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Health-Care Transactions Update: April

The dip in the number of health-care transactions in April is no cause for worry as health-care transactions volume is expected to ramp back up in the coming months, investment bankers and transactions attorneys told Bloomberg BNA.

First quarter deal numbers were inflated by transactions mostly completed in late 2016, so a slight drop off was to be expected, Robert Aprill and Michael Mahoney, of Provident Healthcare Partners LLC in Boston, said.

The uptick in transactions volume that occurred in January has leveled off, and spring is normally a “dead zone” in the year, the investment bankers said. The list of transactions year to date show that it’s a timing issue, not a slowdown in the market, they added.

Gary W. Herschman, a member of Epstein, Becker & Green PC, who practices in the firm’s Newark, N.J., and New York offices, agreed that the lower numbers in April weren’t significant. The number of deals still was well within the average range for this time of year, he said. Herschman is a member of the Bloomberg BNA Health Law Reporter advisory board.

Always Hot: Health IT Aprill and Mahoney spotted two major trends in the April list. Health information technology continues to be a hot area for investment, and physician practice acquisitions are beginning to focus on new specialties.

HIT is a “highly attractive space for investors,” Mahoney said, adding that private equity investment in this area is taking off. Innovation is continuing and transactions volume is expected to increase, the investment bankers said.

Herschman told Bloomberg BNA that deals in the HIT sector “are all about finding efficiencies in care delivery.” Investors are attracted to technology that improves patient care, engagement and satisfaction.

Technology creating standard diagnostic pathways that lead to better outcomes, lower costs and higher patient satisfaction is a popular focus for investment, he said. Also attracting investment in this sector are companies involved in developing predictive analytics.

Kevin J. Ryan, of Epstein, Becker & Green PC’s Chicago office, said many HIT deals involve “very niche products—that is, very specific products for targeted markets.” Examples, he said, include deals involving software designed to track products and organizations eligible to participate in the federal government’s 340B drug pricing program.

These products, Ryan said, are trying to address programs that are difficult to administer. As a result, they are very narrowly focused.

Physician Practice Sector Investment in the physician practice sector is continuing, Mahoney said, and it’s reaching further into what traditionally were hospital-based specialties. Consolidations are picking up in practices maintained by hospitalists, radiologists, anesthesiologists and emergency medicine providers, for example.

Dental and dermatology practices are still a focus for investment, as regional and national groups continue their move to dominate this space. Gauge Capital, for example, recapitalized Pediatric Dental Providers, which operates in the Western U.S. Epiphany Dermatology closed two deals in April, thereby expanding its footprint into New Mexico.

Consolidation in these specialties has resulted in fewer investment opportunities there, leading to the second hot trend Mahoney and Aprill gleaned from April’s list: an increase in investment in other specialties, most notably gastroenterology and orthopedics.

Provident worked on a deal in which Candescant Partners LLC, a Boston private equity firm, acquired a North Carolina orthopedics practice, the Southeastern Spine Institute.

In the gastroenterology space, the bankers noted that Gastro Health acquired Gastroenterology Consultants, continuing its consolidation of those services in the South Florida market.

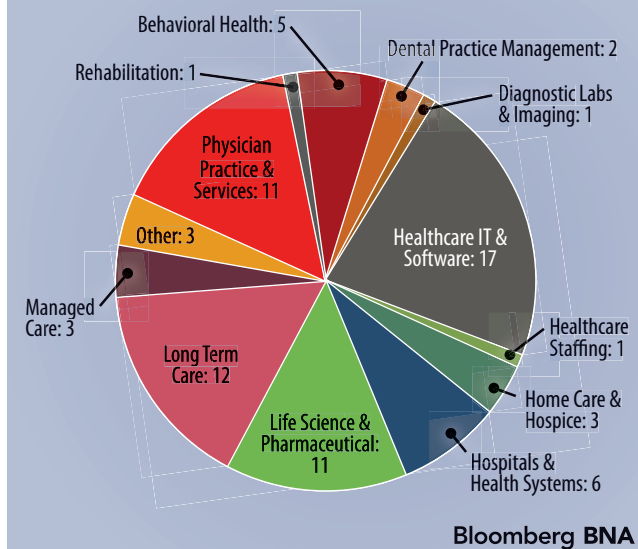
Investors are “trying to replicate the success” of consolidations in other physician specialties, Aprill said. Private equity investors are providing a major recapitalization and receiving in return a majority equity interest in the resulting entity.

These investors aren’t engaged in day-to-day management, Aprill said, but they also aren’t just giving the practices money and going home. Instead, the investors are taking a hands-on approach when it comes to high-level, or macro, business decisions, he said.

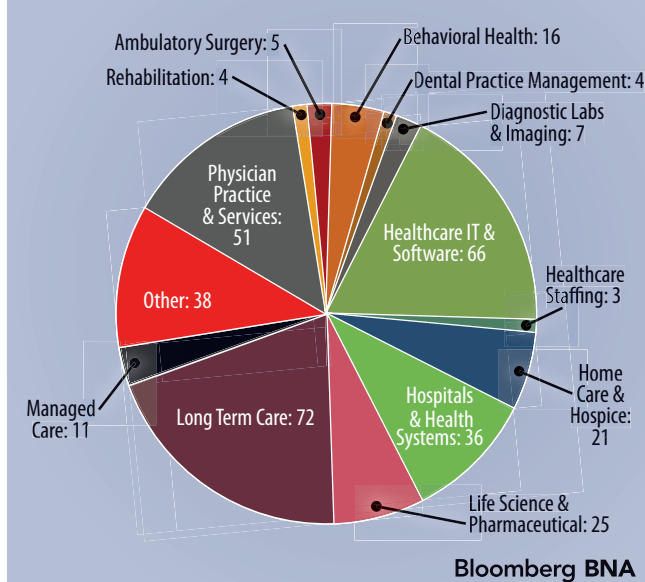
Mahoney said the gastroenterology market is ahead of the orthopedics market, but both are following the same investment track forged in the dental and dermatology spaces. He and Aprill told Bloomberg BNA they expect to see a lot more movement in these specialties in the coming months.

