BNA's
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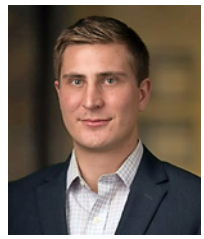
Health-Care Transactions Update: First Quarter 2017



BY KEVIN J. RYAN, GARY W. HERSCHMAN, VICTORIA POINDEXTER, ROBERT APRILL AND MIKE TIERNEY

The first quarter of 2017 was a wild ride in the health-care industry.

In 2017's first three months, the Trump administration and congressional Republicans led the charge to repeal and replace the Affordable Care Act, only to be stopped by an uprising within their own party. The ACA has continued to flounder, with additional payers exiting the business, but absent a consensus in Congress, the ACA appears likely to remain in place for the foreseeable future. The macro environment appears to be as volatile as ever, but it appears there will not be a return to the unsustainable marketplace of the pre-ACA environment.

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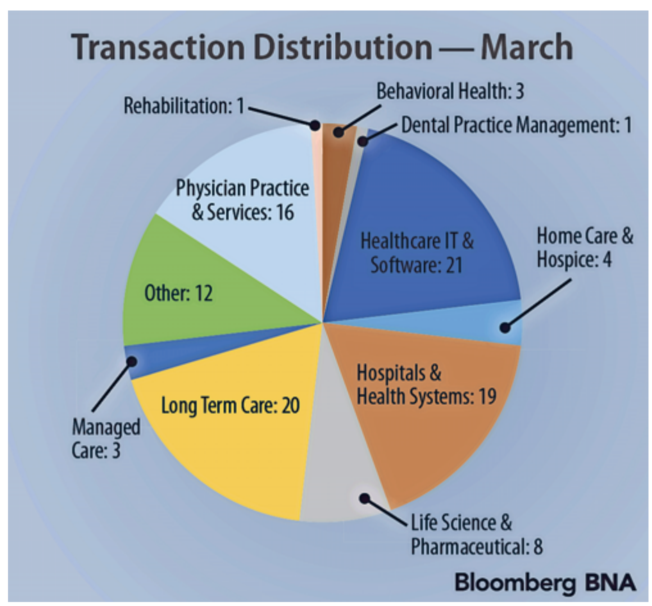
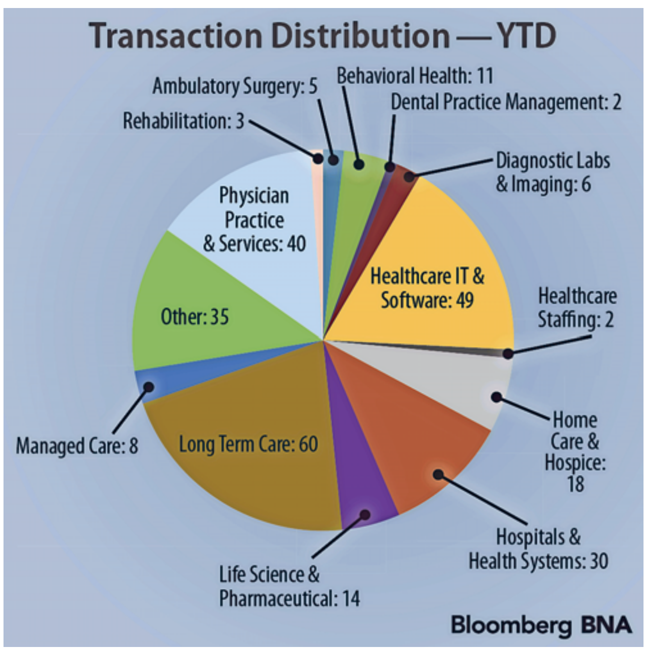
The March transactions list shows that transaction activity remains robust, even though the continued political turmoil may have given pause to many. Indeed, the year-to-date list shows there were more than 275 health-care-related transactions in the quarter, proving that political uncertainty is not enough to slow transaction activity. This represents an increase of more than 100 transactions from the first quarter of 2016.



