



Private Equity Investment Boosts Healthcare Transaction Volume

During the last twelve months, the healthcare industry experienced an increase in merger and acquisition activity, a historically high number of deals completed by private equity firms, and valuations that remain close to multi-year highs. Valuations, however, are beginning to fall, as evidenced by the multiples of publicly traded companies on the final page of this report.

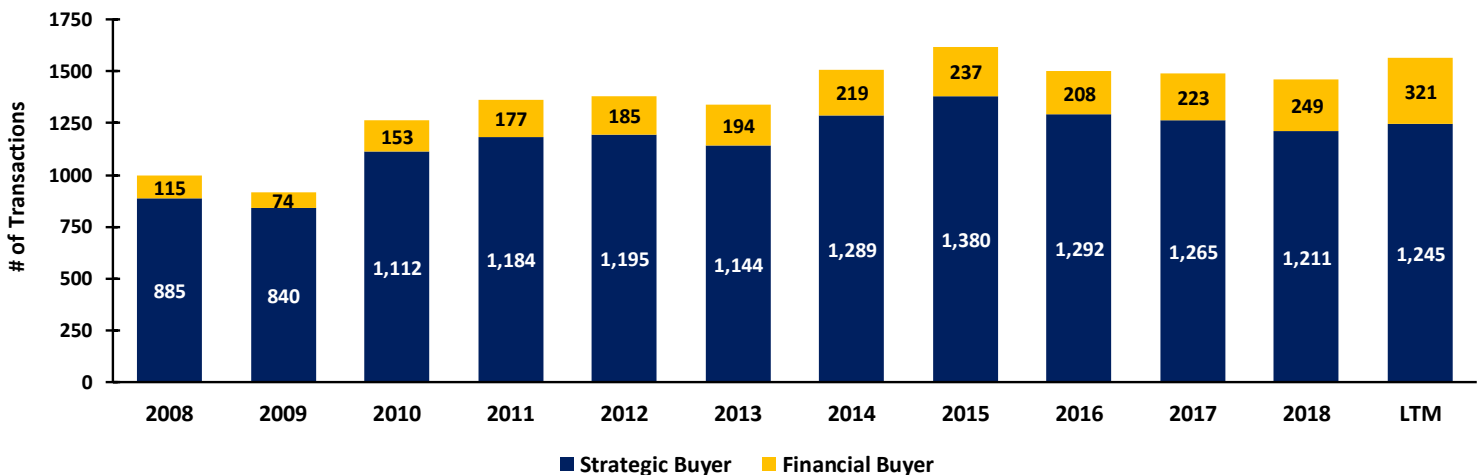
There were 1,566 M&A transactions in the healthcare industry in the LTM period, up from 1,460 in 2018 and approaching the 10-year high of 1,617 transactions in 2015. This increase in activity is partly driven by the growing investment in healthcare by private equity firms. For example, during the past six months, several marquee private equity firms made new platform investments, including Sun Capital Partners entering the dental practice space by acquiring Simply Beautiful Smiles, and Audax Group entering the rehabilitation market by acquiring PHOENIX

Rehab & Health Services. As described in several following sector profiles, private equity dollars tend to chase those healthcare niches that offer higher margins, greater private pay opportunities, and less exposure to reimbursement risk. This leads to greater activity and higher valuation multiples in sub-sectors such as ophthalmology and dermatology compared to other physician specialties, and addiction treatment and autism programs compared to full-service behavioral health clinics. That said, the demographic tide of aging baby boomers, the need to lower the total cost of care per patient, and a still highly fragmented industry will assure high levels of M&A activity in all sub-sectors by both strategic and financial buyers.

In summary, as accurately predicted in our previous report, we expect healthcare M&A activity to remain robust, while valuations continue to slowly fall from historic highs.

