

Private Equity Summary Report—February 2017

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1. Looking Back: 2016 Healthcare M&A and Private Equity Landscape

A Look Back at 2016 ...

Dealmaking in the healthcare industry tapered a bit in 2016, when compared with 2014 and 2015 activity levels. Even with this dip, however, both deal levels and values remained ahead of pre-2014 levels.

Within the industry, there were certain deal types and different segments that fared better than others – and different opportunities and pressures facing various players. A few notable trends include:

Healthcare M&A 	Healthcare M&A as a whole <u>fell</u> nearly 50% to \$255.4 billion in the first nine months of 2016, from \$487.2 billion the previous year, due to a shifting regulatory environment, deal fatigue and falling deal values , according to Law360.
PE Dry Powder 	Private equity firms are <u>sitting</u> on about \$862 billion in dry powder, up 14% from last year and the highest level since at least 2008. PE firms are facing a scarcity of deals, increased competition from Chinese investors and pension fund bidders, as well as low interest rates and pressure from investors who want funds deployed.
Digital Health 	Investment in digital health <u>hit</u> \$3.9 billion in Q1 2016, besting the \$2.9 billion at mid-year 2015 and \$3.5 billion in 2014. Early-stage innovation made up over 65% of deal volume. Patient and consumer experience was the most active market (\$958 million invested), followed by wellness (\$854 million), personalized health (\$524 million), big data/analytics (\$406 million) and workflow (\$328 million).
Hospital M&A 	Kaufman, Hall & Associates <u>found</u> hospital M&As remained strong in Q1 2016, with 52 deals, marking a 6.1% increase since the same period in 2015. The sustained growth showed hospital and health system leaders across the U.S. continue to turn to M&As and other forms of partnerships to cut costs, boost competitive positioning and build capabilities for a value-based business model.

2. By the Numbers: 2016 M&A and PE Data

Healthcare TEV/EBIDTA

TEV EBIDTA – BY INDUSTRY CATEGORY

Industry	2003–2011	2012	2013	2014	2015	YTD 2016	Total	N=
Manufacturing	5.9	5.9	5.9	6.3	6.6	6.3	6	1072
Business Services	6.3	5.9	6.5	6.5	6.4	7.6	6.4	464
Health Care Services	6.9	7.1	7.5	7.8	7.8	7.5	7.1	234
Distribution	6	6.6	6.8	7.1	6.7	6.9	6.3	259

 SOURCE: GF DATA®

TOTAL ENTERPRISE VALUE – HEALTH CARE SERVICES

TEV	Total	N=
10–25	6.3	79
25–50	7	59
50–100	7.7	63
100–250	8.6	33

*Data for 2003-2016

 SOURCE: GF DATA®

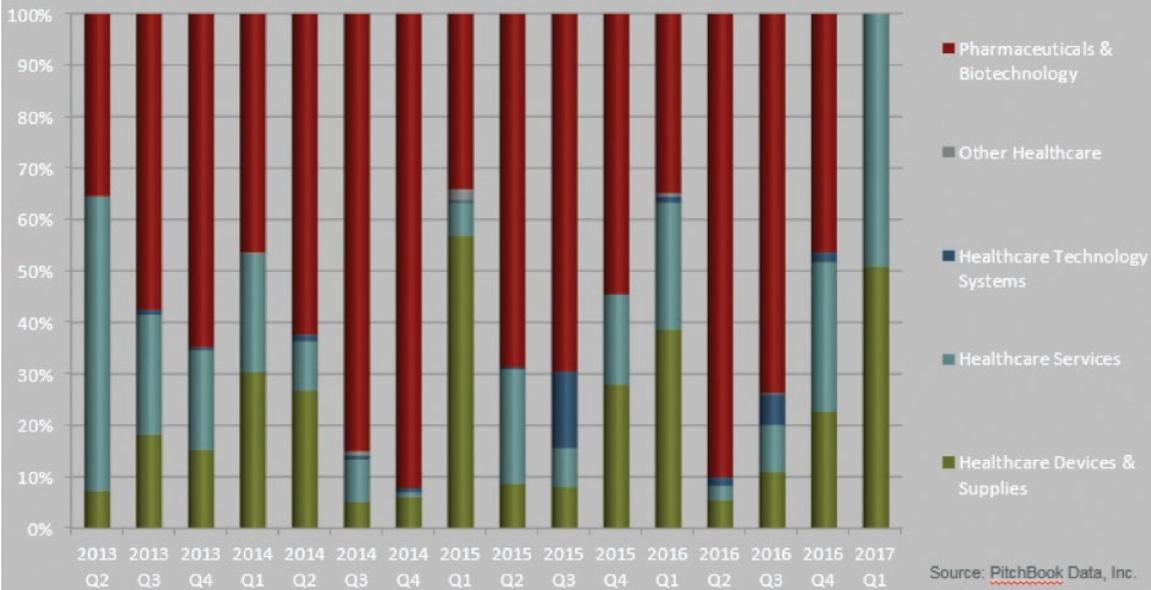
*Information from GF Data is collected from over 200 PE sponsors on \$10-250mm transactions with 3-15x Adjusted EBITDA multiples.

