

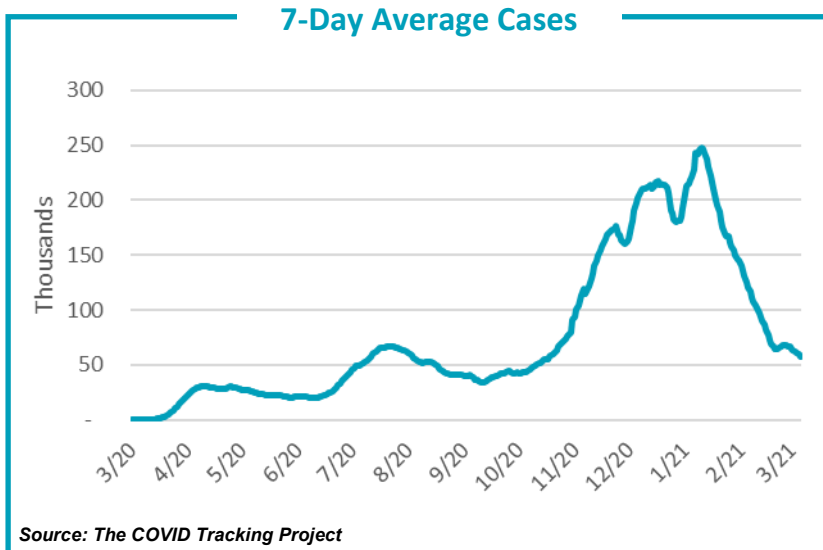


## Physician Practice M&A Poised for Big 2021

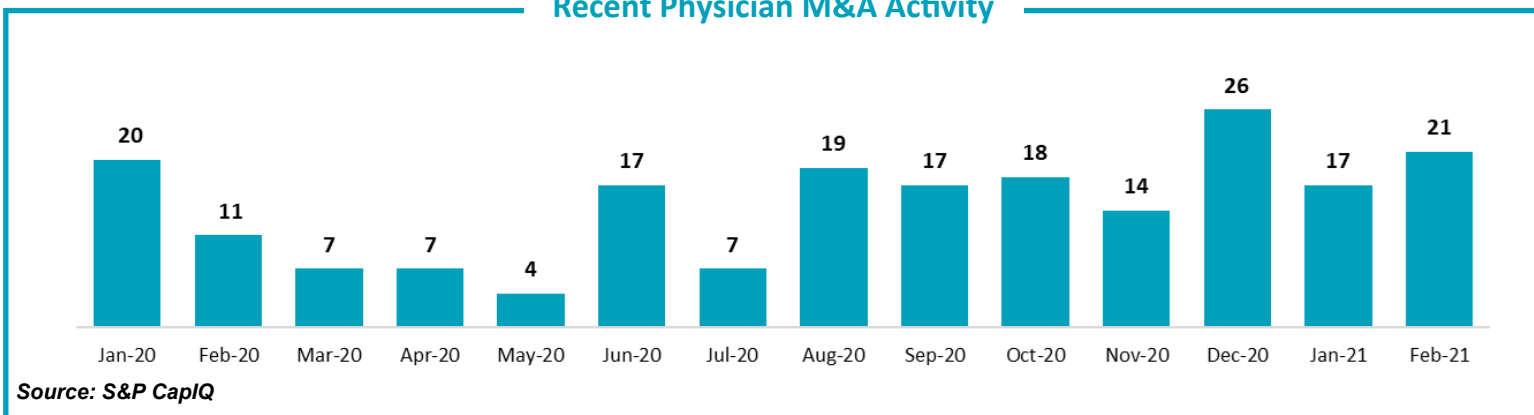
The pandemic is over.

Perhaps that’s optimistic from a public health point of view; but it appears to be the case as it relates to M&A transaction activity involving physician practices. Prior to COVID-19, acquisitions of physician practices were reaching all time highs as health systems and other strategic buyers sought to better integrate care and secure market position, while private equity and other financial buyers looked to generate strong returns by consolidating a still highly fragmented industry. In February and March of 2020, as it became clear COVID-19 had gained a foothold in the US, deal activity slowed quickly, nearly coming to a halt by May as providers focused on preserving their practices and private equity on protecting their existing portfolio.

A push to close deals that had been put on hold for months, and increasing confidence that an effective vaccine would be available in early 2021, resulted in fairly robust deal activity in Q4 2020. Now that multiple vaccines are being distributed—over 75 million doses administered in the US as of March 1st—and the number of new cases per day has plummeted nearly 75% from its peak over the past 30 days, we expect the pace of acquisitions to only accelerate. And while the Biden administration has yet to announce any specific plans, there seems to be a general consensus they will increase the capital gains rate, which may lead to a surge in transactions prior to year end. Finally, we expect valuation multiples to remain high, especially for “platform” acquisitions with strong management teams. See our companion Physician Practice Newsletter to learn why ENT, GI and Urology may be the next hot M&A markets.

