

Provident Perspectives: 2022 Year In Review

A review of healthcare M&A activity and trends from 2022



Provident
Healthcare Partners

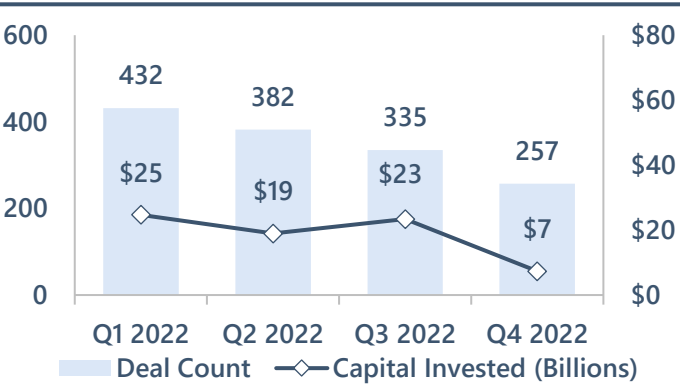
Continuation of Record-Breaking Year with Q4 Softening

Coming off a record year for M&A markets in 2021, 2022 continued to see elevated activity through the first half of the year, however geopolitical uncertainty and broader macroeconomic headwinds slowed both publicly reported deal volume and deal size in Q4. While average transaction size was up YoY through the first three quarters of 2022, Q4 saw a dramatic drop for healthcare services. The uncertainty seen in leveraged finance markets drove private equity investors towards smaller roll-up opportunities that commanded lower valuations and utilized less debt financing. Deal activity in the PPM space remained strong in 2022, with continued interest seen in several subspecialties including dentistry, cardiology, and ophthalmology.

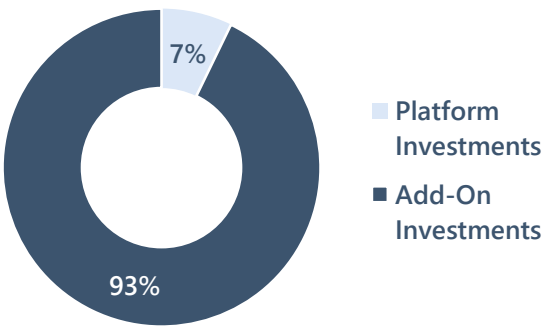
Private equity firms made 112 new platform investments in 2022, accounting for 7% of all private equity activity in the healthcare services space. Despite the cooldown seen in Q4, overall predictions of a robust M&A market for healthcare services came to fruition in 2022. Provident expects the healthcare services M&A market will regain momentum in 2023 as investors adapt to the go-forward economic conditions, even in the face of high interest rates and an uncertain macroeconomic environment. Private equity firms will likely pivot their efforts to focus on building out their existing healthcare services platforms through roll-ups, keeping deal activity strong while pushing down overall transaction values.

In this white paper, we examine key investment trends from 2022 in the healthcare services industry as well as go-forward expectations for the sector.

