

Steering into the Skid

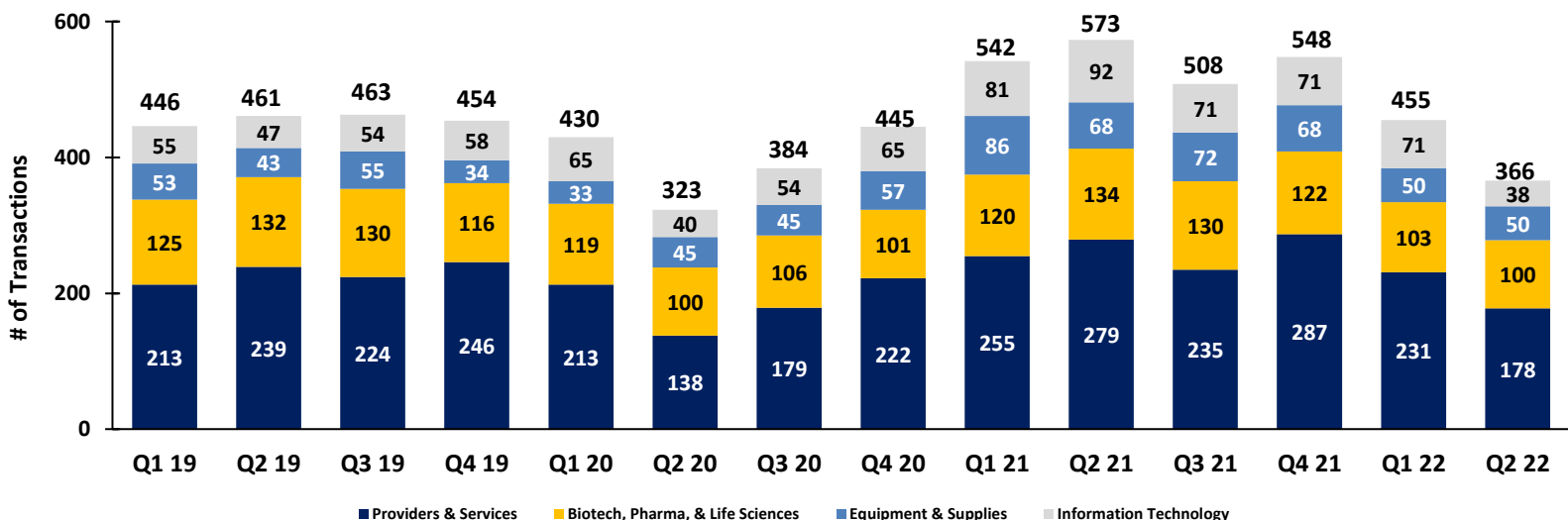
After record volumes in 2021, rising interest rates and high inflation are causing investors and business owners alike to reassess valuation expectations and tap the brakes on M&A transactions, even in the usually recession-resistant healthcare sector. As illustrated in the chart below, healthcare M&A transaction volume declined nearly 20% from 455 deals in Q1 2022 to 366 deals in Q2 2022. This is sharply below the average of 456 transactions per quarter dating back to 2019.

Those of us old enough to have been taught to drive in rear-wheel-drive cars, especially in the snow belt, learned early on how to steer into the skid. The key was not to panic and avoid slamming on the brakes. We expect both strategic and financial buyers of healthcare companies to take a similar approach. Investors have ample dry powder ready to deploy, and the long-term tailwinds within the sector remain positive, including aging baby boomers, continued advances in technology, and still highly fragmented industries within the sector. We expect transaction volume to return to average by year's end.

As illustrated on the final page of this report, valuation multiples continue to ease downward from their pre-pandemic highs. We expect this trend to continue for the remainder of 2022 as inflationary pressures compress operating margins for sellers and higher interest rates increase the cost of capital for buyers. But as always, well-managed companies supported by an experienced advisor running a competitive process will have plenty of opportunities to command higher values.

