



HEALTHCARE REPORT

Explore M&A Activity, Capital Market
Conditions and Current Trends for the
Healthcare Industry



1H 2022

SDR*Ventures*

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HEALTHCARE 1H22: WHAT TO KNOW

- ❑ The Healthcare Industry saw robust M&A activity in 2021, so it's not unexpected that we witnessed a slight pause in 1H22 as the space was buffeted by an array of outside forces, the same forces challenging the rest of the world.
- ❑ We are watching activity in a few subsectors, including a renaissance in behavioral health and continued interest in physician medical groups and health tech.
- ❑ Labor shortages and supply chain issues affect Healthcare as much as any industry, but we've been through hiccups before and remain optimistic and engaged.

Healthcare: Can't Live Without It

Take a deep breath and let us reset for a moment. That seems to sum up 1H22 in Healthcare M&A. Unless you're old enough to remember the 1918 Spanish influenza epidemic, none of us have seen the Healthcare Industry in a period quite like the past two years. As we emerge, vaccines in hand, it was maybe inevitable dealmakers would take a step back and breathe, and that's what we saw, a very slow, cautious reset.¹

Only 12 big hospital M&A deals were cemented in the first three months in the industry. That seems hard to believe. Everyone went back to their corner and took a stool. Then, even if deal numbers remained depressed, the heavyweights were back at it in Q2.^{1,2}

None of this should be a surprise, a lot of energy was expended last year as 2021 offered catalysts for acceleration. There was talk of a change to capital gains taxation from the new Biden administration. It didn't happen, but nothing accelerates deals faster than the threat of higher taxation and a potential deadline. In addition, the Biden administration has been pushing federal regulators to scrutinize mergers and acquisitions in the industry more closely, providing additional pressure. So there was pressure to get things done before 2022, leaving less unfinished business heading into this year.^{3,4}

And then, as we got underway, 2022 applied some unexpected pressures. A January surge in the Omicron strain of COVID battered hospital finances and forced the delay of non-urgent, more profitable procedures. Then war broke out in Europe. Rising interest rates and inflation is confusing M&A valuation calculations, and hospitals, like everyone else, struggled to get supplies or hire anyone to unload, stock, and use those supplies if they arrived amid supply chain and labor woes. For hospitals, just getting the laundry done has been a challenge.^{5,6,7}

If deal volume was down, there are plenty of fingers to point. We don't believe the industry has lost its appetite for deals, it's just that there was a lot going on and a lot of headwinds.

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ABOUT SDR

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.

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HEALTHCARE REPORT

Let's Take A Look, Hop Up On The Table

Just because the Healthcare Industry and its investors took a breather, doesn't mean it isn't worth watching. We anticipate activity and continued interest in several areas going forward. The two most interesting, and active, have been in physician medical groups (PMG) and behavioral health.^{8,9}

In PMG activity, private equity buyers have been exceptionally busy, even as hospital deals slowed. In the first quarter alone, the PMG sector significant deal flow. The largest PMG deal was UnitedHealth Group's Optum's buy of Healthcare Associates of Texas for \$300 million. But nearly three-quarters of all deals were driven by private equity as investors gobbled up smaller, independent medical practices in a quest for scale and profit, although large health systems continue to show interest as well. In the 12 months ending in May 2022, estimates report nearly \$6 billion poured into PMGs.^{10,11}

Long term care facilities and home health care, spurred in part by the lingering effects of the COVID pandemic and new habits borne of necessity, continue to see interest. Another emerging sector is digital technologies and digital care, including telemedicine, IoT (Internet of things), remote patient monitoring, and even virtual reality surgical training. Look for continued investment in these tech enhancements. In addition to providing care, medical groups are turning to digital platforms to create efficiencies. In one 2022 deal worth noting, R1 RCM acquired revenue cycle management rival Cloudmed for more than \$4 billion.^{11,12,13,14,15}

And then there's behavioral health. When UnitedHealth Group says it's interested in a field, people listen. As 2H22 got underway, the behemoth did just that as the CEO on a conference call predicted, "You'll continue to see us prospect, experiment, and invest in areas like behavioral health." In addition, private equity is interested. Better diagnosis and treatment capabilities are spurring investment in autism care. Moody's Investors Service reported while mental health care was just over 5% of health expenditures in 2019, the number of cases is on the rise, and insurers are seeking ways to control costs through scale and gain marketplace advantages through the acquisition of behavioral health providers. This year already saw Centene close its acquisition of Magellan Health for \$2.2 billion, creating one of the country's largest behavioral health providers.^{16,17,18}

Give It To Me Straight, Doc

We won't pretend the M&A doesn't face challenges. Even after 2021's flurry of activity and the emergence of several subsectors, Healthcare overall does face questions. We have no doubt investors – both publicly traded and private equity – have their eyes open.