Healthcare M&A Activity

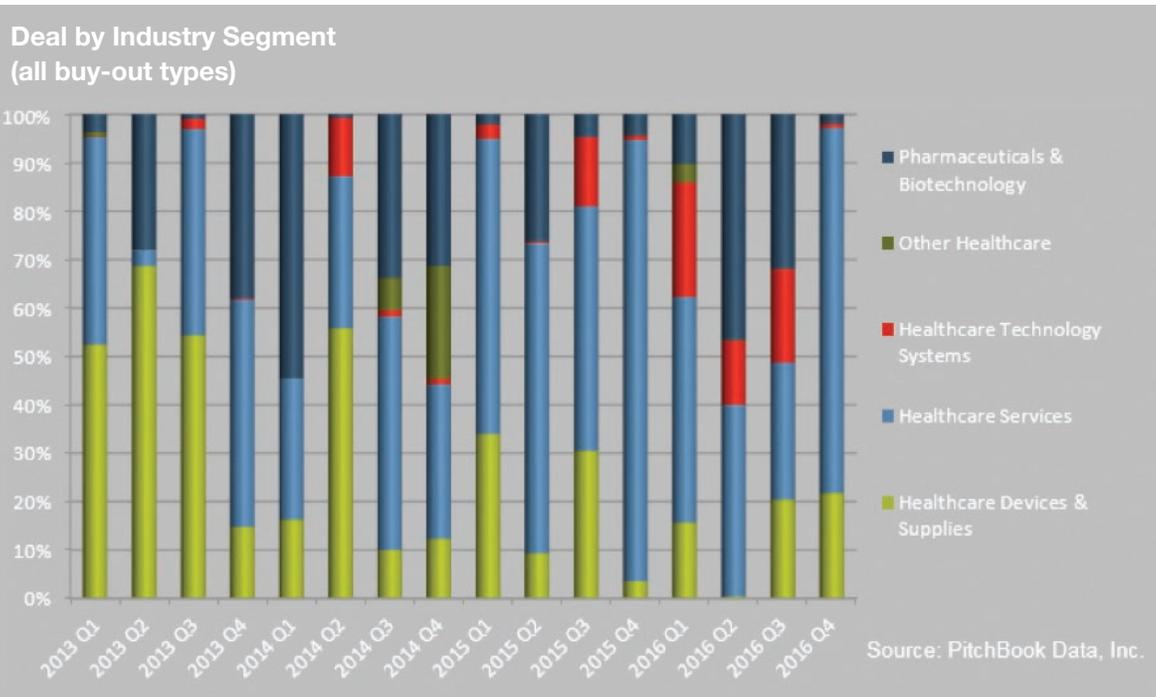
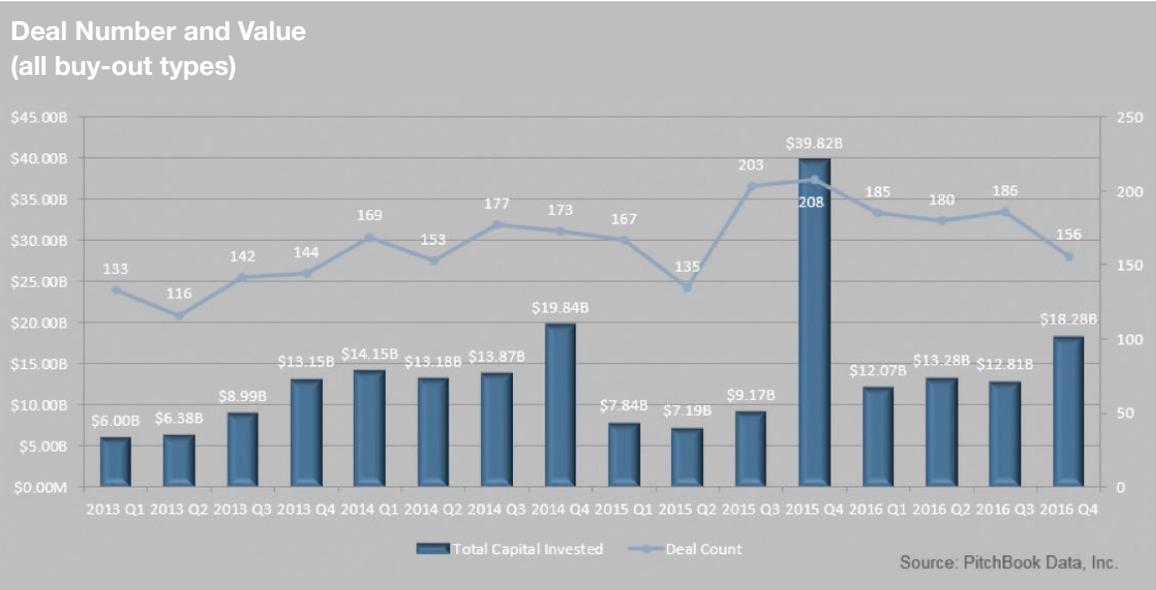
M&A Deals—Number and Value
Q1 2017 Data as of Feb 2, 2017