Healthcare Transactions by Year

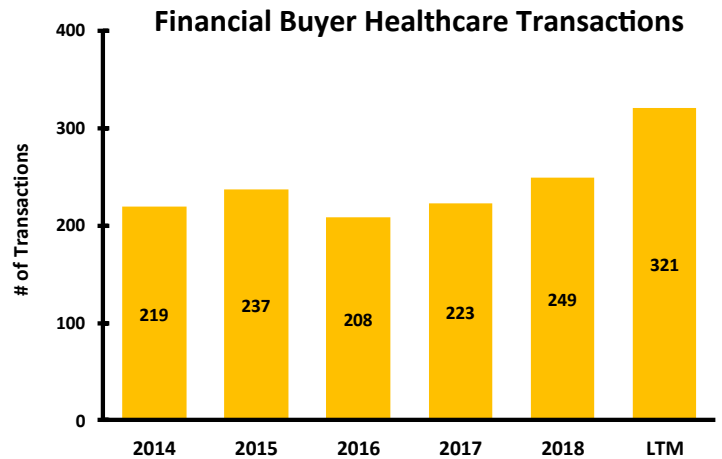
Annual Healthcare M&A Transactions



Source: CapIQ

Increasing Private Equity Activity

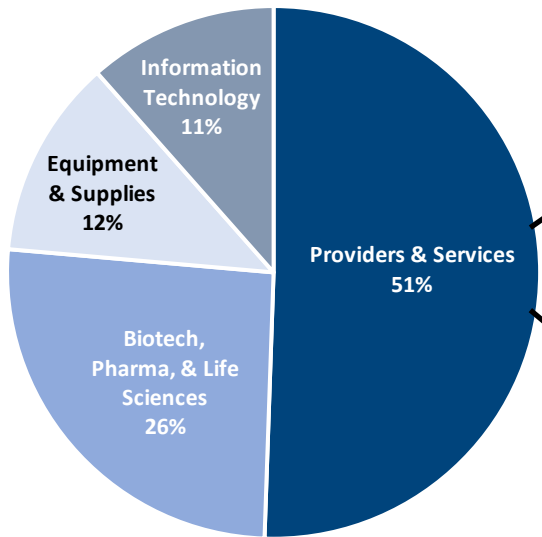
One of the most significant trends impacting the healthcare M&A environment is the ever-increasing investment from private equity firms. Over the LTM period, more than 300 transactions observed by EdgePoint were completed by private equity firms or PE-backed companies. This is not surprising given healthcare offers many appealing characteristics to institutional investors, including high levels of fragmentation, increased spending, and recession resistance. As noted on page 1, private equity firms tend to prefer consumer-friendly, alternative care-delivery models, following the broader market shift away from inpatient care in search of higher margins. Only time will tell if an increasing pool of funds, and a decreasing pool of companies meeting those criteria, will eventually lead private equity to the less attractive sectors most in need of the change their investments could bring.



Source: CapIQ

Transactions by Sub-Sector (LTM)

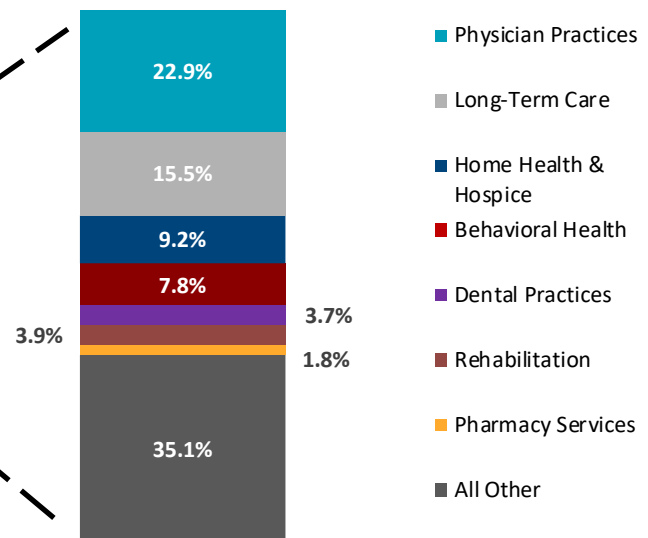
Healthcare Transactions by Sub-Sector (LTM)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

The majority of transaction activity in the healthcare industry during the last twelve months occurred in the Providers & Services sector (51%). The remaining announced and completed transactions were comprised of Biotech, Pharma, & Life Sciences (26%); Equipment & Supplies (12%); and Information Technology (11%). The share of transactions by sub-sector was weighted towards the Providers & Services sector due to the predominance of consolidation among regional providers in many sub-sectors of the industry. Within the broad Providers &

