

Healthcare Services Insights

OCTOBER 2018

Healthcare Services News & Trends

Groundhog Day

Lingering policy uncertainty and the inertia of value-based care reimbursement continue to be the major drivers of both vertical and horizontal M&A activity in healthcare services. Hopefully to no reader's surprise by now, the certainty of rising cost pressure continues to be another. Benjamin Franklin, or rightly Christopher Bullock, left one out.

And thus for the 15th quarter in a row, Punxsutawney Phil saw his shadow and the U.S. healthcare services market saw over 200 deals cross the wire (255). With only one megadeal in 2Q 2018 (KKR-Envision), total deal value did fall off sharply sequentially and year-over-year; however, middle-market value totals continued their consistent grind higher. Similarly, middle-market transaction multiples remained relatively flat and generally remain near all-times at an average just shy of 12.0x LTM EBITDA.

Unabated private equity fundraising, the death of the healthcare services IPO market and the dominance of broad competitive auction processes leave very little doubt in the sameness of tomorrow. So if you keep thinking you see Ned Ryerson at every lender meeting, no need to call a psychiatrist – it's really happening.

The Usual Suspects

The market marches on without a limp. There are no plot twists, no new targets or trends, and while risk remains (always), no palpable evidence of any sub-sectors instilling the fear of Keyser Soze in the buyer community. And why should there be? Secular trends and consolidation opportunities continue to drive significant middle-market activity and investment in physician medical groups (of all shapes and sizes), post-acute and long-term care providers, pharma services and transformative technology.

Moneyball

The flip-side of today's record-breaking macro cash levels competing for a finite (and dwindling) pool of quality platform or transformative-sized assets is the mounting frustration among conservative buyers over their ability to win deals. Our observations, anecdotal as they may be, suggest a growing willingness for private equity buyers, at least, to create a major league platform by cobbling together two to three smaller players. History certainly suggests that creative adaptation and looking left when everyone is looking right will often create profound value. When that gets realized, given the market characteristics noted above, is the million dollar question.

Why the Name Change to Bowstring Advisors?



After 10 years as CHILDS Advisory Partners, we officially announced our new name in May.

Our firm continues to grow rapidly in terms of professionals and practice areas thus we felt a "non-personal" name was more reflective of our broader reach. Our goal is to be a top 10 player in the U.S. and we feel our new name, Bowstring Advisors, supports that vision. A bowstring joins two ends of a bow and launches an arrow toward its target. It is designed for a singular purpose – to propel. Like the bowstring, we exist to give guidance and counsel to clients that propels them and their companies toward their goals.

J.P. Morgan 2019 Healthcare Investor Conference



January 7 - 10 | San Francisco, CA

Ross DeDeyn, Managing Director and Healthcare Services sector group lead, will attend the J.P. Morgan 2019 Healthcare Investor Conference in January. Contact him to schedule a meeting to discuss M&A sector trends and his industry insights:

rdedeyn@bowstringadvisors.com

Spotlight on Recent Bowstring Healthcare Services Transactions



RECEIVED A GROWTH
EQUITY INVESTMENT FROM



Bowstring Advisors served as the exclusive financial advisor to Hayes, the leading provider of compliance and revenue integrity technology solutions and services for the nation's premier healthcare organizations, in its growth investment from Primus Capital.

Hayes' flagship revenue integrity software platform, MDaudit Enterprise, is a powerful, cloud-based risk monitoring solution. Used by the foremost academic medical centers, hospitals and physician groups in the U.S., MDaudit is an enterprise-class platform that enables organizations to efficiently monitor medical claims for billing and coding accuracy to ensure compliance with government and private payer requirements to maximize the attainable level of revenue. The platform accelerates productivity for revenue cycle and compliance professionals by providing workflow automation, risk monitoring, built-in analytics and benchmarking capabilities – all in a single, integrated platform. In the market since 2003, MDaudit is currently used to audit one in eight providers in the U.S.

Hayes' CEO, Peter Butler, commented, "We were extremely pleased by the professionalism and expert guidance we received from the entire Bowstring team. They worked as true partners throughout the entire process and helped ensure we were organized and well prepared for each step along the way."



ACQUIRED BY

**EPIC HEALTHCARE
STAFFING**

A PORTFOLIO COMPANY OF



Bowstring Advisors served as the exclusive financial advisor to Guardian Healthcare Providers, a specialized healthcare staffing company, on its sale to Epic Healthcare Staffing, a portfolio company of Webster Capital.