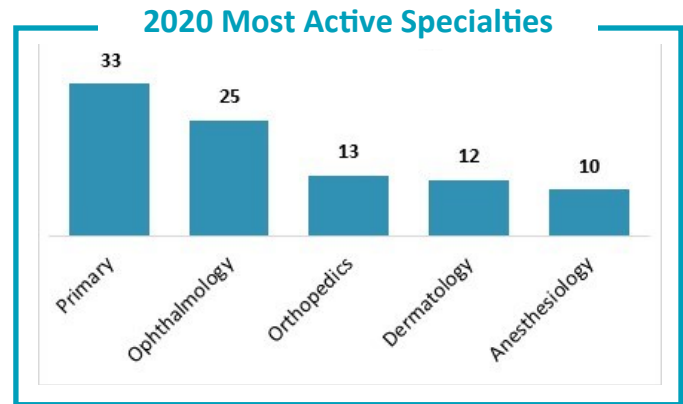


## Recent Physician M&A Activity



## 2020 Physician Practice M&A Year in Review

As is commonly the case, primary care represented the largest share of physician practice acquisitions during 2020. Ophthalmology, the most mature of the private equity roll-up specialties, was not far behind as a strong rebound in patient volumes late in the year corresponded with a flurry of deal activity in Q4 led by EyeCare Partners acquiring 14 business units through 6 transactions. Another favorite specialty of the private equity community, dermatology, also experienced a strong finish to the year as ADCS Clinics, a Harvest Partners portfolio company, completed three acquisitions. Three ENT and gastro transactions each in Q4 portend strong deal volume for both specialties in 2021.



### Notable Q4-2020 Physician Practice Transactions

Date Closed	Specialty	Target	Buyer / Investor
12/03/2020	Dermatology	Nielsen Dermatology LLC	ADCS Clinics, LLC (Harvest Partners)
12/03/2020	Dermatology	Colorado Dermatology Specialists, LLC	ADCS Clinics, LLC (Harvest Partners)
10/29/2020	Dermatology	Karen S. Harkaway, MD LLC	Schweiger Dermatology Group, PLLC
10/01/2020	Dermatology	Dermatology Associates of Montgomery, LLC	ADCS Clinics, LLC (Harvest Partners)
12/10/2020	ENT & Allergy	BAI Healthcare Services, Inc.	Not Disclosed
10/16/2020	ENT & Allergy	Otologic Center, Inc.	Ascentist Ear, Nose and Throat
10/12/2020	ENT & Allergy	Northwest Allergy and Asthma Specialists, LLC	Columbia Asthma & Allergy Clinic, PC
11/24/2020	Gastro	3 gastroenterology practices	US Digestive Health (Amulet Capital Partners)
12/17/2020	Multi-Specialty	Lake Health, Inc.	University Hospitals Health System, Inc.
11/18/2020	Multi-Specialty	Miami Beach Medical Group LLC	Sun Capital Partners, Inc.
10/28/2020	ObGyn	The Women's Health Group, P.C.	Shore Capital Partners, LLC
10/04/2020	ObGyn	Exodus Women's Center, Inc.	AdventHealth
Q4 2020	Ophthalmology	14 ophthalmology-related businesses in 6 transactions	EyeCare Partners (Partners Group Holdings AG)
11/18/2020	Ophthalmology	Retina Associates of Sarasota, PLLC	Retina Consultants of America (Webster Equity)
11/03/2020	Ophthalmology	OMNI Eye Specialists	Vision Innovation Partners (Centre Partners)
Q4 2020	Primary Care	3 primary care practices	Skylight Health Group Inc. (TSXV:SHG)
Q4 2020	Primary Care	2 primary care practices	CareMax Medical Group, LLC (BlackRock, Deerfield et al)
12/22/2020	Primary Care	Bayless Integrated Healthcare	Magellan Health, Inc. (NasdaqGS:MGLN)
12/22/2020	Urgent Care	Fast Pace Medical Clinic, PLLC	Revelstoke Capital Partners LLC
11/02/2020	Urology	Middlesex Urology	Middlesex Health Systems, Inc.



## The Private Equity Model for Medicine

The most common strategy employed by private equity groups (PEGs) is described as “Buy & Build” in which the PEG first acquires a “platform” practice that serves as the foundation for growth. Often, the PEG supplements the practice’s management team by recruiting additional administrative talent, e.g. a CFO or business development professional. This partnership of practice and private equity then pursues “add-on” or “tuck-in” acquisitions, generally practices of similar or smaller size which can be supported administratively by the platform team. The extent to which practices are absorbed and integrated can vary widely. Some PEGs seek to attract acquisitions by promising to retain their brand and change very little about how the practice operates day-to-day; while others seek to gain market strength through establishing a common brand, and improve profitability by implementing common systems and practice protocols. The PEG will also provide capital and other resources to support “organic growth” of the platform practice and its add-ons, such as recruiting additional physicians and opening new offices.

