

Provident Perspectives: 2021 Year In Review

A review of healthcare M&A activity and trends from 2021



Provident
Healthcare Partners

Breakthrough Year for Healthcare Services M&A Volume

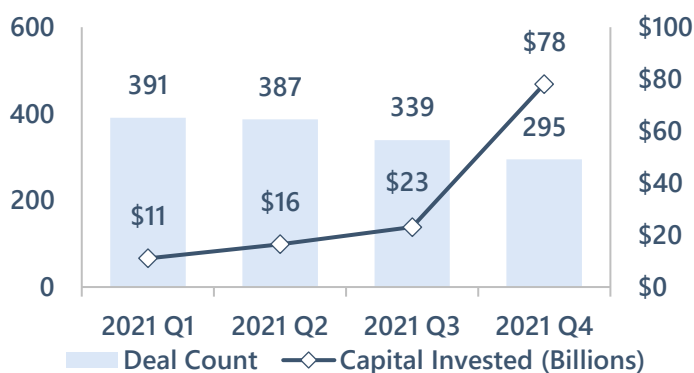
2021 was a record-breaking year for M&A markets, especially within the healthcare services industry. Broadly, global M&A values reached over \$5.6 trillion, representing the first time this metric surpassed the \$5.0 trillion mark. Within the United States' healthcare services industry, M&A volumes increased 11% from approximately 1,200 transactions in 2020 to 1,400 in 2021. Investors had their eye on the hospice and home-care sectors most of all, with roughly 200 closed transactions over the calendar year. The highest year-over-year growth occurred within the physician services sector, with a 91% increase in 2021 as compared to 2020. The pharmaceutical services sector also garnered unprecedented interest from financial sponsors and strategic consolidators alike, as drug makers continue to increase their spending in R&D.

Over the past year, private equity established 115 new platform investments in the healthcare services industry, accounting for 16% of the total private equity transactions in 2021. Additionally, the second half of 2021 provided clarity on potential capital gains tax rate increases and the expiration of the Medicare sequester moratorium, both of which look to benefit healthcare operators. Given the current transaction landscape and regulatory climate, Provident expects continued consolidation within the healthcare industry through 2022, characterized by an uptick in middle market add-on investments, where

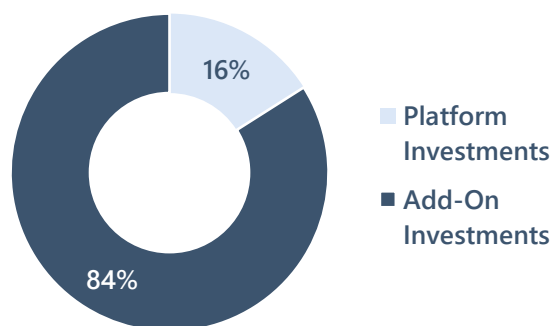
private equity firms continue to leverage a buy-and-build strategy for multiple arbitrage fueled growth.

In this white paper, we examine key investment trends from 2021 in the healthcare services industry as well as go-forward expectations for the sector.

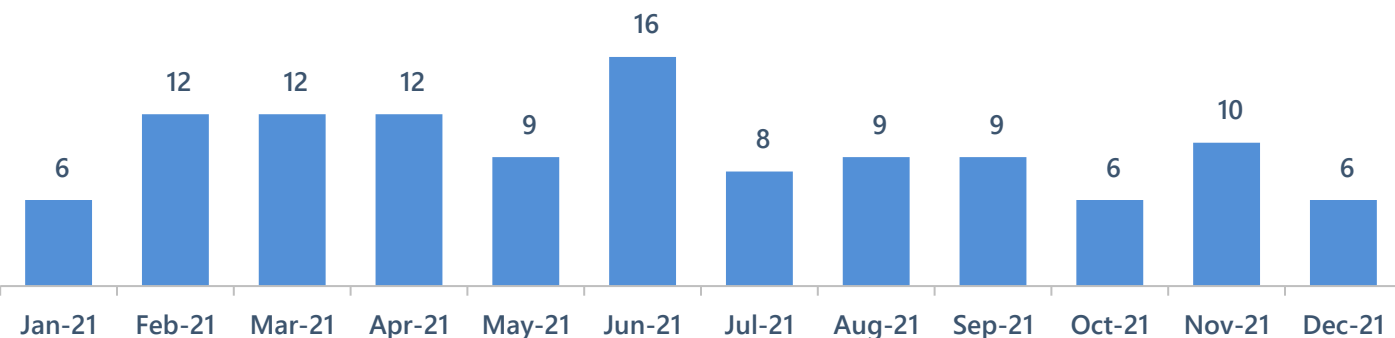
Healthcare Services M&A Volume⁽¹⁾



Breakout of Private Equity Investments⁽¹⁾



Healthcare Services Platform Creation Timeline⁽¹⁾



⁽¹⁾ Transaction statistics based on PitchBook and research completed by Provident; excludes non-publicly available transactions

