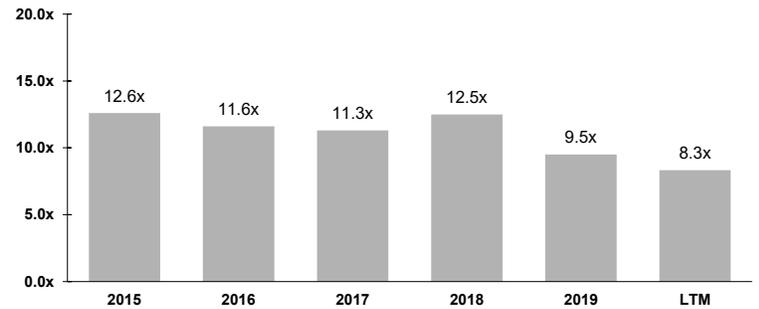
Notable Pharmacy Services Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/03/2020	Costco	Navitus Health Solutions, LLC	Pharmacy benefits management company	Not Disclosed	Not Disclosed
01/14/2020 12/09/2019	OptumRx, Inc.	Pharmacy Services Specialty Pharmacy	Script Relief, LLC Diplomat Pharmacy, Inc.	Not Disclosed \$906	Not Disclosed 14.7x
01/02/2020	Humana	Enclara Pharmacia, Inc.	Specializing in hospice pharmacy services	Not Disclosed	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 45 in 2019. The increase appeared to be a result of smaller providers seeking safe havens prior to the implementation of the new Medicare Patient-Driven Payment Model (PDP), which took effect October 1, 2019. The Ensign Group was particularly active, completing 17 transactions in 2019, and it remained active in early 2020. Transaction volume dipped significantly in March and April as the tragic impact of COVID-19 on senior facilities filled media reports; however, the long-term care M&A market is showing signs of rebounding, with eight transactions closing in May.

Long Term Care Public Company EV/EBITDA



Source: CapIQ

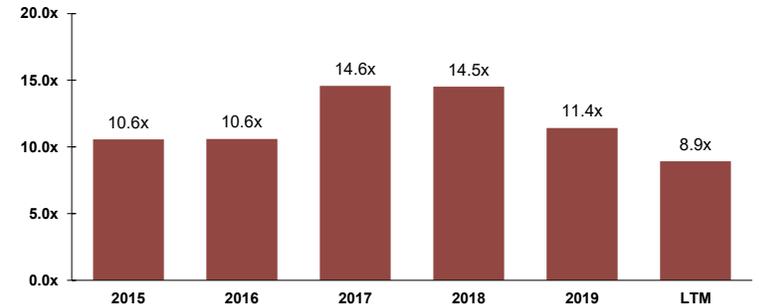
Notable Long-Term Care Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
LTM Ended 3/31/2020	The Ensign Group	Skilled nursing and assisted living	Q1-2020—2 transactions—2 SNFs, 1 AL Q4 2019—4 transactions—11 SNFs Q3 2019—7 transactions—6 SNFs, 2 ALS Q2 2019—5 transactions—5 SNFs, 4 ALs	Not disclosed	Not disclosed
02/24/2020 02/24/2020 02/24/2020 11/25/2019	Sabra Health Care REIT, Inc.	Assisted living centers	The Monarch at Richardson Elan Westpointe in Texas Traditions of Beaumont Cadence at Poway Gardens	\$13.6 \$25.8 \$24.1 \$18.6	Not disclosed
02/12/2020 01/30/2020 01/24/2020	Tryko Partners, LLC	Skilled nursing facilities	Lutheran Home At Moorestown Inc Oak Ridge Rehab and Nursing Center Roosevelt Rehab and Healthcare Center	Not disclosed	Not disclosed

Rehabilitation Sector Profile

Private equity consolidators continued to be active in the latter part of 2019 and early part of 2020, with CORA Healthcare Services (Gryphon Investors) completing its fifth acquisition of 2019, PHOENIX Rehabilitation completing its third add-on since being acquired by Audax in December 2018, and Grant Avenue jumping in by acquiring the rehab portfolio of HCR ManorCare. Rehabilitation practices were hit particularly hard by COVID-19 as elective surgeries were restricted to conserve PPE. Other than bargain-hunting, we anticipate it may be mid-2021 before transaction volume rebounds fully.