Thanks to the 2022 appearance of yet another COVID variation, Omicron, profitable elective procedures have been slow to bounce back from pandemic-related cuts. After withstanding the winter shock of the new variant, hospitals were struggling this spring amid revenue fluctuations and elective surgery patients putting off care. Patient volume and hospital profits continue to lag. This as federal COVID-related hospital subsidies drop off. During the depths of the public health emergency in the U.S., the federal Provider Relief Fund and the Covid-19 Uninsured Program poured \$175 billion into health providers. Those "free" tests and treatments have started to run out. As 1H22 came to a close, additional aid remained in the hands of a divided Congress.^{19,20,21}

And while profit and federal aid cut into profitability, other forces also targeted hospitals and medical providers. Inflation, an ongoing labor shortage, rising wages, supply chain snarls, and rising interest rates challenge Healthcare as much as any other sector. Nursing shortages are making headlines, and overall per-patient labor costs are up nearly 20% since 2019. Drug costs continued to rise. And the costs of medical supplies were up 20% at the end of 2021, even before the inflation surge of 2022. After billions in lost revenue during the pandemic, a third of hospitals reported running negative margins in 1H22.^{22,23,24}

If costs are up, revenue is down, and investors face higher interest rates to borrow, we are indeed watching a sector that is facing a unique perfect storm of challenges. We aren't fooling ourselves or blocking out the negatives, but we believe opportunities may still be found, especially in some of the hotter sectors as Healthcare systems seek efficiencies, scale, and technical innovation.²⁵



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Mergers & Acquisitions

- ❑ For a relatively quiet period in Healthcare M&A, one deal still stands out. In May, Advocate Aurora Health and Atrium Health announced a merger that will create a single entity serving some 5.5 million patients at more than 1,000 sites with 67 hospitals, 7,600 doctors, and anticipated combined revenues of more than \$27 billion spanning the Carolinas, Georgia, Alabama, as well as Illinois and Wisconsin. The combined organization will be headquartered in Charlotte, N.C, with offices in Milwaukee and Chicago. No assets were reportedly transferred in the merger and neither side agreed to assume the other's debt. Corporate leaders said the merger combined the clinical expertise of both systems, including medical research and population health. The new organization, dubbed Advocate Health, pledged to spend \$2 billion to address health inequities in rural and urban underserved areas and achieve carbon neutrality by 2030 while creating 20,000 jobs in the communities served. Advocate Aurora Health had previously considered a similar merger with Beaumont Health before backing away and in 2018, and was itself created by a merger between Advocate Health Care and Aurora Health Care.²⁶
- ❑ Another healthy deal involved Trinity Health's full acquisition of MercyOne after decades of operating the Iowa-based MercyOne jointly with CommonSpirit Health. Terms were not disclosed. Trinity had operated MercyOne with CommonSpirit (formerly Catholic Health Initiatives) for the past 24 years. MercyOne joins a nonprofit health system that covers 25 states and reported more than \$20 billion in revenue at 88 hospitals. After the deal, CommonSpirit will continue to operate independently in Iowa under the CHI Health brand. CommonSpirit operations span 21 states with 140 hospitals and \$33 billion in revenue.²⁷
- ❑ Diversified Healthcare provider Optum, operating under UnitedHealth Group, in March pursued a verticalization strategy, acquiring the LHC Group homecare/age-in-place organization in a \$5.4 billion deal. With the acquisition, UnitedHealth Group is consolidating care, pharmacy benefits, and analytics into a vertically integrated operation.²⁸
- ❑ In digital medicine, Patient Square Capital, a Healthcare investment group, in February acquired SOC Telemed, an acute care telemedicine provider, in a deal valued at \$302 million, a premium of 366% over the share price. SOC Telemed provides acute telemedicine tech to hospitals, health systems, physician networks, and others.²⁹

