Trends in Healthcare Staffing

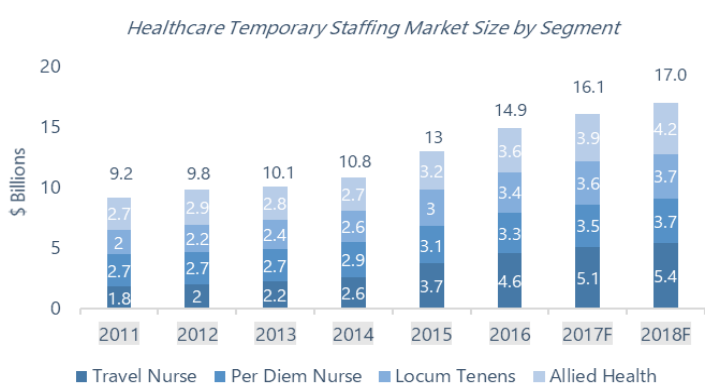
Over recent years the healthcare staffing industry has experienced significant consolidation with private equity, private equity-backed strategics, and public strategics completing acquisitions or investments. Macroeconomic indicators suggest a consistent demand for healthcare staffing services while the sector remains fragmented, implying further consolidation among industry players.

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

CONSOLIDATION TRENDS

INCREASING NEED FOR FLEXIBLE STAFFING SERVICES

The healthcare staffing industry experienced ~15% revenue growth in 2016, which was complemented with a healthy merger and acquisition environment that has continued into 2017. The industry's positive growth trend is sustainable because of the high demand for healthcare professionals, resulting from rising levels of US healthcare spend. Additionally, healthcare facilities have faced challenges in predicting patient inflow, which results in fluctuations in the need for staffing personnel and a greater demand for temporary staffing services as facilities can rely on a rolodex of healthcare professionals the staffing group has obtained. The shortage of physicians is also creating a large demand for both locum tenens staffing and permanent physician staffing services. Facilities who utilize healthcare staffing companies also have less need to improve the infrastructure of their HR department as staffing firms serve as a less expensive and higher quality option. This particularly holds true as staffing companies improve their operating models through the use of Vendor Management Service (VMS) and other staffing technologies aimed at improving the overall employment process for both facilities and professionals.



SHORTAGE OF HEALTHCARE PROFESSIONALS

The United States is currently experiencing the widest gap between number of healthcare jobs that are open and the number of hires. According to the Bureau of Labor Statistics, 30% of healthcare jobs in the United States were unfilled in 2015, and that number increased to 50% in 2016. Between 2014 and 2022, 1.2 million vacancies will emerge for registered nurses. In addition, the Association of American Medical Colleges reports that projected physician demand will continue to grow faster than supply, leading to a projected shortfall of between 40,800 and 104,900 physicians by 2030.

One of the main drivers behind the shortage of healthcare workers is the aging population. Between 2015 and 2030, the population of individuals age 65 and older is projected to grow by 55%, while the population age 18 and under is projected to grow by a mere 5%. Seniors are more likely to develop chronic conditions (heart disease, cancer, non-infectious airway diseases, etc.) leading to an increased need for various healthcare services, therefore driving the need for additional healthcare providers such as nurses and physicians.

As the population is aging, the physician workforce is also getting older. According to the Association of American Medical Colleges, 1 out of every 3 physicians is over the age of 55. A significant number of physicians are at or nearing retirement, which is another driving factor behind the projected physician shortfall.

ATTRACTING QUALITY GROUPS

Historically, acquisitions have been driven by buyers looking to increase the number of facility contracts or buy the "book of business." Over the past few years, there has been a shift towards targeting healthcare staffing firms with a best in-class culture,

CONSOLIDATION TRENDS (CONT.)

ATTRACTING QUALITY GROUPS (CONT.)

quality operations department, qualified professionals, and diversified / exclusive contracts. Diversification in type of facility and service offerings are also of significant interest for these groups, resulting in higher valuations.

INCREASING INVESTMENT INTEREST/ HIGHER VALUATIONS

Healthcare staffing is a highly attractive sector for investors as they look to utilize access to their capital and strategic expertise to consolidate the highly fragmented sector. Both private equity firms and strategic groups view growing healthcare staffing organizations as strong investment opportunities. Scaling operations generates competitive advantages, allowing companies to benefit from increased brand awareness, more efficient / effective recruiting efforts, improvements in technologies, and more diversified service lines.

