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Healthcare Services Industry Update Q1 2018

Boston | Dallas | San Francisco

www.mhtpartners.com

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

Q1 2018

Industry Insight

Economic Indicators

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About MHT Partners

The Pulse

The American healthcare industry has seen a series of vertical mega mergers in recent months, a trend that reflects increasing pressure on healthcare companies to find alternative profit streams and cut administrative costs. Diversification trends have been particularly pronounced for pharmacy benefit managers (“PBMs”) with CVS Health, the drug store operator and owner of a major PBM in CVS Caremark, announcing its plan to acquire Aetna in late 2017 alongside Cigna’s acquisition of Express Scripts in March of this year.

Cigna to Acquire Express Scripts for \$54 Billion

On March 8th, Cigna Corp. announced that it had agreed to acquire Express Scripts Holdings, the nation’s largest PBM, at a value of \$52 billion or \$96.03 per share. The deal value equates to about 9.6x Enterprise Value to EBITDA and is one of the largest mergers of 2018 thus far.

Industry Insight: Why Private Equity is Turning its Attention to Gastroenterology

M&A activity between physician practices and private equity investors has evolved meaningfully over the last several years. Coming out of the Great Recession, investors pursued consolidation, administrative optimization, and networking improvements in specialties such as dentistry, dermatology, physical therapy, and anesthesiology. Today, having written the playbook for successful partnerships with physician practices, investors have begun identifying the next wave of attractive specialties in healthcare services to implement proven investment strategies.



Recently, gastroenterology and endoscopy (collectively “GI”) has emerged as an area of interest for private equity investors focused on U.S. healthcare services. Gastroenterologists nationwide are receiving calls from investors, and it is easy to see why: the rationale for investment in GI is underpinned by a strong market, macroeconomic factors, industry trends, and local considerations.

As is true across the private equity investment landscape, financial markets continue to provide attractive sources of capital to investors, driving competition for attractive opportunities. Favorable debt terms (e.g., low interest rates for high-performing businesses) support strong overall investor demand. Furthermore, private equity “dry powder” – the amount of dedicated funds that private equity investors are committed to deploy - continues to grow. Many firms also face looming investment deadlines as a result of fund structures that require the timely deployment of capital in order to meet investor commitments.

At the macroeconomic level, GI services are poised for growth. A high incidence of colorectal disease in the U.S. drives patient volume to GI specialists focused on screening, preventative care, and treatment, and over the last two decades, patient flow has been augmented by the nationwide increase in chronic conditions such as diabetes, obesity, and high blood pressure. As the population ages, demand for GI services will far outpace other areas of the economy.



Additionally, GI stands to benefit from attractive industry dynamics, such as the widespread adoption of physician-controlled endoscopy centers. Endoscopy centers and ambulatory surgery centers (“ASCs”) expand the breadth of physician control over the procedure, the delivery of care, and ancillary services, in addition to keeping patients out of more costly hospital facilities. The gamut of procedures approved by the Centers for Medicare & Medicaid Services (“CMS”) for outpatient care settings favors GI, as does the fact that the specialty operates as an important provider of preventative care.



GI service providers are fragmented as well. A handful of regional groups compete with many smaller local practices. GI businesses of scale (50+ physicians) exist in many large metro areas, though few industry players are able to achieve leverage with payors at the national level. Large practices will benefit from local consolidation, while smaller independent practices will benefit from a centralized administrative infrastructure that lowers cost.

Audax Private Equity initiated the first notable private equity investment in GI by establishing a partnership with Florida-based Gastro Health in March 2016. More recently, Dallas-based behemoth Texas Digestive Disease Consultants (“TDDC”) announced it was seeking a strategic partner. Washington Gastroenterology, the 2018 merger of four GI leaders in the Seattle area, exemplifies GI practices realizing the benefits of local scale. MHT Partners believes that these bellwether transactions, increasing awareness among gastroenterologists in regard to their strategic options, and the factors described above will combine to drive attractive M&A opportunities for GI practices in the near future.