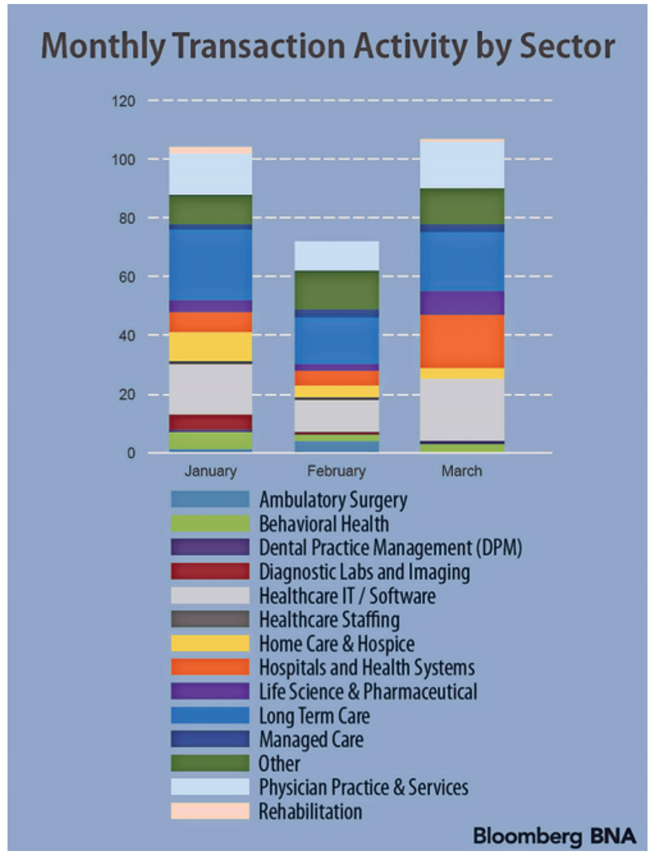
The most active sectors within health care continued to be long-term care, physician practices and health-care information technology. These sectors are not highly concentrated, making opportunities for deal activity plentiful. March proved to be the most active month of the quarter, which we believe may reflect key market participants were waiting for the market to absorb the impending changes from the new administration and are now back in deal-making mode.

Health Systems Remain in Growth Mode On the acute care side, the biggest headline-making deal was the Fairview Health Services merger with HealthEast. The transaction between Minneapolis/St. Paul's second- and fourth-largest players creates the largest health-care delivery system in the Twin Cities, and the $5 billion combined entity will be Minnesota's first system covering both east and west metro regions. It is interesting to note that this transaction involves two systems with multi-billion-dollar revenue streams. Achieving scale is often an important factor in merger activity, but this transaction shows that even some of the largest systems realize the need to continue to drive scale. This follows several 2016 transactions involving the mergers of multi-hospital systems to form mega-systems.

We also note the LHP Hospital Group Inc. and Ardent Health Services merger is interesting, as it creates a larger for-profit health-care entity. The two systems were looking to find scale, and determined organic growth was going to be difficult to achieve in a timely manner. The hospital market continues to be active but is still classified as a seller's market, so combining smaller players is the most common strategy to build scale.



Private Equity Has Remained Active Consolidation within a variety of health-care services subsectors continues to be driven by private equity-backed organizations, which have been increasingly active within physician specialties such as radiology, dermatology, anesthesia and emergency medicine. In March, New Enterprise Associates-backed Radiology Partners Inc. expanded into its eighth state to gain additional market share. In dermatology, private equity-backed Advanced Dermatology & Cosmetic Surgery (Audax Group & Harvest Partners), Epiphany Dermatology (CI Capital Partners), and Schweiger Dermatology (LLR Partners) each added new sites through acquisitions completed in March.



In addition to expansionary M&A activity by current private equity-backed groups, there were also several new private equity platform investments completed within health-care services over the past month. Ophthalmology and dermatology have been two of the most sought after physician specialties so far in 2017. In the first quarter, Shore Capital Partners established its ophthalmology platform, EyeSouth Partners, through a recapitalization of Georgia Eye Partners. Chicago Pacific Founders also completed an investment in Dermatology and Plastic Surgery Associates S.C.