Nearly 50% of transaction activity in the healthcare industry during the last 12 months have occurred in the Providers & Services sector, followed by Biotech, Pharma, & Life Sciences (24%), Information Technology (13%), and Equipment & Supplies (13%). Within the broad Providers & Services sector, EdgePoint noted significant deal activity in the following subsectors, which are profiled in the remainder of this report: Physician Practices, Home Health & Hospice, Behavioral Health, Support Services, Rehabilitation, and Dental Practices. We have also profiled the Equipment & Supplies sector.

Healthcare Transactions by Sector, by Quarter

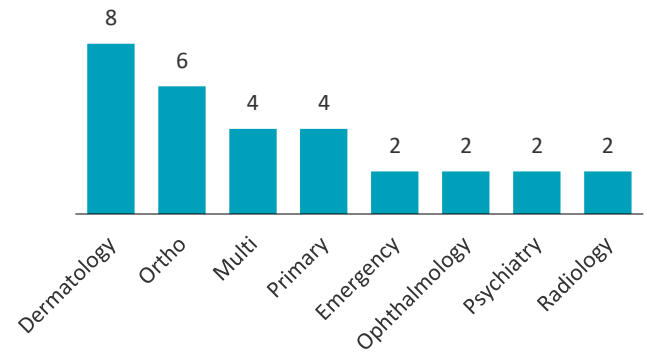


Source: CapIQ

Physician Practices Sector Profile

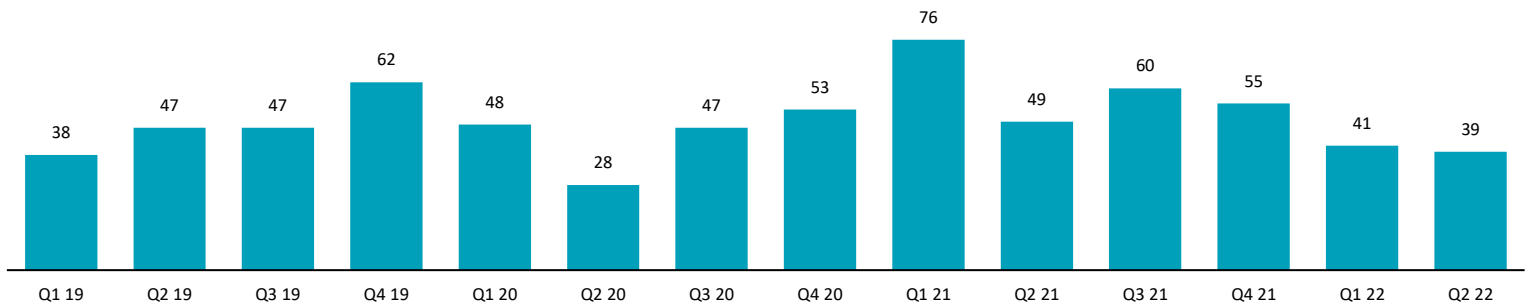
M&A activity involving physician practices reached record highs in 2021, as a combination of pent-up demand, expectations of an increasing capital gains tax rate, and optimism surrounding a waning pandemic fueled investor interest. A natural cooling down after an unusually strong year, coupled with persistent inflation and higher interest rates, has slowed the pace of transactions by one-third from an average of 60 per quarter in 2021 to 40 per quarter so far in 2022. Private equity-driven rollups in Dermatology and Orthopedics continue to lead the way, but over a dozen different subspecialties saw deals in the second quarter. We expect transaction volume to rebound by the end of 2022, as relatively young consolidation efforts in ENT, GI, urology and cosmetic/plastic surgery establish new platforms and increase demand for add-ons.