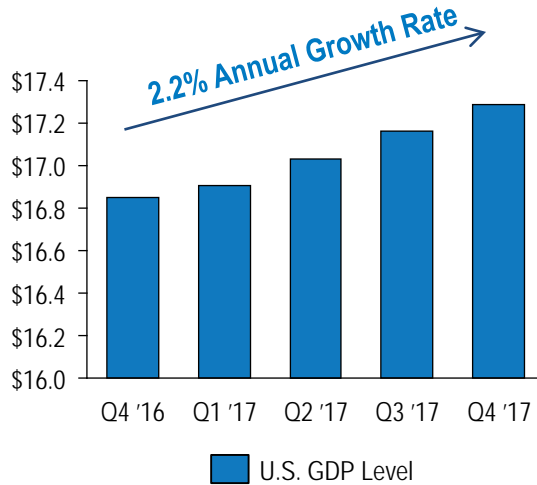
If you'll be at Digestive Disease Week in Washington, DC June 2-5 and would like to arrange a meeting to discuss GI with MHT Partners, please email Alex Sauter (asauter@mhtpartners.com).

Economic Trends

Key economic indicators for the Healthcare Services industry.

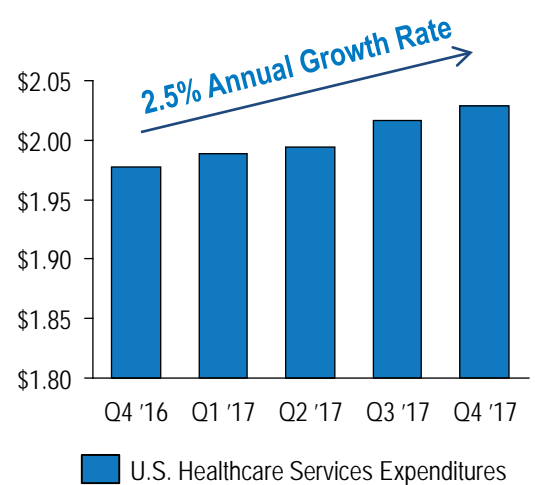
Real¹ U.S. GDP Growth

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



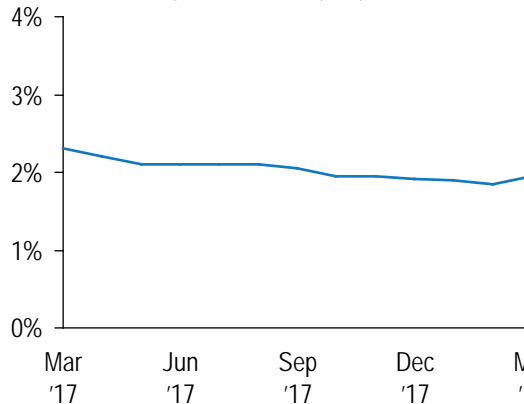
U.S. Healthcare Consumption

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



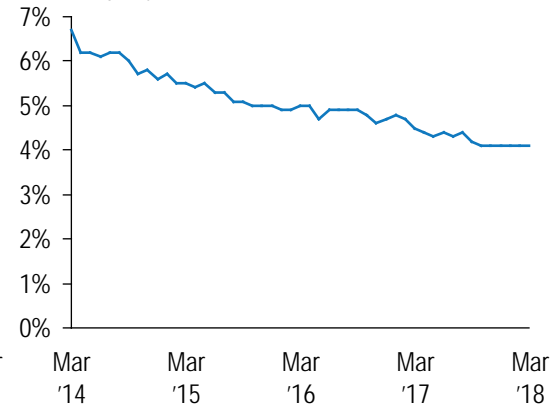
U.S. Healthcare Employment Growth

(Variance to prior year, seasonally adjusted)



U.S. Unemployment Rate

(Seasonally adjusted)

