

Private Equity Summary Report—July 2017




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1. A Mid-Year Review: 2017 Healthcare M&A and Private Equity Landscape

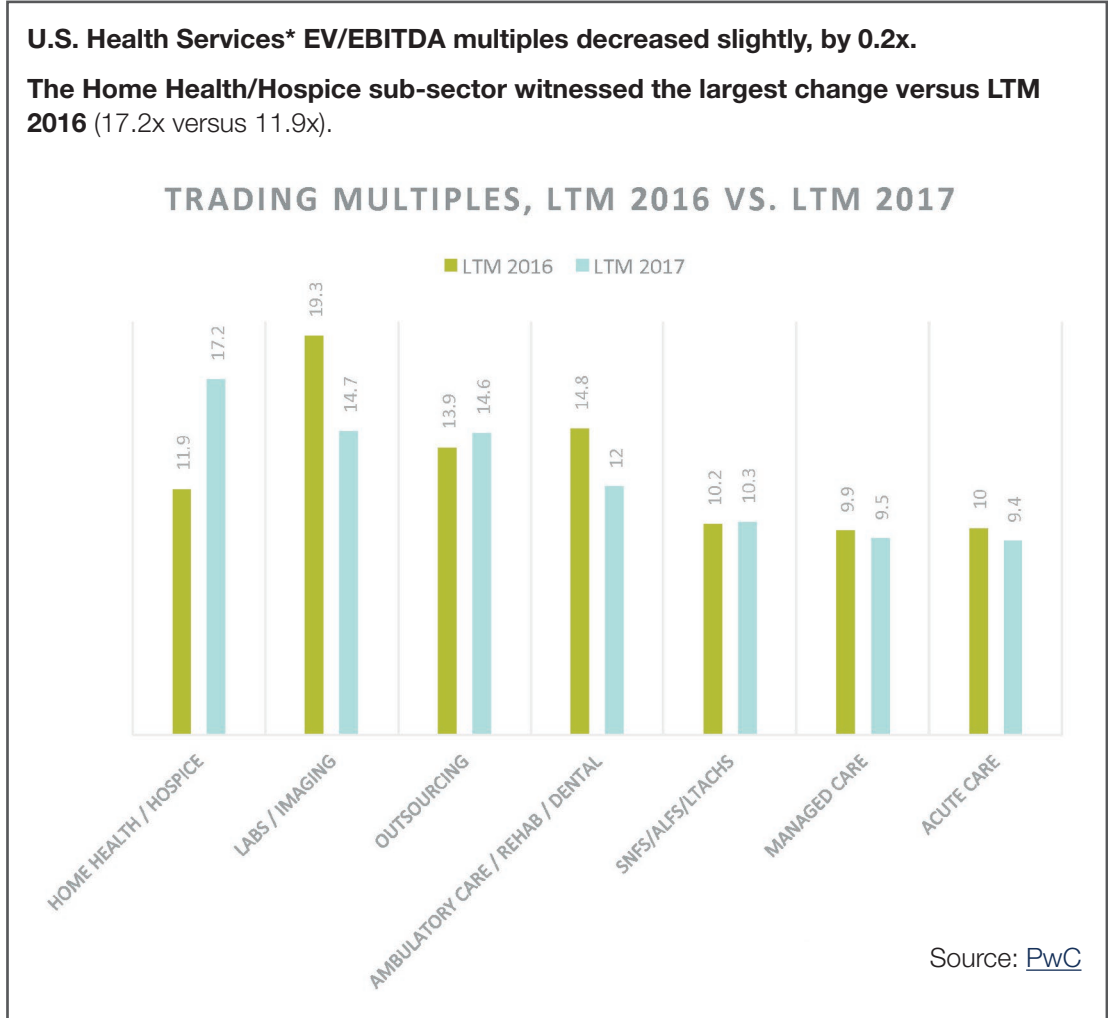
A Look Back at the First Half of 2017 ...

At the midpoint of 2017, deal data suggests deal volume (both PE and M&A) continues to trend downward – a trend that started in 2016 – however, despite this, deal values are experiencing a surge.

