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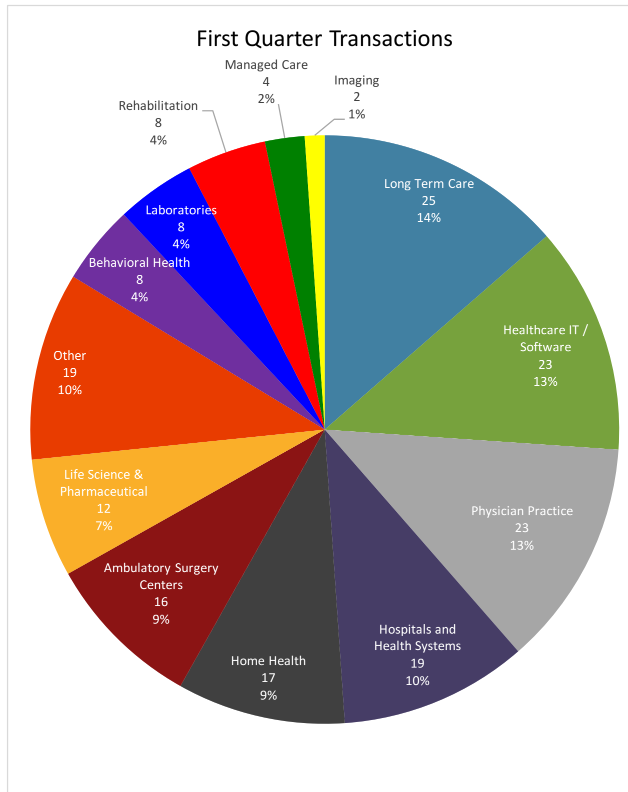
Health-Care Transactions Update: First Quarter 2016

BY VICTORIA POINDEXTER AND GREG WAPPETT

Merger and acquisition activity continues to occur at a robust pace, and the data from the first quarter of 2016 shows that nothing slowed that stride. Health-care entities across the continuum of care have continued to utilize M&A as a growth strategy. The first quarter saw constant deal volume, with many of the transactions being more focused in the lower to middle markets and driven by vigorous activity in long-term care, health-care IT and physician practices. Valuations remained robust enough to spur sales activity. While the quarter lacked the major headline grabbing mergers that we saw in previous quarters, many of the deals were very intriguing, and more relevant, for market observers.



Providers

Hospitals continue to look for ways to reduce the cost of care, and leveraging economies of scale and enhancing geographic indispensability continue to be the strategies most often pursued. In an effort to achieve scale in a competitive environment, for-profit Tenet Healthcare and not-for-profit Baylor Scott and White Health agreed to partner in the North Texas market by consolidating Tenet's Dallas-area hospital operations into the Baylor Scott and White Health system. The five hospitals will be co-owned but will be operated under the Baylor Scott and White Health brand. Tenet has continued to use M&A to further enhance its market position, preferring to hold a top-two market share through a partnership, if necessary, rather than compete as an independent market participant from a weaker market position.

Laboratory Industry

The laboratory services sector continues to remain active. The pharmaceutical and health-care manufacturer Abbott Laboratories made an effort to improve its

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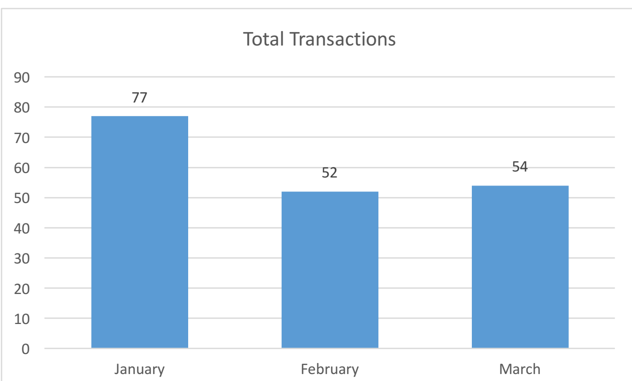
lab business with the January acquisition of Alere Inc. for $5.8 billion in cash. Post closing, Abbott's diagnostics revenue is expected to increase by 50 percent. Abbott plans to leverage its capabilities and infrastructure to enhance Alere's operations and expects to earn $500 million in EBITDA (earnings before interest, tax, depreciation and amortization) by 2019.

Behavioral Sector

In response to heightened demand and mandatory insurance coverage, the behavioral health space continues to be an area of focus for many providers and payers. One noteworthy transaction was the Acadia Healthcare acquisition of the U.K.-based Priory Group for $1.887 billion in January. Acadia began making strategic investments in the U.K. in 2014, but this acquisition solidifies Acadia's position as one of the largest players in the behavioral health space, both domestically and internationally. Large behavioral health companies continue strategically to acquire assets and utilize economies of scale to operate in a lower cost structure. The operational expertise developed by many of the large players in the behavioral health space has created a unique opportunity for hospitals and health systems to collaborate on behavioral operations. We expect to see more joint ventures around in this space going forward.



Private Equity Involvement

The physician practice sector continues to see growth through M&A. As expected, strategic acquirers continue to invest, as evidenced by Optum's acquisition of ProHealth Physicians and Davita Healthcare Partners' acquisition of The Everett Clinic. However, we have also begun to observe increased private equity (PE) involvement and investment. Private equity sponsors believe that active management and the growing presence of value-based reimbursement contracts allow for an attractive investment opportunity.

Another driving force behind PE investment is that significant debt and equity capital remains available for health-care related investments. ATI Physical Therapy, a large rehabilitation and physical therapy provider, was purchased by PE firm Advent International Corp., and the $1.9 billion purchase price was largely funded through debt financing. ATI was previously owned by KRG Capital Partners, thus the acquisition reflects continued interest by PE investors.

Conclusion

The first quarter M&A volume reflects the market's continued strong appetite for transactions, regardless of the size. The need to achieve scale and prepare for further challenges in this economic climate continues to make large, small, international and local transactions attractive.

The list of select transactions involving health-care providers, managed care and services companies for the first quarter of 2016, as well as lists for each of the first three months individually, was compiled by health-care investment bankers using publicly available information, including articles, websites and press releases. The list is at http://src.bna.com/eeE.

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