Most Active Specialists Q2 '22



Source: CapIQ

Quarterly Physicians Practice Deals



Source: CapIQ

Notable Physician Practices Transactions

Date Closed	Buyer / Investor	Target	Description
06/28/2022	United Medical Imaging, LLC (Sunny River Management)	Centrelake Imaging & Oncology	Radiology
06/02/2022	Body Contour Centers, LLC (Alaris Equity Partners Trust)	Body Sculpt Intl, LLC	Plastic Surgery
06/01/2022	SkyKnight Capital	Dermatologists of Central States (from: Sheridan Capital Partners)	Dermatology
05/23/2022	U.S. Orthopaedic Partners (FFL Partners)	SportsMed Inc.	Orthopedics
05/04/2022	Gi Alliance Holdings, LLC (Waud Capital Partners)	Digestive Health Specialists, LLC	Gastroenterology
05/03/2022 04/06/2022	U.S. Foot & Ankle Specialists, LLC (NMS Capital)	Delaware Foot and Ankle Group P.A. Foot Care Center/ Lakeforest Foot	Podiatry
04/11/2022	Pinnacle Dermatology, LLC (Chicago Pacific Founders)	Dermatology Physicians Group	Dermatology
04/07/2022	Gryphon Investors Inc	Vision Innovation Partners (from: Centre Partners Management)	Ophthalmology

Home Health & Hospice Sector Profile

Home Health transaction volume and valuations have fallen off sharply in 2022 as the industry struggles to recruit and retain staff in this high inflation environment. Investors are concerned that the Patient-Driven Groupings Model (“PDGM”) behavioral adjustment will more than offset the 2023 annual payment update of 2.9%, putting even greater pressure on operating margins. We anticipate transaction volume and valuations will remain steady through 2022 and pick up again in early 2023 as the industry adjusts to the new lower rates.

Notable Home Health & Hospice Transactions

Date Closed	Buyer / Investor	Target	Description
06/23/2022	HomeFirst of Middle Tennessee (Fulcrum Equity Partners)	CV Home Health	Skilled Nursing and Home Health Care
06/01/2022	Excelin Home Health, LLC (Corinthian Capital Group)	On My Care	Nursing, Physical, Occupational, and Speech Therapy
05/18/2022	Trinity Home Health Services	Above & Beyond Home Health Care, Inc.	Home Health Care
04/21/2022	Clayton, Dubilier & Rice, LLC	Hospice and Personal Care Divisions of Kindred at Home	Home Health and Hospice

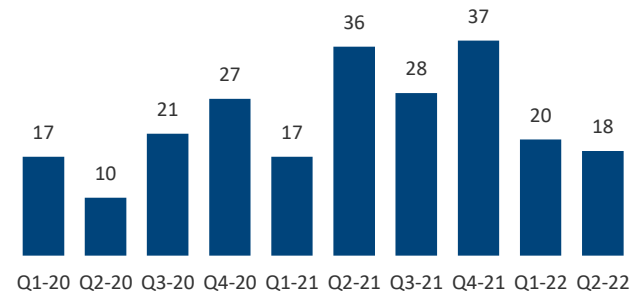
Behavioral Health Sector Profile

After spiking in 2021 as the pandemic drove increased investment in the sector, Behavioral Health transaction volume has declined more than 40% in the first half of 2022. Substance abuse treatment centers were once again the most active subsector, accounting for 5 of 12 total transactions. We continue to see accelerating interest in clinics providing a broad spectrum of mental health services by both financial buyers seeking a strong return on investment, and health systems seeking to better integrate mental and physical health services. We anticipate transaction volume will pick up later in 2022, but expect valuation multiples to remain steady.

Notable Behavioral Health Transactions

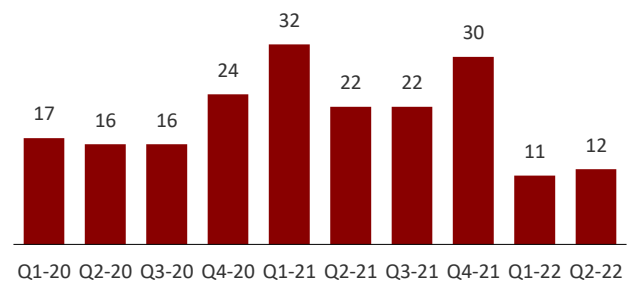
Date Closed	Buyer / Investor	Target	Description
06/22/2022	Pinnacle Treatment Centers, Inc. (Linden LLC.)	Stepping Stone of North Carolina, LLC	Substance Abuse Treatment
05/31/2022	The Stepping Stones Group, LLC (Five Arrows Capital Partners)	HM Systems, Inc.	Pediatric Behavioral Health
05/11/2022	Monument, Inc. (VMG Partners)	Tempest, Inc.	Substance Abuse Treatment
05/05/2022	Ventas, Inc. (NYSE:VTR)	Eating Recovery Center, LLC	Eating Disorder Treatment
04/25/2022	Addiction & Mental Health Services, Inc. (Centre Partners Management LLC)	Southern Living Services, LLC	Substance Abuse Treatment