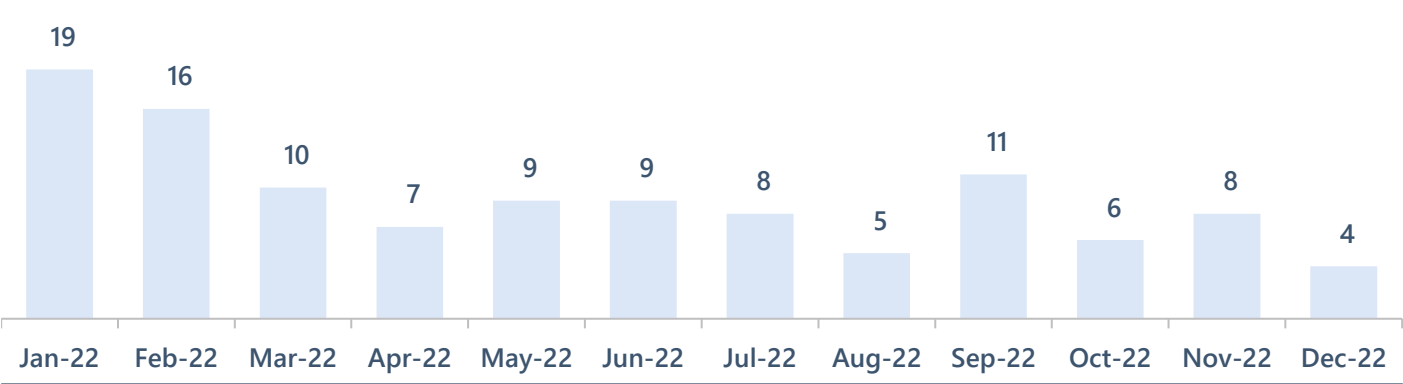
Healthcare Services M&A Volume⁽¹⁾



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

2022 Healthcare M&A Trends: Sector Highlight

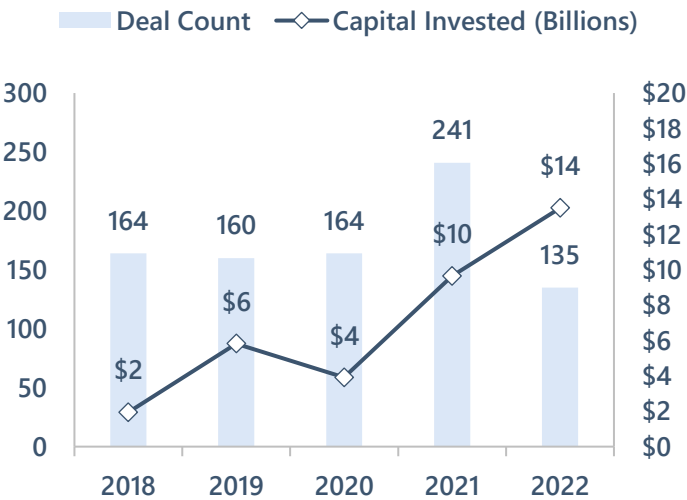
Home Health & Hospice Activity

While many healthcare services sectors saw a reduction in transaction value throughout 2022, the home health & hospice sector experienced the opposite phenomenon. There were 100+ fewer transactions in the space when compared to 2021, however transaction value increased by nearly \$4 billion. The substantial increase in value can be attributed to three marquee transactions – CVS’s \$8 billion acquisition of Signify Health, UnitedHealth’s announced \$6 billion acquisition of LHC Group, and Walgreen’s \$330 million investment in CareCentrix in August 2022. The trend of large-cap healthcare and tech companies entering the home care space is expected to continue in 2023 and beyond, serving as a catalyst for continued investment activity in the sector. Combined with the limited number of actionable acquisition targets of scale, Provident expects competition to remain high for top quality assets coming to market in 2023.

Select Transactions (2022)⁽¹⁾

Target	Buyer
	
	
	
	
	
	

Home Health & Hospice M&A Volume (2022)⁽¹⁾



Additional 2022 Healthcare M&A Trends

Depressed Valuations

Given the macroeconomic uncertainty of 2022, the record-high valuations seen for healthcare services transactions in 2021 have decreased. As of November 15, the average EV/EBITDA multiple across several healthcare sectors was 14.4x, down from 15.9x in 2021⁽²⁾.

Upcoming Sector Consolidation

2022 saw investors dedicating their efforts to physician specialty care sectors in the early innings of consolidation, including cardiology, MSK, and ENT. Recent formation of private equity platforms within these sectors facilitated significant add-on transactions which is expected to continue through 2023 and beyond.