<p>Healthcare M&A</p>  <p>Volume Value</p>	<p><u>According</u> to PwC, despite uncertainty on the healthcare reform front, U.S. deal volume remained stable in the first half of 2017. HealthcareMandA.com, a unit of Irving Levin, <u>found</u>:</p> <ul style="list-style-type: none"> • M&A tapered off a bit in Q2 2017 compared to Q1 2017; deal volume fell 15% to 366 transactions (430 in Q1 2017). • Deal volume was also down 14% from the same quarter in 2016. • That said, deal value reached \$95.8 billion, an increase of 62% compared to Q1 2017 (\$59.1 billion). <p>Q2's surge in deal value was in part attributed to investors' acceptance that healthcare reform would be a longer process than initially anticipated.</p>
<p>Healthcare PE</p>  <p>Volume Value</p>	<p>PitchBook data suggests a significant increase in the value of PE investments in the first half of 2017 compared to the same period in 2016. (The American Investment Council reports even <u>higher numbers</u> than PitchBook).</p> <p>Although the total value of these investments has increased sharply, increasing to \$20.3 billion in Q2 2017, the number of PE deals has remained relatively flat until Q1 2017, with a steeper decrease in Q2 2017 (150 deals, according to PitchBook).</p>
<p>Digital Health</p> 	<p>Investments in the <u>digital health space</u> reached a record \$3.5 billion distributed across 188 deals in the first half of 2017, <u>according</u> to Rock Health.</p> <p>"Amid one of the most uncertain periods in healthcare history, digital health investments saw their strongest quarter yet," Rock Health notes. Since Rock Health's report only includes U.S. deals over \$2 million and excludes companies that are sector agnostic with a healthcare vertical, it isn't surprising that StartUp Health <u>reports</u> higher numbers, with investments in digital health reaching \$6.5 billion across 306 deals for the same period.</p>

2. By the Numbers: Mid-Year 2017 M&A and PE Data

Healthcare TEV/EBIDTA



*Covered under PwC's [health services umbrella](#) are behavioral care; home health care; hospitals; labs, MRI and dialysis; long-term care; managed care; physician medical groups; and rehabilitation services

M&A: Healthcare Services Activity

M&A numbers in the healthcare services segment for Q2 2017 show that only two areas saw gains compared to Q1 levels - hospital transaction were up 15% and managed care deals rose 25%, although the level of M&A activities in both segment were relatively slim.

Overall, healthcare services saw an 18% decrease in transaction in Q2 when compared to Q1 and a 15% decrease when compared to Q2 2016.

	Q2 '17		Q1 '17		Q2 2016	
Services	Deals	Deals	Change	Deals	Change	
Behavioral healthcare	8	16	-50%	17	-53%	
Home health & hospice	9	15	-40%	13	-31%	
Hospitals	23	20	15%	20	15%	
Labs, MRI and Dialysis	13	12	0.9%	13	0	
Long-term care	75	76	-1%	90	17%	
Managed care	5	4	25%	5	0%	
Physicians Medical Groups	30	59	-49%	42	29%	
Rehabilitation	6	12	-50%	10	-40%	
Other	51	53	-0.9%	49	4%	
Total	220	267	-18%	259	-15%	

Source: HealthCareMandA.com

M&A: Healthcare Tech Activity

M&A numbers in the healthcare technology segment for Q2 2017 indicate that only the Medical Device sector posted an increase in deal volume compared to Q1 2017; meanwhile pharma saw a steep decline.

	Q2 '17	Q1 '17		Q2 2016	
Technology	Deals	Deals	Change	Deals	Change
Biotechnology	54	63	-14%	34	59%
eHealth	43	58	-10%	60	-28%
Medical Devices	33	23	43%	27	22%
Pharmaceuticals	16	29	-45%	44	-64%
Total	146	163	-10%	165	-12%