It Never Always Gets Worse

Looking ahead, we're reminded of the old curse, "May you live in interesting times." We're fully aware of the myriad of forces at work in Healthcare. But we remain optimistic. Staying educated, aware, and open to possibilities should continue to reveal opportunities in the industry. Technology is an amazing thing, innovation is a powerful driver, and humans have proven to be remarkably resilient and resourceful. And, as we note, Healthcare isn't a luxury item. When you need it, you need it. There are 8 billion potential customers out there.³⁰

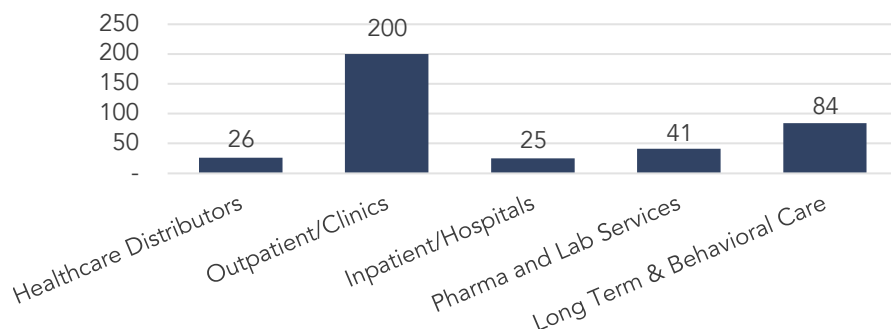
We've seen inflation before. We've weathered gasoline spikes. We've seen labor shortages and surpluses. Everything comes around. We believe we'll continue to see merger and acquisition activity in the industry continue despite whatever headwinds the world throws at it.



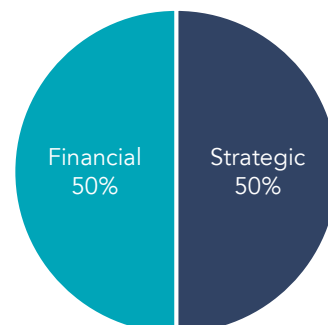
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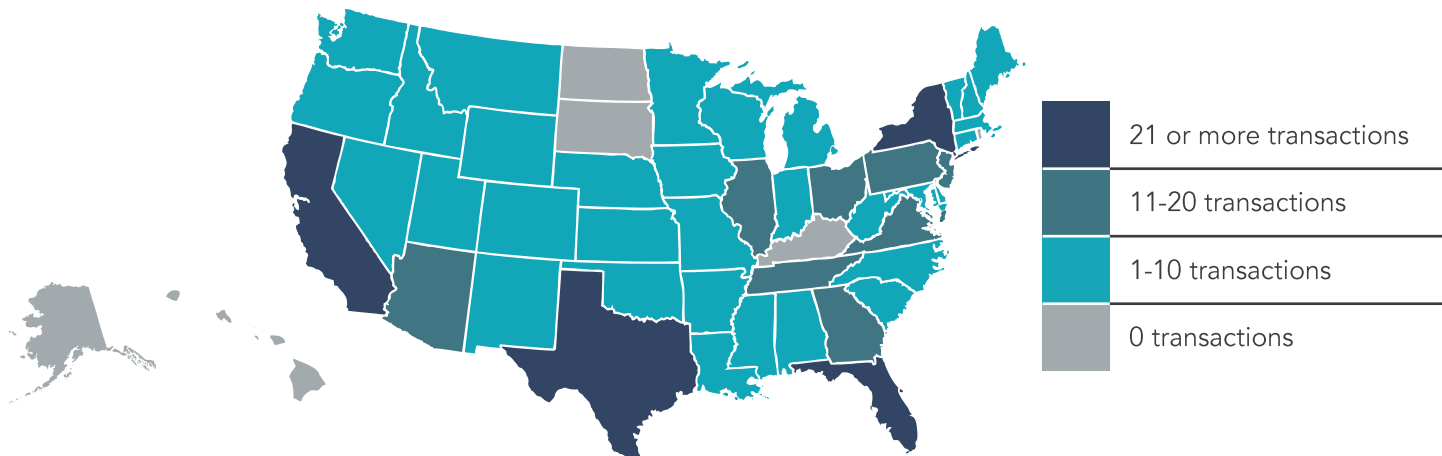
TRANSACTIONS BY SEGMENT



