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Healthcare Services Industry Update Q4 2017

Boston | Dallas | San Francisco

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MHT Partners is a leading advisor to companies in the Healthcare Services Industry. Our Healthcare Services team boasts significant experience in a variety of sectors covering a broad range of specializations and business models.

This update focuses on the trends and metrics in the following areas:

- Specialty Physician Groups
- Behavioral & Post-Acute Care
- Technology-Enabled Solutions
- Provider & Product-Related Services

The Pulse

Large healthcare companies, pressed for growth, are considering expansion via horizontal mergers to capture the value of integrated delivery models—retail and benefits management when it comes to CVS-Aetna and payors and providers in the case of Optum-DaVita.

CVS to Acquire Aetna in \$69 Billion Mega Merger

On December 3rd, CVS Health (NYSE:CVS), announced that it had agreed to acquire Aetna (NYSE:AET), a leading diversified health care benefits company, serving over 44 million people, at a value of \$69 billion, or \$207 per share. The deal value equates to about 4.4x Equity to Book Value and was one of the largest mergers of 2017.

“With the analytics of Aetna and CVS Health's human touch, we will create a health care platform built around individuals,” said CVS President and CEO, Larry J. Merlo, when announcing the transaction.

Q4 2017

Industry Insight

Economic Indicators

Equity Trading Overview

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Select M&A Transactions

About MHT Partners

The Pulse

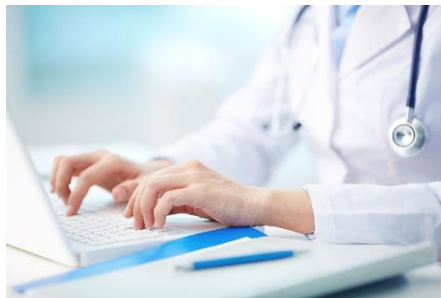
Optum to Acquire DaVita Medical Group for \$4.9 Billion

On December 6th, Optum, a subsidiary of UnitedHealth Group (NYSE:UNH), announced that it had entered into an agreement to acquire DaVita Medical Group, the physician network business of DaVita, Inc. (NYSE:DVA), at a value of \$4.9 billion.

DaVita Medical Group manages physician groups throughout the United States, providing services to about 1.7 million patients per year at 300 clinics, 35 urgent care centers, and 6 outpatient surgery centers.

DaVita Health's clinics will add to UnitedHealth's 250 MedExpress urgent care centers and 200 surgical centers and be operated by Optum, which currently has over 30,000 physicians who either work for or are affiliated with its practices.

Industry Insight: The Current Temperature of High-Tech Care



The healthcare IT (“HCIT”) market is expansive and dynamic. A cursory glance at 2017’s wealth of deals—from predictive analytics applications to cloud-based claims management solutions—illustrates HCIT assets’ immense value to both strategic and financial investors.

However, if you ask a doctor about on-the-ground technology implementation, you will likely hear a different story. The healthcare industry is notoriously slow to adopt emerging technologies. Some people even joke that the healthcare industry is 15 years behind the latest technology. Itamar Kandel, president at OrbiMed-backed TigerText, explains that this trend is due to a confluence of concerns

surrounding two key factors: safety and workflow. Safety is intuitive. If things go awry with HCIT systems, people can die. Thus, providers must go to great lengths to test every potential flaw of every prospective solution. This demands a great deal of time and resources.

Workflow concerns require a bit of additional background. Kandel explains that rigid workflows are an integral tool for physicians because they must navigate torrents of work and deliver care in a “sliver of minutes. A deviation from an established workflow is risky and could be deadly, so the payoff needs to be significant.”

The state of electronic health records (“EHRs”), digital profiles of each individual’s medical history, exemplifies the consequences of workflow disruption. Healthcare providers have sought to optimize and standardize EHRs for the better part of the past two decades. Standardized EHRs promise to provide doctors critical information when it is needed most, a “significant payoff” in anyone’s book. Efforts to standardize EHRs, however, have yielded a status quo in which EHRs are bulky, consume a disproportionate amount of doctors’ time (see the exponentially growing medical scribe industry), and are not particularly transferrable. In other words, doctors’ workflows have been increasingly disrupted by a technology-enabled solution that has yet to bear tangible fruit. Situations like this serve to entrench a preference for tried-and-true best practices, not radical change.