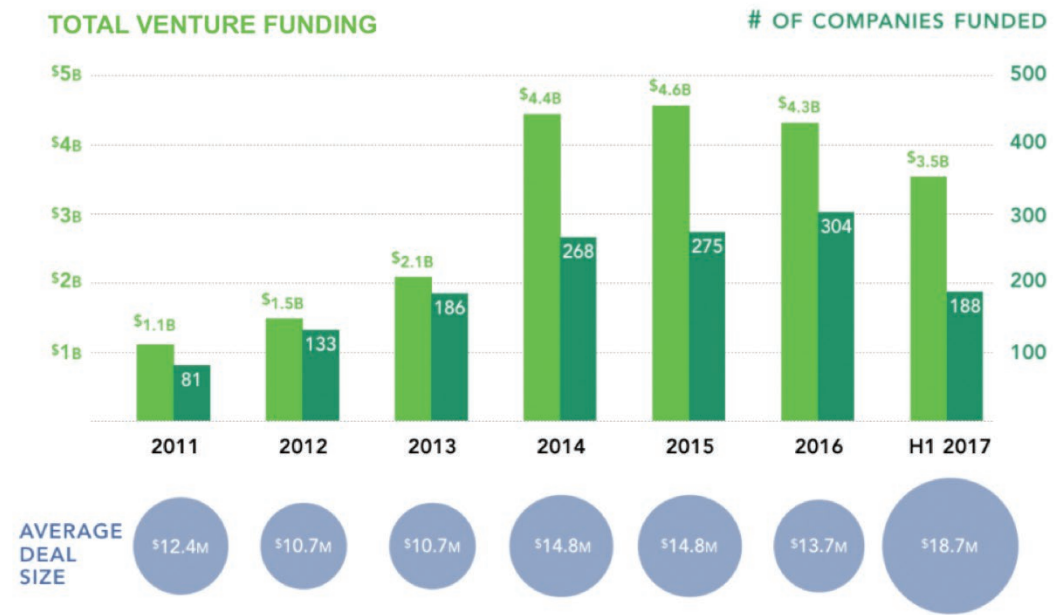
Source: HealthCareMandA.com

“The pharmaceutical sector posted its sixth straight decline in quarterly deal volume, down 45% to only 16 deals versus the first quarter. For the Big Pharma companies, big M&A deals are needed to fuel growth, but the C-suite is waiting to see how the Trump administration’s tax reform efforts fare before committing billions of dollars to a merger or acquisition,” HealthCareMandA.com [notes](#).

Digital Health Funding 2011 - H1 2017

RockHealth **qualifies** the level of investment in Q2 2017 as an “unsuspected twist,” as the pace of investment sees no slowdown, quarter after quarter.