Providers & Services Transactions by Specialty



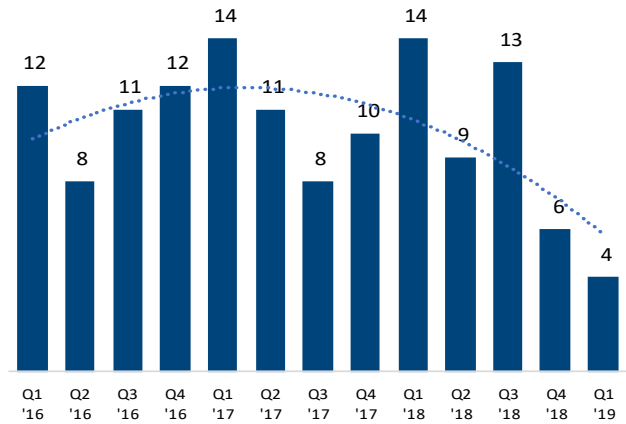
Services sector, EdgePoint noted significant deal activity in the following sub-sectors that are profiled in the remainder of this report: Physician Practices, Long-Term Care, Home Health & Hospice, Behavioral Health, Dental Practices, Rehabilitation, and Pharmacy Services. We've also profiled the Equipment & Supplies sector. Each of these sub-sectors are experiencing rapid consolidation by strategic and financial buyers alike, as healthcare providers seek opportunities to expand geographies, integrate additional services, and improve efficiency.

Home Health & Hospice Sector Profile

With a new Medicare reimbursement system, the Patient-Driven Groupings Model (PDGM) that is scheduled to be implemented on January 1, 2020, and legislation pending to modify the system yet again, buyers appear to be taking a wait-and-see approach, significantly slowing the number of transactions completed over the past six months. We expect this trend to continue throughout 2019 and into early 2020; however, by mid-2020, we believe those Home Health Agencies (HHAs) who have successfully adapted to the new payment model will go bargain hunting for market share, driving up transaction volume, but also depressing valuation multiples. If you are a regionally strong HHA with a strong management team, a well-defined strategy for managing the transition to PDGM, and a desire to take advantage of the opportunities coming in 2020, now is the right time to present your company to the private equity community as a platform opportunity.

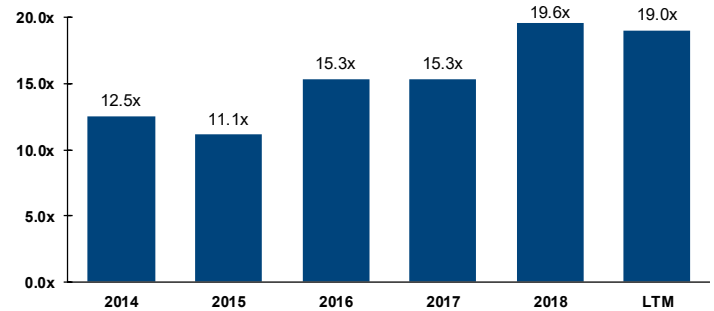
Home Health public company valuation multiples remain high relative to other healthcare service providers (see our comparison on page 8), as investors continue to place a premium on those services that lower the total cost of care and are well-positioned to benefit from the demographic tide of baby boomers hitting their 70s. However, as predicted in our previous industry report, valuation multiples appear to have peaked and are beginning to decline, even if only slightly thus far. The decline should remain slow and steady, and values may even be buoyed somewhat in 2020 if these larger companies prove to be more adept at adjusting to PDGM.

U.S. Home Health M&A # Closed Transactions



Source: CapIQ

Home Health & Hospice Public Company EV/EBITDA



Source: CapIQ

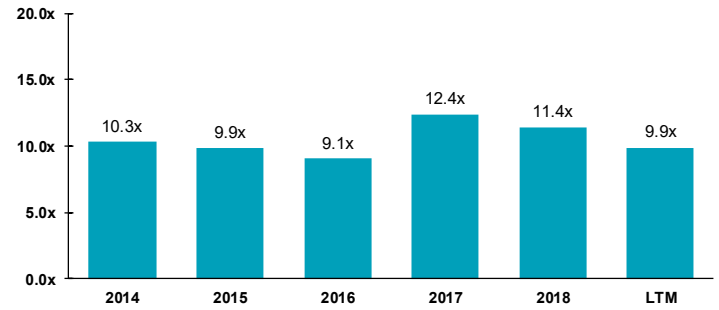
Notable Home Health & Hospice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/05/2019	Traditions Health	Reflections Hospice and Palliative Care	Reflections Hospice and Palliative Care Division of Centrix Health Resource	Not disclosed	Not disclosed
02/26/2019	LHC Group	Geisinger Home Health And Hospice	Home Health And Hospice Services Of Geisinger Health System	Not disclosed	Not disclosed
02/19/2019	Amedisys	RoseRock Healthcare	Provides specialized hospice care in north-eastern Oklahoma	\$17.5	Not disclosed
01/02/2019	Alternate Solutions Health Network	Beaumont Home Health & Hospice	90% interest in home health and hospice, DME and IV excluded; Beaumont retains right to repurchase if metrics not met	Not disclosed	Not disclosed
11/05/2018	Addus Homecare	VIP Health Care Services	Home care provider that serves all five New York City boroughs, Long Island and two additional counties	\$28.0	Not disclosed
10/10/2018	Amedisys	Compassionate Care Hospice Group	Hospice provider headquartered in Parsippany, New Jersey	\$340.0	12.62x