Such roadblocks to change consequently create an HCIT environment marked by evolutionary, not revolutionary, change. Strategic and private

equity investors in this space, then, stand to gain from investing in firms that apply technologies whose viability has been established in less-sensitive markets, like consumer technology, to healthcare's information infrastructure. Recent consolidation in cloud-based healthcare applications, like HMS Holdings' recent \$170 million acquisition of Eliza Corporation, exemplifies this trend. When enterprise cloud solutions began to gain prominence in the late 2000s, healthcare providers responded with tepid interest because of the highly sensitive nature of their data and questions surrounding both uptime and connectivity. After several years of cloud technology refinement in both consumer and enterprise domains (that were not without high-profile failures), cloud-based applications have gained major traction with healthcare providers throughout the nation.



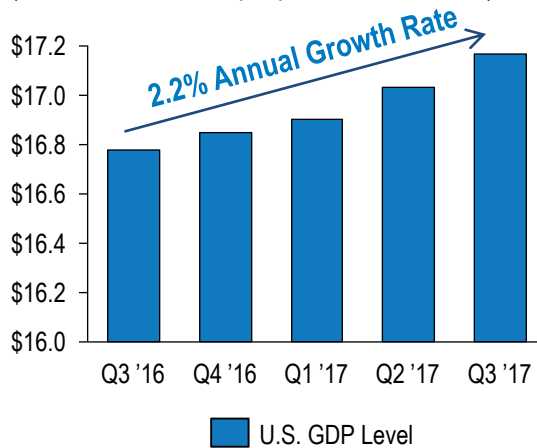
Today's HCIT investment boom, then, is the manifestation of years of iterative improvements upon technological innovations, not the “move fast and break things” mentality often associated with information systems' improvement. Investors are betting on firms that utilize established technologies to clear the healthcare industry's high safety and workflow hurdles to deliver better outcomes for all parties involved. In the short run, that means few of the sci-fi innovations that crowd the media will be commonplace in health systems' technology infrastructure. In the long run, though, AI-enabled assistants may be as ubiquitous with practicing physicians as pagers were 20 years ago—as long as their shortcomings can be quickly and concretely worked out in consumer markets first.

Economic Trends

Key economic indicators for the Healthcare Services industry.

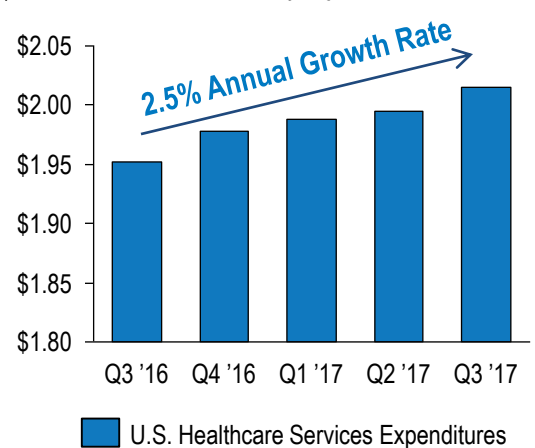
Real¹ U.S. GDP Growth

(\$ in Trillions, seasonally adjusted at annual rates)



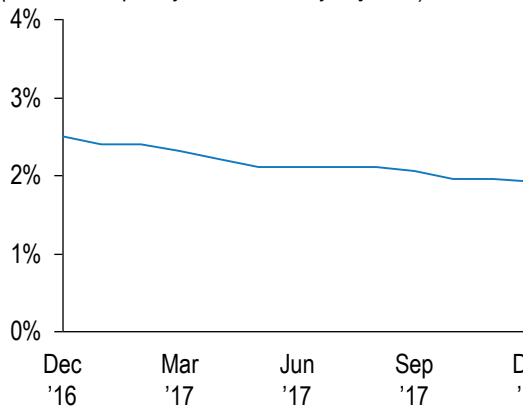
U.S. Healthcare Consumption

(Real¹ \$ in Trillions, seasonally adjusted at annual rates)