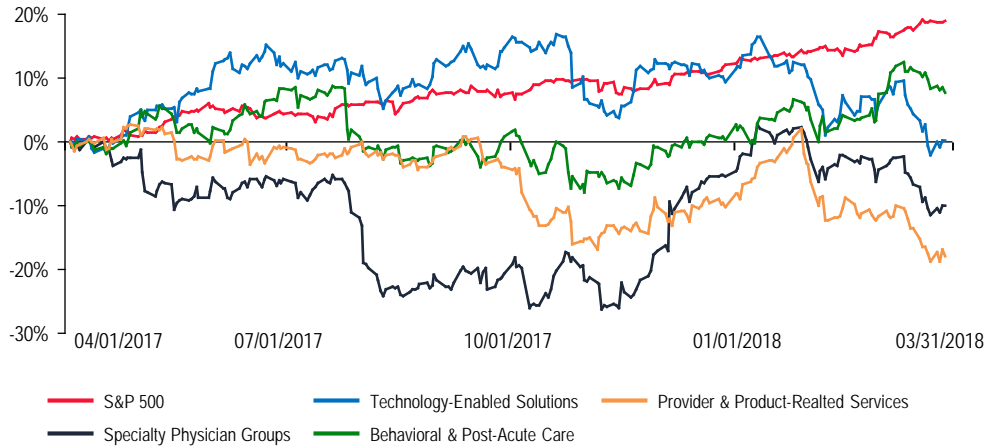


(1) 2009 dollars

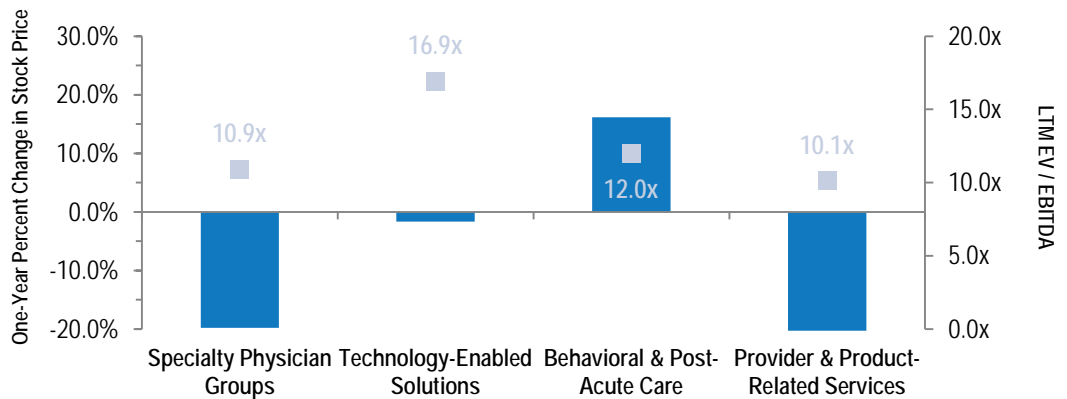
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Centers for Disease Control

Public Company Sector Performance vs S&P 500

Share Prices Indexed – Market Cap Weights
(03/31/2017 = 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 2018E Multiples	
			1 Year	3 Years	P/E	PEG	EV/Revenue	EV/EBITDA	EV/Revenue	EV/EBITDA
Specialty Physician Groups	3	\$11,429	-20%	-22%	15.0x	1.4x	2.0x	10.9x	1.9x	11.3x
Technology-Enabled Solutions	9	\$1,758	-2%	-4%	21.8x	2.0x	2.3x	16.9x	1.9x	11.3x
Behavioral & Post-Acute Care	14	\$2,662	16%	9%	20.4x	1.6x	1.5x	12.0x	1.3x	10.2x
Provider & Product-Related Services	7	\$22,949	-21%	-29%	15.6x	1.7x	0.5x	10.1x	0.5x	8.8x