2021 Healthcare M&A Trends

Capital Gains Tax Rate

The proposed increase in the top bracket of long-term capital gains taxes, a leading topic of M&A conversation this past year, simmered following news towards the end of 2021. Originally introduced in April 2021, the bill proposed a 19.6% increase in the existing capital gains tax rate to 39.6%, equal to the proposed top marginal income tax rate. The latest developments, however, predict a much more modest increase of 5.0% to 25.0%. While the reduction from 39.6% is favorable for operators seeking a tax efficient sale, there is legal feasibility and political interest that the bill would retroactively impose the rate change back to its introduction in September 2021.

No Surprises Act

The No Surprises Act ("NSA" or "Act") takes effect in 2022 and aims to eliminate surprise medical bills that arise when insured customers inadvertently receive care from out-of-network doctors and hospitals. The Peterson-KFF, a health system tracker developed by The Peterson Center and Kaiser Family Foundation, estimates that approximately 20% of emergency room visits and as high as 16% of non-emergency hospitalizations meet the criteria of surprise billing. The NSA requires private health plans to cover "surprise" out-of-network claims and apply in-network cost sharing. The NSA also

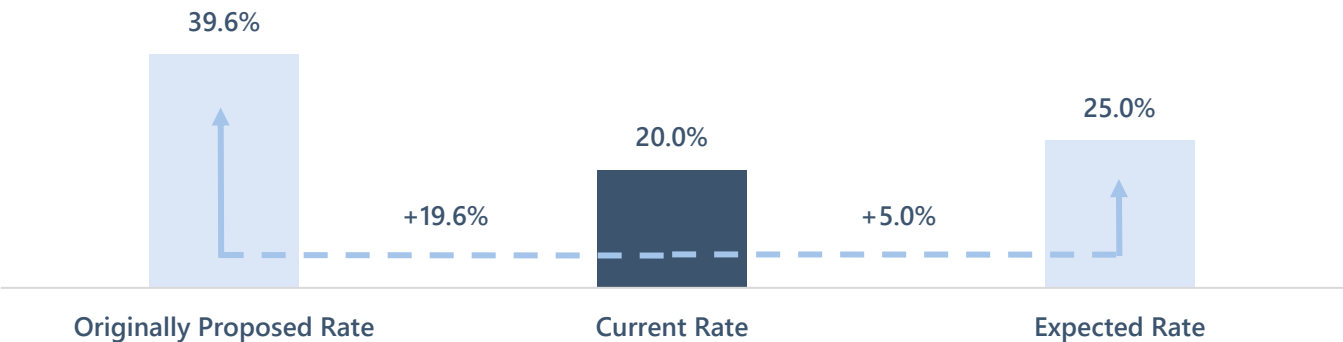
prohibits doctors, hospitals, and other covered providers from billing patients more than the in-network cost sharing amount for surprise medical bills. While the Act aims to enhance transparency for the patient, practices implementing steps to comply with regulations are likely to incur higher administrative costs and potentially lower reimbursements for ancillary specialties. As an example, an out-of-network anesthesiologist at an in-network-hospital could not bill patients unless granted specific permission. As a result, ancillary providers, such as anesthesiologists, will have less flexibility setting rates.

Medicare Sequester

In December 2021, the current administration signed the Protecting Medicare and American Farmers from Sequester Cuts Act ("Act") into law. The below sets forth a summary of the Act's benefits to healthcare operators.