Physician Practice Sector Profile

While health systems and regional providers continue to acquire physician practices across many specialty and primary care areas to meet their local strategic goals, national PE-backed acquirers are primarily focused on those specialties with proportionately less exposure to reimbursement risk, and greater opportunities for higher margin, private pay ancillary products and services such as dermatology and ophthalmology. We are aware of several private equity groups exploring a wide array of other specialties including orthopedics, psychiatry, and urology, but we have yet to see multiple platform acquisitions in a given specialty initiating the race for add-on deals, as has been witnessed with dentistry and is now underway in ophthalmology and dermatology.

Physician Practice Public Company EV/EBITDA



Source: CapIQ

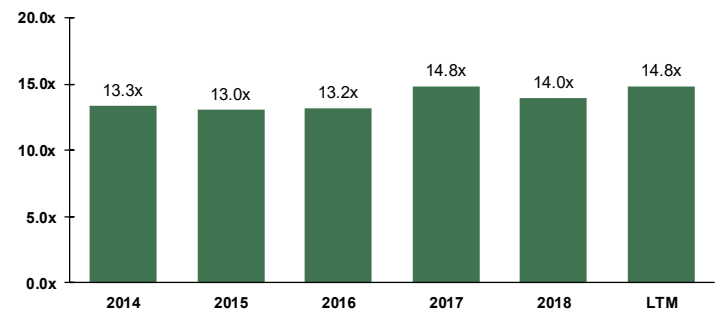
Notable Physician Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/26/2019	Pinnacle Dermatology	MI Dermatology	Dermatology Center of Michigan, Flint	Not Disclosed	Not Disclosed
02/20/2019		IL Dermatology	Integrated Dermatology of Calumet City, IL		
01/10/2019		MI Dermatology	Silverton Skin Institute, Grand Blanc, MI		
01/24/2019	CEI Vision Partners	VA Ophthalmology	Virginia Eye Consultants, Norfolk	Not Disclosed	Not Disclosed
01/08/2019		OH Retina	Retina Vitreous Associates, Toledo		
10/22/2018		OH Retina	Retina Physicians & Surgeons of Dayton		
10/10/2018		OH Ophthalmology	Dayton Eye Associates		
01/17/2019	Envision Healthcare	Tejas Anesthesia	Provides anesthesia services; based in San Antonio, TX	Not Disclosed	Not Disclosed
11/01/2018	Mednax	TN Radiology	Assoc. in Diag. Radiology, Chattanooga	Not Disclosed	Not Disclosed
10/10/2018		FL Neonatology	South Dade Neonatology, Coral Gables		
10/02/2018		NV Radiology	Radiology Specialists, Las Vegas		

Equipment & Supplies Sector Profile

Companies involved in the manufacture and distribution of medical equipment and supplies accounted for nearly one of every eight healthcare transactions over the past twelve months. Transaction value multiples, like those of public companies in this sector, remain strong at over 14x EBITDA. Given the never-ending search for improved technology that decreases cost or improves outcomes, we anticipate transaction volume and valuation multiples will remain elevated for the foreseeable future. Greater use of 3-D printing and artificial intelligence will fuel continued growth as customization becomes less expensive.