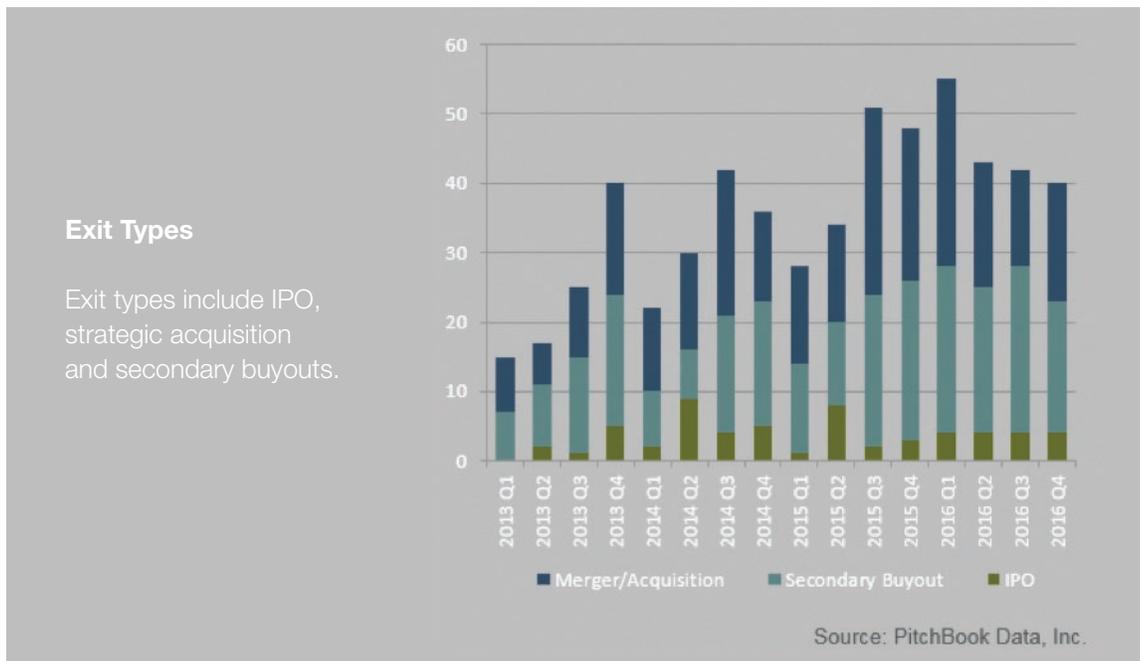
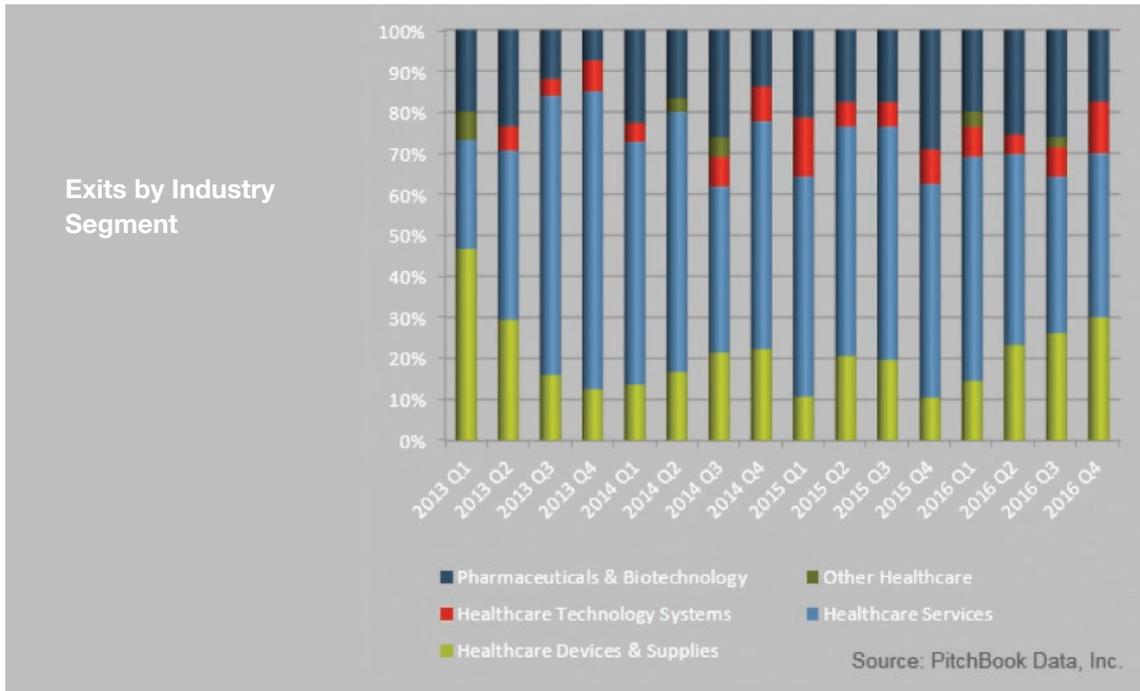
M&A Deals—Industry Segment
Q1 2017 Data as of Feb 2, 2017