Rehabilitation Public Company EV/EBITDA



Source: CapIQ

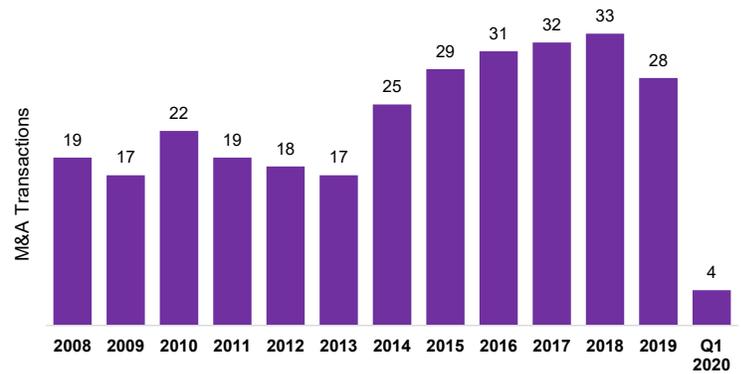
Notable Rehabilitation Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
02/04/2020	Grant Avenue Capital, LLC	Heartland Rehabilitation/Milestone Staffing Services	Combined outpatient rehab services as well as staffing services, acquired from HCR ManorCare	Not disclosed	Not disclosed
01/15/2020 01/01/2020	PHOENIX Rehabilitation and Health Services, Inc.	Physical, speech, and occupational therapy companies	TuDor Physical Therapy Physical Therapy Etc.	Not disclosed	Not disclosed
10/02/2019	CORA Health Services, Inc.	Blacksburg Physical Therapy Associates, Inc.	General physical therapy, 5th acquisition by CORA in the last 18 months	Not disclosed	Not disclosed
10/01/2019	U.S. Physical Therapy, Inc. (NYSE:USPH)	Eleven Clinic Physical Therapy Practice	General physical therapy practices, 2.78x revenue multiple	\$12.3	Not disclosed

Dental Practice Sector Profile

The growing pace of Dental Practice M&A activity was severely interrupted by COVID-19, but it is expected to pick up steam as dental practices reopen. Private equity-backed DSOs continue to drive transaction volume, capitalizing on the still highly fragmented nature of the industry (fewer than 9% of dentists, and 18% of dentists under 35 years of age, are associated with a DSO, per the American Dental Association). This level of fragmentation, combined with consumer spending on dental services, which is expected to grow at nearly 5% per year until 2025, creates a strong landscape for continued M&A activity in the dental sector, especially for practices that can quickly return to historical volume levels.

Dental Practice Transactions by Year



Source: CapIQ

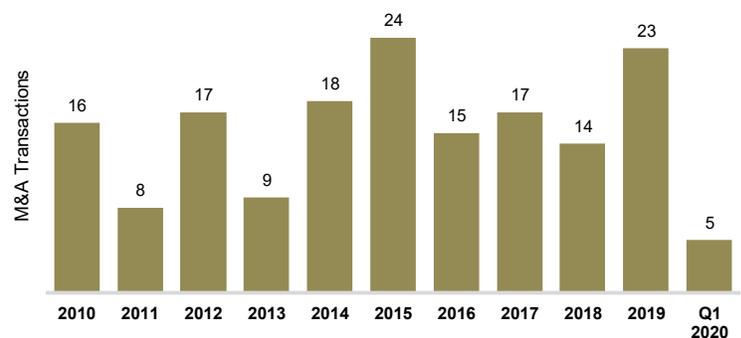
Notable Dental Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
12/23/2019 10/21/2019	Riccobene Associates Family Dentistry	Dental Practices in North Carolina	Bozart Family Dentistry, Inc. Buck Linthicum, D.D.S., P.A.	Not disclosed	Not disclosed
12/10/2019	MB2Dental Solutions	17 Dental Practices	Represents 17 dental practices acquired from CORE Dental Partners	Not disclosed	Not disclosed
10/01/2019	Western Dental Services, Inc.	All Dental Holding & Management Co.	General dental care services, Western Dental's 11th acquisition since 2017	Not disclosed	Not disclosed

Veterinary Medicine Sector Profile

Veterinary medicine is better positioned than many sectors in the healthcare industry to weather the COVID-19 storm, as most states classified veterinary practices as essential businesses, and many people adopted new pets with extra time at home. As a result, M&A volume on an annualized basis is indicating a more muted dip than in other sectors. Active private equity-backed companies such as People, Pets, and Vets (Cressey & Company) have been highly acquisitive and returned to the M&A markets in May 2020. Additionally, several private equity firms are actively seeking platforms in the space, further contributing to higher M&A volumes.

