

Q1-2017 Anesthesia Services Update



Market Update

Consolidation activity within anesthesia services remained elevated during the first quarter of 2017. M&A activity was largely driven by private equity-backed platforms entering new markets and strategic consolidators bolstering their presence in existing footholds. A portfolio company of Welsh, Carson, Anderson, & Stowe, U.S. Anesthesia Partners (USAP), acquired Physicians Anesthesia Service in Seattle, Washington. This is the first entrant of a sizeable consolidator into the Pacific Northwest marketplace. Envision Healthcare Corporation continued their aggressive expansion within the Arizona marketplace, acquiring Tucson-based Oro Valley Anesthesia. This transaction came on the heels of their December 2016 acquisition of Phoenix-based Desert Mountain Consultants in Anesthesia where Provident served as the exclusive financial advisor to Desert Mountain Consultants. This quarter, Envision alluded to a possible exit from its ambulance services segment to centralize its strategy around building an integrated care model for its hospital clients. Approximately 83% of Envision's nearly \$1 billion annual acquisition budget has been earmarked to acquire physician organizations, with anesthesia being a core component of this strategy. A new private equity-backed platform entered the national market as well, with The Blackstone Group's \$6.1 billion leveraged buyout of Team Health Holdings Inc. The transaction was completed at 16.58x EBITDA reflecting the attractive valuations that exist in the market for outsourced physician services providers. Team Health will be looking to build an integrated care model utilizing the capital of The Blackstone Group to increase its acquisitive growth strategy and capitalize on the fragmented market for outsourced physician services. At Provident, we expect to see these levels of consolidation accelerate during 2017. Both private equity-backed and strategic consolidators will continue to ramp up their M&A and business development efforts to build integrated care solutions and efficiently service hospital contracts. Physician organizations continue to partner with large consolidators to hedge against changes in reimbursement, and the loss of contracts to integrated solution providers. Simultaneously, groups are able to realize significant liquidity, at attractive multiples, and minimize further capital expenditure into the practice. M&A will continue to be driven by groups looking to gain access to infrastructure, and the chance to increase leverage with payors as part of an organization with scale.

Select Transactions

Month	Acquirer	Target Company	Details
March 2017	U.S. Anesthesia Partners/ Welsh, Carson, Anderson, & Stowe	Metrowest Anesthesia Care	U.S. Anesthesia Partners acquired Houston Texas-based Metrowest Anesthesia Care, a group of over 100 clinical providers that have been serving South Texas for over 30 years. This acquisition will bolster U.S. Anesthesia Partners' presence in the Houston marketplace where they have been active since forming their initial partnership with Greater Houston Anesthesiology in 2012.
February 2017	U.S. Anesthesia Partners/ Welsh, Carson, Anderson, & Stowe	Physicians Anesthesia Service	U.S. Anesthesia Partners, a portfolio company of Welsh, Carson, Anderson, & Stowe, acquired Seattle Washington-based Physicians Anesthesia Service (PAS). PAS is the largest provider of outsourced anesthesia services in the Seattle metropolitan marketplace with over 120 providers. This is the first entrant of a large consolidator into the Pacific Northwest marketplace.
February 2017	The Blackstone Group NYSE: (BX)	Team Health Holdings Inc. NYSE: (TMH)	The Blackstone Group, a private equity firm, acquired Team Health Holdings Inc., a provider of outsourced hospital-based clinical services to approximately 3,400 facilities nationwide. Reflective of the high valuations within the marketplace, the transaction was valued at \$6.1 Billion and completed at 16.58x EV/EBITDA. The deal is representative of the continued willingness of private equity firms to put capital to work within physician services. Team Health will ramp up its acquisition efforts in order to be able to offer integrated care solutions for its hospital clientele.
January 2017	Envision Healthcare Corporation NYSE: (EVHC)	Oro Valley Anesthesia	Envision Healthcare Corporation acquired Oro Valley Anesthesia. Based in Tucson, Arizona, Oro Valley provides outsourced anesthesia services to eight ASCs and two hospitals. This acquisition will expand Envision's foothold in the Arizona marketplace, following their previous acquisitions of Desert Mountain Consultants in Anesthesia and Valley Anesthesiology & Pain Consultants in Phoenix.