- Delays the 2% Medicare rate cuts from January 1, 2022, to a 1% cut April 1, 2022, and an additional 1% cut on June 30, 2022
- Postpones PAYGO cuts to Medicaid until 2023
- Increases rates under the Medicare Physician Fee Schedule by 3%, mitigating the expiration of the temporary 3.75% increase from 2021
- Other changes related to clinical lab fee schedules and radiation oncology payment models

Proposed Capital Gains Tax Rate⁽¹⁾



⁽¹⁾ Wall Street Journal

2021 Healthcare M&A Trends *(Continued)*

Surge in Pharmaceutical Services Interest

One of the largest deals in 2021, Thermo Fisher's \$17.4 billion acquisition of PPD, exemplifies the growing interest in the pharmaceutical services sector. Throughout the COVID-19 pandemic, the increased focus on the pharmaceuticals industry resulted in a corresponding boost of investment in pharmaceutical ancillary services. Subsectors such as clinical research sites and contract research organizations ("CRO") experienced an increase in M&A activity. 2020 and 2021 saw deal volume rise from 2019, but 2021 experienced a prominent uptick in invested capital, aided by multiple large strategic and financial acquisitions.

Select Pharma Services Transactions (2021)⁽¹⁾

Target	Partner
 Part of Thermo Fisher Scientific	
	
	
	
	

Increasing Prominence of Healthcare IT

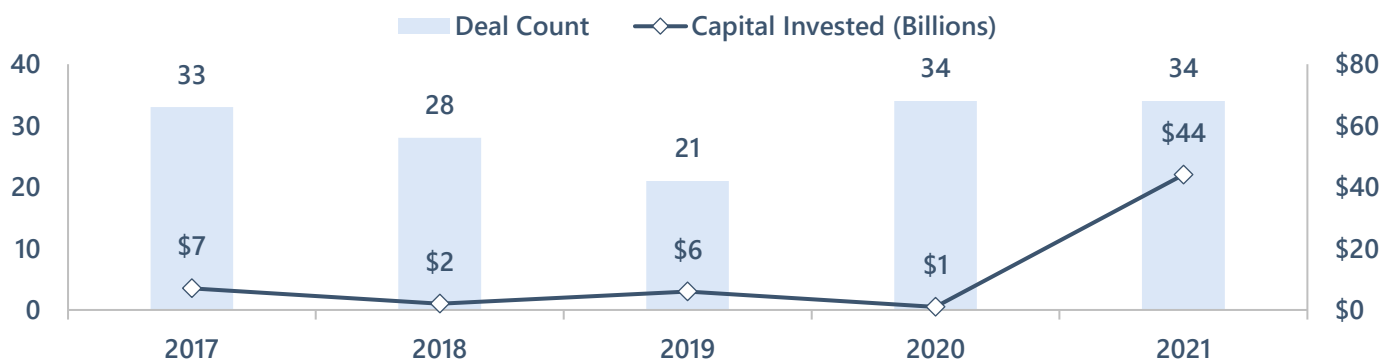
The growth of healthcare IT was a headline in 2021, primarily due to the pandemic-prompted acceleration of telehealth. By the end of 2020, over 80% of providers began offering virtual care opposed to only 25% in 2018.⁽²⁾ While these numbers stabilized to 40% utilization, certain specialties maintain the aggressive expansion in telehealth utilization.⁽³⁾ Primarily in the behavioral health sector, regulators now allow providers to treat patients across state lines with less scrutiny than other specialties. Certain health plans are now offering virtual-first plans with lower premiums and fully virtual primary care visits.

Other notable changes in healthcare IT include the continued emphasis on EHR system development, an overarching focus on patient data security, payor services technology managing population health trends, and remote patient monitoring. 2021 was a pivotal year for healthcare IT due to the adoption of industry changes that had already been in motion for years.

Most Active Investors in HCIT (2021)⁽¹⁾



Pharmaceutical Services M&A Volume⁽¹⁾



⁽¹⁾ Transaction statistics based on PitchBook and research completed by Provident; excludes non-publicly available transactions;

⁽²⁾ Amwell; ⁽³⁾ McKinsey

Provident Case Studies

Provident Pharmaceutical Services Transactions

Advanced Memory Research Institute

- Advanced Memory Research Institute of New Jersey ("AMRI"), the largest Alzheimer's Disease clinical research site in the Northeast, engaged Provident to explore partnerships to support the company's rapid growth
- Provident led a process involving both financial and strategic partners
- Throughout the process, competition among potential partners drove significant value for AMRI, yielding valuations high above industry average
- In August 2021, AMRI partnered with CenExel, a clinical research site platform acquired by Webster Equity Partners in 2018
- AMRI proves the pharmaceutical service sector's ability to demand premium interest for regional companies with differentiation in services and thought leadership