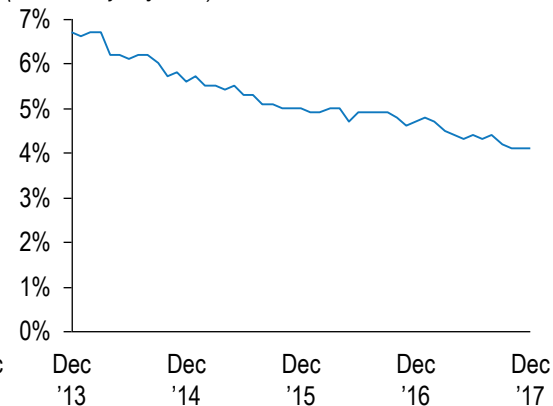
U.S. Healthcare Employment Growth

(Variance to prior year, seasonally adjusted)



U.S. Unemployment Rate

(Seasonally adjusted)

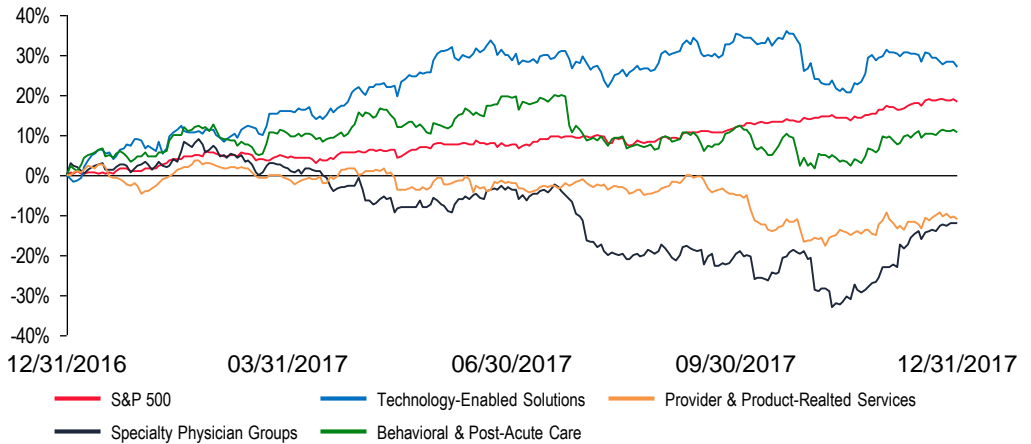


(1) 2009 dollars

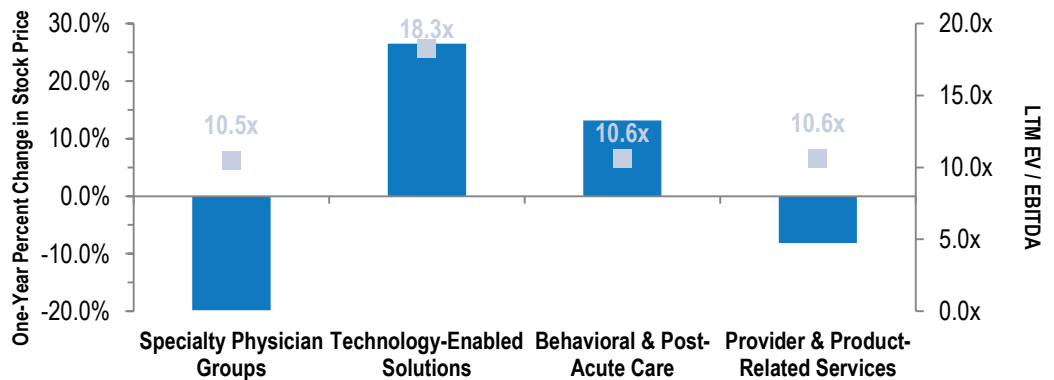
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Centers for Disease Control

Public Company Sector Performance vs S&P 500

Share Prices Indexed – Market Cap Weights
(12/31/2016 = 0.0%)