Smaller to mid-sized staffing organizations are able to improve their leverage in negotiations of contracts with healthcare facilities if they are part of a larger platform. In addition, it is easier to secure Managed Service Provider (MSP) agreements directly with facilities, instead of working through the VMS platforms of larger organizations.

Staffing companies are becoming aware that with a partner, whether private equity or strategic, they can grow at a much faster rate. Firms that are already rapidly growing will have the capital to emulate their model through various subdivisions, either by building these divisions through de novo growth, or by acquiring companies that already provide those services. In addition to expansion of service offerings, additional capital will allow companies to increase their marketing budget, hire additional sales professionals, improve credentialing and compliance departments, reduce A/R days, and increase brand awareness.

As strategic groups and financial partners continue to flood the market, it can be expected that trading multiples will remain elevated.

SHAREHOLDER MOTIVATIONS

One reason staffing organizations seek partnerships is to mitigate risks tied to the business. For example, capital investments and debt will no longer be personally guaranteed by shareholders. In addition, operational and financial business risks due to uncontrollable outside influences will be diversified away from shareholders (i.e. potential downturn in the economy).

In a private equity deal, shareholders can retain a percentage of equity going forward, thus participating in the accelerated growth of the company. As the company expands, the value of retained equity increases. Ultimately, the shareholders of these staffing organizations will benefit from a very desirable “second bite of the apple” down the road when the private equity firm exits the investment. Pursuing a transaction can lead to accelerated growth, operational improvements, and overall value creation for a company. The following page covers the private equity model in greater detail.

OVERVIEW OF PRIVATE EQUITY

Within the healthcare staffing sector, there has been an increasing amount of consolidation over the past several years. An alternative model to the traditional buyout is partnering with a private equity firm.

Private equity refers to the investors and funds that seek to make direct equity investments in privately-owned companies. With the capital of Limited Partners and the expertise and management of General Partners, private equity firms have a record of market-exceeding returns. Limited Partners are passive investors expecting a higher return on investment than attainable in public markets, and include institutional investors, pension funds, endowment funds, and high net worth individuals. General Partners are a group of managers that raise money for individual funds, manage the funds, and execute investments across various companies.

Private equity firms invest in high quality businesses within the fund's industries of expertise that can be grown organically and through acquisitions. They also provide support on high-level decisions, with the financial resources and strategic experience to implement several growth strategies. Funds plan to exit investments after achieving their growth objectives and hitting their return on investment benchmark (commonly 3-7 years).

Private equity firms are actively seeking growing staffing groups to serve as platform investments, and private equity-backed organizations (i.e. Medical Solutions) are looking for accretive add-on acquisitions. Private equity firms seek to invest in organizations with a strong management team, emphasis on culture, robust back office operations, and the technology in place to expand rapidly. Once a private equity firm makes this initial investment into a staffing company, they will look for areas of internal improvement and then complete add on acquisitions to supplement the service offerings of the portfolio company. For example, a staffing firm that predominantly provides travel nurse services may look to complete an add-on acquisition of an allied health staffing group. The end result will be a private equity-backed company with greater service offerings that can be provided to free-standing hospitals, outpatient clinics, health systems, and long-term care facilities.

A recent example of a private equity recapitalization is GrapeTree Medical Staffing's partnership with New MainStream Capital which closed in the fourth quarter of 2017. Provident served as the exclusive financial advisor to GrapeTree. GrapeTree is the current platform investment for New MainStream in the healthcare staffing sector, and plans on utilizing New MainStream's capital to pursue add-on acquisitions.

Due to the success of early private equity investors in staffing, there is significant demand for companies that can support a platform investment. This drives premium valuations and facilitates the selection of an ideal partner.

Notable 2013 Platforms	
medical solutions Backed by: McCarthy Capital, TENEX	CHG Healthcare Services Backed by: LGP, ARES
Notable 2017 Platforms	
medical solutions Backed by: Beecken Petty O'Keefe & Company, TPG Growth	CHG Healthcare Services Backed by: LGP, ARES
Supplemental Health Care – Your Healthcare Career Partner Backed by: Vistria	Healthcare Staffing Services Backed by: Thomas H. Lee Partners
Advanced Backed by: Clearview Capital	TNAA – Travel Nurse Across America Backed by: Gridiron Capital
accountable healthcare staffing, The CSI Companies, the delta companies Backed by: Mitsui & Co.	GrapeTree Medical Staffing Backed by: New MainStream Capital

EXAMPLE OF A PRIVATE EQUITY PLATFORM

Platform Investment (2012)

TENEX

and

McCarthy Capital

Complete an investment in

medical solutions

- Growth investment received in June of 2012
- Located in Omaha, NE
- Ranked #4918 on Inc. 5000's list of fastest growing companies