A common element of a private equity transaction is “roll-over equity,” where the seller effectively sells less than 100% and remains invested in the company. By doing this, the seller’s investment grows with the company, often leading to a significant “second bite of the apple.” Willingness to roll over equity can yield a higher valuation as it demonstrates the seller’s conviction the business is poised for future growth.

### Key Characteristics of a Solid Platform Practice

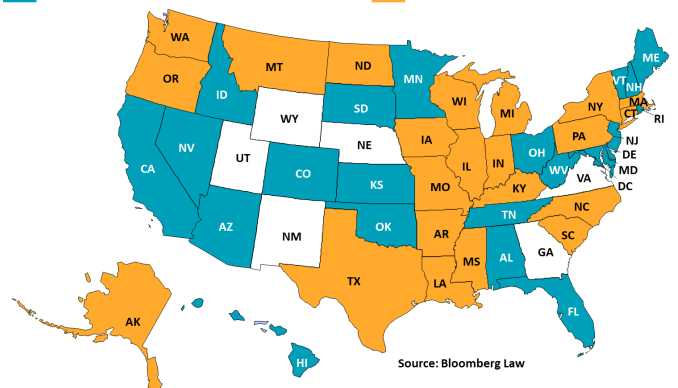
- ◆ Experienced, professional management team with a sound strategy for growth and demonstrated ability to manage multiple, geographically dispersed locations
- ◆ State of the art information systems with the capacity to scale quickly
- ◆ Strong local market share, and favorable payer agreements
- ◆ History of revenue growth, and earnings before interest, taxes, depreciation & amortization (EBITDA) of \$5 million (some PEGs set the minimum at \$10 million or higher)

### How Can PEGs Practice Medicine?

In most states, the corporate practice of medicine doctrine restricts ownership of professional corporations—and therefore the ability to perform and bill for medical services—to licensed physicians. To bypass this limitation, physicians and PEGs form management services organizations (MSOs) which enter into long-term management agreements with the professional corporation, effectively channeling most of the practice’s profits to the MSO, an entity in which the PEG typically has majority ownership.

### Corporate Practice of Medicine Doctrine

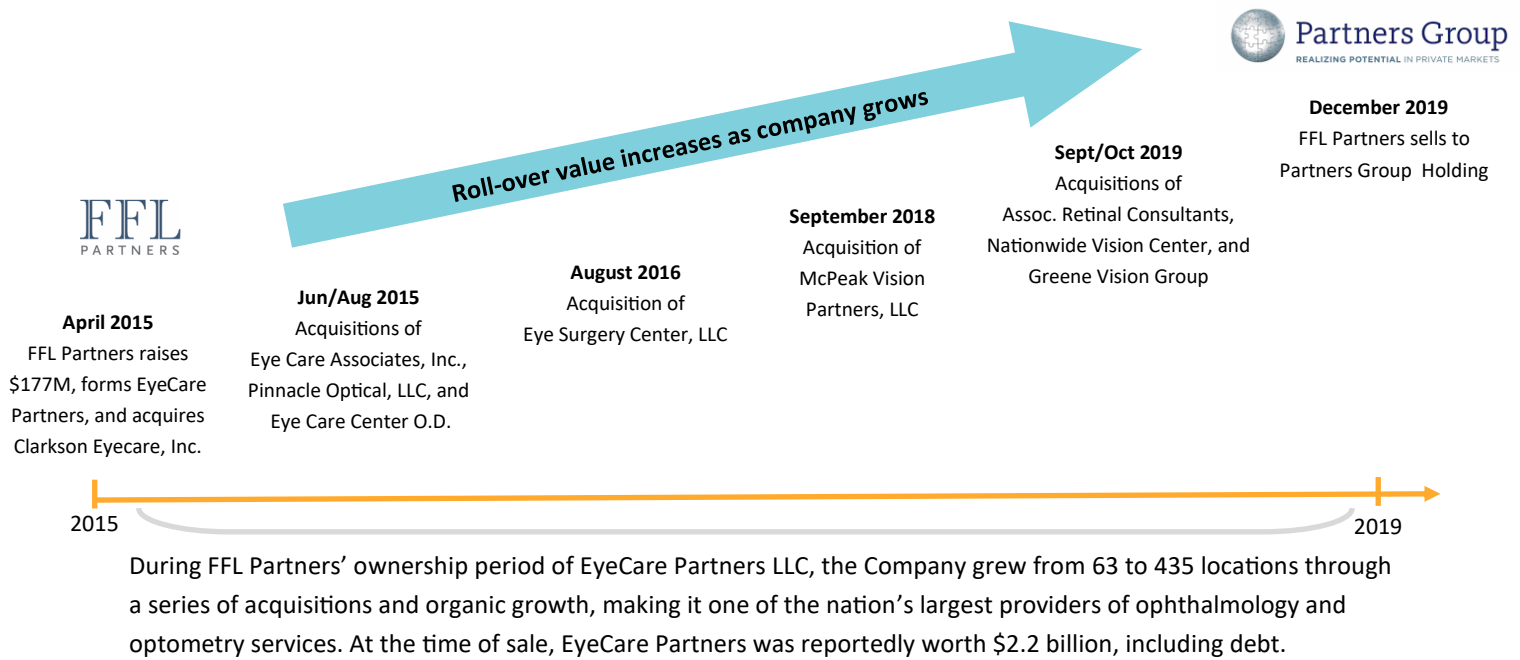
■ State laws restrict corporate practice of medicine, dentistry, optometry, or chiropractic   ■ State administrative or court decisions restrict corporate practice of medicine