Guardian recruits both international and domestic healthcare professionals for assignments ranging from one to three years throughout the U.S. Through offices in Nashville, TN and Louisville, KY, the Company serves clients that provide care in a wide variety of settings.

Joe Owen, CEO of Guardian, commented, "Attention to detail and responsiveness are hallmarks of Guardian's service commitment. Bowstring Advisors' team delivered in both respects. They positioned us perfectly within the crowded healthcare staffing landscape and tailored the process to identify the best partner."

As part of the Epic platform, Guardian is well-positioned to capitalize on its growth opportunities and strengthen its position as a leader in international nurse staffing.



ACQUIRED BY



Bowstring Advisors served as the exclusive financial advisor to Aspiron Health Resources, a complex claims revenue cycle management firm headquartered in Columbus, GA, in its acquisition by Aquiline Capital Partners, a New York-based private equity firm investing in financial services and technology.

Founded by Charles Day in conjunction with a growth equity investment from BIP Capital in 2012, Aspiron provides outsourced reimbursement recovery services to healthcare providers nationwide for their traditionally hard-to-settle claims. The Company, utilizing expertise, process, and technology, works closely with client billing staff to optimize reimbursement of time-consuming motor vehicle accident, Veterans Administration, and workers' compensation claims.

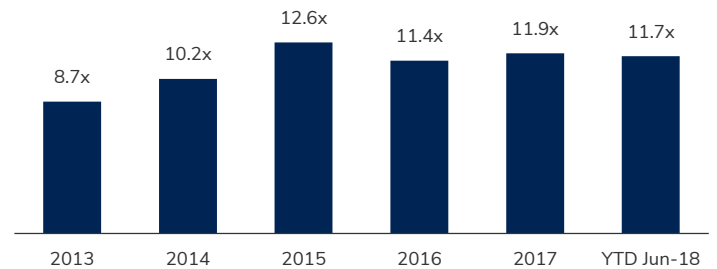
Aspiron CEO Lori Lipocky commented, "We are very grateful for the assistance and guidance provided by the Bowstring team in our search for the right partner. Their relationships across the buyer landscape and their persistent, unbiased advice enabled us to find the best outcome for all of our constituents."

Healthcare Services M&A Activity and Trends

- Healthcare services middle-market M&A transaction multiples year-to-date remain just below the all-time high of 2015 and are holding firm compared to FY 2017 at an average of 11.7x LTM EBITDA
- Middle-market total deal value continues its ascent but is now lagging total deal volume (with multiples flat) suggesting the emergence of a potential trend in private equity buyers fishing in shallower waters for platform assets
- Pharma services companies continue to command the highest transaction multiples, mirroring public trading markets
- Private equity-backed strategic acquirers continue to search for add-on acquisitions and have contributed 24% of deal volume YTD 2018
- Positive macroeconomic tailwinds combined with financial performance and record amounts of dry powder and cash balances indicate 2018 to be another strong year

Middle Market M&A Valuations

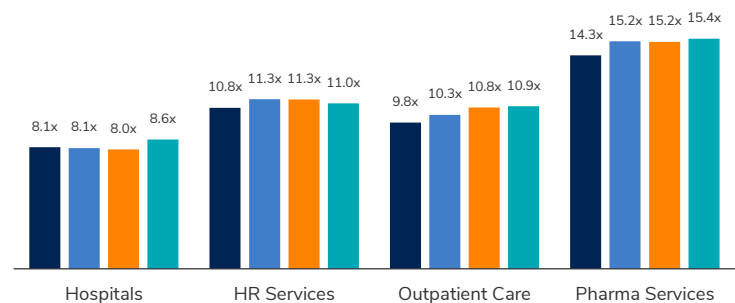
(EV / EBITDA)