Public Company Sector Performance



Key Trading Statistics

Sector	Number of Companies	Median Enterprise Value (\$mm)	Median Stock Price Performance		Median Forward Ratios		Median LTM Multiples		Median 2017E Multiples	
			1 Year	3 Years	P/E	PEG	EV/Revenue	EV/EBITDA	EV/Revenue	EV/EBITDA
Specialty Physician Groups	3	\$11,023	-20%	-19%	15.0x	1.4x	1.5x	10.5x	1.5x	11.6x
Technology-Enabled Solutions	9	\$1,717	26%	-11%	21.8x	2.0x	2.6x	18.3x	2.4x	12.5x
Behavioral & Post-Acute Care	14	\$2,211	13%	1%	20.4x	1.6x	1.4x	10.6x	1.3x	9.9x
Provider & Product-Related Services	7	\$23,074	-8%	-24%	15.6x	1.7x	0.5x	10.6x	0.5x	11.0x

Select Company Trading Metrics

Key trading data as of 12/31/2017

(\$ in Millions, except per-share data)

Company	Enterprise Value	Equity Value	Revenue		EBITDA		EV / Revenue			EV / EBITDA			
			LTM	2017E	LTM	2017E	LTM	2017E	2018E	LTM	2017E	2018E	
Specialty Physician Groups													
Specialty Physician Groups	DaVita Inc.	\$22,573	\$13,246	\$15,213	\$15,403	\$2,436	\$2,450	1.5x	1.5x	1.6x	9.3x	9.2x	9.8x
	Envision Healthcare Corporation	11,023	4,127	7,207	7,779	1,051	899	1.5x	1.4x	1.3x	10.5x	12.3x	11.7x
	MEDNAX, Inc.	6,721	4,954	3,378	3,431	599	579	2.0x	2.0x	1.8x	11.2x	11.6x	11.0x
Technology-Enabled Solutions													
Technology-Enabled Solutions	Cerner Corporation	\$22,084	\$22,401	\$4,988	\$5,154	\$1,387	\$1,671	4.4x	4.3x	4.0x	15.9x	13.2x	12.1x
	athenahealth, Inc.	5,478	5,324	1,179	1,212	130	263	4.6x	4.5x	4.1x	42.1x	20.8x	16.3x
	Allscripts Healthcare Solutions, Inc.	4,403	2,629	1,714	1,817	174	364	2.6x	2.4x	2.0x	25.3x	12.1x	10.3x
	Omnicell, Inc.	2,025	1,840	690	724	41	87	2.9x	2.8x	2.5x	49.4x	23.3x	14.4x
	Premier, Inc.	1,717	1,670	1,532	1,611	447	536	1.1x	1.1x	1.0x	3.8x	3.2x	3.1x
	HMS Holdings Corp.	1,586	1,425	498	510	95	122	3.2x	3.1x	2.8x	16.7x	13.0x	11.4x
	Quality Systems, Inc.	893	865	524	527	59	81	1.7x	1.7x	1.6x	15.1x	11.0x	10.1x
	Evolent Health, Inc.	789	919	409	433	(48)	(2)	1.9x	1.8x	1.4x	NM	NM	38.9x
	Computer Programs and Systems, Inc.	548	404	263	268	28	48	2.1x	2.0x	1.9x	19.9x	11.3x	10.4x
	Behavioral & Post-Acute Care												
Behavioral & Post-Acute Care	Universal Health Services, Inc.	\$14,805	\$10,758	\$10,243	\$10,401	\$1,697	\$1,690	1.4x	1.4x	1.4x	8.7x	8.8x	8.3x
	Encompass Health Corporation	7,870	4,858	3,844	3,950	821	819	2.0x	2.0x	1.9x	9.6x	9.6x	9.3x
	Brookdale Senior Living Inc.	6,785	1,808	3,961	4,731	702	657	1.7x	1.4x	1.5x	9.7x	10.3x	10.4x
	Magellan Health, Inc.	2,608	2,319	5,408	5,760	247	300	0.5x	0.5x	0.3x	10.6x	8.7x	6.7x
	Civitas Solutions, Inc.	1,265	640	1,475	1,584	148	174	0.9x	0.8x	0.8x	8.6x	7.3x	6.9x
	Acadia Healthcare Company, Inc.	6,079	2,867	2,815	2,826	574	600	2.2x	2.2x	2.0x	10.6x	10.1x	9.5x
	Kindred Healthcare, Inc.	4,207	887	6,996	6,026	454	736	0.6x	0.7x	0.7x	9.3x	5.7x	5.2x
	Chemed Corporation	3,944	3,880	1,642	1,662	238	266	2.4x	2.4x	2.3x	16.5x	14.8x	14.4x
	Amedisys, Inc.	1,814	1,789	1,472	1,528	116	143	1.2x	1.2x	1.1x	15.7x	12.7x	10.9x
	Capital Senior Living Corporation	1,406	411	464	469	80	97	3.0x	3.0x	2.9x	17.7x	14.5x	13.2x
	The Ensign Group, Inc.	1,390	1,136	1,795	1,799	130	169	0.8x	0.8x	0.7x	10.7x	8.2x	7.2x
	LHC Group, Inc.	1,293	1,120	1,004	1,060	94	98	1.3x	1.2x	1.1x	13.8x	13.2x	11.8x
	AAC Holdings, Inc.	413	216	272	304	36	53	1.5x	1.4x	1.2x	11.6x	7.8x	6.3x
Addus HomeCare Corporation	398	400	416	424	34	37	1.0x	0.9x	0.9x	11.7x	10.9x	9.9x	
Provider & Product-Related Services													
Provider & Product-Related Services	CVS Health Corporation	\$96,683	\$73,449	\$182,351	\$183,908	\$12,331	\$12,463	0.5x	0.5x	0.5x	7.8x	7.8x	7.4x
	Walgreens Boots Alliance, Inc.	82,362	71,920	120,453	129,816	7,750	9,226	0.7x	0.6x	0.6x	10.6x	8.9x	8.4x
	Cardinal Health, Inc.	28,127	19,276	130,578	135,560	3,041	3,116	0.2x	0.2x	0.2x	9.2x	9.0x	8.6x
	Laboratory Corporation of America Holdings	23,074	16,238	9,892	10,202	1,899	2,025	2.3x	2.3x	2.1x	12.2x	11.4x	10.8x
	Quest Diagnostics Incorporated	17,026	13,424	7,634	7,691	1,432	1,549	2.2x	2.2x	2.2x	11.9x	11.0x	10.5x
	Rite Aid Corporation	8,968	2,064	31,956	25,690	937	659	0.3x	0.3x	0.4x	9.6x	13.6x	14.6x
	Diplomat Pharmacy, Inc.	1,586	1,464	4,475	4,491	73	101	0.4x	0.4x	0.3x	21.8x	15.7x	9.5x
	Specialty Physician Groups Median												
	\$11,023	\$4,954	\$7,207	\$7,779	\$1,051	\$899	1.5x	1.5x	1.6x	10.5x	11.6x	11.0x	
Technology-Enabled Solutions													
	\$1,717	\$1,670	\$690	\$724	\$95	\$122	2.6x	2.4x	2.0x	18.3x	12.5x	11.4x	
Behavioral & Post-Acute Care													
	\$2,211	\$1,462	\$1,718	\$1,731	\$193	\$220	1.4x	1.3x	1.2x	10.6x	9.9x	9.4x	
Provider & Product-Related Services													
	\$23,074	\$16,238	\$31,956	\$25,690	\$1,899	\$2,025	0.5x	0.5x	0.5x	10.6x	11.0x	9.5x	
Group Median													
	\$4,207	\$2,064	\$2,815	\$2,826	\$247	\$364	1.5x	1.4x	1.4x	11.4x	11.0x	10.3x	

