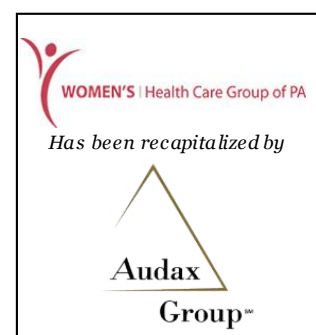

Provident Perspectives: Private Equity Investment in Gastroenterology

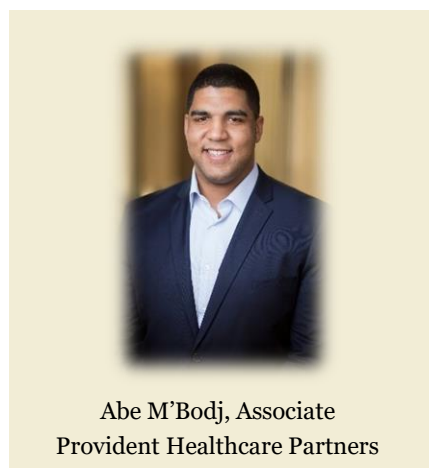
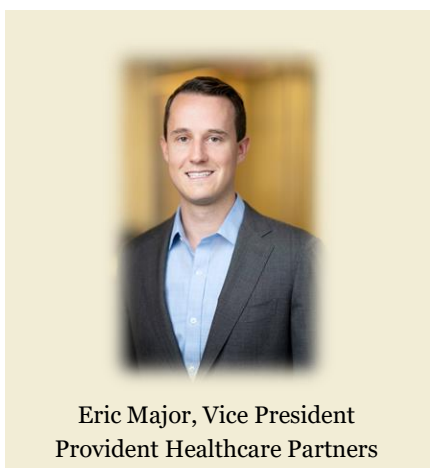
Gastroenterology is a sector ripe for consolidation. A favorable growth backdrop combined with significant fragmentation in the market has set the stage for a wave of M&A activity driven by private equity investment in the marketplace.

PROVIDENT'S PERSPECTIVE

As the leading middle-market merger and acquisition advisory firm within physician services, Provident Healthcare Partners possesses unique insight into the current trends facing the practice management industry and how these trends will likely drive future consolidation activity. Provident also has a reputation for representing early-movers in specific physician specialties through landmark transactions with private equity firms. Past examples of these transactions include Great Expressions Dental Center's partnership with Audax Group, National Spine & Pain Centers' recapitalization with Sentinel Capital Partners, Katzen Eye Group's partnership with Varsity Healthcare Partners, and most recently Women's Health Care Group of PA's transaction with Audax Group. Given the many parallels to these specialties, Provident predicts gastroenterology is one of the next physician services sectors to undergo significant investment and consolidation.