Equipment & Supplies Public Company EV/EBITDA



Source: CapIQ

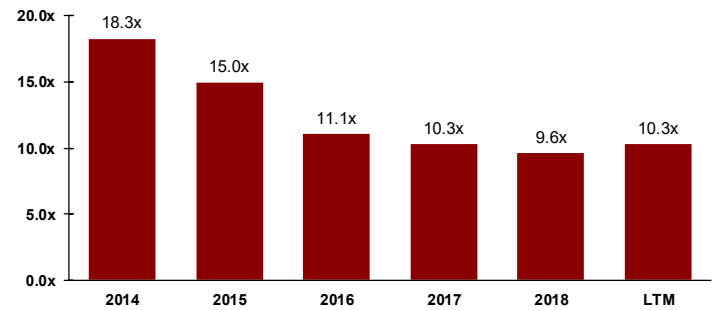
Notable Equipment & Supplies Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
01/16/2019	Generex Biotechnology	Fuse Medical	Ortho medical device distributor	\$34.0	Not Disclosed
01/10/2019		Medisource Ptrs	Medical and surgical product distributor	\$1.0	
01/09/2019		Pantheon Medical	Foot and ankle ortho device manufacturer	\$1.4	
12/03/2018		Hema Diagnostic	In-vitro medical diagnostic devices	Not Disclosed	
12/21/2018	The Horton Fund	Repro Med Systems	Minority stake in manufacturer of portable medical devices primarily for the ambulatory infusion market	\$40.5	15.56x
11/19/2018	Colfax Corporation	DJO Global, Inc.	Manufacturer and distributor of orthopedic devices	\$3,177.6	12.3x

Behavioral Health Sector Profile

Health systems and payers have long understood the importance of integrating behavioral health with medical care to maintain good community health at a reasonable cost. This awareness has been heightened by the opioid crisis, drawing the attention of the financial community and increasing overall M&A activity. To date, most financial buyers have focused on higher margin niche services. For example, over the past 12 months, EdgePoint observed 62 behavioral health transactions, with approximately two-thirds of those transactions related to the acquisition of clinics that specialized in addiction recovery, autism, eating disorders, or developmental disabilities. We expect this trend to continue; but also expect to see more health systems acquire or partner with behavioral health clinics, thus offering a full range of services.

Behavioral Health Public Company EV/EBITDA



Source: CapIQ

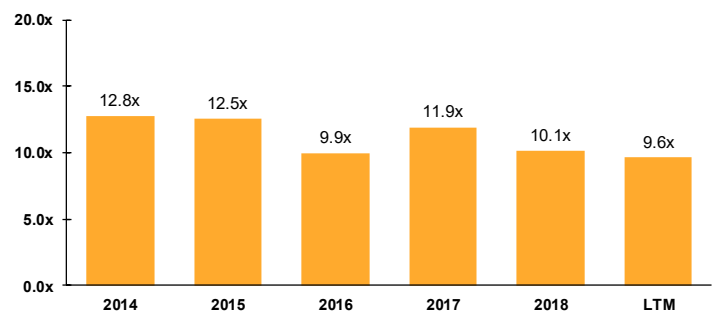
Notable Behavioral Health Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/15/2019	Audax Group	Proud Moments Licensed Behavior Analysts	Provides autism behavioral health services for children and adults	Not Disclosed	Not Disclosed
11/05/2018 11/05/2018	Acadia Healthcare	Inpatient psych Substance abuse	Whittier Health Services, Haverhill, MA Mission Treatment Services, Escondido, CA	\$17.9 \$22.5	Not Disclosed
12/08/2018	Centerbridge Partners	Civitas Solutions	Serves individuals with intellectual, developmental, behavioral, and/or medically complex challenges	\$1,384.3	8.38x
06/08/2018	Castlewood Treatment Centers	La Ventana Treatment	Provides eating disorder treatment	Not Disclosed	Not Disclosed

Pharmacy Services Sector Profile

Relative to other healthcare subsectors, pharmacy services M&A activity is modest due to the rapid consolidation of pharmacy providers that has occurred over the past decade. Serial acquirers such as Omnicare and PharMerica were acquired themselves during 2015–2017, which significantly reduced the number of active buyers in the industry. During the LTM period, Walgreens purchased multiple retail and specialty pharmacy operations as the company seeks to use M&A to expand script volume.