Healthcare PE Deal Activity



Healthcare PE Exit Trends



3. 2016 Activity: Notable Developments

2016 Investment Environment

Although activity waned in comparison to 2014 and 2015 levels, drivers of M&A activity remained: investment in niche drug development areas, responses to regulatory pressures, digitalization and the shift to personalized medicine.

<p>Hot Sector Digital Health</p>	<p>Digital health companies continued to be a bright spot in the healthcare investment space. Within this segment of the industry, however, there were variances in investment appetite. According to RockHealth, growth stage digital health deals were at an all-time low, while investor appetite for early stage companies continued, with Seed and Series A deals accounting for the majority of the deals in 2016 (60.9%). Further, there were a number of major rounds in 2016 within digital health, with the top six deals making up nearly a third of all funding in 2016.</p>
<p>Hot Strategy Divestitures</p>	<p>Divestitures offer untapped investment opportunities in the healthcare sector, according to a McKinsey report. The approach may become the most attractive option to create value because supply is increasing (more companies are selling divisions), price is often not the determining factor and PE firms have the skills needed to stand up a new company.</p>
<p>Hot Buyer Foreign Buyers</p>	<p>U.S Healthcare properties are becoming increasingly popular acquisition targets for foreign buyers as U.S.-listed healthcare REITs streamline their portfolios, Fitch Ratings said. Offshore buyers are mainly foreign capital and PE firms with longer term horizons, which don't usually buy U.S.-based healthcare properties.</p>

Regulatory

- The **FDA** [launched](#) a website for regulatory misconduct allegations following a report revealing it accepted late adverse event reports from **medical device firms** for hundreds of thousands of incidents. It believes the process can help it identify potential risks to patients and determine whether it should further investigate or correct a potential violation.