Home Health & Hospice Transaction Volume



Source: CapIQ

Behavioral Health Transaction Volume

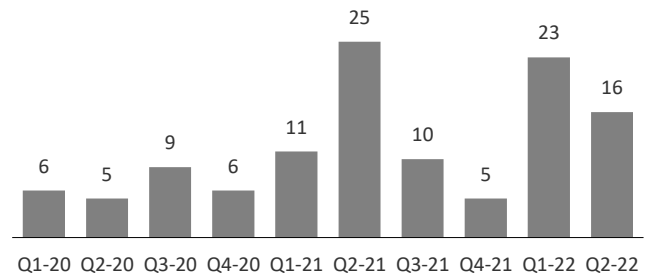


Source: CapIQ

Support Services Sector Profile

M&A transaction volume involving companies who provide Support Services to healthcare providers (e.g., billing, staffing, consulting) had another strong quarter after an exceptional Q1. Like healthcare generally, these companies tend to be recession-resistant, but also have lower regulatory and reimbursement risk. Additionally, in a strong labor market, employers are looking for temporary staffing and outsourced services to fill the employee gap. Given these factors, we expect this to be a key sector for investors looking to capitalize on the growing demand for healthcare-related B2B services driving sustained transaction volume and strong valuations throughout the remainder of 2022.

Support Services Transaction Volume



Source: CapIQ

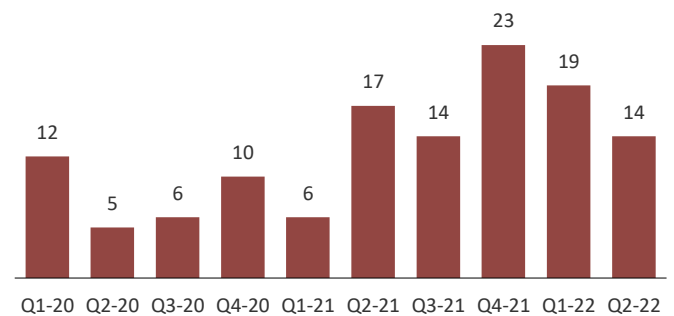
Notable Support Services Transactions

Date Closed	Buyer / Investor	Target	Description
06/22/2022	GHR RevCycle Workforce (MidOcean Partners LLP)	Meleleo, LLC	Advisory Services
05/17/2022	National Medical Billing Services	Medi-Corp, Inc.	Revenue Cycle Management
04/27/2022	Ingenovis Health, Inc. (Cornell Capital LLC)	VISTA Staffing Solutions, Inc.	Locum Tenens Staffing
04/19/2022	The Chartis Group, LLC (Audax Management Company)	Chartis Just Health Collective, LLC	Advisory Services

Rehabilitation Sector Profile

After a strong resurgence in 2021, the M&A market for rehabilitation has remained strong in the first half of 2022. With 14 transactions in Q2, this level of activity is slightly above the longer-term average. During the early phases of the pandemic, physicians and patients deferred many non-urgent orthopedic surgeries, leading to significant reductions in rehab hospital admissions and physical therapy visits. Better treatments and less virulent strains of the virus have allowed for a more steady surgical volume, stabilizing the industry and allowing for a return of M&A activity that we expect to continue throughout the second half of 2022.