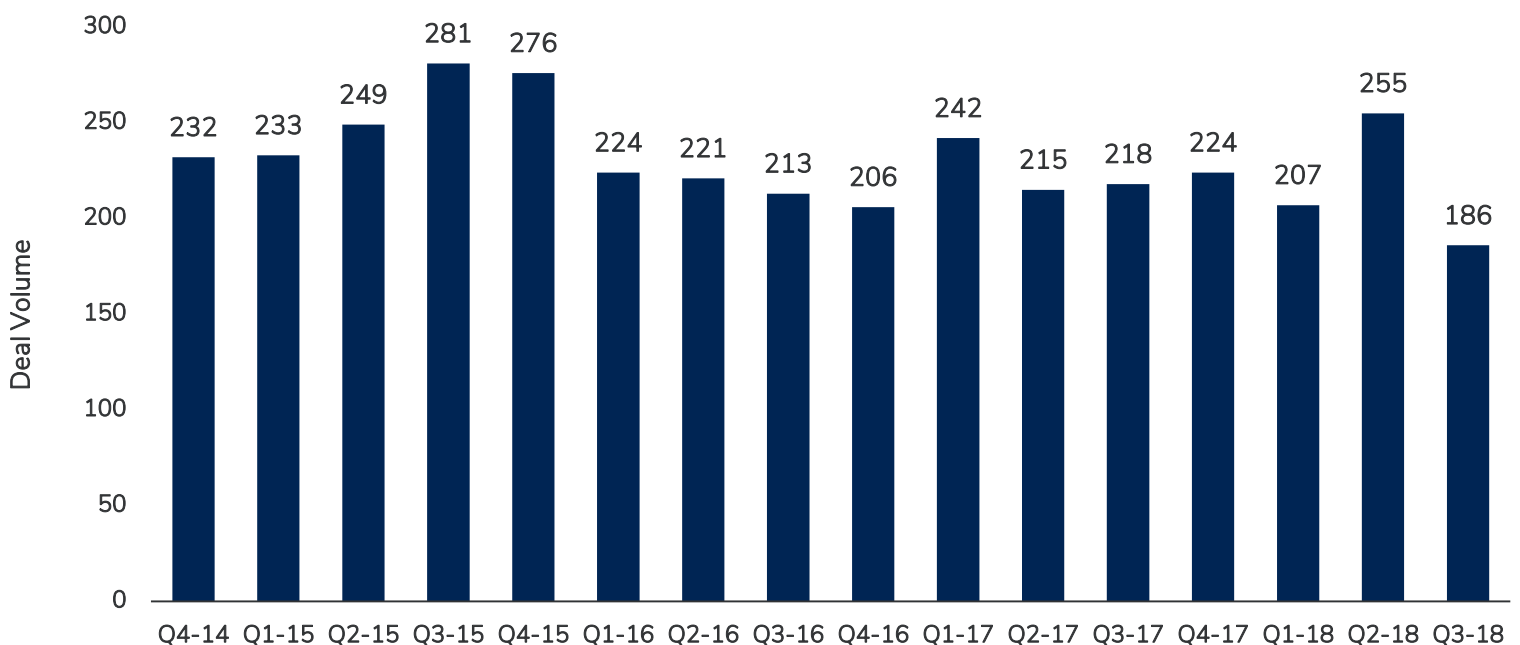
Public Market Valuations

(EV / EBITDA)

■ Q4-17 ■ Q1-18 ■ Q2-18 ■ Q3-18



Quarterly Healthcare Services M&A Deal Volume



Notable Transactions



HAS ACQUIRED



Q3 2018

Contract development and manufacturing organizations continue to attract strong financial sponsor interest as shift towards outsourced services continues

THE CARLYLE GROUP

HAS ACQUIRED



Q3 2018

Notable acquisition of two primary care physician practices, typically a less favored subsector by financial sponsors — Carlyle investments indicate a potential shift in interest



SPAC- Federal Street Acquisition Corp

HAS ACQUIRED



Universal | Hospital | Services

Q3 2018

The largest hospital equipment solutions and services provider actually bucks the privatization trend in a quasi-IPO via merger into SPAC funded by T.H. Lee



HAS ACQUIRED



Q2 2018

Financial sponsors continue to aggressively seek out veterinarian practices due to positive secular trends and highly favorable payer dynamics



HAS ACQUIRED



Q2 2018

LabCorp continues to broaden its life sciences service offerings (Covance) through its acquisition of drug development regulatory and technology consulting business



HAS ACQUIRED



Q2 2018

Following on the heels of TeamHealth's privatization / LBO by Blackstone, KKR does the same with the largest physician practice management company for \$9.9B