Timeline of Growth (2012-2015)

- February 2013 – Medical Solutions acquired On Assignment's Travel Nursing Division
- Medical Solutions grew to 237 employees supporting over 1,550 average travelers, across 880 medical institutions nationally
- Opened 3 additional offices in Cincinnati, OH, San Diego, CA and Tupelo, MS

2nd Transaction (2015)

Beecken Petty O'Keefe & Company

and

Heritage Group Partners in Healthcare

Complete an investment in

medical solutions

- Beecken Petty O'Keefe & Company and Heritage Group acquired 100% of Medical Solutions
- Increased capital available for growth

Timeline of Growth (2015 - 2017)

- Provided services to more than 1,600 hospitals around the country, and grew to over 300 employees
- In 2017, ranked #3 for Largest U.S. Travel Nurse Staffing Firms and #6 for Largest U.S. Healthcare Staffing Firms by Staffing Industry Analysts
- In 2017, ranked #2063 on Inc. 5000, with 179% growth over a three year period
- Opened additional office in Denver, CO

3rd Transaction (2017)

TPG Growth

Completes an investment in

medical solutions

- TPG Growth acquired a majority stake in Medical Solutions for approximately $500 million

Plans for Future Growth

- TPG looks to expand Medical Solutions' existing hospital base, diversify services lines and form new hospital partnerships with MSP agreements
- TPG's investment was motivated by the industry's lack of supply of skilled nurses, which currently is unable to keep pace with the demands of healthcare facilities nationwide

STAFFING PRIVATE EQUITY DEAL – CASE STUDY

TRANSACTION SUMMARY

GrapeTree Medical Staffing ("GrapeTree") is a healthcare staffing agency that offers staffing solutions to healthcare facilities across the Midwest by providing healthcare professionals to fill last-minute or 13 week shifts. GrapeTree's CEO and single shareholder, Tim Kinnetz, saw the opportunity to accelerate the expansion of his organization through the introduction of an outside partner. The Company chose Provident to advise them through a targeted transaction process aimed at delivering a partner that could enhance the value of their platform. Provident introduced a select group of private equity firms and strategic acquirers that held value-added relationships with healthcare facilities, vendors, and with experience within the staffing sector that could provide strategic resources beyond capital to fuel the expansion of the GrapeTree platform. Ultimately with Provident's guidance, GrapeTree decided New MainStream Capital would serve as the best partner, given their experience in healthcare staffing and alignment with an operating partner with direct experience in staffing, Bob Livonious.

POST TRANSACTION GOALS

GrapeTree will serve as the platform investment in New MainStream's effort to build an industry-leading provider of nurse staffing services to long-term care facilities and health systems on both a per diem and contract basis. GrapeTree will look to increase its marketing spend, acquire complimentary service lines, hire additional sales staff, expand VMS to secure exclusive contracts, and solidify contracts with national healthcare facilities.

CLIENT:

GRAPE TREE
MEDICAL STAFFING

- One of the fastest growing and largest nurse staffing providers in the Midwest.
- Inc. magazine just ranked GrapeTree Medical Staffing #665 on its 36th annual Inc. 5000 list, the most prestigious ranking of the nation's fastest-growing private companies.
- GrapeTree was also once again honored in 2017 as one of America's fastest growing staffing firms by Staffing Industry Analysts. GrapeTree ranked #1 for Iowa/Midwest, #10 for healthcare staffing firms, and #12 for all staffing firms on the list of Fastest Growing U.S. Staffing Firms.

INVESTOR:

NEW
MAINSTREAM
CAPITAL

- New York headquartered private investment firm specializing in strategic equity investments and leveraged buyouts of lower middle market healthcare services and specialized business services companies.
- Previously invested in Medfinders which was sold to AMN Healthcare Services in 2010.
- Bob Livonious, former chairman of the American Staffing Association, CEO of Medfinders, and executive at AMN Healthcare, is an operating partner.

CONCLUDING THOUGHTS

Provident expects to see continued interest and consolidation in the staffing industry. The strong need for these services, combined with the shortage of healthcare professionals and increased quality of service offerings provided by healthcare staffing organizations is garnering interest in the space. The aforementioned trends are driving valuation multiples in the staffing industry to a higher level than historical premiums.

To the extent that it is of interest, a member of the Provident team would be happy to elaborate on any of these trends and Provident specific insights on healthcare niches, specialties, and industry verticals. Please contact us at (617) 742-9800 for additional information.