Pharmacy Services Public Company EV/EBITDA



Source: CapIQ

Notable Pharmacy Services Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
01/15/2019	Trive Capital	Cochran Wholesale Pharmaceutical	Generic wholesale pharmaceutical distributor based in Monroe, GA	Not Disclosed	Not Disclosed
10/17/2018 07/30/2018 05/17/2018	Walgreens	MI Pharmacy DaVita, Inc. MI Pharmacy	Rx operations of McLaren Health Care Rx assets of DaVita, Inc in FL, TX and CA Retail Rx of Detroit Medical Center	Not Disclosed	Not Disclosed
10/04/2018	NuGenerex Diagnostics	Veneto Holdings	Provides specialty pharmacy services	\$38.8	Not Disclosed

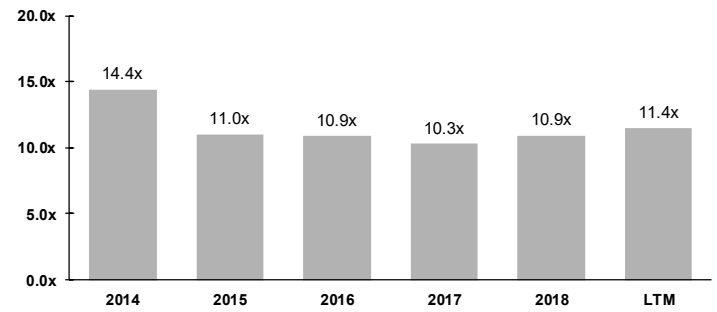
Long Term Care Sector Profile

M&A activity in the long-term care sector maintained its steady pace throughout Q4 2018 and Q1 2019, with approximately 30 deals in each quarter. The majority of these transactions were completed by serial acquirers such as Genesis Healthcare, Omega Healthcare Investors, and The Ensign Group, as they seek to add new geographies to their portfolio. Valuations of publicly-traded long-term care companies have remained consistent at 10x to 11x EBITDA. EdgePoint expects deal activity will increase over the next year, as smaller providers struggle to adapt to the new Medicare Patient Driven Payment Model that takes effect October 1, 2019, and seek a safe haven as part of a larger organization.

Notable Long-Term Care Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
02/04/2019	Genesis Healthcare	15 Skilled Nursing Facilities	15 SNFs previously owned by Welltower	\$204.0	Not disclosed
02/11/2019	OMEGA Healthcare Investors	5 Skilled Nursing Facilities in 3 transactions	3 SNFs located in Pennsylvania 1 SNF in Ohio 1 SNF in Indiana	\$35.1 \$9.2 \$8.1	Not disclosed
02/05/2019 12/20/2018 10/29/2018	CareTrust REIT	1 IL SNF & AL 1 CO SNF 1 ND SNF	Oakview of General Baptist Health Care The Suites—Parker The Meadows on University	\$9.0 \$19.6 Not Disclosed	Not disclosed
01/03/2019 11/01/2018 11/01/2018	The Ensign Group	1 UT SNF 1 KS SNF 2 ID SNFs	Bella Terra of Cedar City Rock Creek of Ottawa Real estate and operations of 2 SNFs	Not disclosed	Not disclosed

Long Term Care Public Company EV/EBITDA



Source: CapIQ

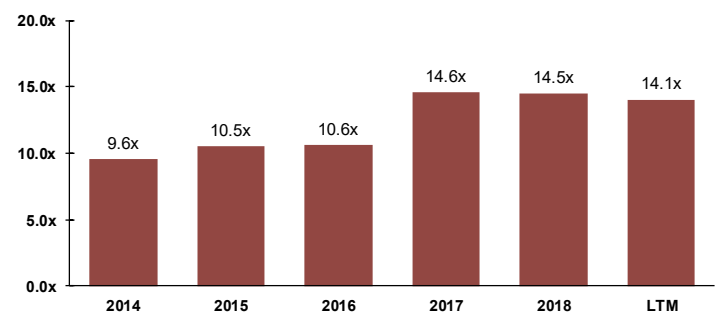
Rehabilitation Sector Profile

Due to the highly fragmented nature of the physical therapy industry and the increased spending on these services by both private insurance and government payors, rehab continues to be an attractive sector for many investors. According to the U.S. Physical Therapy Investor Presentation, there are over 16,000 outpatient clinics in the United States with no provider owning more than 10% market share. As a result, the industry is ripe for consolidation and EdgePoint expects that more private equity firms will enter the sector. For instance, Audax Group made its first investment in the rehab sector in December 2018 with its acquisition of PHOENIX Rehab & Health Services.