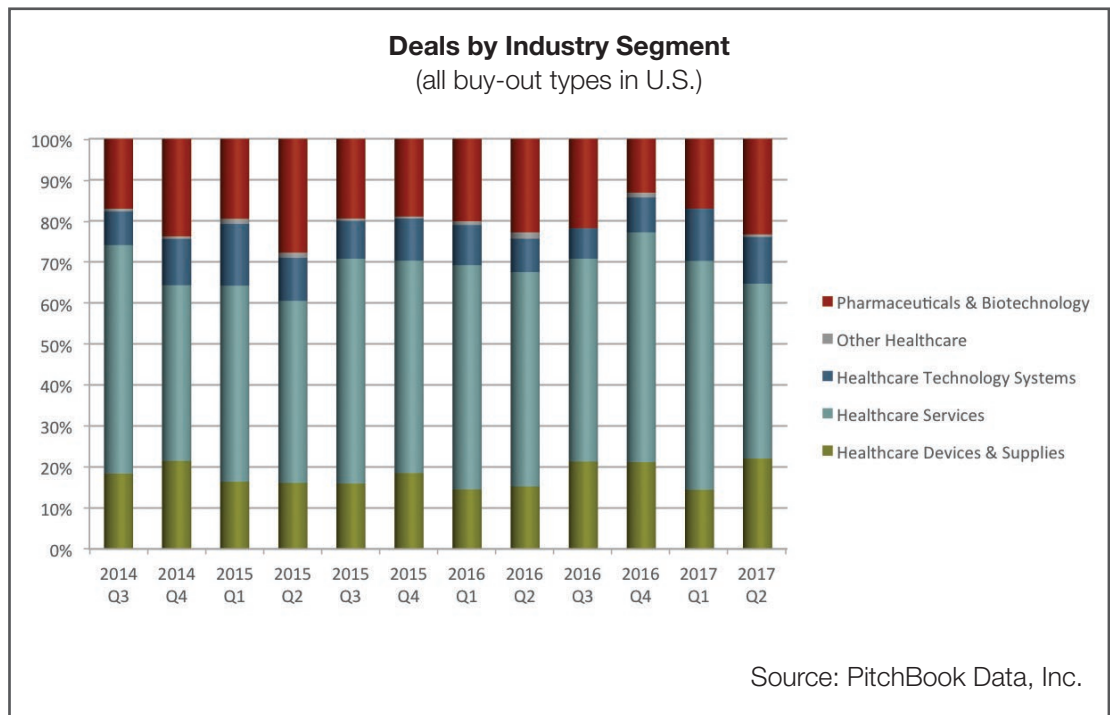
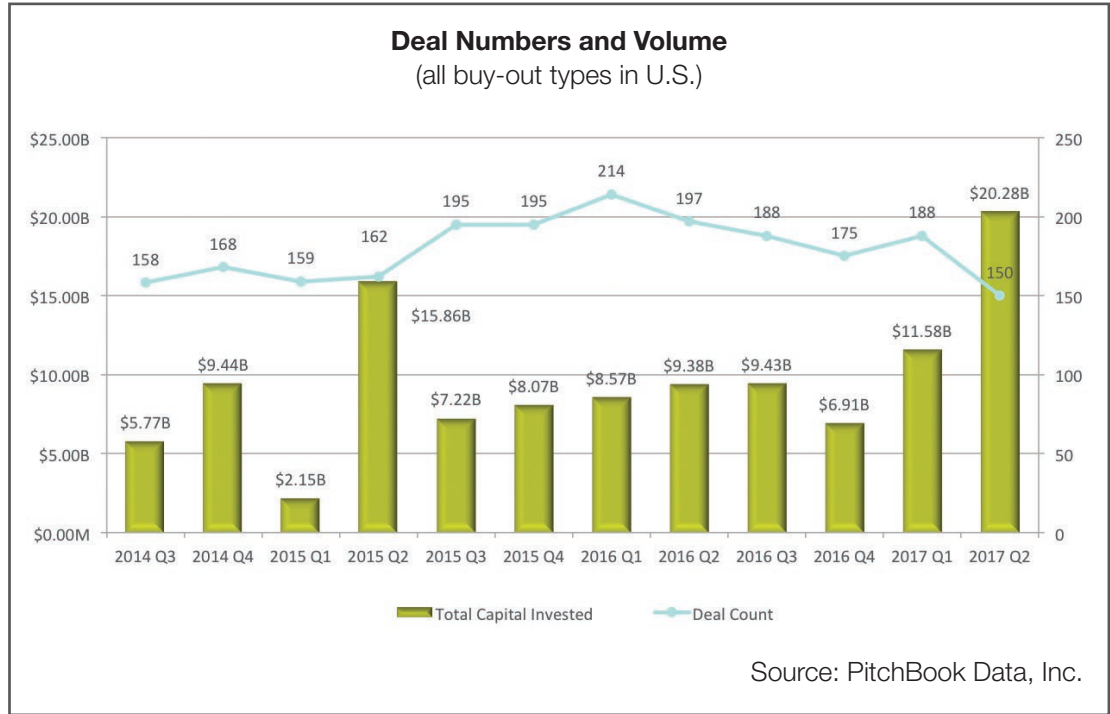
“Then second quarter hit, and funding skyrocketed to unprecedented levels, culminating in the most funded half-year digital health has ever seen,” it notes.