Rehabilitation Transaction Volume



Source: CapIQ

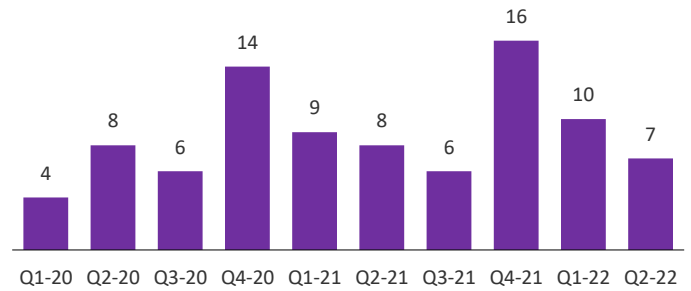
Notable Rehabilitation Transactions

Date Closed	Buyer / Investor	Target	Description
06/21/2022	Crescent Physical Therapy LLC (Revelstroke Capital Partners LLC)	Upstream Rehabilitation Inc.	Physical Therapy Practice
06/15/2022	Ascend Hand Therapy (BDT Capital Partners)	AthletiCo Ltd.	Orthopedic Rehabilitation Practices
06/08/2022	Gillette Physical Therapy, P.C. (Gryphon Investors Inc)	Physical Rehabilitation Network, LLC	Physical Therapy Practice
06/06/2022	Integrative Sports and Spine, Inc. (Webster Equity Partners)	Integrated Rehab Consultants, LLC	Physiatry Services to Skilled Nursing Facilities

Dental Practices Sector Profile

Consistent with prior reports, the Dental Practice sector continues to be bumpy from quarter to quarter. After a strong finish in 2021 followed by an above-average start to 2022, transaction volume has slowed down measurably in Q2. Dentistry is a mature market from a private equity rollup point of view, and we expect it will continue to attract investment from established DSOs. With the industry expecting to grow more than 5% through 2025, we anticipate a rebound in M&A activity during the second half of the year. In particular, we expect investors to take a larger bite (pun intended) out of the orthodontic and oral surgery sub-sector.

Dental Practice Transaction Volume



Source: CapIQ

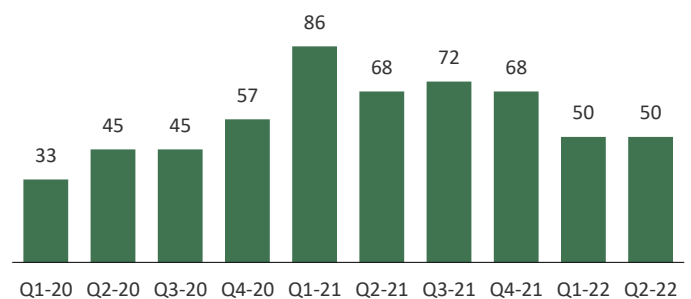
Notable Dental Practice Transactions

Date Closed	Buyer / Investor	Target	Description
06/10/2022	Abra Health (Clairvest Group Inc. TSX:CVG)	Abra Dental Kearny	Pediatric, Adult Dentistry and Orthodontics
05/13/2022	Mubadala Investment Company PJSC	Dental Care Alliance, L.L.C.	Pediatric and Adult Dental Care
05/05/2022	Western Dental Services, Inc. (New Mountain Capital, L.L.C)	Mid-Atlantic Dental Service Holdings	Dental Care
04/14/2022	Onsite Dental, LLC (NVP Associates, LLC)	Dental Excellence Partners, LLC	Dental Care

Equipment & Supplies Sector Profile

Companies involved in the manufacture and distribution of medical equipment and supplies accounted for roughly one of every eight healthcare transactions over the past 12 months. Transaction volume in this sector has been strong in 2022, in line with historical levels, but below its record pace in 2021. Likewise, company valuation multiples have declined since 2021, but remain strong compared to other healthcare sectors even with ongoing supply chain issues. We anticipate broad economic concerns such as inflation and interest rates to continue having a moderating effect on both transaction volume and valuations throughout 2022.