Select M&A Transactions

(\$ in Millions)

Date	Target	Acquirer	Healthcare Subsector	Firm Value	Revenue ¹	Firm Value / EBITDA
10/03/2017	Tea Leaves Health, LLC	Welltok, Inc.	Technology-Enabled Solutions	\$90.0	-	-
10/03/2017	MB2Dental Solutions	Sentinel Capital Partners, L.L.C.	Specialty Physician Groups	-	-	-
10/04/2017	Cirus Medical Staffing, Inc.	Webster Capital	Provider & Product-Related	39.4	-	-
10/06/2017	Elite Medical Scribes, LLC	ScribeAmerica, LLC	Provider & Product-Related	-	-	-
10/09/2017	eviCore healthcare, LLC	Oz Parent, Inc.	Technology-Enabled Solutions	3,600.0	-	-
10/10/2017	JOTEC GmbH	CryoLife, Inc.	Technology-Enabled Solutions	245.6	4.8	-
10/10/2017	MedHelp International, Inc.	The Staywell Company, LLC	Technology-Enabled Solutions	-	-	-
10/11/2017	Prognosis Innovation Healthcare	Azalea Health Innovations, Inc.	Technology-Enabled Solutions	-	-	-
10/16/2017	Pilgrim Quality Solutions, Inc.	Undisclosed Acquirer	Technology-Enabled Solutions	-	-	-
10/16/2017	Medical Center Dermatology and Lakeway Dermatology	U.S. Dermatology Partners	Specialty Physician Groups	-	-	-
10/16/2017	iMediWare Inc.	Eye Care Leaders, LLC	Specialty Physician Groups	-	-	-
10/18/2017	Cleveland HeartLab, Inc.	Quest Diagnostics Incorporated	Provider & Product-Related	94.0	-	-
10/18/2017	Synergy Radiology Associates, P.A.	MEDNAX, Inc.	Specialty Physician Groups	-	-	-
10/19/2017	Smile Doctors LLC	Linden LLC; Sheridan Capital Partners	Specialty Physician Groups	-	-	-
10/20/2017	Advance Med, LLC	AHS Staffing, LLC	Provider & Product-Related	-	-	-
10/22/2017	GrapeTree Medical Staffing, Inc.	New MainStream Capital	Provider & Product-Related	-	-	-
10/22/2017	Exactech, Inc.	TPG Capital, L.P.	Technology-Enabled Solutions	709.6	2.7	16.5
10/22/2017	U.S. Healthworks, Inc.	Concentra, Inc.	Specialty Physician Groups	753.0	-	11.3
10/25/2017	Mentis Neuro Rehabilitation LP	Civitas Solutions, Inc.	Specialty Physician Groups	-	-	-
10/25/2017	Spectrum Vision Partners, LLC	Blue Sea Capital LLC	Specialty Physician Groups	-	-	-
10/27/2017	Vexim SA	Stryker Corporation	Technology-Enabled Solutions	223.0	9.3	NM
10/30/2017	Westone Laboratories, Inc.	HealthEdge Investment Partners, LLC	Technology-Enabled Solutions	-	-	-
10/30/2017	Young Innovations Inc.	The Jordan Company, L.P.; Linden LLC	Technology-Enabled Solutions	-	-	-
10/30/2017	Vivere Health, LLC	Prelude Fertility Inc.	Specialty Physician Groups	-	-	-
10/30/2017	Workforce Health	U.S. Healthworks, Inc.	Specialty Physician Groups	-	-	-
11/01/2017	Centurion Medical Products Corporation	Medline Industries, Inc.	Technology-Enabled Solutions	-	-	-
11/01/2017	Howsden Dermatology, P.A.	Platinum Dermatology Partners, LLC	Specialty Physician Groups	-	-	-
11/01/2017	Nine Clinic Physical Therapy Practice	U.S. Physical Therapy, Inc.	Specialty Physician Groups	6.4	0.7	-
11/01/2017	4 Managed Eye Care Practices	Nautic Partners, LLC	Specialty Physician Groups	-	-	-