TRANSACTIONS BY TYPE



TRANSACTIONS BY LOCATION



TRANSACTION ACTIVITY

Date	Target	Buyer(s)	Segment	Amount (\$ in Mil)	TEV/Rev	TEV/EBITDA
6/9/2022	The Emmes Company	New Mountain Capital	Pharma and Lab Services	800.00	-	-
5/12/2022	PathGroup	GTCR	Pharma and Lab Services	1,200.00	-	-
5/11/2022	Advocate Aurora Health	Atrium Health	Inpatient/Hospitals	-	-	-
5/5/2022	PANTHERx Rare	General Atlantic, Nautic Partners, Vistria Group	Pharma and Lab Services	1,450.00	-	-
4/21/2022	Kindred at Home	Clayton, Dubilier & Rice	Long Term & Behavioral Care	2,040.00	-	-
4/18/2022	Natus Medical	Archimed	Healthcare Distributors	1,115.71	2.33	22.93
3/29/2022	Apria	Owens & Minor	Healthcare Distributors	1,530.44	134	7.07
3/29/2022	LHC Group	Optum	Long Term & Behavioral Care	5,990.19	2.70	24.54
3/23/2022	Forefront Dermatology	OMERS Private Equity, Partners Group	Outpatient/Clinics	1,500.00	-	-

If You Are a Business Owner Looking for Additional Transaction Activity Within Your Industry, Please Call Our Offices at 720.221.9220.

Source: PitchBook Financial Data and Analytics

Note: This data represents recorded transactions only, and is not all-inclusive. Nevertheless, they are typically representative of the industry.



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ACTIVE BUYERS

MOST ACTIVE STRATEGIC BUYERS

FIRM	RECENT SUBSIDIARY ACQUISITIONS		
			
			
			

SELECT SPONSORS WITH ACTIVE PORTFOLIO HOLDINGS

FIRM	RECENT SUBSIDIARY ACQUISITIONS			
				
				
				
				

Source: PitchBook Financial Data and Analytics

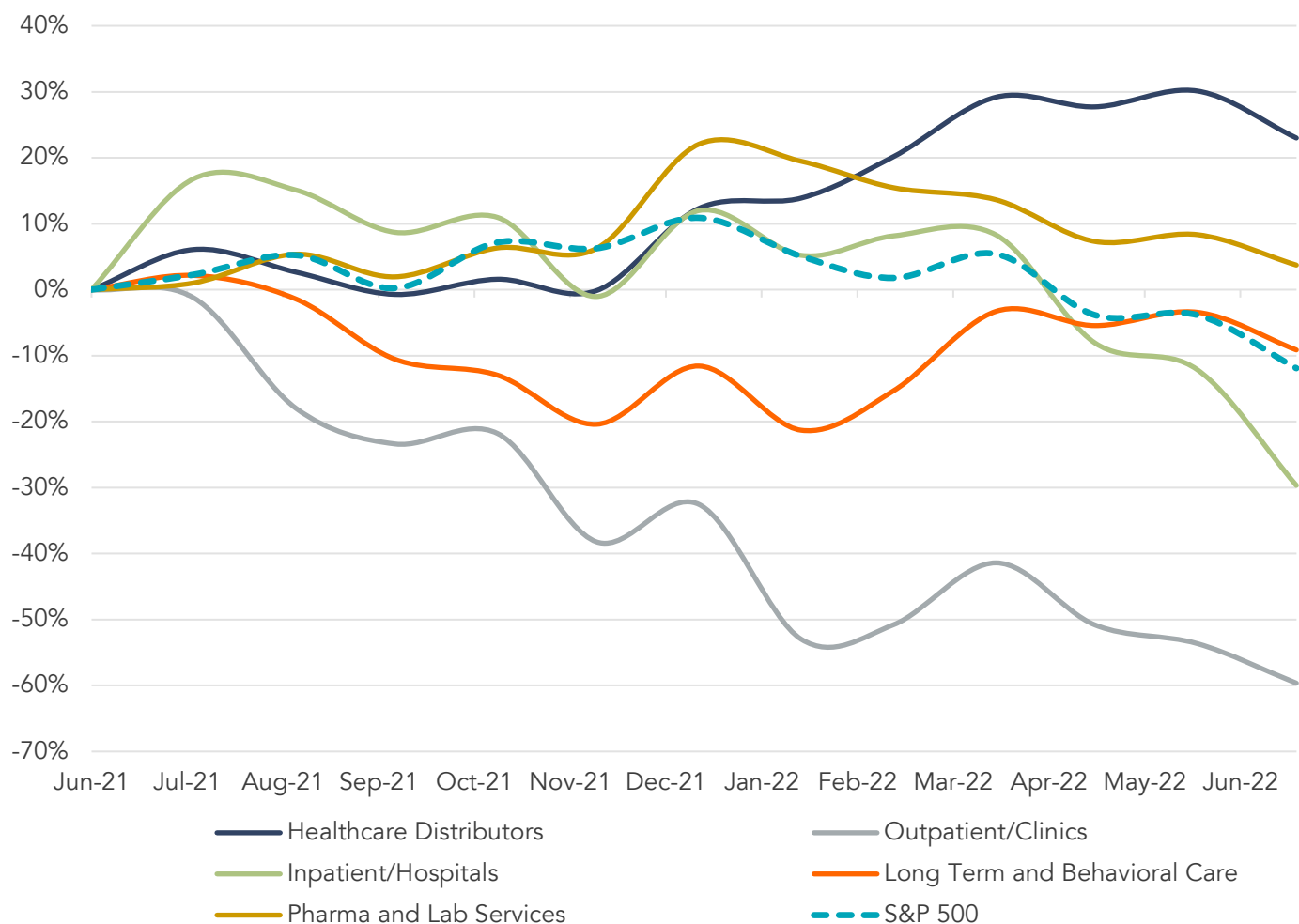
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PUBLIC BASKET