Provident Gastroenterology Deal Team

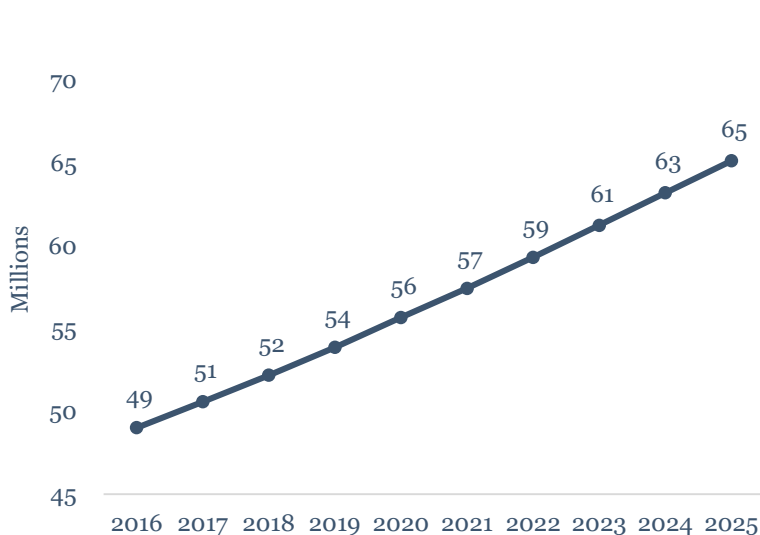


GASTROENTEROLOGY MACROECONOMIC TRENDS

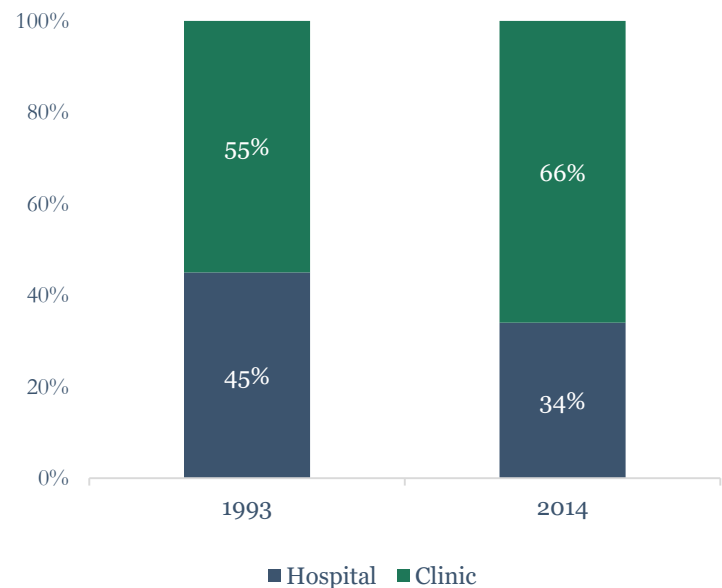
Provident anticipates that several factors will drive future procedural volume growth within gastroenterology. The population of U.S. citizens over the age of 65 is expected to more than double from 35 million people in 2000 to 71.5 million by 2030. Per the American Cancer Society, colorectal cancer is the third most common cancer diagnosed in both genders with 135,430 new cases expected in 2017; it is estimated that 90% of these cases will occur in those aged 50 or older. Gastroenterology is also uniquely positioned to benefit from technological trends, where advancements in endoscopic imaging technology will directly improve patient outcomes as polyps that were historically difficult to detect become easier to locate. Gastrointestinal cases comprise nearly a quarter of all ambulatory procedural volume, and the focus on cost containment by payors and hospitals will continue to benefit gastroenterology given the increasing emphasis on providing care in the outpatient setting.

In light of newer value-based payment models, there are also several risks facing the gastroenterology industry. Under MACRA, capturing patient outcome metrics will demand higher quality reporting from gastroenterology organizations, resulting in an increased emphasis on investments in IT systems. Likewise, bundled payments and capitation present a potential threat to the healthy margins groups realize from ancillary services. Considering these threats, Provident expects increased consolidation in the industry as practices realize the benefit of economies of scale by aligning with larger organizations and centralizing back-office functions, such as IT systems, revenue cycle management, accounting, billing, and HR. Providers can also look to combat reimbursement pressures by gaining negotiating leverage with payors as part of a larger organization.

U.S. Population Growth – Age 65 and Over



Outpatient Surgery Growth



CONSOLIDATION TRENDS IN PARALLEL SPECIALTIES

Driven largely by the regulatory environment, reimbursement pressures, and extreme fragmentation, physician services organizations across a wide range of specialties have found that the best way to stay competitive in the modern healthcare environment is to gain size and scale. Private equity has been a key driver of the consolidation occurring within healthcare through implementing a “buy and build” or “roll-up” investment strategy where fragmentation exists. The strategy starts by partnering with an established “platform” organization that possesses talented management, a strategic vision, and a base infrastructure to scale the business. Following further internal investment, organizations aligned with a private equity firm will then look to perform “add-on” acquisitions of smaller physician groups at significantly lower valuations than the platform investment received.