11/06/2017	RxCrossroads	McKesson Specialty Health	Provider & Product-Related	735.0	-	-
11/13/2017	Dermatology Alliance	Epiphany Dermatology PA	Specialty Physician Groups	-	-	-
11/13/2017	Arcadian Telepsychiatry, LLC	MYnd Analytics, Inc.	Specialty Physician Groups	1.0	-	-
11/14/2017	Caring People Inc.	Silver Oak Services Partners, LLC	Behavioral & Post-Acute Care	-	-	-
11/14/2017	Careform, LLC	ConnectiveRX	Technology-Enabled Solutions	-	-	-
11/15/2017	Almost Family, Inc.	LHC Group, Inc.	Behavioral & Post-Acute Care	979.6	1.3	23.0
11/15/2017	Leehar Distributors, Inc.	Diplomat Pharmacy, Inc.	Provider & Product-Related	599.0	-	-
11/15/2017	Hayes, Inc.	TractManager, Inc.	Technology-Enabled Solutions	-	-	-
11/17/2017	A Place To Call Home, Inc.	Res-Care Inc.	Behavioral & Post-Acute Care	-	-	-
11/17/2017	Viewics, Inc.	Roche Holding AG	Technology-Enabled Solutions	-	-	-
11/17/2017	Home Medical Professionals, Inc.	Hospice Source, LLC	Technology-Enabled Solutions	-	-	-
11/17/2017	BC Technical, Inc.	Alpha Source, Inc.	Technology-Enabled Solutions	-	-	-
11/20/2017	H. D. Smith, LLC	AmerisourceBergen Corporation	Provider & Product-Related	815.0	-	-
11/20/2017	Docufill, LLC	Change Healthcare Holdings, Inc.	Technology-Enabled Solutions	-	-	-
11/20/2017	Medical Dermatology Specialist	U.S. Dermatology Partners	Specialty Physician Groups	-	-	-
11/20/2017	Walker Surgical Center, LLC	Great Lakes Management Services Organization	Specialty Physician Groups	-	-	-
11/20/2017	Lee Institute of Skin & Laser	Pinnacle Dermatology, LLC	Specialty Physician Groups	-	-	-
11/28/2017	Northwest Physicians Network	DaVita Medical Group	Specialty Physician Groups	-	-	-
11/29/2017	Mica Health, Inc.	Trinisys, LLC	Technology-Enabled Solutions	-	-	-
11/30/2017	Bristol Hospice, LLC	Webster Capital	Specialty Physician Groups	-	-	-
12/01/2017	CBM Pathology	Aurora Diagnostics Holdings, LLC	Provider & Product-Related	-	-	-
12/04/2017	Aspen Nursing Services, Inc.	Dungarvin Ohio, LLC	Behavioral & Post-Acute Care	-	-	-
12/04/2017	Atlantic Imaging Group	Concordia Care	Provider & Product-Related	-	-	-
12/04/2017	iHCFA	Concordia Care	Provider & Product-Related	-	-	-
12/04/2017	iCardiac Technologies, Inc.	eResearchTechnology, Inc.	Technology-Enabled Solutions	-	-	-
12/05/2017	Forcare B.V.	Koninklijke Philips N.V.	Technology-Enabled Solutions	-	-	-
12/05/2017	DaVita Medical Group	Optum, Inc.	Specialty Physician Groups	4,900.0	-	-
12/07/2017	Entellus Medical, Inc.	Stryker Corporation	Technology-Enabled Solutions	658.0	7.6	NM
12/08/2017	Holland Square Group, LLC	ALKU, LLC	Provider & Product-Related	-	-	-
12/11/2017	Empower Patient Portal Business of Influence Health, Inc.	SymphonyCare; SymphonyAlpha Ventures, LLC	Technology-Enabled Solutions	-	-	-
12/12/2017	SafePassage	NuVasive, Inc.	Provider & Product-Related	-	-	-
12/18/2017	MedRisk, Inc.	The Carlyle Group L.P.; Carlyle Partners VI, L.P.	Provider & Product-Related	-	-	-