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

⁽²⁾ PwC Health Services: US Deals 2023 Outlook

Provident 2022 Closed Transactions



November 2022
Pain Management



November 2022
Cardiology



September 2022
Gastroenterology



September 2022
Hospice



September 2022
Vision Care



June 2022
Pain Management



June 2022
Specialty Pharmacy



May 2022
Pain Management



April 2022
Gastroenterology



April 2022
Gastroenterology



March 2022
Urology

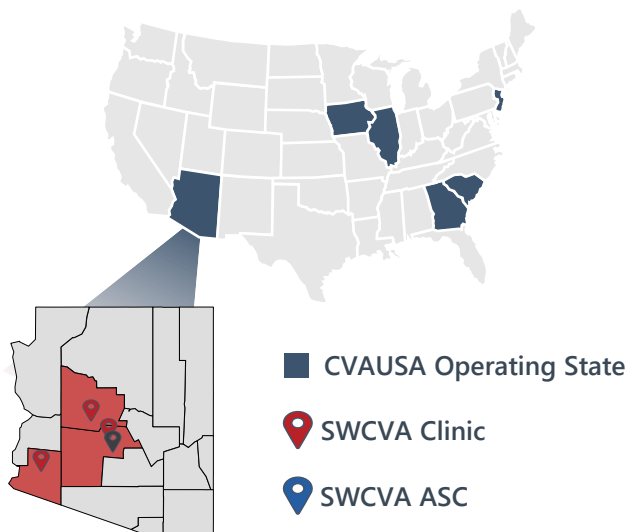
Provident Case Studies

Select 2022 Provident Transactions

Southwest Cardiovascular Associates

- Southwest Cardiovascular Associates ("SWCVA") is a leading cardiovascular services provider offering a comprehensive, innovative, and advanced approach to patient care in its locations across the Phoenix valley, Yuma, and Prescott, AZ markets
- SWCVA has a market-leading position in the Arizona market including a physician-owned ASC, which attracted interest from prominent industry consolidators
- Provident approached primarily strategic partners and select investors that had a specific thesis in cardiovascular services
- SWCVA's defensible position made the Company an attractive platform asset, offering Cardiovascular Associates of America ("CVAUSA") a logical entry point into a highly fragmented market with strong potential for further consolidation

CVAUSA Geographic Footprint



Southwest
Cardiovascular Associates

Partnered
with

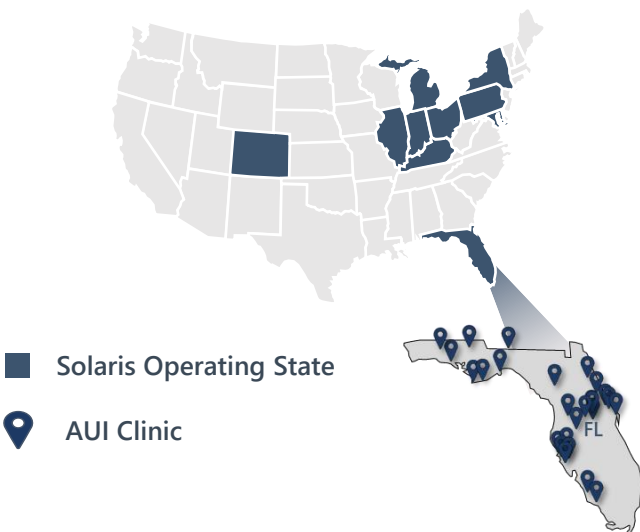


CARDIOVASCULAR
ASSOCIATES OF AMERICA

Advanced Urology Institute

- PHP's client, Advanced Urology Institute ("AUI"), the largest independent urology group in the Southeast, partnered with Solaris Health, a specialty healthcare platform backed by Lee Equity
- AUI employs over 80 physicians and over 100 total providers, including 64 physician shareholders, servicing patients at 27 clinical locations across the state of Florida
- PHP evaluated both PE platform and strategic options for AUI, receiving a wealth of interest from both investor groups
- Solaris Health has grown significantly since its formation in July 2020 to become the largest urology provider in the country, and AUI is its first Southeast platform

Solaris Geographic Footprint



AUI
ADVANCED UROLOGY
INSTITUTE

Partnered
with

SOLARISHEALTH
A NEW DAY IN HEALTHCARE

Conclusion

As Provident looks ahead to 2023, we expect to see continued M&A activity at a normalized level relative to elevated prior periods. 2021 and 1H 2022 were outliers due to pent up demand and ideal macroeconomic conditions. Healthcare services is a resilient sector, and Provident anticipates that private equity firms, already flush with significant amounts of dry powder, will continue to focus on add-on activity in the first half of 2022, with larger transaction closings in the second half of the year as investors adjust to the new market conditions.

Additionally, Provident expects value-based care to continue to be a common investment theme in 2023. From physician practices to home health providers, organizations that are tracking data, taking risk, and providing high quality care in a low-cost setting will continue to be highly sought after by healthcare investors.

Overall, Provident expects 2023 to be another strong year for healthcare services M&A as the sector has proven resilient in the face of deteriorating economic conditions.

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.

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