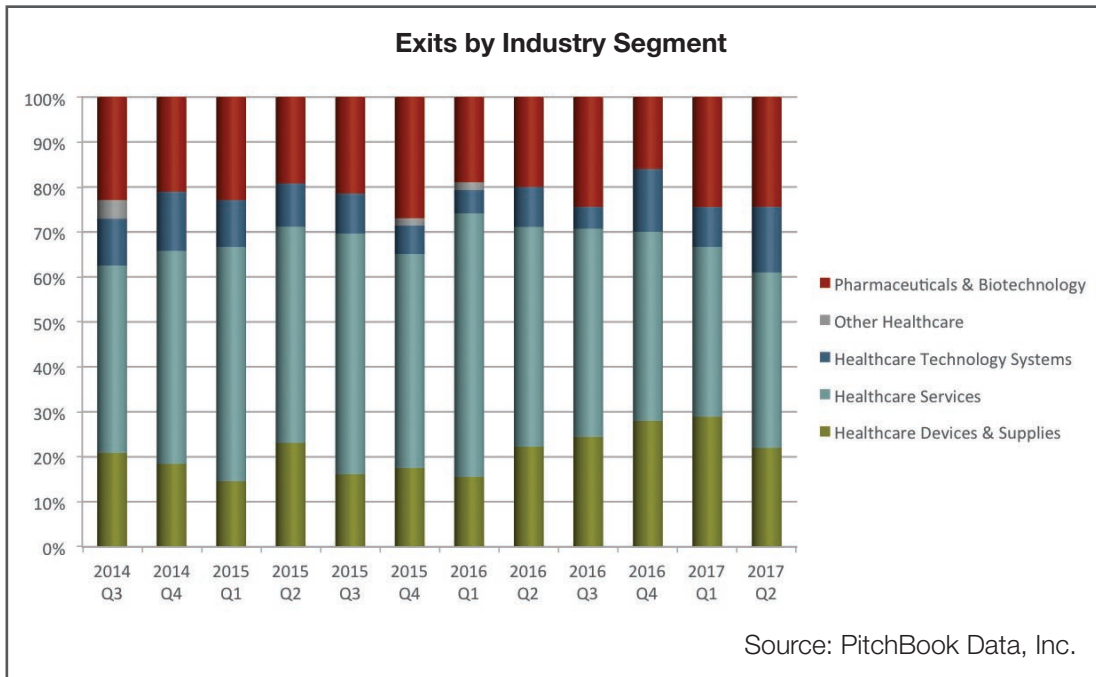
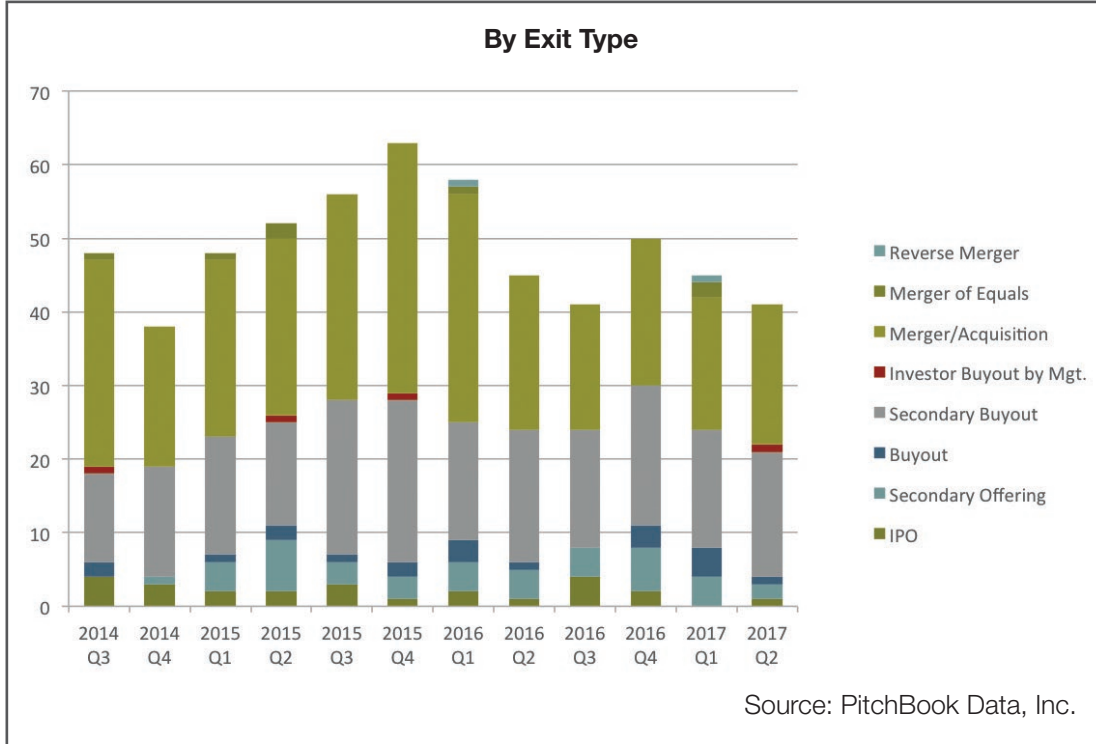
Note: Only includes U.S. deals >\$2M; data through June 30, 2017