Select Company Trading Metrics

Key trading data as of 03/31/2018

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

Company	Enterprise Value	Equity Value	Revenue		EBITDA		EV / Revenue			EV / EBITDA			
			LTM	2018E	LTM	2018E	LTM	2018E	2019E	LTM	2018E	2019E	
Specialty Physician Groups													
Specialty Physician Groups	DaVita Inc.	\$21,942	\$11,950	\$10,884	\$11,368	\$2,409	\$2,144	2.0x	1.9x	1.8x	9.1x	10.2x	9.7x
	Envision Healthcare Corporation	11,429	4,597	7,819	8,411	1,047	968	1.5x	1.4x	1.3x	10.9x	11.8x	10.5x
	MEDNAX, Inc.	6,975	5,193	3,458	3,731	583	618	2.0x	1.9x	1.8x	12.0x	11.3x	10.5x
Technology-Enabled Solutions													
Technology-Enabled Solutions	Cerner Corporation	\$19,012	\$19,291	\$5,041	\$5,539	\$1,368	\$1,735	3.8x	3.4x	3.2x	13.9x	11.0x	10.0x
	athenahealth, Inc.	5,843	5,735	1,220	1,349	165	353	4.8x	4.3x	3.9x	35.3x	16.6x	14.3x
	Allscripts Healthcare Solutions, Inc.	4,126	2,234	1,806	2,197	151	437	2.3x	1.9x	1.8x	27.3x	9.4x	8.7x
	Omnicell, Inc.	1,861	1,683	716	790	48	127	2.6x	2.4x	2.1x	39.1x	14.6x	12.4x
	Premier, Inc.	1,758	1,713	1,585	1,629	641	538	1.1x	1.1x	1.0x	2.7x	3.3x	3.1x
	HMS Holdings Corp.	1,553	1,396	521	565	97	131	3.0x	2.7x	2.6x	16.0x	11.8x	10.8x
	Quality Systems, Inc.	885	870	528	527	51	79	1.7x	1.7x	1.6x	17.4x	11.3x	10.3x
	Evolent Health, Inc.	984	1,066	435	577	(29)	21	2.3x	1.7x	1.5x	NM	46.3x	22.5x
	Computer Programs and Systems, Inc.	544	402	277	287	33	48	2.0x	1.9x	1.8x	16.5x	11.3x	11.3x
Behavioral & Post-Acute Care													
Behavioral & Post-Acute Care	Universal Health Services, Inc.	\$15,197	\$11,163	\$10,410	\$10,975	\$1,728	\$1,799	1.5x	1.4x	1.3x	8.8x	8.4x	8.0x
	Encompass Health Corporation	8,598	5,611	3,919	4,197	833	844	2.2x	2.0x	1.9x	10.3x	10.2x	9.6x
	Acadia Healthcare Company, Inc.	6,654	3,459	2,836	3,046	581	641	2.3x	2.2x	2.0x	11.5x	10.4x	9.7x
	Brookdale Senior Living Inc.	5,879	1,252	3,856	4,608	662	580	1.5x	1.3x	1.3x	8.9x	10.1x	9.7x
	Chemed Corporation	4,500	4,410	1,667	1,721	240	279	2.7x	2.6x	2.5x	18.7x	16.1x	15.2x
	Kindred Healthcare, Inc.	4,180	836	6,034	6,091	421	809	0.7x	0.7x	0.7x	9.9x	5.2x	5.0x
	Magellan Health, Inc.	3,198	2,605	5,839	7,656	242	396	0.5x	0.4x	0.4x	13.2x	8.1x	7.7x
	LHC Group, Inc.	2,126	1,914	1,063	1,866	90	170	2.0x	1.1x	1.0x	23.7x	12.5x	9.5x
	Amedisys, Inc.	2,054	2,051	1,509	1,632	128	161	1.4x	1.3x	1.2x	16.0x	12.8x	11.6x
	The Ensign Group, Inc.	1,619	1,354	1,849	2,007	139	194	0.9x	0.8x	0.8x	11.6x	8.3x	7.0x
	Capital Senior Living Corporation	1,320	328	465	485	84	105	2.8x	2.7x	2.6x	15.7x	12.6x	12.1x
	Civitas Solutions, Inc.	1,285	578	1,511	1,599	149	167	0.9x	0.8x	0.8x	8.6x	7.7x	7.4x
	Addus HomeCare Corporation	548	559	417	471	33	41	1.3x	1.2x	1.1x	16.7x	13.2x	12.1x
	AAC Holdings, Inc.	478	281	281	356	39	70	1.7x	1.3x	1.2x	12.4x	6.8x	5.7x
Provider & Product-Realted Services													
Provider & Product-Realted Services	CVS Health Corporation	\$88,389	\$63,172	\$184,765	\$189,336	\$12,526	\$12,442	0.5x	0.5x	0.4x	7.1x	7.1x	6.2x
	Walgreens Boots Alliance, Inc.	79,672	64,924	124,028	130,264	7,861	9,135	0.6x	0.6x	0.6x	10.1x	8.7x	8.2x
	Cardinal Health, Inc.	28,269	19,726	132,614	136,024	3,159	3,223	0.2x	0.2x	0.2x	8.9x	8.8x	8.4x
	Laboratory Corporation of America Holdings	22,949	16,482	10,206	11,473	1,983	2,173	2.2x	2.0x	1.9x	11.6x	10.6x	10.1x
	Quest Diagnostics Incorporated	17,540	13,619	7,709	7,755	1,554	1,581	2.3x	2.3x	2.2x	11.3x	11.1x	10.7x
	Rite Aid Corporation	4,652	1,784	31,956	25,690	937	651	0.1x	0.2x	0.2x	5.0x	7.1x	7.7x
	Diplomat Pharmacy, Inc.	2,124	1,488	4,485	5,441	72	168	0.5x	0.4x	0.4x	29.5x	12.7x	11.2x
Specialty Physician Groups Median													
	\$11,429	\$5,193	\$7,819	\$8,411	\$1,047	\$968	2.0x	1.9x	1.8x	10.9x	11.3x	10.5x	
Technology-Enabled Solutions													
	\$1,758	\$1,683	\$716	\$790	\$97	\$131	2.3x	1.9x	1.8x	16.9x	11.3x	10.8x	
Behavioral & Post-Acute Care													
	\$2,662	\$1,634	\$1,758	\$1,937	\$195	\$237	1.5x	1.3x	1.2x	12.0x	10.2x	9.6x	
Provider & Product-Realted Services													
	\$22,949	\$16,482	\$31,956	\$25,690	\$1,983	\$2,173	0.5x	0.5x	0.4x	10.1x	8.8x	8.4x	
Group Median													
	\$4,180	\$2,051	\$2,836	\$3,046	\$242	\$437	1.7x	1.4x	1.3x	11.8x	10.6x	9.7x	