New Entrants, Partnerships

- Epix Healthcare Associates [formed a partnership](#) with healthcare-focused private equity firm **Ashlar Capital** that will see Ashlar commit an undisclosed amount to pursue complementary acquisitions and gains two seats on the company's board.
- The **Inova Health System** [launched](#) Inova Strategic Investments (ISI) and the Inova Personalized Health Accelerator (IPHA). ISI will invest in healthcare venture funds and will also invest directly into companies aligned with Inova's strategic priorities, while IPHA will host six to eight companies per year and provide education and capital to entrepreneurial companies.
- **Avantor Performance Materials** and **NuSil Technology**, both majority owned by **New Mountain Capital**, agreed to [merge](#), creating a life science and advanced technology materials company with revenue of more than \$700 million.

- **Colony Capital** joined **NorthStar Realty Finance** and **NorthStar Asset Management Group** in an all-stock deal to [form](#) a \$58-billion REIT called Colony NorthStar. The REIT will have assets ranging from healthcare facilities to hotels and manufactured housing.

IPOs

- **Griffin-American Healthcare REIT IV** received [approval](#) for a \$3.15-billion IPO. The trust will invest in healthcare real estate assets, including medical office buildings, senior housing facilities, skilled nursing facilities and hospitals.
- Orlando-based **CNL Financial Group** gained [approval](#) from the SEC for the \$2-billion IPO of its latest REIT, **CNL Healthcare Properties II**.

Fund Moves

- **Capricorn Healthcare & Special Opportunities** [closed](#) its second fund after reaching its hard cap with \$350 million. The firm focuses exclusively on the healthcare and wellness industry.
- **Frazier Healthcare Growth Buyout Fund VIII**, the latest fund of **Frazier Healthcare Partners**, [hit](#) its \$525-million hard cap. The fund is Frazier Healthcare's first vehicle to focus exclusively on profitable lower mid-market businesses in the healthcare sector.
- Chicago-based **Green Courte Partners**, a real estate-focused private equity firm, [raised](#) \$503.2 million for its fourth fund that will target the specialty housing market, including senior housing investments.
- Healthcare-focused private equity firm **MTS Health Investors** [closed](#) its fourth fund at its \$365-million hard cap. The fund will invest in businesses that operate in the services sectors of healthcare.
- **Gemspring Capital** [closed](#) its debut Gemspring Capital Fund at its \$350-million hard cap. It will seek investments in North American firms with up to \$250 million in revenue in various sectors, including healthcare services.
- Healthcare-focused hedge fund **Perceptive Advisors** held a [final close](#) for its Perceptive Credit Opportunities Fund, raising \$323 million for investments in private credit transactions with healthcare companies.
- **KKR** is reportedly [seeking](#) between \$650 million and \$800 million for its first healthcare fund, which will make growth equity investments worth less than \$100 million.
- **Bain Capital** is [seeking](#) to raise an undisclosed sum for an investment fund focused on life sciences companies, a regulatory filing shows.

Personnel Moves

- **CVC Capital Partners** [hired](#) Fazle Husain as a partner and head of U.S. healthcare. He was most recently with **Metalmark Capital**, where he was head of healthcare investing and previously was a managing director in **Morgan Stanley**'s private equity business.
- Navtej Bhullar, who most recently was a managing director in the healthcare investment banking group at **Goldman Sachs**, [joined](#) **Lazard Middle Market** as a managing director in its healthcare group.
- **Frazier Healthcare Partners** [added](#) Rob Kill as an operating partner on its growth buyout team. He most recently served as chairman and CEO of **Cogentix Medical**, a medical device firm.
- **Warburg Pincus** [appointed](#) Thomas Carella as a managing director in its healthcare and consumer group. He was previously a managing director in **Goldman Sachs**' merchant banking division and global head of the division's private equity activities in the healthcare sector.