Acquired by



ForCare Clinical Research

- ForCare Clinical Research ("FCR") is a leading independent dermatology and multi-specialty clinical research facility that focuses on providing access to novel treatment and therapies for both chronic and acute conditions
- Provident leveraged its rolodex of industry contacts to preview the opportunity with prospective buyers, which led to pre-emptive bids that accelerated an otherwise lengthier marketing process
- CenExel valued FCR's strong reputation among the dermatology community, and the company's growing presence in rheumatology provided new avenues for expansion into untapped patient populations
- Closed in July 2021, ForCare is an excellent example of pharmaceutical service companies' ability to scale quickly and achieve premium valuation multiples



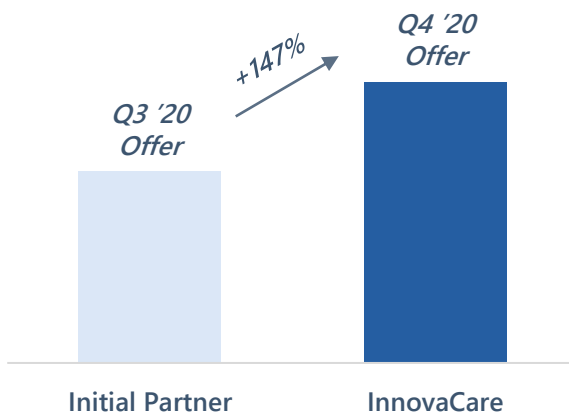
Acquired by



Other Notable Provident Transactions

- Provident advised medical group Family Care Partners ("FCP"), a leader in value-based care models and Medicare Advantage plans, in their transaction with InnovaCare in May 2021
- InnovaCare found value in FCP's expertise with payor relationships and innovative primary care model
- FCP is one of North Florida's largest primary care providers, with 44 providers and five locations serving 140,000 patients annually
- Prior to engaging Provident, FCP was under LOI with another buyer, but Provident's competitive yet selective process included 8-10 groups, resulting in a successful close at a 147% increase in purchase price from FCP's LOI with its original partner

Final Purchase Price



Provident 2021 Closed Transactions



Has been acquired by



December 2021
Multispecialty



Has partnered with



November 2021
Ophthalmology



Has partnered with



September 2021
Oral Surgery



Has been acquired by



August 2021
Pharmaceutical
Services



Has been acquired by



August 2021
Ophthalmology



Has been acquired by



August 2021
Ophthalmology



Has been acquired by



July 2021
Pharmaceutical
Services



Has partnered with



July 2021
Ophthalmology



Has been acquired by



July 2021
Hospice



Has been acquired by



May 2021
Primary Care



Has been acquired by



March 2021
Gastroenterology



Has partnered with



January 2021
Ophthalmology

Conclusion

As Provident looks ahead to 2022, we expect to see a continuation of 2021's elevated M&A activity. It is likely that private equity firms continue to roll up physician practices amid impending CMS cuts and private equity's appetite for add-on investments.

Furthermore, Provident expects ancillary healthcare sectors such as pharmaceutical services and healthcare IT to remain on an aggressive growth trajectory. The national focus on pharmaceutical companies during the pandemic fosters growth for the sector's adjacent services. Telehealth demonstrated its resiliency as a permanent form of healthcare as the pandemic wanes.

Additionally, the healthcare IT sector will continue to peak investor interest with the shift towards data-driven, value-based care trends, with services such as EHRs and remote patient monitoring systems becoming commonplace for providers.

Overall, Provident expects 2022 to have an M&A market similarly active to 2021 with continued investments in physician practices, pharmaceutical services, and healthcare IT.

Provident Healthcare Partners

Provident Healthcare Partners' advisory services prioritize the delivery of a tailored transaction strategy with a goal of maximizing shareholder value, from both an economic and philosophical perspective. Our longstanding healthcare industry relationships allow our team to comprehensively advise organizations on evaluating potential partners, whether strategic or financial, that will unlock the most value for shareholders. We are dedicated to understanding all facets of a desired transaction, leveraging our extensive industry perspectives and relationships, and crafting ideal solutions. As a trusted partner in this process, Provident offers deep transactional experience while aligning its interests with the client.



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.

Boston:
260 Franklin Street, 16th Floor
Boston, Massachusetts 02110
617-742-9800

New York:
441 Lexington Ave, Suite 504
New York, New York 10128
212-580-4500

Los Angeles:
315 S. Beverly Drive, Suite 504
Beverly Hills, California 90212
310-359-6600