HEALTHCARE SEGMENTS VS. S&P 500

Segment Market Cap Performance – Running 12 Months



HEALTHCARE DISTRIBUTORS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/Rev	TEV/EBITDA	Price/EPS	TEV/NTM Revenue	TEV/NTM EBITDA
McKesson	MCK	\$ 46,838	\$ 326.21	69.3%	312%	96.0%	2.0%	1.1%	0.2x	18.0x	NM	0.2x	10.5x
AmerisourceBergen	ABC	29,635	141.48	215%	6.5%	84.6%	6.8%	14%	0.1x	10.1x	17.3x	0.1x	9.1x
Cardinal Health	CAH	14,240	52.27	(9.8%)	15%	810%	5.7%	0.1%	0.1x	76.1x	NM	0.1x	7.0x
Henry Schein	HSIC	10,594	76.74	16%	(10%)	82.8%	4.7%	8.5%	10x	12.0x	16.7x	10x	112x
Prestige Consumer Healthcare	PBH	2,935	58.80	113%	(3.1%)	92.1%	4.2%	33.0%	4.1x	12.3x	14.6x	3.9x	115x
Patterson Companies	PDCO	2,931	30.30	(15%)	3.2%	85.9%	2.0%	5.7%	0.5x	9.2x	14.7x	0.5x	9.6x
Owens & Minor	OMI	2,394	31.45	(25.2%)	(27.7%)	64.0%	5.4%	3.8%	0.5x	13.6x	12.5x	0.5x	7.5x
Segment Average				9.6%	1.5%	83.8%	4.4%	7.7%	0.9x	21.6x	15.1x	0.9x	9.5x
Segment Median				1.6%	1.5%	84.6%	4.7%	3.8%	0.5x	12.3x	14.7x	0.5x	9.6x

Source: PitchBook Financial Data and Analytics



PUBLIC BASKET (CONTINUED)