Source: Rock Health Funding Database

Healthcare PE Deal Activity



Healthcare PE Exit Trends



3. 2017 H1 Activity: Notable Developments

2017 Investment Environment

Given the uncertainty surrounding healthcare regulatory reform, Bain & Company [suggests](#) that investors have selected their targets with care in 2017. Investors are opting to focus on areas less exposed to regulatory uncertainty, such as outsourced services, healthcare technology and retail health providers.

Hot Sector – Digital Health

Digital health continues to remain a hot sector for investment, having gathered even more steam in Q2 2017, which could lead to a record-breaking year.

- Q2 saw a record seven deals valued at over \$100 million. However, these massive deals are only part of the story – Rock Health [suggests](#) “the funding spike isn’t an anomaly based on a few deals, but rather, is an indication of investor excitement in the digital health sector.”

New Target – Eye Care Clinics

- Ophthalmology and eye-care practices have become a new target for private equity investors, [according](#) to Modern Healthcare.
- The specialty remains fragmented with a significant number of independent practices and small groups evaluating whether they can benefit from integrating a larger organization.
- In Q1 2017, four out of eight physician practices purchased by private equity groups in the U.S. were eye-care practices, [according](#) to Kaufman Hall.
- Like other physicians, optometrists are seeking help with business practices, information systems to improve cost and quality, and contract negotiations with payers.
- As such, some practices are “willing to cash out at least part of their equity in the practice by selling to an operating group that will take those operational burdens off their hands” Modern Healthcare [reports](#).

Regulatory

- The FDA’s recently-appointed commissioner, Scott Gottlieb, [announced](#) that the agency would soon unveil its new “Digital Health Innovation Plan,” a plan that would provide greater clarity on digital health regulation, and thus limit the need for startups and businesses to seek out the FDA’s position on a case-by-case basis. The announcement was [well received](#) by the health technology industry.

IPOs

- Data [compiled](#) by investment management firm Renaissance Capital shows that the healthcare industry had 14 deals in Q2 2017 ([compared](#) to 12 in Q1), with 13 of these IPOs filed by biotechnology companies – most of which had heavy insider buying. “Notably absent were companies offering medical devices, med-tech and health care services,” the firm said.

- While no digital health companies have IPO'd in 2017, RockHealth [notes](#) there is a robust pipeline of highly-capitalized companies that may be on the brink of filing, especially since Q2 saw massive funding rounds. For instance, Chicago-based Outcome Health [raised](#) \$500 million in its first round of funding, bringing the value of the company at more than \$5 billion. “As the digital health market matures and companies begin to show real revenue potential, we’re seeing more growth-stage and private equity investors lead large, pre-IPO rounds,” RockHealth adds.

Select Fund Moves

- **Shore Capital Partners**, a strategic PE firm focused exclusively on the healthcare industry, [announced](#) the first and final **close of its second institutional private equity fund**, Shore Capital Partners Fund II, at the **hard cap of \$190 million**.
- **Varsity Healthcare Partners**, a Los Angeles, CA, and Stamford, CT-based healthcare-focused private equity firm, [closed](#) its **second fund**, at **\$300 million**. Varsity Healthcare Partners II will seek to partner with founders/entrepreneurs of **lower middle-market healthcare companies**.
- Chicago-based real estate investment firm **Focus Healthcare Partners** [closed](#) its **first discretionary private equity fund** after raising **\$312 million**. The firm will use the fund to invest in properties across the U.S. that provide **private pay independent living, assisted living** and **memory care services**.
- Chicago-based **Adam Street Partners** [raised](#) **\$475 million** for its **venture/growth equity fund** programs, which will be used to back venture and growth stage companies in the healthcare and technology sectors.
- **Bain Capital** [raised](#) **\$720 million** for its **first investment fund** focused exclusively on the **life sciences sector**. The fund will make investments of between \$30 million and \$70 million in public and private life sciences companies in areas ranging from medical devices to specialty pharmaceuticals to biotech.
- **Highland Capital Management** affiliate **Highland Capital Management Korea** [closed](#) a **\$147** healthcare focused-PE fund that will invest in **middle market healthcare companies** in North American and Asia.