Private equity players also are actively harvesting transactions in the senior care space. Warburg Pincus acquired Alignment Healthcare, a population health management company focusing on improving the health and welfare of seniors. Las Olas Venture Capital acquired CarePredict, which develops wearable sensors for seniors. As the population continues to age, the burgeoning health-care needs of seniors continue to showcase an area where investors will look for value. We expect to see private equity-sponsored firms be very active in this space.

In the post-acute markets, Bain Capital completed one of the largest health-care services private equity deals of 2017 through its acquisitions of Webster Capital-backed Epic Health Services and J.H. Whitney & Co.-backed PSA Healthcare. The targets subsequently were merged to create a national leader in home health care.

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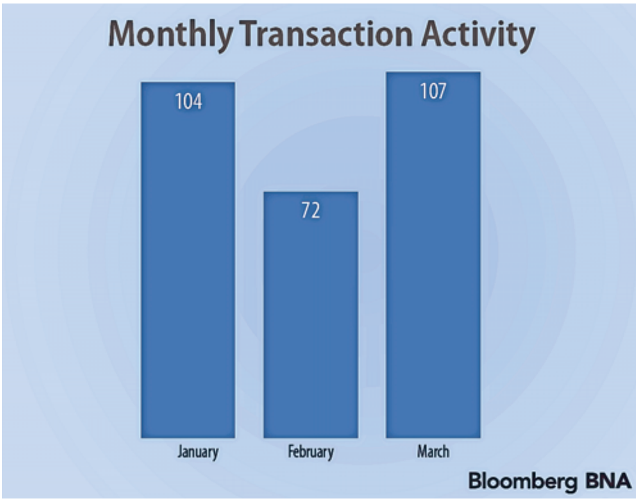
Health-Care Staffing Several significant acquisitions were completed or announced in March by large, publicly traded hospital staffing companies seeking either to expand geographically or to diversify into new service lines. Envision Healthcare, which in December merged with ambulatory surgery center management and physician staffing company Amsurg Corp., also meaningfully expanded its presence within radiology through the announced acquisition of Imaging Advantage, which will add nearly 500 radiologists and extensive teleradiology resources.



Perhaps the largest hospitalist transaction in years was also announced in March when Sound Physicians, majority-owned by Fresenius Medical Care, acquired Highlander Partners and Flexpoint Ford's portfolio company Eagle Hospital Medical Practices. Also, MEDNAX Services, in a strategy to add ancillary services to its Pediatrix Medical Group division, entered the ophthalmology market through its acquisition of a pediatric-focused ophthalmology practice serving 11 hospitals and three surgery centers in the greater Las Vegas metropolitan area.

Health-Care IT Stayed in Focus Many organizations continue to view health care as a field that is ripe for disruptive technology—and are viewing technology as a tool to strategically position providers to deliver high quality and cost-effective care. Money and transaction activity continue to flow in the IT space, and the first quarter was no exception. McKesson made a major splash in January when it purchased CoverMyMeds for $1.1 billion. McKesson viewed the transaction as essential to its portfolio. CoverMyMeds, a company that helps automate the prescription drug process, was another opportunity for McKesson to control more of the health-care dollar.

Conclusion The first quarter is often a busy time for transaction activity, and 2017 was no exception. While health-care uncertainty continues to be prevalent in news cycles, the political noise is not enough to stop dealmakers from continuing to find ways to grow.

Get ready for another busy, interesting year!

The lists of select transactions involving health-care providers, managed care and services companies for March 2017 and for 2017 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites and press releases.

The March list is at http://src.bna.com/n3y.

The list for the first quarter 2017 is at http://src.bna.com/n3x.

Bloomberg BNA would like to thank its Health-Care Transactions Editorial Committee for their guidance: Kevin J. Ryan, Chicago (kryan@ebglaw.com); Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpoindexter@h2c.com); and Robert Aprill, of Provident Healthcare Partners LLC, Boston (raprill@providenthp.com).

Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.