



*Healthcare M&A Checkup – Q1'18*

# What Are Healthcare Investors Looking for Next? Fundamentals.

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## What Are Healthcare Investors Looking for Next? Fundamentals.

Following several high-profile, silo-shattering mergers and acquisitions in the healthcare industry, many healthcare investors are questioning what might be the next paradigm shift and how these large-scale transactions will affect the M&A prospects of companies that aim to sell in the next few years. Fascinating and unexpected transaction counterparties were the hottest topics at several recent industry conferences, but the underlying takeaway at each has been that high-quality companies with strong fundamentals should have an increasingly larger universe of diverse investors and acquirers to choose from.

Intrepid's Healthcare Group is regularly asked to make sense of the surprising recent M&A activity. We are excited to share some of our perspectives on what might come next.

The pace and scope of some of the most notable recent changes are signaling a new era of healthcare M&A. While massive regional hospital operators merging like Dignity and CHI are impressive because of their scale, recently announced megadeals, like CVS' acquisition of Aetna and Cigna's acquisition of Express Scripts, are fundamentally changing traditional industry roles and providing payors with even more influence over patient care and decision-making.

The most recent development, Walmart's reported interest in acquiring health plan Humana, only furthers these trends. Walgreens' potential acquisition of wholesale drug and supplies distributor AmerisourceBergen has reportedly fallen apart, but the strategic rationale remains unique and new.

Whereas strategic M&A is typically justified by horizontal integration to expand market share or geographic coverage, or vertical integration to consolidate additional services within an industry's value chain, several of the transactions in Q1'18 involve buyers emerging from completely different sectors within the industry. It is safe to say that it has become commonplace to react with complete surprise at the buyers for sizeable healthcare assets.

Last month, Intrepid joined hundreds of private equity investors at various industry events like the healthcare M&A conferences organized by McGuire Woods and McDermott Will & Emery as well as the 40,000-plus Healthcare IT professionals at the HIMSS conference in Las Vegas. One development is clear: several factors are driving interest in healthcare companies beyond traditional silos, which could prove to bolster the M&A prospects for high-quality companies in the near-term.

Some variables that investors are focusing on suggest that strong business fundamentals are key, including dependable compliance infrastructure, an ability to improve quality while managing costs, vocal physician leadership and ancillary revenue opportunities. In other words, investors and strategic buyers alike are flocking to companies that can demonstrate an ability to produce high-quality clinical outcomes that drive the costs out of the healthcare ecosystem, are derived from

### In This Issue

- Review of Recent Transformative Transactions
- A Selection of Intrepid's Recent Healthcare Experience

### Read our Banker Insights

- J.P. Morgan Conference Kicks Off 2018's Healthcare Dealmaking
- PAMA Pain or Opportunity?
- On the Front Lines of Healthcare M&A and Charitable Public Service
- Intrepid Acts as Exclusive Financial Advisor to Ambray Genetics
- Intrepid Advises Southwestern Eye Center on Strategic Investment by H.I.G. Capital



## What Are Healthcare Investors Looking for Next? Fundamentals. (cont.)

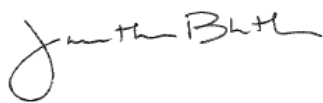
defensible medical necessity, rely upon input from aligned physicians, and, finally, exhibit a capability of integrating with tangential services.

Even though a logical and directly competitive buyer may emerge ultimately to acquire one of these companies, Intrepid is seeing first-hand and hearing from many peers, that businesses from every corner of the healthcare ecosystem may be open to investing in businesses that meet these criteria. Of course, traditional business drivers like profitability, revenue diversity, leverageable data and automation technology are still critical to success, as in any industry, but healthcare-specific characteristics are becoming just as important in driving buyer appetite and transaction valuations.

We expect to continue to hear about silo-breaking transactions and see high-quality companies with strong fundamentals receive an increasingly diverse pool of buyers or investors to consider as they evaluate their strategic alternatives.