Select Deals

- **Team Health Holdings** was [acquired](#) by **Blackstone** and other investors, including **Caisse de dépôt et placement du Québec**, the **Public Sector Pension Investment Board**, and the **National Pension Service of Korea**, a deal valued at **approximately \$6.1 billion**. This was the largest deal reported by the American Investment Council for Q1 2017.
- **Clayton, Dubilier & Rice** [made an equity investment](#) of an undisclosed amount in **Drive DeVilbiss Healthcare**. The deal will enable Drive DeVilbiss Healthcare to continue its organic growth strategy, as well as provide it with capital to pursue future acquisitions.
- New-York-based healthcare-focused PE firm **BelHealth Investment Partners** [acquired](#) **American Healthcare Staffing Association**. BelHealth believes AHSA is well positioned to achieve exponential growth over the next several years. The firm also [acquired](#) Richmond, VA-based home healthcare provider **Care Advantage**. Financial terms were not disclosed for either of the deals.

- PE firm **Warburg Pincus** made a [\\$231 million investment](#) in **Modernizing Medicine** to provide liquidity to existing shareholders. Warburg Pincus's investment will also fund expansion and support future strategic endeavors of Modernizing Medicine.
- **Warburg Pincus** has also agreed [to acquire](#) a **majority equity stake** in **CityMD**, a privately held urgent care provider based in New York, NY. The value of the deal was not disclosed, but sources say the transaction values CityMD at around **\$600 million**.
- Nashville, TN-based **Surgery Partners**, a healthcare services company, and **National Surgical Healthcare**, an owner and operator of surgical facilities in partnership with local physicians, [entered](#) into a definitive merger agreement under which Surgery Partners will acquire NSH from Irving Place Capital for approximately **\$760 million**. Funding for Surgery Partners' acquisition of NSH will be provided in part by **Bain Capital Private Equity**. In conjunction with this transaction, Bain Capital Private Equity will acquire **H.I.G. Capital's** existing equity stake in Surgery Partners.
- Singapore-based PE firm **Temasek Holdings Private** [acquired](#) a majority ownership of **Global Healthcare Exchange**, a Louisville-based hospital supply chain technology company. Temasek is purchasing most of the stake held by Thoma Bravo, a Chicago- and San Francisco-based PE firm.
- **TPG Growth**, the growth capital arm of U.S PE firm **TPG Global**, entered an agreement to acquire **Medical Solutions**, a medical staffing company, for around **\$500 million**. The deal sheds light on how companies that supply skilled nurses are continuing to be the target of investors, especially since the supply of new nurses entering the job market has not kept pace with the demands of an aging population, Reuters [claims](#).
- **Kayne Anderson Capital Advisors'** real estate PE arm [has agreed to purchase](#) healthcare REIT **Sentio Healthcare Properties** in an **\$825 million deal**. Sentio Healthcare, which is backed by buyout firm KKR & Co, owns a portfolio of 34 properties, including senior housing communities and medical office buildings, in 16 U.S. states.

Select Deals in Eye Clinics

- Chicago-based **Sterling Partners** [made an investment](#) in **Grand Rapids Ophthalmology**, an eye care provider offering ophthalmology, optometry and retail optical services based in Grand Rapids, MI.
- Chicago-based PE firm **Waud Capital Partners** [acquired](#) a **majority stake** in Bloomington-based **Minnesota Eye Consultants**. Minnesota Eye was pursuing PE backing in part so it would have the resources needed to accelerate its growth. The practice may ultimately expand geographically, though its initial focus will be on the Twin Cities market. SEC filings show the group received a **\$44.1 million equity investment** as part of the deal.
- Chicago-based PE firm **Flexpoint Ford** [entered into a partnership](#) with **SouthEast Eye Specialists** and its affiliates, a leading provider of medical and surgical eye care, and **Center for Facial Rejuvenation**, a leader in facial medical aesthetics.
- Chicago-based PE firm **Shore Capital Partners** has [formed](#) **EyeSouth Partners** and completed a strategic partnership with **Georgia Eye Partners**, an eye care practice with four locations in the Atlanta, GA area that offers medical and surgical specialty eye care services, including treatment for cataracts, corneal disease, refractive surgery, glaucoma, and oculoplastics through OPAL Aesthetics.

