
Provident Perspectives:

An Update on Gastroenterology Consolidation Trends

*Reflecting on the first five years of private equity-backed consolidation of
gastrointestinal care and what Provident expects moving forward*

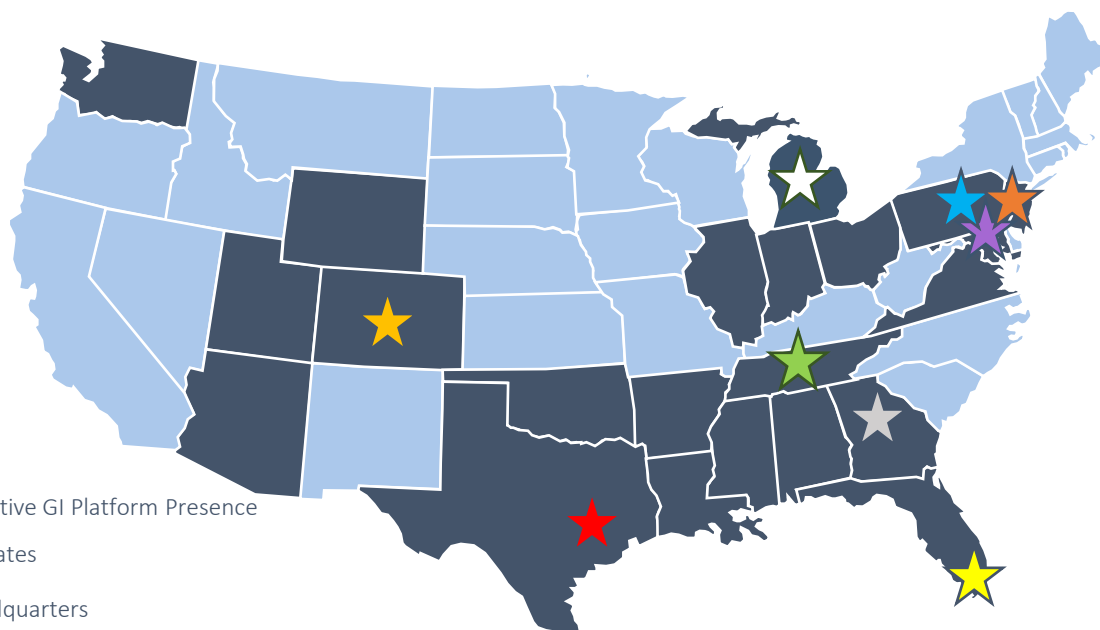
Introduction: The Current GI Landscape in Q4 2021

Dating back to 2016 when Audax formed the first private equity-backed gastroenterology practice Management Services Organization (MSO) in the U.S. via its investment in Miami-based GastroHealth, the GI industry has been undergoing one of the most rapid consolidation curves Provident has observed to date across specialty medicine. Fast forward five years to the final quarter of 2021 and there are now nine private equity-backed investments in gastroenterology, with a physical presence in 25+ states.

As highlighted below, these nine MSOs operate with

locations across 50% of the continental United States. Most of these platforms have acquired other groups within their current states as well as pursued M&A opportunities regionally and nationally. At this stage in GI's evolution, MSOs are often prioritizing transactions with leaders in other metropolitan areas and states to form "regional partnerships", which can serve as the hubs for future partnerships with local practices and growth within a given market or state. Provident believes there could be the opportunity for new platforms to emerge within GI, but the current strategic universe is capable of consolidating most of the outpatient providers in the country as is.