OUTPATIENT/CLINICS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Oak Street Health	OSH	\$ 3,963	\$ 16.44	(71.9%)	(50.4%)	25.2%	56.2%	(25.7%)	2.7x	NM	NM	1.7x	NM
Select Medical Holdings	SEM	3,085	23.62	(44.1%)	(19.7%)	55.0%	4.9%	13.8%	1.3x	9.5x	9.3x	1.2x	9.5x
Surgery Partners	SGRY	2,600	28.92	(55.6%)	(45.9%)	43.0%	18.0%	19.0%	3.0x	15.5x	NM	2.5x	16.8x
U.S. Physical Therapy	USPH	1,419	109.20	(8.5%)	14.3%	88.5%	12.1%	17.0%	3.5x	20.3x	38.0x	3.1x	20.2x
The Joint	JYNT	221	15.31	(82.0%)	(76.7%)	13.8%	31.3%	11.3%	2.7x	NM	NM	2.0x	NM
IMAC Regeneration Center	IMAC	22	0.83	(58.5%)	(27.3%)	41.5%	29.4%	(62.2%)	1.5x	NM	NM	1.2x	NM
Segment Average				(53.5%)	(34.3%)	44.5%	25.3%	(4.5%)	2.4x	15.1x	23.7x	2.0x	15.5x
Segment Median				(57.1%)	(36.6%)	42.2%	23.7%	12.5%	2.7x	15.5x	23.7x	1.9x	16.8x

INPATIENT/HOSPITALS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
HCA Management Services	HCA	\$ 49,659	\$ 168.06	(20.7%)	(34.6%)	60.2%	2.7%	23.7%	1.5x	6.3x	7.9x	1.5x	7.2x
Universal Health Services	UHS	7,491	100.71	(32.6%)	(22.3%)	610%	5.2%	14.3%	0.9x	6.6x	8.8x	0.9x	6.8x
Tenet Healthcare	THC	5,662	52.56	(22.6%)	(35.7%)	56.7%	1.9%	19.2%	1.2x	6.0x	6.0x	1.1x	6.4x
Community Health Systems	CYH	505	3.75	(76.2%)	(71.8%)	22.6%	14%	15.4%	1.1x	7.1x	1.7x	1.1x	8.5x
Segment Average				(38.0%)	(41.1%)	50.1%	2.8%	18.2%	1.2x	6.5x	6.1x	1.1x	7.2x
Segment Median				(27.6%)	(35.1%)	58.5%	2.3%	17.3%	1.1x	6.4x	6.9x	1.1x	7.0x

PHARMA AND LAB SERVICES

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
CVS Health	CVS	\$ 121,506	\$ 92.66	12.7%	(10.2%)	83.3%	5.0%	5.8%	0.6x	10.8x	15.4x	0.6x	9.5x
Laboratory Corporation of America	LH	21,725	234.36	(15.7%)	(25.4%)	73.9%	(4.3%)	23.2%	1.7x	7.3x	10.8x	1.8x	9.7x
Quest Diagnostics	DGX	16,151	132.98	0.0%	(23.1%)	76.4%	(15.5%)	28.0%	1.9x	6.8x	8.8x	2.2x	11.4x
Allscripts Healthcare Solutions	MDRX	1,721	14.83	(19.8%)	(19.6%)	63.8%	(50.2%)	26.7%	1.6x	6.6x	13.6x	3.2x	11.5x
NextGen Healthcare	NXGN	1,171	17.44	4.9%	(2.0%)	79.7%	7.1%	8.2%	1.9x	NM	NM	1.8x	9.5x
Segment Average				(3.6%)	(16.1%)	75.4%	(11.6%)	18.4%	1.5x	7.9x	12.1x	1.9x	10.3x
Segment Median				0.0%	(19.6%)	76.4%	(4.3%)	23.2%	1.7x	7.0x	12.2x	1.8x	9.7x

LONG TERM AND BEHAVIORAL CARE

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Acadia Healthcare	ACHC	\$ 6,122	\$ 67.63	6.4%	11.4%	88.2%	13.4%	21.0%	3.2x	15.4x	25.4x	2.8x	12.2x
LHC Group	LHCG	4,832	155.74	(23.8%)	13.5%	71.9%	16.4%	10.2%	2.6x	25.3x	48.2x	2.2x	19.4x
The Ensign Group	ENSG	4,076	73.47	(17.3%)	(12.5%)	78.0%	15.1%	11.8%	1.9x	16.4x	21.3x	1.7x	13.0x
Addus HomeCare	ADUS	1,338	83.28	(6.4%)	(10.9%)	77.0%	12.9%	9.2%	1.7x	18.6x	30.0x	1.5x	13.8x
National Healthcare	ASE:NHC	1,081	69.90	(14%)	2.9%	89.1%	NM	17.0%	1.0x	NM	NM	NM	NM
Segment Average				(8.5%)	0.9%	80.8%	14.5%	13.8%	2.1x	18.9x	31.2x	2.1x	14.6x
Segment Median				(6.4%)	2.9%	78.0%	14.2%	11.8%	1.9x	17.5x	27.7x	1.9x	13.4x