The practice of increasing enterprise value through acquiring smaller organizations is known as “multiple arbitrage”. As the platform organization grows, its value increases in tandem with each subsequent addition to the platform. A return is realized through a subsequent transaction, at which point the organization can see a higher exit multiple because of the premium that is typically paid for a larger entity upon exit. In addition, each add-on acquisition that was performed is subsequently exited as part of the platform organization at the higher valuation. The opportunity to implement this buy and build investment strategy as a first-mover in the fragmented gastroenterology market is what makes partnering with a private equity partner such an attractive option for groups that possess the qualities of a platform organization.

Sample Overview of Multiple Arbitrage

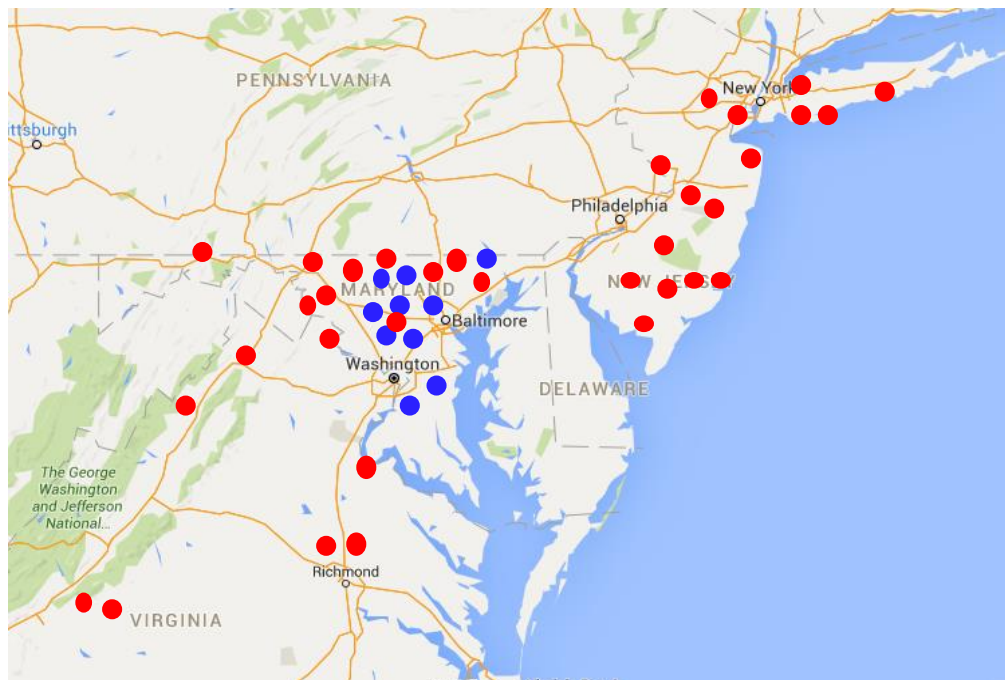
Company	Valuation Range	Rationale	EBITDA	Multiple	EV
Private Equity Platform Investment	9x-11x	<ul style="list-style-type: none"> Regional dominance Established infrastructure 	\$10M	10.0x	\$100M
Add-On Acquisition	4x-6x	<ul style="list-style-type: none"> First-mover advantage ensures less competition 	\$2M	5.0x	\$10M
Combined Organization	10x-12x +	<ul style="list-style-type: none"> Value of add-on is enhanced as the organization benefits from premium demanded for the platform company Combined organization leverages the infrastructure and regional dominance of platform Synergies from centralizing back-office functions and increased leverage with payors enhance the EBITDA of the combined organization 	\$12M + \$500K in synergies = \$12.5M	11.0x	\$137.5M

FIRST-MOVER EXAMPLE: NATIONAL SPINE & PAIN CENTERS

The Spine Center was a single-state provider of interventional pain management services with nine locations in Maryland at the time of engaging Provident Healthcare Partners to manage a private equity-focused transaction process. The management of The Spine Center saw the opportunity to rapidly expand the organization by utilizing the capital and transaction expertise of a private equity firm to execute on a roll-up strategy. Sentinel Capital Partners emerged as the best fit after a competitive process for The Spine Center in terms of both strategic vision and valuation. The Spine Center's physician owners collectively chose to reinvest a significant portion of equity into the go-forward entity. After acquiring Capitol Spine & Pain in Virginia shortly after the initial investment from Sentinel, the size of the organization nearly doubled, and The Spine Center rebranded itself as National Spine & Pain Centers.

