
Provident Perspectives: 2020 Year In Review

*A comprehensive overview of transaction activity and the lessons learned
from an unprecedented year for M&A across healthcare services*

2020 Overview & COVID-19 Impact on M&A Activity

When COVID-19 and the associated lockdowns first took hold in March 2020, the outlook for the world economy was entirely uncertain, causing a trickle-down effect in the private equity and M&A markets. Nearly all ongoing transaction processes were put on hold and new deals coming to market saw revised transaction timelines. Areas within healthcare services heavily reliant on preventative care or elective procedures, such as dental practices, were hit especially hard, as patient volumes and associated revenues dropped precipitously almost overnight. Despite these challenges, Provident successfully closed 14 transactions in 2020 across a range of healthcare services verticals by utilizing creative transaction structures to maintain previously agreed upon valuation levels.

As the initial wave of lockdowns subsided, private equity firms and strategic consolidators began to utilize creative deal structures to complete transactions, and deal volumes ticked upward over the summer and fall months. The three most common deal structures buyers employed were the use of seller notes, increased equity capital to finance deals and most often, deferring some portion of the transaction proceeds to a future date.

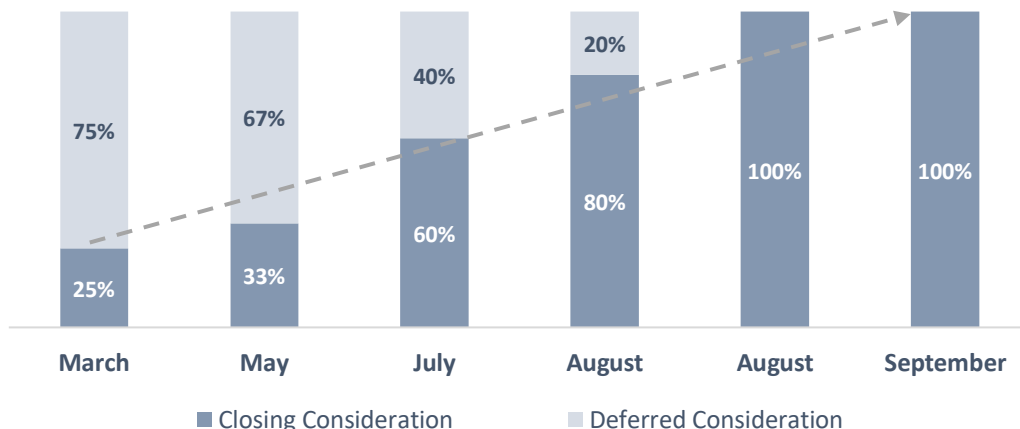
All equity transactions were necessitated by the hesitancy of traditionally risk-averse lenders to provide debt financing to fund transactions during a period of severe macro-economic uncertainty. With the lack of access to debt capital, private equity and strategic investors opted to finance transactions in

full at closing, in certain instances. Given the aggressive risk profile imposed by this structure, it was utilized on a less frequent basis by investors in the midst of the pandemic.

Seller notes, a form of debt financing where the seller agrees to defer a portion of the purchase price and receive that amount in a series of installments, with interest, had been an effective method of maintaining full purchase price while receiving a meaningful portion of cash at closing. However, these notes are generally unsecured and therefore pose a greater financing risk. Therefore, seller notes are often re-financed shortly after closing when more traditional debt capital is secured.

Deferred proceeds present the most complex option, and involve the seller receiving 50 – 75% of proceeds at close while the remaining proceeds are spread out over time, often with underlying performance hurdles that need to be cleared in order to trigger a deferred payment. During the pandemic, these structures were a useful way of maintaining valuations, while withholding some portion of proceeds until the business reached pre-COVID levels. The rationale being that once the business returns to 100% of its pre-COVID operations, the purchase price will have been paid in full. This structure was heavily utilized in Provident's transactions in peak COVID months (March – May), as seen in the chart below.

Closing Consideration as a Percentage of Total Enterprise Value During COVID-19



Note: Month refers to when final transaction terms were agreed upon, not necessarily when the transaction closed.

2020 Overview & COVID-19 Impact on M&A *continued*

As mentioned, the effects of the COVID-19 induced lockdowns had a varying impact on different sub-verticals within healthcare services. Some examples are provided below:

Physician Practice Management organizations experienced varying degrees of financial hardship based on specialty. Women's health practices were particularly resilient to the pandemic. Given the medically necessary nature of a high percentage of the services provided by these practices, they were better equipped to weather the impact of lockdowns on financial performance and patient volumes. Provident completed two transactions in the sector throughout the pandemic (and a third in February 2020); representing both UWH of Texas (April) and Mid-Atlantic Women's Care (October) through their respective sales to Unified Women's Healthcare, a portfolio company of Ares. Both transactions were structured to avoid any impact to purchase price from COVID-19.