Ryan also noted that deals are leading to consolidation in entire service areas. Big regional or national

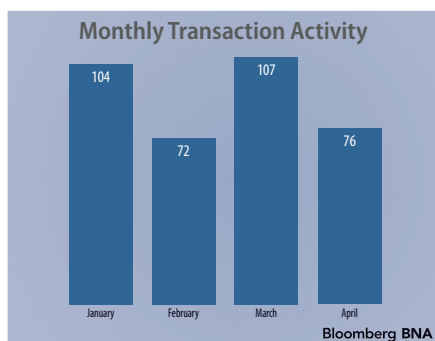
Transaction Distribution — April



Transaction Distribution — YTD



companies are taking over whole service sectors, he observed.



Like HIT, many of these deals involve very niche areas, Ryan said. He agreed with the investment bankers

that both private equity and nonhospital entities—most notably insurers—are expanding into physician specialties that previously were within hospitals' exclusive control.

Ryan also said practice management transactions are encompassing more than actual management services, and include software, patient education and other products. Dental practice management is the most popular area for these types of deals, but they appear to be expanding into other practice areas, he said.

Hospital/Health Systems Michael Tierney, vice president, and Victoria Poindexter, principal, of Hammond Hanlon Camp LLC in Chicago, told Bloomberg BNA some of the most interesting transactions on the April list involved hospital and health system deals. H2C is a strategic advisory and investment banking firm that focuses exclusively on health care.

Both commented on HCA Healthcare's acquisition of Savannah, Ga.'s Memorial University Medical Center, a deal that reportedly will cost HCA \$710 million. Of that amount, \$430 million will be designated to pay off MUMC's bonds and debts, and another \$280 million is slated for capital expenditures. MUMC's parent corporation's board approved the deal April 19.

Tierney said the deal is an example of a public entity, in this case the Chatham County Hospital Authority, "moving out of the hospital business." This is happening for two reasons, Tierney said. "One, municipal budgets are strained and two, municipalities are realizing that care delivery is better managed by acute care providers."

The transaction also is interesting because Nashville-based "HCA hasn't been terribly active," Poindexter added. HCA "typically only moves into a new market" if the deal involves "a sizeable entity with a strong market position," she said.

Marshfield Clinic Health System's planned acquisition of St. Joseph's Hospital, both located in Marshfield, Wis., also caught Poindexter's attention. St. Joseph's currently is operated by St. Louis-based Ascension Health, a Catholic hospital system.

The clinic "historically maintained an affiliation with Ministry Healthcare, which became part of Ascension a few years back, and its physicians had practiced at St. Joseph's," Poindexter said. "This is a significant investment on the clinic's part, and adds more bricks and mortar to" its expansion strategy.

The deal needs approval from the Vatican, according to news reports, because it involves Catholic hospitals.

Herschman observed that many of the hospital deals in April brought single hospitals, or "stragglers," as he termed them, into larger health-care systems. Many solo hospitals haven't yet jumped onto the health-care transactions band wagon, he said. More and more, however, are learning how difficult going it alone can be and are joining systems or hospital networks.

Big hospital mergers could be impacted by government antitrust enforcement activity, and dealmakers may wait to see how the Trump administration reacts to new proposals, Ryan said. Smaller hospital deals, however, shouldn't be affected, he added.

Acquisitions focusing on entities in related fields, as opposed to direct competitors, may face less government scrutiny, Ryan said.

Executive/Congressional Action Herschman doesn't foresee the American Health Care Act as having much effect on transactions in the health-care industry. The deals are being driven by a desire to acquire efficiencies of scale and maximize value-based payments, he said. Those considerations won't go away following an Affordable Care Act repeal, he said.

New health-care technology "will continue to be pursued regardless of any repeal or replace" legislation, he added.

There was a lot of "trepidation" at the beginning of 2017, Aprill and Mahoney noted, as some observers thought health-care transactions would slow down in the wake of President Donald Trump's inauguration. That hasn't been the case, they said. The volume of deals is up and valuations are still high, they said.

Investors may reevaluate the situation if the AHCA gets through the Senate without any major changes. Mahoney predicted that some personal care providers may pull out of the space if changes to the Medicaid program that have been discussed are implemented.

Consolidation in the behavioral care space was driven to a large extent by the ACA and its rules concerning mental health care coverage, Aprill said. If the reimbursement environment for these services changes as a result of an Obamacare repeal, there could be a slowdown in this space, he said.

Ryan advised taking a "wait-and-see" approach to the AHCA. "The Senate has made clear it will be modifying" the House bill, so the final bill's possible effect isn't clear.

The proposed ACA replacement shouldn't have any effect on most health-care transactions, at least in the

short term, Ryan said. He added, however, that some hospital deals could be delayed pending final action on Medicare and Medicaid. Those two programs provide reimbursement critical to hospitals. Other deals that aren't as dependent on payment issues probably won't be affected by congressional action, Ryan said.

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The lists of select transactions involving health-care providers, managed care and services companies for April 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 April list is at <http://src.bna.com/oXX>.

The year-to-date list is at <http://src.bna.com/oXY>.

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