Public Trading Statistics

Provider Services

Company Name	Market Data				Operating Statistics			EV as a Multiple of:				Growth	
	Stock Price 9/30/18	% of 52 Week High	Market Cap.	Enterprise Value	LTM			LTM		CY2018		'16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
Laboratory Corporation	\$173.68	91.2%	\$17,698	\$23,959	\$10,979	\$2,079	18.9%	2.2x	11.5x	2.0x	11.1x	8.1%	15.9%
MEDNAX	\$46.66	74.0%	\$4,117	\$5,961	\$3,598	\$589	16.4%	1.7x	10.1x	1.6x	9.5x	8.6%	11.5%
Healthcare Services Group	\$40.62	72.3%	\$2,995	\$2,948	\$1,996	\$104	5.2%	1.5x	28.3x	1.4x	17.2x	19.4%	13.3%
AMN Healthcare Services	\$54.70	80.2%	\$2,598	\$3,050	\$2,084	\$249	12.0%	1.5x	12.2x	1.4x	10.4x	4.5%	19.5%
R1 RCM	\$10.16	92.4%	\$1,117	\$1,636	\$619	\$5	0.7%	2.6x	NM	1.4x	11.0x	(24.1%)	53.4%
RadNet	\$15.05	94.4%	\$727	\$1,343	\$939	\$114	12.1%	1.4x	10.4x	1.3x	7.9x	4.3%	7.5%
Mean		84.1%			\$3,369	\$523	10.9%	1.8x	14.5x	1.5x	11.2x	3.5%	20.2%
Median		85.7%			\$2,040	\$181	12.0%	1.4x	10.1x	1.3x	8.7x	6.3%	14.6%

Hospitals

Company Name	Market Data				Operating Statistics			EV as a Multiple of:				Growth	
	Stock Price 9/30/18	% of 52 Week High	Market Cap.	Enterprise Value	LTM			LTM		CY2018		'16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
HCA Healthcare	\$139.12	99.8%	\$48,142	\$82,285	\$45,210	\$8,443	18.7%	1.8x	9.7x	1.7x	8.9x	5.1%	5.6%
Universal Health Services	\$127.84	96.4%	\$11,933	\$15,918	\$10,554	\$1,701	16.1%	1.5x	9.4x	1.4x	8.5x	6.6%	6.6%
Tenet Healthcare	\$28.46	71.6%	\$2,914	\$19,537	\$18,769	\$2,512	13.4%	1.0x	7.3x	1.1x	7.4x	(2.3%)	2.3%
LifePoint Health	\$64.40	98.5%	\$2,491	\$5,411	\$6,239	\$661	10.6%	0.9x	8.2x	0.8x	7.1x	(1.1%)	7.9%
Community Health Systems	\$3.46	43.9%	\$390	\$14,487	\$13,975	\$806	5.8%	1.0x	17.6x	1.1x	9.3x	(16.7%)	(10.5%)
Mean		82.0%			\$18,949	\$2,825	12.9%	1.3x	10.4x	1.2x	8.2x	(1.7%)	2.4%
Median		96.4%			\$13,975	\$1,701	13.4%	1.0x	9.4x	1.1x	8.5x	(1.1%)	5.6%