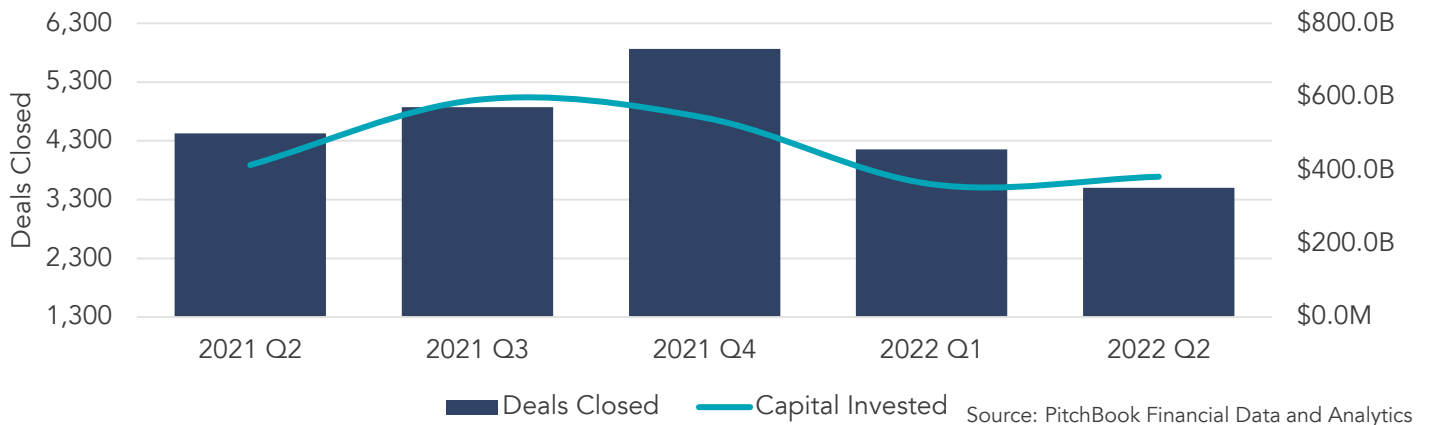
Source: PitchBook Financial Data and Analytics



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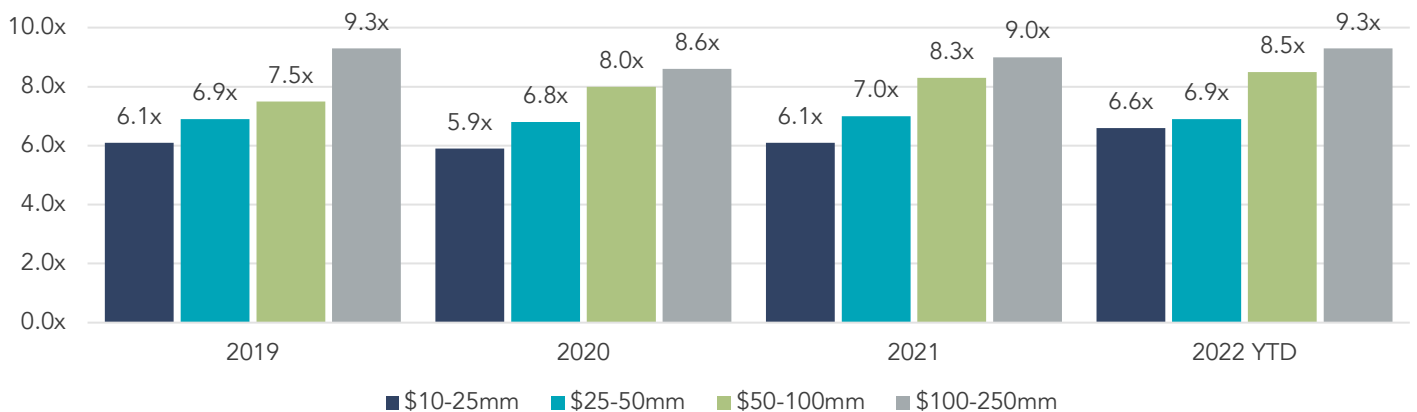
U.S. M&A ACTIVITY SNAPSHOT