Notable Rehabilitation Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
03/13/2019	Global Medical REIT	Four Inpatient Rehab Facilities	Rehab facilities previously owned by CNL Healthcare Properties	\$95.0	Not disclosed
02/04/2019	ATI Physical Therapy	Apex Rehabilitation	Provides outpatient orthopedic rehab services	Not disclosed	Not disclosed
01/24/2019	Confluence Health	Pappas Physical Therapy	Provides physical therapy services	Not disclosed	Not disclosed
12/12/2018	Audax Group	PHOENIX Rehab & Health Services	Provides physical and occupational therapy	Not disclosed	Not disclosed

Rehabilitation Public Company EV/EBITDA



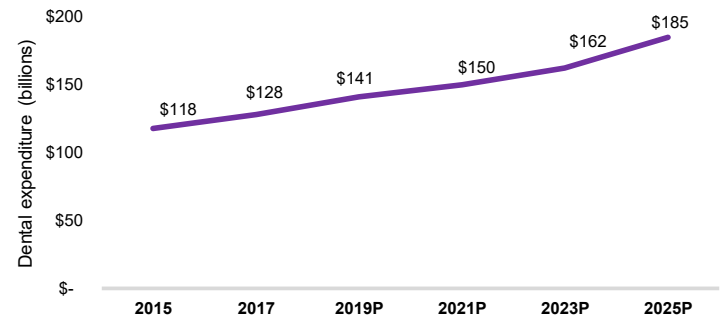
Source: CapIQ

Dental Practice Sector Profile

Private equity investment in dental service organizations (DSO) continues to drive M&A activity in the dental sector. Although this industry consolidation strategy has been occurring for 20+ years, the sector remains fragmented, with less than 8% of dentists being associated with a DSO (*American Dental Association*). This level of fragmentation, combined with spending on dental services that is expected to grow at nearly 5% per year until 2025, creates a strong landscape for continued M&A activity in the dental sector.

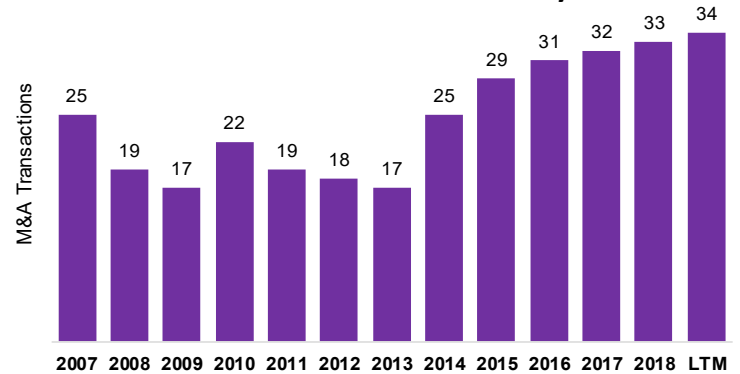
The number of dental practice transactions has been steadily increasing since 2013, with 34 dental deals observed in the LTM period. Surprisingly, despite the relatively mature nature of the DSO model, we are still seeing new entrants to the sector. For example, after KKR acquired Heartland Dental, one of the oldest and largest DSOs, in early 2018, several other PE groups made their first platform investment, including Sun Capital Partners and ABRY Partners. Further analysis of recent M&A activity reveals a focus on specialty practices for add-on acquisitions by established DSOs, with a particular interest in pediatric dentistry practices. For example, one of the more active acquirers of late, Western Dental, acquired Children's Dental Group in August 2018 to expand its pediatric service offerings. While it seems unlikely new platforms will emerge, there can be little doubt the race for high quality add-ons will keep transaction volume at historic highs.