Pharma Services

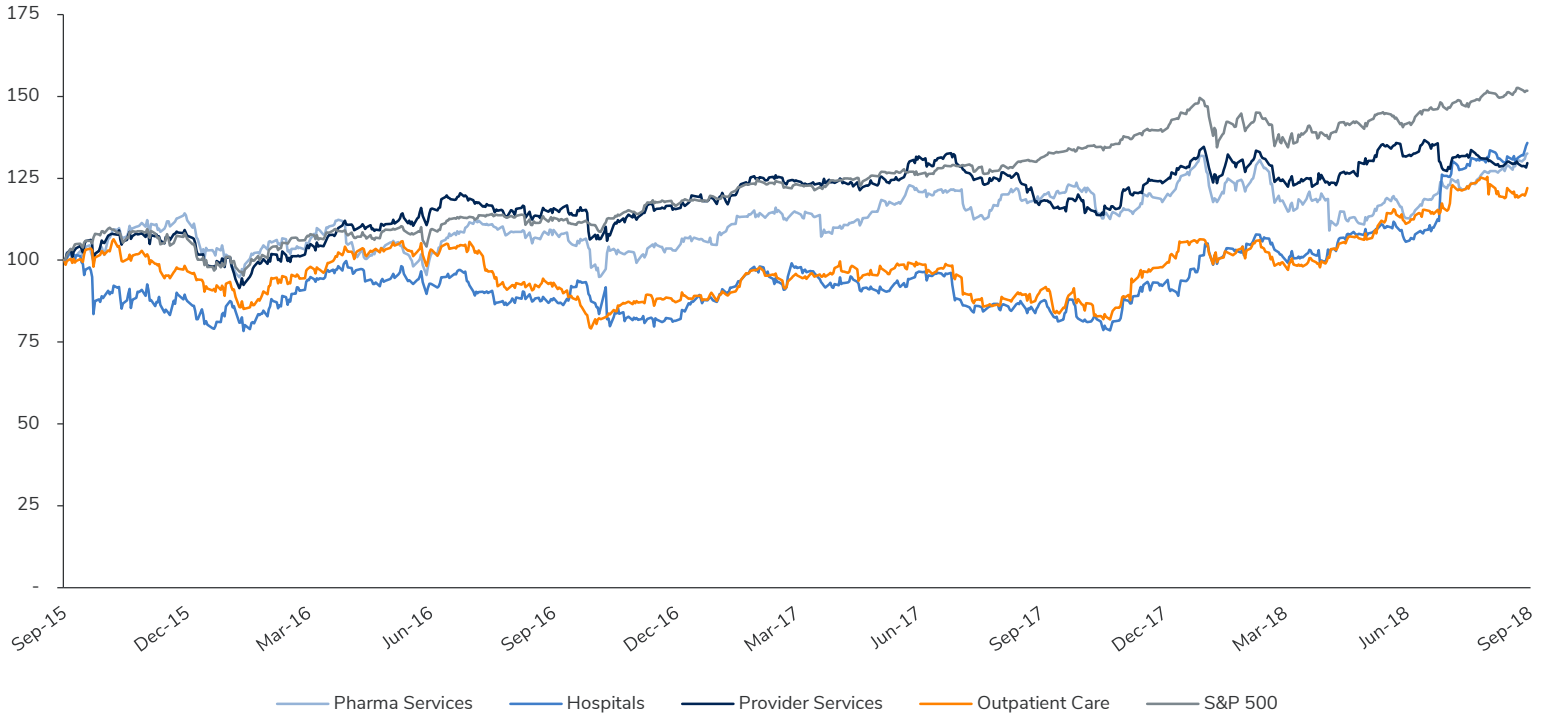
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	Stock Price 9/30/18	% of 52 Week High	Market Cap.	Enterprise Value	LTM			LTM		CY2018		'16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
IQVIA Holdings	\$129.74	98.5%	\$26,284	\$36,340	\$8,475	\$1,786	21.1%	4.3x	20.1x	3.3x	15.3x	50.3%	26.1%
Cardinal Health	\$54.00	71.3%	\$16,193	\$23,533	\$136,809	\$3,017	2.2%	0.2x	7.8x	0.2x	8.5x	6.9%	10.1%
ICON	\$153.75	99.8%	\$8,353	\$8,329	\$2,157	\$431	20.0%	3.9x	19.3x	3.0x	16.8x	5.5%	11.5%
PRA Health Sciences	\$110.19	97.6%	\$7,093	\$8,277	\$2,352	\$383	16.3%	3.5x	21.6x	2.6x	16.0x	23.3%	21.5%
Catalent	\$45.55	95.2%	\$6,614	\$8,925	\$2,463	\$491	19.9%	3.6x	18.2x	3.4x	14.2x	12.3%	10.4%
Charles River	\$134.54	99.0%	\$6,462	\$8,117	\$2,022	\$470	23.2%	4.0x	16.1x	3.3x	13.5x	10.5%	15.4%
Mean		93.6%			\$25,713	\$1,096	17.1%	3.2x	17.2x	2.6x	14.0x	18.1%	15.8%
Median		98.1%			\$2,407	\$480	20.0%	3.7x	18.8x	3.2x	14.7x	11.4%	13.4%