OVERALL U.S. M&A ACTIVITY

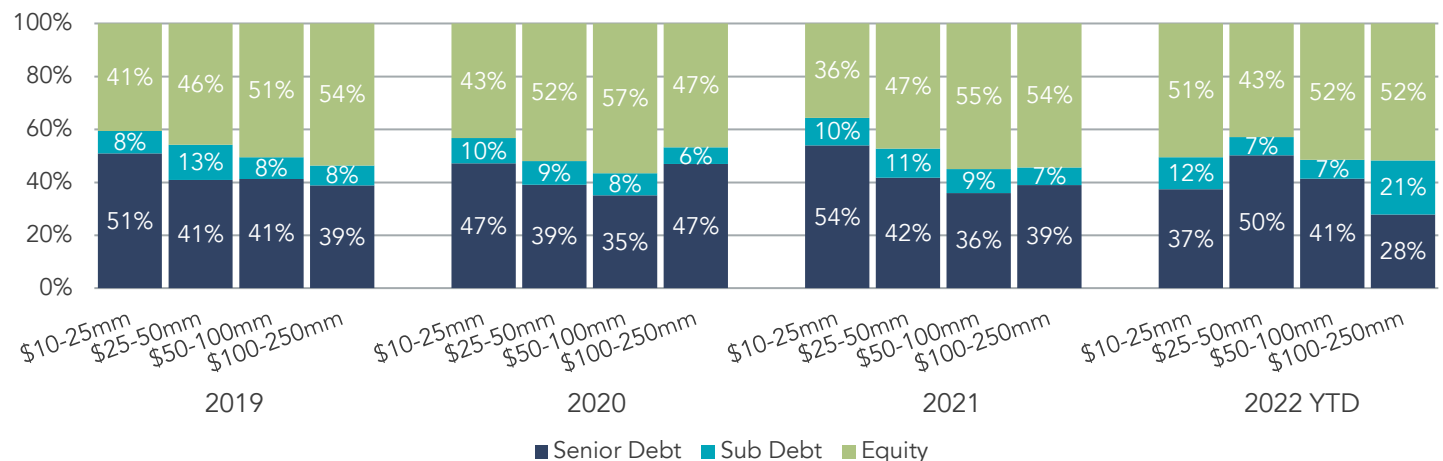


LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTION MULTIPLES

EBITDA Multiples By Transaction Size



CAPITAL BREAKDOWN – LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTIONS



Note: The most current source of GF Data is as of May 2022.

Source: GF Data®



COMPREHENSIVE HEALTHCARE EXPERTISE

Healthcare may have stolen the national spotlight in recent years, but we have been involved in the healthcare industry for well over a decade. Our experience and drive have placed us at the leading edge of information in the market, giving you an advantage when the time comes to buy, sell or seek investments to grow your business.

Our healthcare investment banking expertise includes the following segments:

- ❑ Healthcare Distributors
- ❑ Outpatient/Clinics
- ❑ Inpatient/Hospitals
- ❑ Pharma and Lab Services
- ❑ Long Term & Behavioral Care



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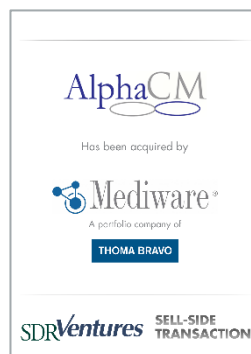
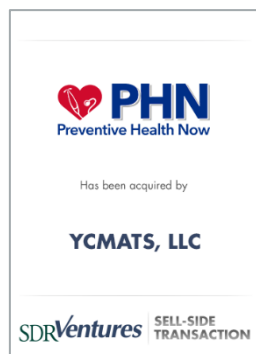
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SELECT TRANSACTION EXPERIENCE

SDR has completed numerous transactions types throughout the Healthcare industry, including:



SDR SERVICE OFFERINGS



SELL-SIDE ADVISORY



PRIVATE CAPITAL FORMATION



BUY-SIDE ADVISORY



STRATEGIC CONSULTING



HEALTHCARE REPORT

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