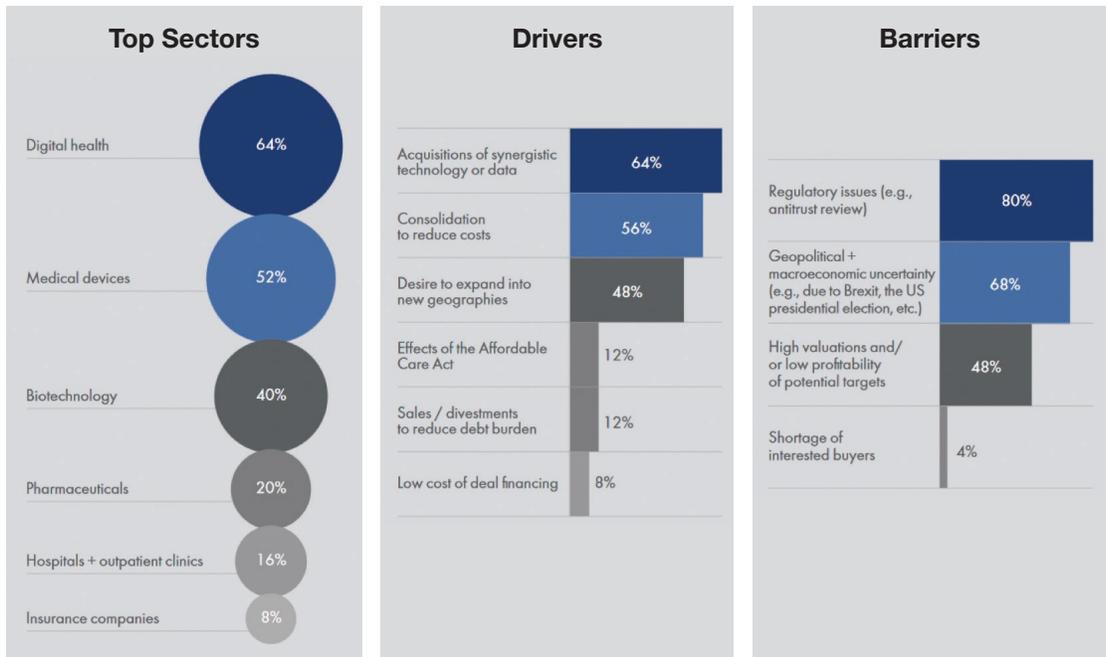
4. Looking Ahead: 2017 Insights

Looking Ahead: 2017

- A **Capital One survey** found 68% of healthcare investors and senior professionals anticipate improved financial performance in 2017, while 31% expect similar financial performance and only 1% anticipate a weaker year. In other results, 53% said they expect the home health and hospice sectors to see strong growth, 67% plan to pursue an acquisition and 49% anticipate a recapitalization and/or refinance in the next year.
- A **RR Donnelley/Merger Market survey** found that in 2017:
 - PE activity in healthcare is expected to pickup, with technology acquisition and cost savings being the main drivers;
 - Global uncertainty and market volatility is expected to slow healthcare IPO activity; and
 - Digital health is still expected to be the leading sector in M&A activity, followed by medical devices and biotechnology.

2017 Healthcare PE/M&A Outlook

Source: RR Donnelley/MergerMarket’s VENUE Market Spotlight



Appendix: Notable Transactions (2016)