Outpatient Care

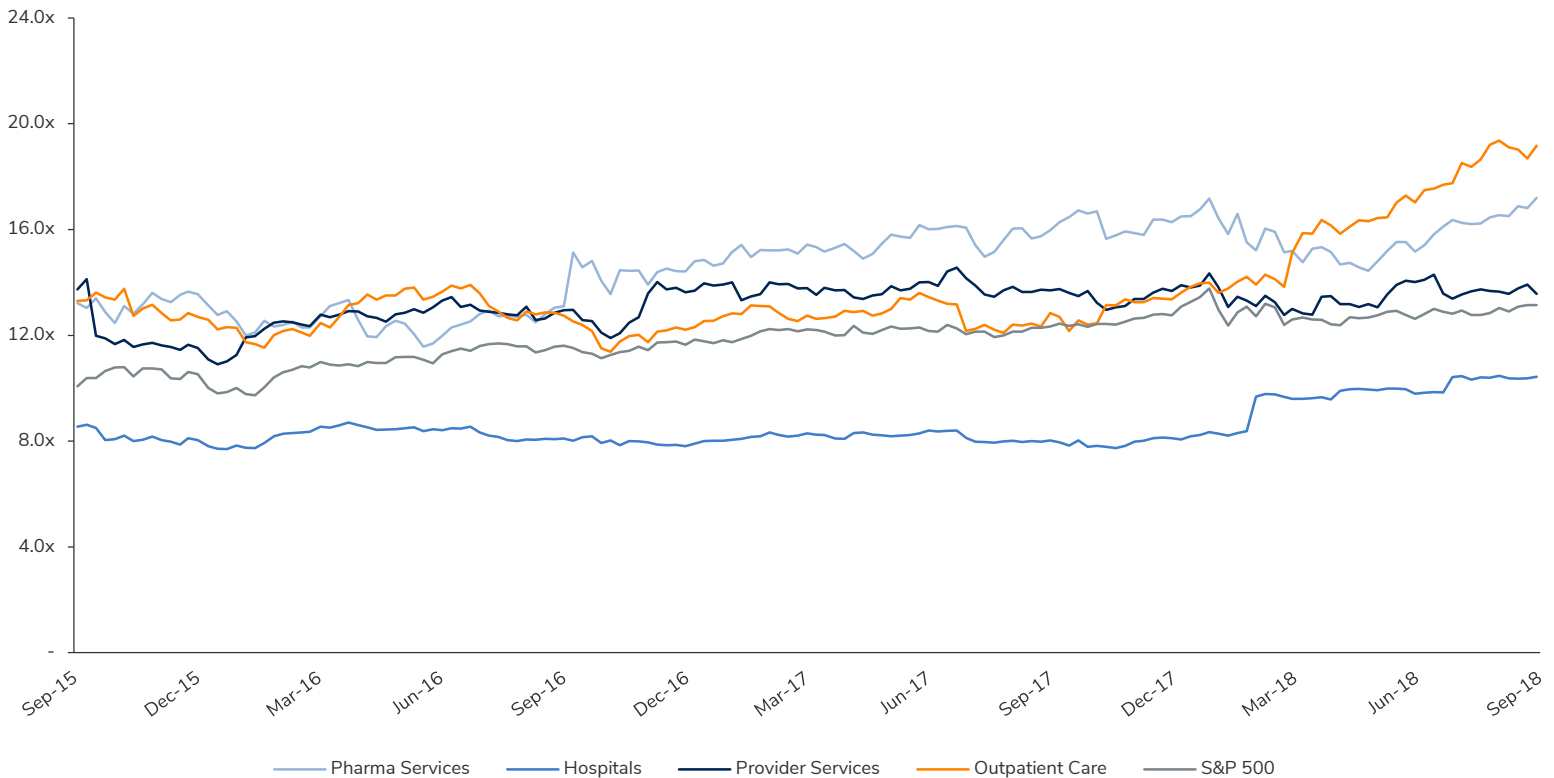
Company Name	Market Data				Operating Statistics			EV as a Multiple of:				Growth	
	Stock Price 9/30/18	% of 52 Week High	Market Cap.	Enterprise Value	LTM			LTM		CY2018		'16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
DaVita	\$71.63	88.7%	\$11,955	\$22,758	\$11,299	\$2,344	20.7%	2.0x	9.7x	1.9x	10.2x	1.8%	(5.3%)
Encompass Health	\$77.95	94.5%	\$7,706	\$10,754	\$4,109	\$865	21.1%	2.6x	12.3x	2.4x	11.5x	7.5%	15.3%
Amedisys	\$124.96	98.9%	\$3,978	\$4,078	\$1,580	\$151	9.5%	2.6x	26.0x	2.3x	21.3x	6.4%	9.5%
LHC Group	\$102.99	99.7%	\$3,227	\$3,584	\$1,354	\$103	7.6%	2.6x	34.7x	1.6x	16.0x	18.1%	ND
Acadia Healthcare	\$35.20	72.8%	\$3,107	\$6,278	\$2,949	\$594	20.1%	2.1x	10.6x	1.9x	9.2x	0.9%	27.9%
U.S. Physical Therapy	\$118.60	91.5%	\$1,505	\$1,657	\$432	\$67	15.6%	3.8x	24.6x	3.5x	24.1x	16.4%	11.2%
Surgery Partners	\$16.50	82.7%	\$807	\$4,344	\$1,597	\$259	16.2%	2.7x	16.3x	2.3x	15.6x	17.1%	31.9%
Mean		89.9%			\$3,331	\$626	15.8%	2.6x	19.2x	2.3x	15.4x	9.7%	15.1%
Median		91.5%			\$1,597	\$259	16.2%	2.6x	16.3x	2.3x	15.6x	7.5%	13.3%