Select M&A Transactions

(\$ in Millions)

Date	Target	Acquirer	Healthcare Subsector	Firm Value	Firm Value /	
					Revenue	EBITDA
03/27/2018	Cool Springs Interventional, PLLC	MEDNAX, Inc.	Specialty Physician Groups	-	-	-
03/26/2018	OralMetrix, Inc.	DENTSPLY SIRONA Inc.	Technology-Enabled Solutions	-	-	-
03/21/2018	Childrens Eye Care, PLLC	MEDNAX, Inc.	Specialty Physician Groups	-	-	-
03/21/2018	Connectiv, Inc.	Accruent, LLC	Technology-Enabled Solutions	-	-	-
03/21/2018	NxThera, Inc.	Boston Scientific Corporation	Provider & Product-Realted	-	-	-
03/19/2018	Horizon Oncology Research, LLC	Pharos Capital Group, LLC; Pharos Capital Partners III, L.P.	Specialty Physician Groups	-	-	-
03/19/2018	Vyair Medical, Inc.	Apax Partners LLP	Provider & Product-Realted	871.7	1.1	-
03/16/2018	LifeScan, Inc.	Platinum Equity, LLC	Provider & Product-Realted	2,100.0	1.4	-
03/15/2018	Camellia Healthcare	Encompass Health Corporation	Behavioral & Post-Acute Care	135.0	1.7	-
03/15/2018	Family Allergy & Asthma	Prairie Capital, L.P.	Specialty Physician Groups	-	-	-
03/15/2018	Spinal Kinetics, Inc.	Orthofix International N.V.	Provider & Product-Realted	105.0	-	-
03/13/2018	Outpatient Imaging Affiliates, LLC	ICV Partners, LLC	Specialty Physician Groups	-	-	-
03/12/2018	Bolder Healthcare Solutions LLC	Cognizant Technology Solutions Corporation	Technology-Enabled Solutions	-	-	-
03/12/2018	Samova, Inc.	Patricia Industries	Provider & Product-Realted	903.0	1.6	-
03/07/2018	Heartland Dental, LLC	KKR & Co. L.P.	Specialty Physician Groups	-	-	-
03/06/2018	ABILITY Network Inc.	Inovalon Holdings, Inc.	Technology-Enabled Solutions	1,200.0	8.6	16.6
03/06/2018	SafeOp Surgical, Inc.	Alphatec Holdings, Inc.	Provider & Product-Realted	33.6	-	-
03/06/2018	Nine New Jersey Locations of DermOne Inc.	Schweiger Dermatology Group, PLLC	Specialty Physician Groups	-	-	-
03/02/2018	HCR ManorCare, Inc.	Quality Care Properties, Inc.	Behavioral & Post-Acute Care	-	-	-
02/28/2018	Chandler Radiology Associates LLP	Envision Healthcare Corporation	Specialty Physician Groups	-	-	-
02/27/2018	Naveos	Revint Solutions	Technology-Enabled Solutions	-	-	-
02/27/2018	Ambercare Corporation, Inc.	Addus HealthCare Inc.	Behavioral & Post-Acute Care	40.0	0.7	-
02/26/2018	Gulf Coast Pain Institute	NexPhase Capital	Specialty Physician Groups	-	-	-
02/23/2018	Intermedix Corporation	R1 RCM Inc.	Technology-Enabled Solutions	460.0	2.4	9.6
02/16/2018	Associates in Orthopaedic Surgery, S.C.	OrthoIllinois	Specialty Physician Groups	-	-	-
02/15/2018	Flatiron Health, Inc.	Roche Holding AG	Technology-Enabled Solutions	2,173.9	-	-
02/14/2018	SMA Informatics Partners LLC (nka:New Health Analytics, LLC)	EnterBridge Technologies, Inc.	Technology-Enabled Solutions	-	-	-
02/13/2018	Cottonwood De Tucson, Inc.	Summit Behavioral Healthcare, LLC	Behavioral & Post-Acute Care	-	-	-