These materials were prepared from publicly available information and other sources without independent verification by MHT Partners, and therefore neither MHT Partners nor any of its partners, directors, officers, employees or affiliates warrants the accuracy or completeness of these materials, including without limitation the accuracy or achievability of any valuations, projections, estimates or assumptions, all of which are necessarily preliminary and subject to further analysis. Actual results may vary from such valuations, projections, estimates and assumptions, and such variations may be material.

Recent MHT Partners Healthcare Transactions

 Dermatology & Skin Surgery Center, PLC

has formed a partnership with

 DOCS

DERMATOLOGISTS OF CENTRAL STATES

a portfolio company of

 SHERIDAN CAPITAL PARTNERS

 NATIONAL NEUROMONITORING SERVICES

has formed partnerships with

 THE SPINE INSTITUTE OF LOUISIANA

and

Hanover Medical, LLC

 Tampa Bay Emergency Physicians

has formed a partnership with

 US Acute Care Solutions

a portfolio company of

 WCAS
WELSH, CARSON, ANDERSON & STOWE

The Preeminent Advisor To Innovative, Niche Market Leaders

Buy Side Advisory

- ✓ Exceptional client service
- ✓ "One stop shop" for middle market companies
- ✓ Unique resource for middle market management teams

Sell Side Advisory

- ✓ Superior transaction execution
- ✓ More robust M&A strategies
- ✓ Ability and desire to serve as advisors to companies even if there is no imminent transaction

Capital Raises

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