Increasing Dental Expenditures



Source: American Dental Association

Dental Practice Transactions by Year



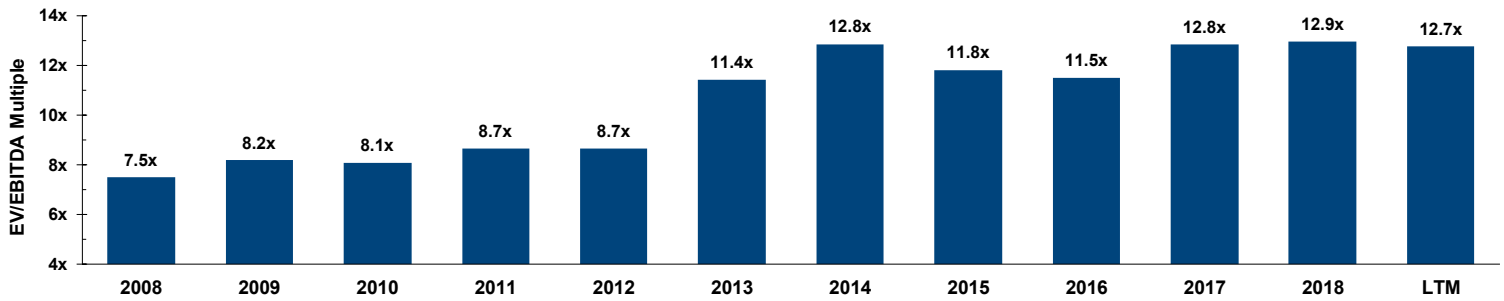
Source: CapIQ

Notable Dental Practice Transactions

Date Closed	Buyer / Investor	Target	Description	EV (millions)	EBITDA Multiple
02/05/2019	ABRY Partners	Dr. Dental	Provides dental services with a focus on pediatric dentistry	Not disclosed	Not disclosed
02/05/2019	Sun Capital Partners	Simply Beautiful Smiles	Dental Service Organization (DSO) with focus on pediatric dentistry	Not disclosed	Not disclosed
07/17/2018	Smile Brands Inc.	P3 Dental Group	Operates dental clinics in the Las Vegas area	Not disclosed	Not disclosed
04/24/2018	Smile Brands Inc.	Palm Dental Care	California-based dental practice	Not disclosed	Not disclosed
12/05/2018	Western Dental	DSO of Guardian Life Insurance	Comprised of 60 dental practices throughout the Western US	Not disclosed	Not disclosed
08/15/2018	Western Dental	Children's Dental Group	Provides pediatric dental services	Not disclosed	Not disclosed
06/28/2018	Western Dental	SmileCare Modesto	Dental practice in Modesto, CA	Not disclosed	Not disclosed

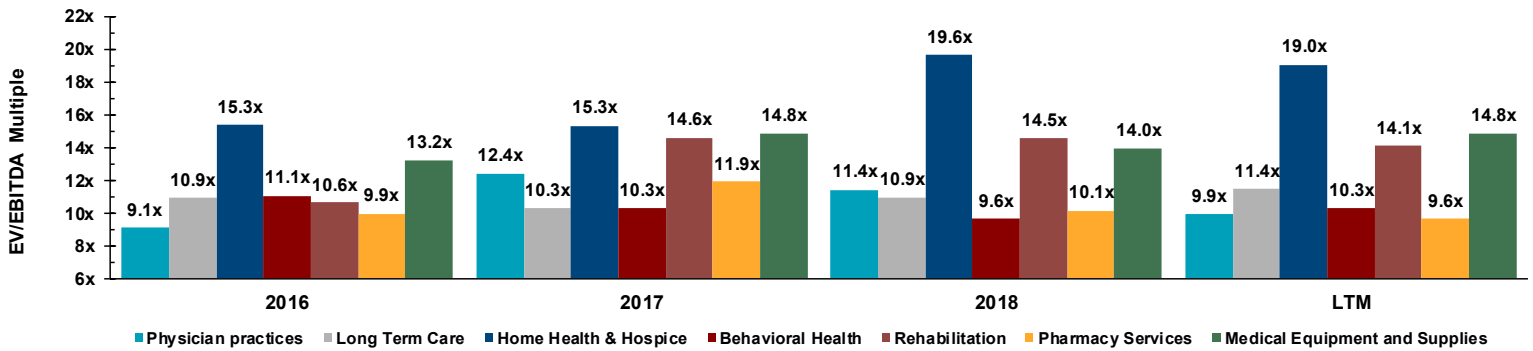
Public Company Comparisons Trading Multiples

Healthcare Industry Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of March 31, 2019

Healthcare Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of March 31, 2019

Representative EdgePoint Healthcare Transactions

<p>Sell-Side Advisory</p> <p>TransMotion Medical has sold to Winco Mfg., LLC</p>	<p>Financing Advisory</p> <p>The Fibromyalgia & Fatigue Center has successfully completed a capital raise</p>	<p>Buy-Side Advisory</p> <p>Med XS Solutions has acquired Health Quip, LLC</p>	<p>Sell-Side Advisory</p> <p>Select Assets of Steris AB has sold to An Undisclosed Private Company</p>
<p>Buy-Side Advisory</p> <p>Med XS Solutions has acquired Gar Division of Neoforma</p>	<p>Sell-Side Advisory</p> <p>Providence Home Health Care has sold to A Private Equity Group</p>	<p>Financing Advisory</p> <p>PetsDX has successfully completed a capital raise</p>	<p>Sell-Side Advisory</p> <p>Accu-Tube has sold to Washington Equity Partners</p>



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