Our Healthcare team would be happy to discuss how any of these dynamics might affect your business' M&A prospects in the future.

Regards,



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## Recent Healthcare Industry Transactions

### Growing Interest From Strategics to Consolidate the Genetics Tools Market (February)

KKR-backed LGC Limited, a life sciences measurement and testing company, acquired Lucigen Corp., a developer, manufacturer and supplier of molecular biology enzymes, reagents and kits. Lucigen has an extensive portfolio of life science products including next-generation sequencing (NGS) kits, enzymes, and cloning systems, targeting fast growth applications in clinical diagnostics, drug discovery, synthetic biology and gene editing. The acquisition increases LGC's exposure to the fast-growing NGS and gene editing markets. One month later, Danaher Corp. (NYSE: DHR) announced its acquisition of industry leader Integrated DNA Technologies (IDT), a privately-held provider of high-value consumables for genomics applications in molecular biology, NGS, synthetic biology, gene editing and molecular diagnostics. Summit Partners invested in IDT for a minority stake in 2014 and IDT has emerged as one of the remaining prime assets of scale in the life sciences consumables sector. Danaher plans to operate IDT as a standalone operating company and brand within Danaher's Life Sciences platform as it seeks to expand its capabilities in the genomics market.



### R1 to Acquire Intermedix Assets to Form a New End-to-End RCM Services and Software Behemoth (February)

R1 RCM (formerly known as Accretive Health) acquired the majority of Intermedix for \$460 million, or 2.4x revenue and 9.6x EBITDA. Included in the transaction were Intermedix's healthcare practice management division, its physician and EMS revenue cycle management business, and its analytics business. Following the closing, Intermedix's private equity investor Thomas H. Lee Partners will carve out and retain Intermedix's emergency preparedness division as a separate standalone business called Juvare. Joseph Flanagan, President and CEO of R1 RCM stated: "We believe the next chapter in healthcare is one of revenue cycle transformation, where an enterprise-wide approach will simplify and contribute to the way patients interact with the revenue cycle."



### ReMed Investment From Baird Continues Recent M&A Activity in Brain Injury Rehab (February)

Baird Capital invested an undisclosed amount of growth capital in ReMed Recovery Care Centers, a rehabilitation provider for individuals with mild, moderate or severe traumatic brain injury. ReMed serves over 300 patients across Pennsylvania, Maryland, and New Jersey in short-term, long-term and outpatient programs, and expanded its footprint in October 2017, by acquiring Neurological Rehabilitation Living Centers in Louisiana. The Baird investment enables ReMed to continue its expansion initiatives, amid a flurry of M&A activity in this sector, including Civitas Solutions' October 2017, acquisition of Excellere Partners' Mentis Neuro Rehabilitation and other brain injury rehabilitation services providers currently in the market.



### Consistent DPM Consolidation Evolving With Emergence of Secondary Deals, as KKR Acquires Heartland (March)

KKR agreed to acquire a majority stake in Heartland Dental from Ontario Teachers' Pension Plan and other existing shareholders. Heartland is the largest dental support organization in the U.S., with more than 1,300 dentists across 35 states, and it is one of several large dental practice management (DPM) platforms to acquire several smaller regional practices in a rapid series of transactions in the DPM sector in the past several years. While several competitors like Harvest Partners' Dental Care Alliance and Chicago Pacific Founders' Marquee Dental continue aggregating small- and medium-sized practices, the pace does not appear to be slowing down. In fact, a recent Bain & Co. private equity report found that the top 10 DPM platforms still account for less than 5% of U.S. dental revenue. We expect to see several new and secondary transactions in the coming months.