02/08/2018	South County Radiologists, Inc.	West County Radiology Group, Inc.	Specialty Physician Groups	-	-	-
02/08/2018	Corpus Medical, Inc.	Confluent Medical Technologies, Inc.	Provider & Product-Realted	-	-	-
02/08/2018	ZEST Anchors LLC	BC Partners	Provider & Product-Realted	-	-	-
02/07/2018	The Smile Center, P.A.	Jefferson Dental Clinics P.C.	Specialty Physician Groups	-	-	-
02/07/2018	ELEVATE Physical Therapy Inc	Physical Rehabilitation Network, LLC	Specialty Physician Groups	-	-	-
02/05/2018	Tifton Ophthalmology (nka:Tift Regional Ophthalmology)	Tift Regional Medical Center, Inc.	Specialty Physician Groups	-	-	-
02/05/2018	Mobius Medical Systems, LP	Varian Medical Systems, Inc.	Technology-Enabled Solutions	-	-	-
02/02/2018	Agility Health, LLC	Alliance Physical Therapy Management, LLC	Specialty Physician Groups	45.0	-	-
02/02/2018	Agility Health, LLC	Alliance Physical Therapy Management, LLC	Specialty Physician Groups	45.0	-	-
02/01/2018	Resonetics, LLC	Regatta Medical	Provider & Product-Realted	-	-	-
01/30/2018	Dielectrics, Inc.	UFP Technologies, Inc.	Provider & Product-Realted	57.2	1.3	-
01/22/2018	Maestro Health, Inc.	AXA SA	Technology-Enabled Solutions	155.0	-	-
01/11/2018	ProVation Medical, Inc.	Clearlake Capital Group, L.P.	Technology-Enabled Solutions	180.0	-	-
01/11/2018	e+CancerCare	Alliance Oncology, LLC	Specialty Physician Groups	-	-	-
01/10/2018	Tri-Valley Neonatal Medical Group, Inc.	MEDNAX, Inc.	Specialty Physician Groups	-	-	-
01/08/2018	Atanse Inc.	FHC, Inc.	Provider & Product-Realted	-	-	-
01/05/2018	Practice Fusion, Inc.	Allscripts Healthcare, LLC	Technology-Enabled Solutions	100.0	-	-
01/04/2018	Drayer Physical Therapy Institute, LLC	Upstream Rehabilitation Inc.	Specialty Physician Groups	-	-	-
01/04/2018	The Stepping Stones Group, LLC	Five Arrows Capital Partners, L.P.; Five Arrows Managers	Specialty Physician Groups	-	-	-
01/04/2018	Renaissance Imaging Medical Associates, Inc.	Radiology Partners, Inc.	Specialty Physician Groups	-	-	-
01/04/2018	Connecture, Inc.	Francisco Partners Management LLC	Technology-Enabled Solutions	103.3	1.3	NM
01/04/2018	The Stepping Stones Group, LLC	Five Arrows Capital Partners, L.P.; Five Arrows Managers	Behavioral & Post-Acute Care	-	-	-
01/02/2018	Veracity Medical Solutions, Inc.	Arcamed, LLC	Provider & Product-Realted	-	-	-
01/01/2018	Millenium Home Health Care, Inc.	Five Points Healthcare, LLC	Behavioral & Post-Acute Care	-	-	-
12/15/2017	Armune BioScience, Inc.	Exact Sciences Corporation	Provider & Product-Realted	-	-	-

Recent MHT Partners Healthcare Transactions

The New Jersey assets of
DermOne™
Dermatology

have been acquired by

SCHWEIGER
DERMATOLOGY GROUP

a portfolio company of

LLRpartners

 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

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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