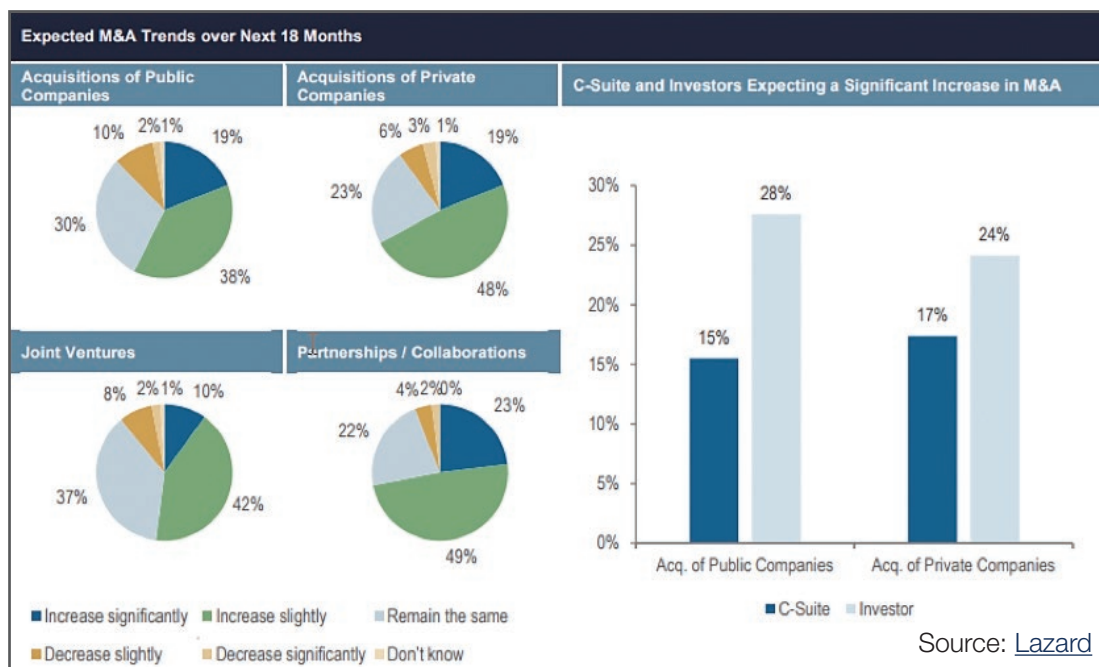
4. Looking ahead: Remainder of 2017

Looking Ahead: 2017 & Beyond

Financial advisory and asset management firm Lazard, in a survey of healthcare c-suite executives, [found](#) that most executives believe the need for innovation as a result of a continued push toward value-based care will drive increased M&A activity, partnerships and collaborative ventures in the healthcare industry. In addition, it found that in the U.S. respondents in the pharma/biotech and medical device sector showed a greater interest in M&A than executives in healthcare services.

This favorable M&A outlook, alongside the continued appetite for digital health investment, signals no immediate slowdown in healthcare deal activity in the near term.

As healthcare reform continues to take shape, this could set a series of deals in motion, as healthcare companies look to align and adjust to any changing market dynamics.



Benesch Health Care & Life Sciences Team

If you have any questions about this report or would like more information about our Health Care & Life Sciences team, please contact our senior team leaders:



Frank W. Carsonie
 Partner and Chair, Health Care & Life Sciences Practice Group
 (614) 223-9361
fcarsonie@beneschlaw.com



Alan E. Schabes
 Partner, Health Care & Life Sciences Practice Group
 (216) 363-4589
aschabes@beneschlaw.com



Harry M. Brown
 Partner, Health Care & Life Sciences Practice Group
 (216) 363-4606
hbrown@beneschlaw.com



Janet K. Feldkamp
 Partner, Health Care & Life Sciences Practice Group
 (614) 223-9328
jfeldkamp@beneschlaw.com