

Q3-2022 Healthcare Services Private Equity Update

Commentary

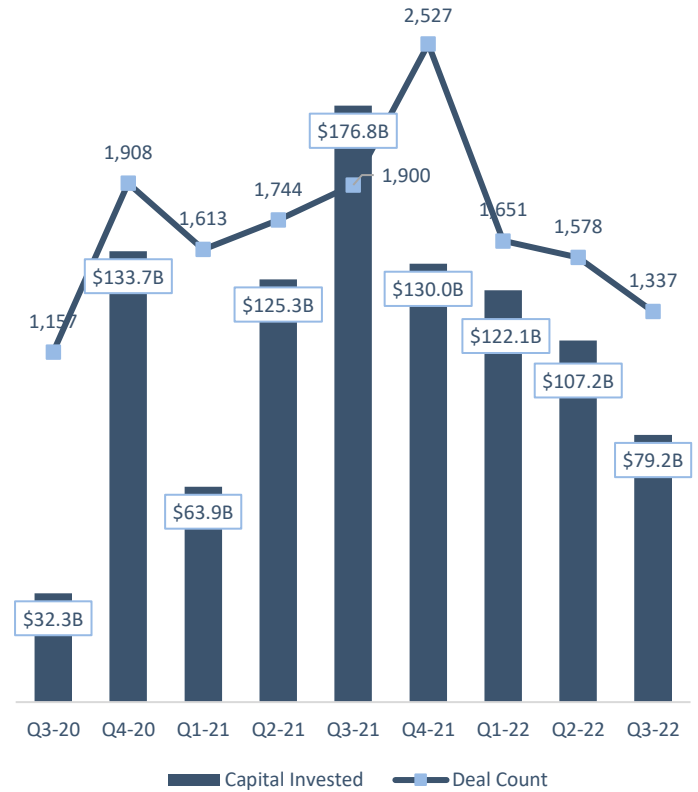
Healthcare PE activity displayed impressive resiliency in Q3-22. Healthcare services are perceived as acyclical, as payors and the nondiscretionary behavior of healthcare somewhat insulate PPMs and other providers from radical changes in consumer spending. However, transaction volume and capital invested in Q3-22 continued to decline. Private equity firms still hold an abundant amount of capital, but velocity in which funds are deploying capital has slowed.

PE exits have also fallen off 2021 highs, owing part to rewarding and eager IPO markets and competition from SPACs. Heightened deal volume in 2021 was also driven by fears of a long-term increase in capital gains which led investors to exit portfolios at an elevated pace. However, platforms that have displayed both clinical and operational excellence are still being rewarded in the market through competitive processes and buyers still willing to give credit for various PF EBITDA adjustments.

Staffing shortages have also pinched most healthcare services organizations, consequently increasing costs, shrinking margins, and debilitating growth. Furthermore, valuation multiples have started to plateau or reverted to 2019 levels but have still displayed incredible resiliency compared to its CPG and technology counterparts.

Healthcare PE investors remain cautiously optimistic that deal activity in the lower/middle market will remain stable despite macro headwinds.

Private Equity Investment & Deal Count



Q3-2022 Healthcare Private Equity Snapshot⁽¹⁾

Transactions
131+

Healthcare transaction volume continues to dip from the prior quarters, from 175+ in Q2-22 to 131+ in Q3-22. Valuations are starting to plateau across several services verticals, and overall M&A activity continues to slow down. Inflation, rising interest rates, and fears of a recession are all hindering factors on overall M&A activity.

PE Exits
23+

Several notable PE exits occurred in Q3-22 including Monument Micro Cap's exit of Montgomery DME to Incline Equity Partners. Shore Capital also exited EyeSouth which was acquired by Olympus Partners, which valued the vision care platform at ~\$1B.

Investors
168+

The diverse investor and acquirer base highlights how sectors across the healthcare spectrum remain active and ripe for consolidation. Record levels of capital were raised in the last 24 months, and investors are mandated to deploy that capital, regardless of the macroeconomic headwinds.

Capital Invested
\$6.5B

The drop in transaction volume in turn impacted the capital invested, dipping from previous quarters. This is also likely attributed to outsized deal activity in 2021 as a result of potential capital gains increase and pent up COVID demand. Inflation, higher interest rates, and other market trends are factors contributing to the cash burn rate from smaller PE-backed companies.

Largest Deal
\$2.8B

Kindred at Home, is a leading provider of hospice, palliative, community and personal care. The business was acquired by Clayton, Dublier, & Rice through an estimated \$2.8B LBO in Aug-22.

Top Investors by Deal Count











NMS | CAPITAL



Sources:
1. PitchBook Data as of 10/11/2022.

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Select Q3-2022 Transactions

Month	Acquirer	Target	Commentary
July	 		Ganse is a Lancaster, Pennsylvania-based closed-door long-term care and specialty pharmacy that provides value-added distribution services to patients suffering from severe and persistent mental illness and intellectual and developmental disabilities (IDD)
August			Montgomery DME, a provider of durable medical equipment on a rental basis to hospices throughout Southern California, received an investment from Incline Partners. Incline believes there is significant expansion through bolstering the MDME's sales capabilities and exploring logical add-on targets.
September	 		GHC Hospice is one of the premier hospice providers in the Southeast, with local access to Georgia and South Carolina through six office locations. Agape Care Group serves 3,600 patients across South Carolina, Georgia and North Carolina, making GHC a complimentary add-on and bolsters Agape's footprint in the region.
September			EyeSouth Partners, a comprehensive ophthalmology management services organization platform, received an investment from Olympus Partners, a Stamford, CT-based private equity firm. The transaction is rumored to have valued EyeSouth in the zip code of \$1B. Since Shore Capital's initial investment in 2017, EyeSouth locations have grown to over 155 locations throughout Georgia, Texas, Louisiana, Florida, Tennessee, Ohio, Kentucky, Pennsylvania, Alabama, North Carolina and Illinois.

About Provident Healthcare Partners

Provident Healthcare Partners is a leading, independent healthcare investment bank specializing in mergers and acquisitions advisory, strategic planning, and capital formation services for middle-market and emerging growth companies, with extensive experience in both mature and developing areas of the healthcare services industry. Our sole focus on healthcare services gives us a deeper level of understanding of each sector that cannot be matched by a generalist firm.

Our mission is to consistently exceed the expectations of our clients by leveraging superior strategic thinking, unmatched knowledge of the healthcare industry, and decades of healthcare transaction advisory experience.

With a bi-coastal presence and national coverage, 28 investment banking professionals and over \$4.5B in TEV to date, Provident devotes a team of seasoned professionals to every transaction to ensure an efficient and successful close.

23+

Years of Healthcare Investment Banking

155+

Healthcare Deals Closed

75+

Physician Deals Closed Since 2014

28

Investment Banking Professionals

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