Behavioral Health became one of the first sectors to effectively transition to a remote care model, heavily utilizing tele-medicine throughout periods where in-person care wasn't feasible. While the general trend of early adoption of remote care capabilities provided some cushion, providers focused on facility-based care were hampered by the restrictions and suffered

financially as a result. This includes residential-based abuse programs and center-based youth therapy programs that are reliant on a physical presence to deliver care.

Beacon Behavioral Hospital, a provider of psychiatric therapy across its 7 outpatient and 4 inpatient locations, was adversely affected by the lockdown restrictions, which impaired its ability to treat patients in a traditional setting. Despite these challenges, Provident was able to negotiate a transaction structure which would allow the shareholders to collect the bulk of deal proceeds at closing, with a small earnout after 12 months contingent upon reaching pre-COVID EBITDA.

Home Health & Hospice represents a sector in which strong M&A activity persisted throughout the pandemic at compelling valuation levels, a trend which is expected to continue into 2021 as hospice moves into programs such as the Primary Care First Serious Illness Population model, direct contracting programs, or the Medicare Advantage hospice carve-in. Provident's client, Companion Hospice, completed its transaction with Webster Equity Partners-backed Bristol Hospice in December 2020, capitalizing on the significant industry tailwinds and strong investor appetite in the space.

Select Provident Transactions Completed During the COVID-19 Pandemic

 Has partnered with a portfolio company of	 Has partnered with a portfolio company of	 Has been acquired by A portfolio company of	 Has partnered with
April	October	December	December
Women's Health	Women's Health	Hospice	Behavioral Health

Provident Case Studies During COVID-19



Atlanta Oral & Facial Surgery (AOFS) was the largest independently owned oral surgery practice in the U.S. with 25 surgeons and 23 locations prior to the transaction. The partners engaged Provident in to find a private equity partner to help further scale the business and replicate its growth in new markets. After a targeted marketing process, AOFS ultimately partnered with Blue Sea Capital to form Beacon Oral Specialists, alongside Bay Area Oral Surgery Management.

Key Takeaways:

① **AOFS' flexible service offering, geography, and exposure to in-demand surgical procedures** allowed the company to weather pandemic-fueled headwinds and recover faster. After closing its doors in April (with the exception of emergency procedures), AOFS was able to reopen in May and reached full capacity again by the end of the month. The Practice was also able to leverage its telehealth capabilities during the lockdown while the high demand in Atlanta for surgical extractions and implants certified a rapid recovery.

② **Investors are willing to adjust EBITDA for businesses** that have underperformed due to temporary economic conditions. A third-party advisor can assist with quantifying one-time losses and negotiating with buyers to maximize value. With AOFS's rapid recovery and ability to safely serve patients during COVID-19, Provident was able to provide backable analyses and adjustments that supported AOFS's premium valuation.

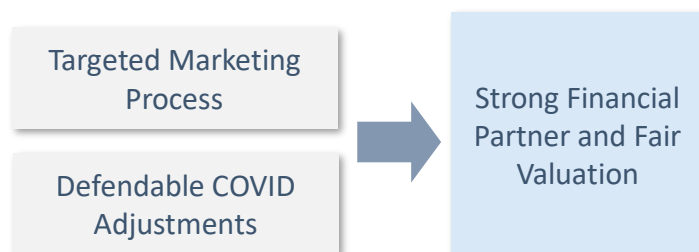
The Urology Group (TUG) is a nationally recognized, Cincinnati-based provider of urological services with 37 physicians and 14 locations. The partners of TUG engaged Provident to run a process and identify a partner with the capital and expertise to accelerate TUG's growth trajectory and scale the business into the number one provider of quality urological services in the country.

Key Takeaways:

① **Medically necessary procedures** played an important role in keeping the practice afloat during the shutdown. As mentioned earlier in this whitepaper, practices with a higher percentage of non-elective procedures are better equipped to withstand the impacts of COVID-19 and maintain demand for services. Once restrictions were lifted, overdue appointments led to strong demand and positioned TUG for a predictable recovery.

② **Shareholder and physician education** was crucial in successfully advising a practice with a large physician base such as TUG. Providing education prior to engaging the private equity market, and throughout the diligence process, ensured that physicians maintained full visibility into deal economics and clinical implications.