Today, National Spine & Pain has a dominant presence on the eastern seaboard and has expanded from a single-state provider with nine clinical facilities to 44 locations in four states as well as Washington D.C. National Spine's partnership with Sentinel was the second platform investment into the interventional pain management sector, which resulted in a wave of subsequent investment and consolidation. National Spine & Pain was able to leverage its position as a first-mover to establish itself as the premier consolidator within the marketplace, with minimal competition for add-on deals. In executing upon this strategy, the physician-shareholders of National Spine & Pain have seen a substantial increase in the value of their reinvested equity. Similar fragmentation exists within the gastroenterology sector, and to date there has only been a single regional private equity platform. This has created the opportunity to become a first mover.

Growth of National Spine & Pain 2011-2017



● Pre-transaction clinics*

● Post-transaction clinics



*All pre-transaction clinics are still in operation post-transaction

IMPLICATIONS FOR GASTROENTEROLOGY

We believe the same market dynamics that enabled National Spine & Pain Centers to succeed over the past six years with its private equity partner also exists within gastroenterology. The market remains fragmented with few multi-state providers. The Association of American Medical Colleges estimates that there are approximately 14,000 gastroenterologists in the United States, and the vast majority of gastroenterology groups operate with less than 30 providers. Over the years, groups have recognized the need to create economies of scale. This is evidenced by the trend of smaller independent gastroenterology groups merging together to form regional providers. A private equity partner can allow an organization to realize the same benefits that result from a merger, while also providing the opportunity to leverage the private equity firm's capital resources. In addition, private equity firms can leverage their transactional expertise in order to scale the business through add-on acquisitions. This alternative can provide shareholders long-term equity appreciation without the dilution that occurs in a merger.

Gastro Health is the first organization to formalize a private equity partnership through its deal with Audax Group in Q1 2016. In 2006, Gastro Health was created through a merger of three gastroenterology groups in South Florida. Since closing the deal with Audax, Gastro Health has grown from approximately 60 providers to 100 providers through add-on acquisitions of smaller organizations looking to align with a team that can provide management support. Audax Group has historically had success as a first-mover for its portfolio companies. Audax recapitalized Great Expressions Dental Centers in 2006, Advanced Dermatology & Cosmetic Surgery in 2011, and Vision Group Holdings in 2014. Within Dental Practice Management, Dermatology, and Ophthalmology respectively, each of these organizations was either the first or second private equity-backed platform within the marketplace. All of these sectors have since seen significant consolidation and subsequent private equity investment. During the past 12 months, Audax most recently has invested into gastroenterology, urology, and women's health.

Audax as a First Mover

Sector	Audax Investment Date	Portfolio Company	PE Portfolio Companies at Time of Investment	Current Private Equity Portfolio Companies
Dental	2008	 *	3	30
Dermatology	2011	 "The Dermatologist Will See You Now!"	0	15
Ophthalmology	2014		1	11
Gastroenterology	2016		0	1
Urology	2016		0	1
OB/GYN	2017	 *	0	1

* Provident represented the selling shareholders in these transactions with Audax Group.

CONCLUDING THOUGHTS

While it is impossible to predict the future, trends and past experience within other specialties leads Provident to expect that mergers and acquisitions will become increasingly prevalent within gastroenterology. The private equity community is going to aggressively pursue platform-caliber gastroenterology practices in light of the early success of Audax Group and Gastro Health. As trends within the sector continue to favor large providers with scale, strong management, strategic vision, and access to capital, the consolidation and investment activity that has occurred will surely be a fraction of what will come. To the extent that it is of interest, members of the Provident team would be happy to elaborate on any of these trends & provide specific insights on healthcare niches, specialties, and industry verticals. Please contact us at (310) 359-6600 for additional information.



Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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