Equipment & Supplies Transaction Volume



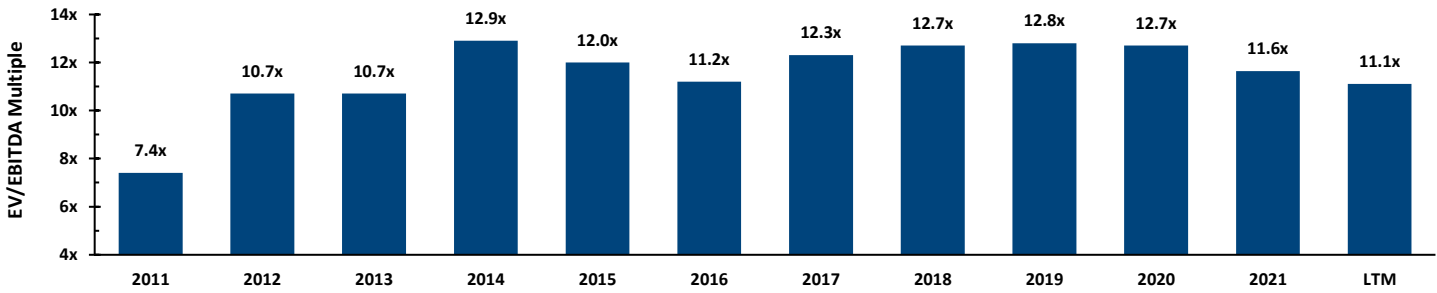
Source: CapIQ

Notable Equipment & Supplies Transactions

Date Closed	Buyer / Investor	Target	Description
06/30/2022	WillowWood Global LLC (Blue Sea Capital LLC)	MAKstride LLC	Prosthetic Device Manufacturer
06/07/2022	Quipt Home Medical Corp	NorCal Respiratory, Inc.	Health Care Equipment Supplier
05/10/2022 04/15/2022	ARCH Medical Solutions – Seabrook	M&K Engineering, Inc. Amplify, Inc	Medical Equipment Manufacturers
04/11/2022 04/05/2022	Solmetex, LLC	DryShield, LLC Sterisil, Inc	Dental Manufacturers

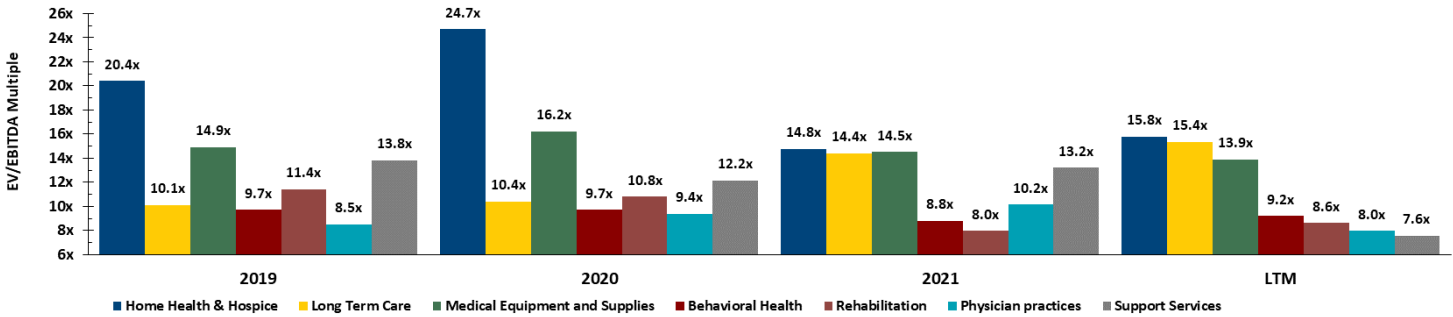
Public Company Comparisons Trading Multiples

Healthcare Industry Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 30, 2022

Healthcare Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 30, 2022

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 completed a capital raise	 has been acquired by An Undisclosed Private Company	 has acquired 	 has been acquired by A Private Equity Group	 has been acquired by



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