③ **Post-close alignment** between the buyer and seller is critical to a successful partnership. Provident prepared a detailed post-close physician recruiting model to provide upside for new doctors, facilitating continued organic growth of the practice. Provident also compiled analyses outlining physician compensation models, transaction proceeds allocations, and breakeven analyses for each TUG shareholder, representing the physicians every step of the way.



Concluding Thoughts & Outlook on 2021

The swift recovery of many healthcare services verticals combined with the recently initiated rollout of COVID-19 vaccinations has left plenty of room for optimism in M&A markets in 2021 and beyond.

Demand for services in most sectors is expected to remain strong as the ephemeral effects of the pandemic subside with the deployment of vaccinations over the course of the first two quarters of the year. Macro tailwinds driving demand in most pockets of healthcare services have also proven to be fairly insulated from the effects of recession and pandemic. As a result, private equity firms with existing healthcare service portfolio companies have bolstered investment in spaces that have demonstrated resilience, at least on a relative basis, to more cyclical industries, such as retail and business services.

PPM specialties, particularly those focused on medically necessary procedures, have fared very well over the course of the pandemic and have been comparatively attractive spaces to put money to work in. In addition to new sponsor investment, Provident expects strategic acquisition activity to contribute to increased deal activity in a meaningful way as well. PPM specialties, like eyecare, with an abundance of platforms competing for transactions will continue to see increased demand for deals that outpace the supply of assets on the market.

While demand in some areas, like ABA therapy and post-acute care, have proven to be recession agnostic, demand in others, such as mental health, substance abuse, and urgent care, has actually intensified due to the impact of the pandemic. While Provident expects these corollary effects to drive further consolidation in the months and years to come, there are certain spaces in which increased volume due to the pandemic is more transient nature. Areas like urgent care, labs, and trials businesses focused on vaccines should be mindful of current performance relative to future sustainable income.

Furthermore, Provident expects recent political developments that will likely have implications on the tax landscape, to bolster deal making in 2021. Many sellers will aim to close their respective transactions by

year end to avoid increased capital gains tax rates. The expectation that tax reform won't be applied retrospectively to 2021 will only fuel demand further. Provident is monitoring capital gains increases which has not had an effect on valuation up to this point.

Provident also anticipates a back log of private equity exits in 2021, as a large percentage of secondary deal processes were delayed and put on hold in 2020, particularly in areas that are starting to show some signs of maturing from their initial, nascent stage. Spaces that have been consolidating for 5+ years with dozens of PE-backed platforms are prime for increased secondary deal activity.

From a valuation standpoint, Provident expects multiples to remain at elevated levels, with very little in the way of softening in spaces that have fared well since the pandemic. Deferred consideration and alternative deal structures, which characterized most transactions in 2020, are likely to subside as well as volumes recover for extended periods of time. On the accounting front, the importance of sell-side Quality of Earnings analyses and COVID-normalization adjustments will be especially pronounced due to heavily reduced volumes during peak COVID months.

Overall, Provident expects 2021 to be an especially active year in healthcare services given macro tailwinds, pent up demand for deals and tax conscious incentive to close by year end.