- **Physio-Control International**, a unit of **Bain Capital Private Equity**, was acquired by medical device maker **Stryker** for \$1.28 billion. Physio-Control makes devices such as defibrillators for emergency treatment of cardiac arrests and was spun off from heart device-maker Medtronic in 2006. Stryker also acquired Sage Products from Madison Dearborn Partners for \$2.775 billion.
 - **Permira** agreed to sell Plymouth, Minn.-based **Creganna Medical Group**, which makes delivery devices for the minimally invasive vascular surgery market, to TE Connectivity for \$895 million.
 - **Global Medical REIT** agreed to acquire three rehabilitation hospitals in Arizona and Pennsylvania for \$68 million from affiliates of **Healthcare Realty Trust**.
 - **Kindred Healthcare** sold 12 long-term acute care hospitals – consisting of 783 beds in Arizona, Louisiana, Massachusetts, Oklahoma, Pennsylvania and Tennessee – to Curahealth for \$27.5 million. **Curahealth** is an affiliate of a private investment fund sponsored by Rhode Island-based private equity firm **Nautic Partners**.
 - **Apollo**-backed **RegionalCare Hospital Partners** merged with **Capella Healthcare** to create **RCCH Health Partners**, a combined entity with 18 hospitals in 12 states and \$1.7 billion in revenues.
 - **Lonza Group** acquired **Capsugel**, a U.S. maker of capsule products and other drug delivery systems, from **KKR** for \$5.5 billion.
 - A **Blackstone**-led group of investors acquired **Team Health Holdings** for approximately \$3.2 billion in a take-private deal. Knoxville, Tenn.-based Team Health offers outsourced healthcare services, including emergency care, hospital medicine and anesthesiology.
 - **Bain Capital** acquired Dallas-based **Epic Health Services**, a provider of home healthcare services for medically fragile children. **Webster Capital** sold Epic for an undisclosed amount after acquiring the firm in 2010.
 - **TPG** acquired healthcare technology company **Mediware Information Systems** from **Thoma Bravo** for an undisclosed amount.
 - **Pamlico Capital** sold its stake in **Physicians Endoscopy** to **Kelso & Company** in a recapitalization transaction with management. Physicians Endoscopy is a developer, owner and manager of endoscopic surgery centers. Financial details of the transaction were not disclosed.
 - **Magellan Health** acquired Salt Lake City-based **Veridicus Holdings** from **Gauge Capital** for \$74.5 million. Veridicus is a provider of pharmacy benefit management, medication therapy management, clinical care management and Medicare Part D services.
 - San Diego-based **GreatCall** acquired **Healthsense**, a provider of passive remote monitoring services for the senior care market. No financial terms were disclosed.
 - Ohio-based **Q Holding** acquired **Degania Silicone**, a maker of medical catheters, from **Viola Private Equity**, **Kibbutz Degania Bet** and **Israel Growth Investors** for an undisclosed amount. Q Holding is backed by private equity firm **3i**.
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- **Cindat Capital Management** and **Union Life Insurance** [acquired](#) a 75% stake in Toledo, Ohio-based **Welltower's** portfolio of senior housing and post-acute care real estate assets for \$930 million.
- **MSD**, a **New Mountain Capital**-backed supplier of technology-enabled medical device and supply chain solutions to alternate site healthcare facilities, [completed its merger](#) with **First Choice Medical Supply**, a distributor of medical supplies and ancillary products servicing the skilled nursing and home health segments.
- **Oaktree** and **MTS Health Investors** [sold](#) adult home care services provider Secura Home Health to CareFinders Total Care, which also provides home care services. Financial terms weren't disclosed.
- **Warburg Pincus** [made](#) a growth capital investment in **Intelligent Medical Objects (IMO)**, a medical terminology solutions provider for electronic health record systems.
- **Cinven** [acquired](#) **Bioclinica** from **JLL Partners** and **Water Street Healthcare Partners** in a deal valuing the U.S. clinical trials company at around \$1.4 billion, including debt.
- **Community Health Systems** [completed](#) the sale and leaseback of a 10-property medical office building portfolio for \$163 million to REIT **HCP**. The facilities are located in five states and currently house diagnostic, medical and surgical services in hospitals' outpatient settings.
- **HCP** [sold](#) a portfolio of 64 senior living properties to affiliates of **Blackstone Real Estate Partners VIII** for \$1.12 billion. The portfolio is comprised of 5,967 units and is 85.2% occupied.
- **HCP** [purchased](#) an assisted living and memory care portfolio from a JV of **Morningside House Senior Living** and **Harrison Street Real Estate Capital** for \$186.2 million. The portfolio consists of 526 units in seven properties located in the Washington, D.C., and Baltimore metro areas.
- **Griffin-American Healthcare REIT IV** [acquired](#) the 66,000-square-foot **Evendale Medical Office Building** in Cincinnati for an undisclosed amount from MPEQ Evendale MOB.
- **CareTrust REIT** [acquired](#) three skilled nursing facilities and one skilled nursing campus in Dallas-Fort Worth, Texas, for \$95.9 million. The portfolio consisted of 540 skilled nursing beds and 28 assisted living units.

Benesch Health Care Private Equity Team

If you have any questions about this report or would like more information about our Health Care Private Equity team, please contact our senior team leaders:



Frank W. Carsonie

Partner and Chair, Health Care & Life Sciences Practice Group
(614) 223-9361
fcarsonie@beneschlaw.com



Alan E. Schabes

Partner, Health Care & Life Sciences Practice Group
(216) 363-4589
aschabes@beneschlaw.com