Current GI Platforms – Q4 2021



States with Active GI Platform Presence

Non-Active States

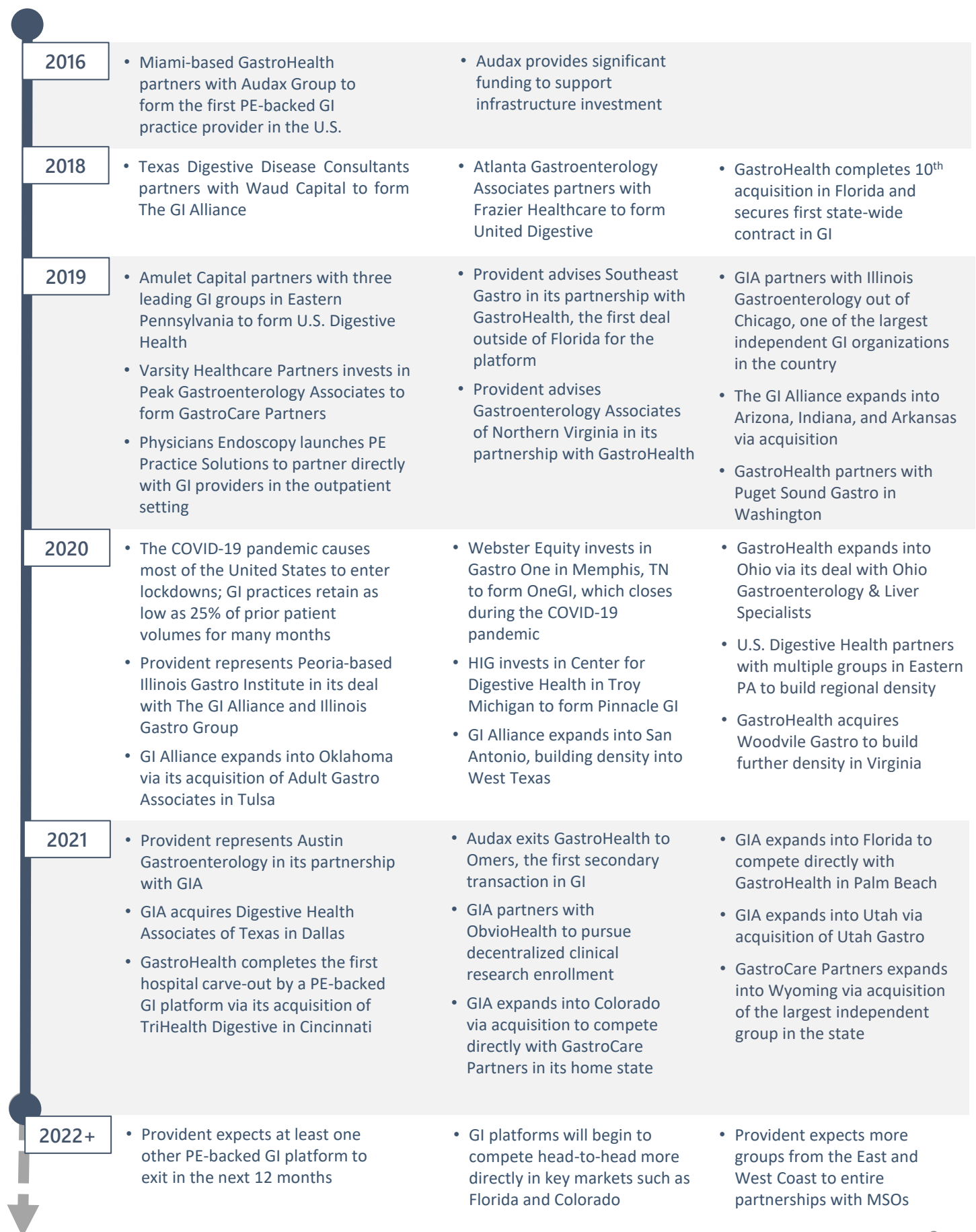
Platform Headquarters

 ASSURED HEALTHCARE PARTNERS	Year Formed: Q1 2021
 physiciansendoscopy	Year Formed: Q4 2019
 GI Alliance Waud Capital	Year Formed: Q4 2018

 PINNACLE GI PARTNERS H.I.G. GROWTH PARTNERS	Year Formed: Q4 2020
 gastro CARE PARTNERS VARSITY HEALTHCARE PARTNERS	Year Formed: Q4 2019
 UNITED DIGESTIVE FRAZIER HEALTHCARE PARTNERS	Year Formed: Q4 2018

 OneGI  Webster Equity Partners	Year Formed: Q2 2020
 U.S. digestive health  AMULET CAPITAL PARTNERS LP	Year Formed: Q4 2019
 GASTRO HEALTH  OMERS	Year Formed: Q1 2016

Timeline of Notable Activity: 2016 - 2021



Looking Forward: Opportunities & Headwinds

Second Bites of the Apple / Private Equity Exits

For some observants within the industry who took a “wait and see” approach to PE investment in GI, Audax’s successful return and exit on GastroHealth to OMERS Private Equity was a critical moment. Many independent GI groups desired to see more traction before pursuing private equity deals of their own and are now advocating for such partnerships. Provident expects at least one of the other platforms to complete a secondary transaction in the next 12 months as well, further validating the sector thesis.

Competition Within States & Markets

Prior to 2021, we had not observed two MSOs competing within an individual state. Historically, the platforms have pursued M&A within their respective states, with opportunities for income repair to add groups buoyed by state level payor contracting.

However, as competition increases between platforms to differentiate themselves, we expect MSOs will begin to compete for market share in certain markets like Florida where GastroHealth has historically been the leader; United Digestive and GIA are two new entrants who will be looking to expand in the state. This new dynamic of competition will enhance the negotiating leverage sellers have in these markets and offer greater flexibility in terms of potential partners to choose from.

Future M&A

Mergers and acquisitions will continue to be the predominant vehicle by which GI platforms grow in the coming years. Furthermore, as the US commercial payors attempt to pivot towards value-based care arrangements, opportunities will arise to partner with bariatric dietary/nutritional weight loss providers as well.