Provident Transactions Closed in 2020



COMPANION
HOSPICE, HOME HEALTH & PALLIATIVE CARE
Enhancing the Quality of Life

Has been acquired by



Bristol Hospice
PROVIDING A BETTER LIFE FOR ALL

December 2020
Hospice



**ATLANTA
ORAL & FACIAL
SURGERY**

*Has entered a strategic
partnership with*



BLUE SEA CAPITAL

to form



BEACON
ORAL SPECIALISTS

December 2020
Oral Surgery



BEACON
Behavioral Hospital

Has partnered with



LATTICework
CAPITAL MANAGEMENT

December 2020
Behavioral Health

**An undisclosed
fertility practice**

Has partnered with

**a PE-backed
strategic partner**

November 2020
Fertility



**MID-ATLANTIC
WOMEN'S CARE, PLC**

Has partnered with



Unified Physician[®]
MANAGEMENT

a portfolio company of



ARES

October 2020
Women's Health



**Palmetto
Retina Center**

Has been recapitalized by



RETINA
CONSULTANTS OF AMERICA

a portfolio company of



Webster
Equity Partners

October 2020
Eye Care



**Retina
Health
Center**

Has been recapitalized by



US EYE

a portfolio company of



PAMLICO
CAPITAL

August 2020
Eye Care



IGI
Illinois Gastroenterology Institute

And



**Central Illinois
Endoscopy
Center**

Have partnered with



GI Alliance

a portfolio company of



Waud Capital

July 2020
Gastroenterology



**THEUROLOGY
GROUP**

Has partnered with



LEE
EQUITY

to form



SOLARISHEALTH
A NEW DAY IN HEALTHCARE

June 2020
Urology



**Unified Women's Healthcare
Texas**

Has partnered with



Unified Physician[®]
MANAGEMENT

a portfolio company of



ARES

April 2020
Women's Health



DPT
DOCTORS of
PHYSICAL THERAPY

Has been acquired by



SV HEALTH INVESTORS

March 2020
Physical Therapy

**SEVEN HILLS
Women's Health
Centers**

Has been acquired by



Axia WOMEN'S
HEALTH

A portfolio company of



**Audax
Group**

March 2020
Women's Health



**AT HOME
HEALTHCARE**

Has been acquired by



Family
HOME HEALTH SERVICES

A portfolio company of

the edgewater funds

February 2020
Home Health



WOMEN'S HEALTH
of Central Massachusetts

*Has entered into a
partnership with*

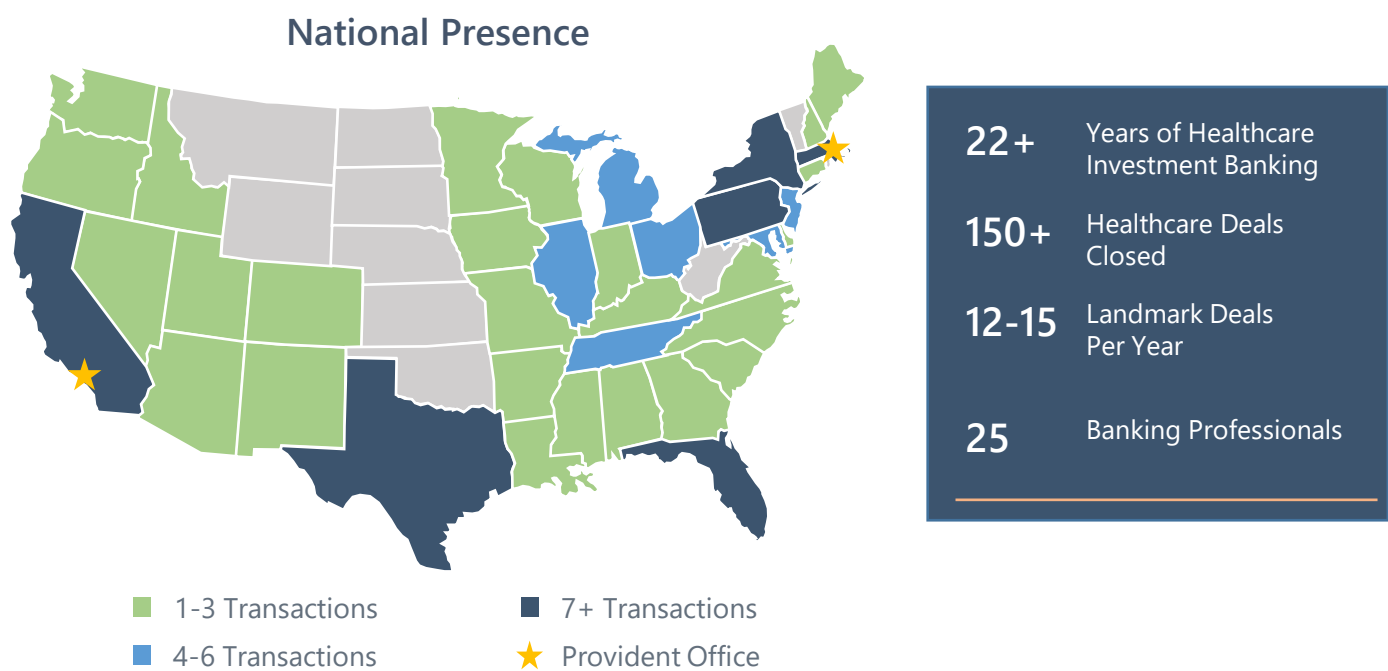


Women's Health
Connecticut

January 2020
Women's Health

PROVIDENT HEALTHCARE PARTNERS

Provident Healthcare Partners’ investment banking team works with privately owned healthcare companies to provide advisory services related to mergers and acquisitions. Prior to formal engagement, Provident works with companies to provide the upfront education to shareholders necessary to understand the economics, structure, and motivation of a transaction. Following the education process, if formally engaged, Provident leverages their extensive knowledge of the buyer universe to find the most compatible partner and drive valuations for a company’s previously illiquid stock. Driving the entire transaction process, Provident facilitates and assists with deal structuring, negotiations, exit planning/processing, counseling amongst shareholders, and due diligence.



Note: The above map represents states where Provident clients were headquartered. Provident has successfully closed transactions with clients operating in 45 states and Puerto Rico.



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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