## Successful Recapitalization of Ophthalmology Practice Platform

Ophthalmology was among the first specialties to attract significant private equity investment. Since 2014, over 30 MSOs have been established in Ophthalmology by PEGs who made a platform investment and supplemented it with add-on transactions. Now that these investments have matured, we’re seeing the “second bite of the apple” transactions where the initial investors sell their stake to a larger PEG who will seek to further consolidate practices. FFL Partners’ formation of EyeCare Partners in 2015, growth through add-on acquisitions, and sale to Partners Group illustrates the power of this “Buy & Build” strategy.

### Buy & Build Example:





































## Which Specialty will be the next Ophthalmology?

Private equity groups have made investments in a wide array of medical specialties including anesthesiology, ObGyn, and orthopedics; and we expect continued M&A activity by both financial and strategic buyers in each of these specialties. But none of these seem likely to generate the 30+ separate platforms which arose quickly once PEGs turned their attention to dermatology, dentistry, and ophthalmology. As highlighted in the inset below, private equity investors tend to flock toward those specialties which afford the greatest opportunity to deploy the “buy & build” or “roll-up” strategy, rather than specialties that have long been targeted for acquisition by health systems. EdgePoint predicts the next “hot” roll-up market will likely be otolaryngology (with allergy), gastroenterology, or urology.

Each of these specialties consists primarily of small, independent practices, and presents opportunities to enhance revenue by adding ancillary services such as surgery centers and pathology labs. This provides ample hunting ground for PEGs large and small to target platform acquisitions that fit within their acquisition criteria. See the following page for a summary of current platforms.

### What Attributes Make a Given Specialty Attractive to Private Equity Investors

- ◆ Large, but fragmented market
- ◆ Opportunities to grow ancillary revenue
- ◆ Relatively lower exposure to Medicaid and Medicare
- ◆ More ambulatory than hospital-based

Year Closed	Buyer / Investor	Target / Platform
<b>Gastroenterology</b>		
2016		
2018		
2018		
2019		
2019		
2019		
2020		
<b>Otolaryngology</b>		
2012		
2018		
2018		
2018		
2019		
2019		
<b>Urology</b>		
2016		
2018		
2018		
2020		



A private equity transaction or sale to a strategic buyer can be very complex and requires precise negotiation. The EdgePoint team offers extensive M&A transaction knowledge, complemented by years of strategic planning and operational leadership experience, enabling us to offer our clients unique insights that enhance value and attract qualified buyers.


**Leadership**




**Matt Bodenstedt**  
Managing Director

- Veteran healthcare M&A professional with more than 30 years of industry experience
- Has been lead advisor on more than 60 transaction closings including private companies, corporate divestitures, and joint ventures.
- Prior experience includes corporate development, strategic planning, finance, and operations at ProMedica, a \$7B integrated health system; co-founder of a healthcare M&A advisory firm; and executive director of development for Health Care & Retirement Corp. (HCR ManorCare)
- Earned an MBA from the University of Michigan and bachelors degree from the University of Toledo
- FINRA Series 63 & 79 licensed


**Representative EdgePoint Healthcare Transactions**




has been acquired by




has been acquired by


has been acquired by






has been acquired by





has been acquired by

has been acquired by

has acquired




has completed a capital raise

**Healthcare Investment Banking Team**

**Matt Bodenstedt**

Managing Director

216-342-5748

[mbodenstedt@edgepoint.com](mailto:mbodenstedt@edgepoint.com)

**Max Halsted**

Vice President

216-342-5866

[mhalsted@edgepoint.com](mailto:mhalsted@edgepoint.com)

**Michael Koziak**

Associate

216-342-5864

[mkoziak@edgepoint.com](mailto:mkoziak@edgepoint.com)



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



RESULTS *with* INTEGRITY™