## Recent Healthcare Industry Transactions (cont.)

### Waud Capital's Minnesota-Based Eye Care Platform Expands Into California With Acquisition of Pacific Eye Institute (March)

Unifeye Vision Partners (UVP), a leading network of comprehensive eye care providers and a portfolio company of Waud Capital Partners, acquired California-based Pacific Eye Institute (PEI). PEI is a comprehensive ophthalmic services provider in the inland Southern California market with 17 ophthalmologists and six optometrists operating across six clinical locations and one ambulatory surgery center. Dr. Robert Fabricant, PEI's founder, affirmed: "We evaluated several alternatives and found UVP to be the best fit. UVP embraces local governance and local leadership." This announcement comes one year after Waud acquired Minnesota Eye Consultants, its flagship platform used to form Unifeye Vision Partners, and marks a unique departure from the recent wave of eye care deals. Most recent transactions in this space, like H.I.G.'s investment in Intrepid's client, Southwestern Eye Center, and subsequent merger with Barnet Dulaney, have focused on developing regional concentration and a comprehensive network of service offerings within local geographies. Waud's latest eye care transaction may open the door for more cross-country eye care integration activities.



Waud Capital



### Webster Capital Acquires Emerald Health Services, Its Third Healthcare Staffing Company in One Year (March)

Webster Capital announced it would buy its third healthcare staffing company in just over a year with the acquisition of Emerald Health Services. Webster acquired Emerald for approximately \$72 million, or roughly 6x the company's estimated \$12 million of 2017 EBITDA. Founded in 2002, Emerald provides both travel and permanent placement staffing for registered nurses and healthcare executives in acute-care hospitals and healthcare facilities within the California market. Emerald joins Webster's two other healthcare staffing companies, Cirrus Medical Staffing, a national provider of allied and travel nurse staffing, and PharmaLogics Recruiting, a recruiting solutions provider for life sciences companies. The addition of Emerald will allow Webster to penetrate further the California market and accelerate the company's reach through its national expansion plan. Webster is one of several investors making bold commitments to the outsourced staffing sector.



### Summit Partners' ABILITY Network Acquired for 8.6x Revenue by Inovalon, Despite Previously Failed Auction (March)

Inovalon (NASDAQ: INOV), a technology and consulting services company focused on assisting healthcare clients to transform from volume-based to value-based models, announced its acquisition of ABILITY Network, for \$1.2 billion in cash and restricted stock, or 8.6x LTM revenue and 16.6x LTM EBITDA. ABILITY is a cloud-based software-as-a-service (SaaS) technology company that provides clinical, administrative performance improvement capabilities to more than 44,000 acute, post-acute and ambulatory facilities, enabling Inovalon to become a vertically-integrated leader in cloud-based enablement of data-driven, value-based care. According to industry sources, an earlier process for the portfolio company of Summit Partners was put on hold after at least one offer that was for less than \$1 billion was turned down. The company had hoped to fetch at least an 18x multiple of EBITDA, the approximate run-rate EBITDA multiple that Summit had paid for the company three years earlier. Such lofty valuations for SaaS businesses, despite an apparently busted process, should be encouraging to value-based care technology companies of all sizes.




SUMMIT  
PARTNERS







## Select Healthcare Transaction Experience



has been acquired by



with participation from



\$1,000,000,000


Advisor to Ambry Genetics




has completed a recapitalization with



Advisor to Southwestern Eye Center



has completed a growth recapitalization with



Advisor to Avaap



has received a majority investment from



Advisor to Science Care



has been acquired by



Advisor to IAMG\*



has acquired



Advisor to MiraMed\*



has been acquired by



Advisor to Primary Critical Care\*



has been acquired by



a portfolio company of



Advisor to CRT Medical Systems\*




Westside Sober Living Centers, Inc.

has completed a recapitalization with


Subacute Holdings, Inc. a newly formed holding company established by



Advisor to Promises\*



has been acquired by



Advisor to Autism Spectrum Therapies

The Specialty Pharmacy Division of



has been acquired by

Modern HC Pharmacy, Inc.

a portfolio company of



Advisor to A-Med Health Care



has been acquired by



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

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