Veterinary Medicine Transactions by Year



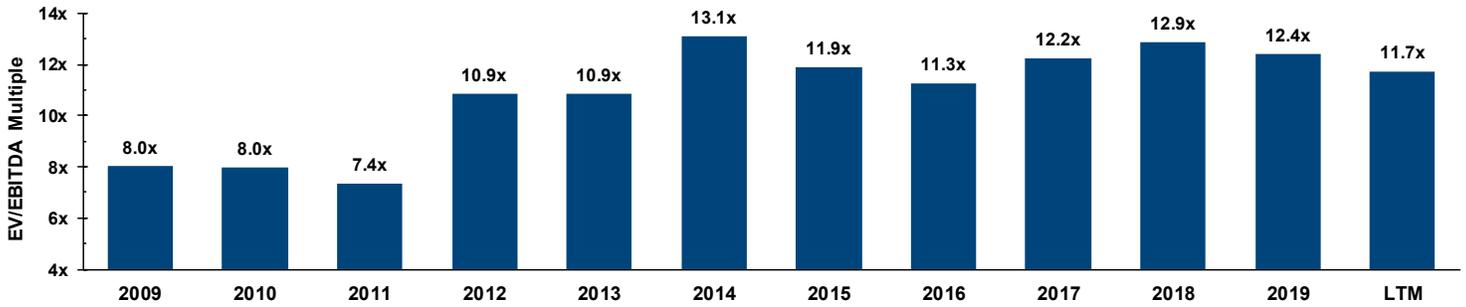
Source: CapIQ

Notable Veterinary Medicine Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
02/21/2020	Destination Pet	Veterinary Care, Inc.	Veterinary hospitals	\$47	Not disclosed
12/27/2019 12/27/2019	National Veterinary Associates, Inc.	Physical therapy clinics	Plantation Animal Hospital Pacjoanian Veterinary Services	\$8 \$5	Not disclosed
12/02/2019 11/18/2019 10/10/2019 10/02/2019	People, Pets and Vets, LLC	Animal hospitals and veterinary practices	Custer McDermott Animal Hospital Shannon Animal Hospital Full Circle Veterinary Care Cross Timbers Animal Medical Center	Not disclosed	Not disclosed

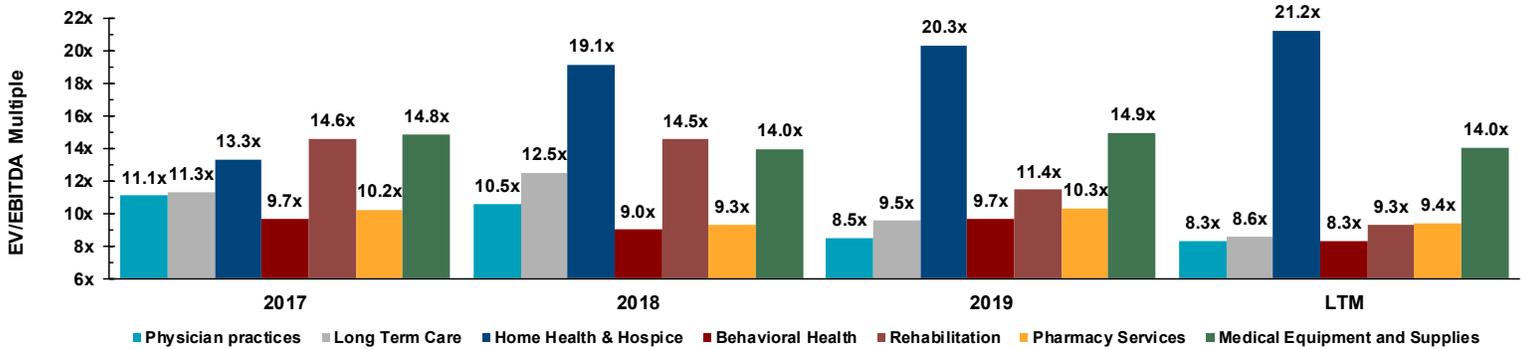
Public Company Comparisons Trading Multiples

Healthcare Industry Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 11, 2020

Healthcare Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 11, 2020

Representative EdgePoint Healthcare Transactions

Sell-Side Advisory

Shumsky Therapeutic Pillows
has sold to
ASP Global

Sell-Side Advisory

Gastroenterology of Greater Orlando
has sold to
an Undisclosed Private Equity Group

Sell-Side Advisory

Broughton Pharmaceuticals
has sold to
SL Group

Financing Advisory

The Fibromyalgia & Fatigue Center
has successfully completed a
capital raise

Sell-Side Advisory

Select Assets of Steris AB
has sold to
An Undisclosed Private Company

Buy-Side Advisory

Med XS Solutions
has acquired
Health Quip, LLC

Sell-Side Advisory

Providence Home Health Care
has sold to
A Private Equity Group

Sell-Side Advisory

TransMotion Medical
has sold to
Winco Mfg., LLC



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