Ancillary Growth

Infusion, pathology, anesthesia, and endoscopy centers have been the dominant ancillary streams of income for GI groups for the past 20 years, but new opportunities are emerging to groups with scale. Cash pay and reimbursed weight loss procedures are becoming increasingly available for patients to utilize in hopes of mitigating the current obesity epidemic in the United States. Clinical research, an area that has long been championed in the academic setting, is becoming more accessible to patients and providers via technology. The propagation of research within the GI field could create a highly profitable ancillary stream for groups who can support such pharma relationships. Pharmacy remains a somewhat untapped opportunity for many groups, however low margins and regulatory hurdles can make it difficult for all but the largest GI providers.

Reimbursement Risk

While the COVID-19 pandemic stalled some planned reimbursement cuts and caused CMS to boost reimbursement for some E&M and telemedicine codes, pathology, anesthesia, and infusion reimbursement will continue to face headwinds in the future. Many GI groups fear that payors’ efforts to curb drug costs by propagating biosimilar adoption could harm profitability. Anesthesia and path codes will continue to be under the radar of commercial payors.

Recruiting Out of Fellowship

Many graduating GI fellows are cautious about private equity but are cognizant that this is the direction the industry is going, like many other specialties of medicine. The next generation of GI physicians will require sufficient education and equity upside to join PE-backed organizations.

Concluding Thoughts from Provident

The last half decade of private equity investment and ensuing consolidation has altered the GI landscape across the country. Organizations have utilized private equity to scale and establish a regional and national presence, while creating strong returns for their physician partners and investors.

As predicted by Provident, the GI space will not support the creation of 25+ private equity platforms that areas like eyecare, dermatology, and dental have observed, but rather a smaller group of larger organizations that control a meaningful portion of outpatient digestive medicine within and across multiple states. We expect the ensuing five years to be just as, if not more active than the last with regards to transaction activity. During this time, national players will cement their market control, which will increase the barriers to entry for future platforms to emerge.

Although reimbursement cuts remain a future headwind to gastroenterologists across the space, the COVID-19 pandemic has tested the private equity model and shown that organizations can increase value for their physician partners through a negative macro economic event.

Provident will continue to be a thought leader to independent GI groups who are interested in learning about private equity or pursuing partnerships of their own in the coming years. Our firm will look to build on our experience with GI organizations in the Mid-Atlantic, Southeast, Midwest and Midsouth regions to facilitate transaction activity on behalf of physician partners across the country.

About Provident & Related GI Experience

Since 2018, Provident has successfully represented four gastroenterology clients through transactions across four different regions in the U.S. As shown in the table below, these four clients include diverse shareholder bases, practice models, endoscopy centers, and ancillary service offerings, including anesthesia, pathology, clinical research, pharmacy, and infusion.

Having participated in physician transaction advisory across over a dozen specialties, the Provident team remains a thought leader nationally regarding GI transaction advisory and expects to partner with more leading organizations like the ones listed below in the coming years as the industry continues upon its evolution.

Past Provident Clients	 Austin Gastroenterology <i>Has partnered with</i>  GI Alliance <i>a portfolio company of</i>  Waud Capital	 Illinois Gastroenterology Institute  Central Illinois Endoscopy Center <i>Have partnered with</i>  GI Alliance <i>a portfolio company of</i>  Waud Capital	 GANV GASTROENTEROLOGY ASSOCIATES OF NORTHERN VIRGINIA <i>Has been acquired by</i>  GASTRO HEALTH <i>a portfolio company of</i>  Audax Group	 SOUTHEAST GASTRO <i>Has been acquired by</i>  GASTRO HEALTH <i>a portfolio company of</i>  Audax Group
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Provident Gastroenterology Client Detail

Provident Client Overview	 Austin Gastroenterology	 Illinois Gastroenterology Institute	 GANV GASTROENTEROLOGY ASSOCIATES OF NORTHERN VIRGINIA	 SOUTHEAST GASTRO
Location: HQ	Austin, TX	Peoria, IL	Fairfax, VA	Birmingham, AL
# of Providers	60	12	24	20
# of Shareholders	26	9	12	15
Deal Overview	<ul style="list-style-type: none"> • Leading national clinical reputation in high-growth metropolitan area • Opportunities to integrate "best-practices" throughout Texas 	<ul style="list-style-type: none"> • Combined the two largest GI providers in the state of IL • Allowed for continuation of JV partnership with health system in endo center 	<ul style="list-style-type: none"> • "Regional platform" deal for Gastro Health in the Mid-Atlantic region • Multi-state opportunity involving Virginia, DC, and Maryland 	<ul style="list-style-type: none"> • Largest GI provider in the state of AL • First acquisition by Gastro Health outside of FL

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Provident is one of 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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