Stock Market Fundamentals

Subsector Index vs. S&P 500



Valuation Trend Data (EV / EBITDA)





We are the next generation middle-market investment bank.

We combine sector intelligence with a client-focused approach to realize your company's true value.

Quick Facts

- 41 professionals across three offices in U.S. with headquarters in Atlanta
- 86 transactions closed since 2014
- Named U.S. Boutique Investment Bank of the Year by *The M&A Advisor*
- Nationwide coverage provides access to strategic buyers, financial sponsors and family offices

Service Offerings

Mergers & Acquisitions

Capital Raises

Financial & Strategic Advisory

Bowstring Core Coverage

Healthcare Services	Human Capital Management	Industrial Services	IT & Professional Services	Software
<ul style="list-style-type: none"> Provider Services Practice Management Pharma Services Alternate Site Care 	<ul style="list-style-type: none"> Staffing / Recruiting Education & Training HR Services BPO / Professional Services 	<ul style="list-style-type: none"> Facility Distribution / Supply Chain Environmental Infrastructure 	<ul style="list-style-type: none"> Consulting Solution Providers Managed Services Tech-Enabled Services 	<ul style="list-style-type: none"> Human Resources Marketing Product / Supply Chain Management Vertical SaaS Data & Analytics

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ATLANTA

BOSTON

LOS ANGELES

Bowstring Recent Healthcare Services Transactions

 **HAYES**

RECEIVED A GROWTH EQUITY INVESTMENT FROM

PRIMUS

 **GUARDIAN**
HEALTHCARE PROVIDERS

ACQUIRED BY

EPIC HEALTHCARE STAFFING

A PORTFOLIO COMPANY OF

Webster|Capital

 **ASPIRION**
HEALTH RESOURCES

ACQUIRED BY

AQUILINE
CAPITAL PARTNERS LLC

 **AEGIS**
COMPLIANCE & ETHICS

STRATEGICALLY COMBINED WITH

ankura


 **HOLLAND SCOURIE GROUP**
apply leverage. drive results.

ACQUIRED BY

ALKU
FROM IDEAS TO REALITY

A PORTFOLIO COMPANY OF

WESTVIEW CAPITAL PARTNERS

 **Cirrus**
MEDICAL STAFFING

ACQUIRED BY

Webster|Capital

 **accountable**
HEALTHCARE STAFFING

ACQUIRED BY


 **mitsui & co.**

 **GES**

WINNETT EMERGENCY SPECIALISTS, P.C.
A PARTNERSHIP OF EMERGENCY PHYSICIANS

ACQUIRED BY

 **Envision**
HEALTHCARE

 **PharmaLogics Recruiting**

RECAPITALIZED BY

Webster|Capital

 **TRINITY**
healthcare staffing group

ACQUIRED BY

TNAA
TRAVEL NURSE ACROSS AMERICA

A PORTFOLIO COMPANY OF

 **GRIDIRON**
CAPITAL

 **Falcon**
CONSULTING GROUP

ACQUIRED BY

avaap
innovation | relations | outcomes

A PORTFOLIO COMPANY OF

NEW MAINSTREAM CAPITAL

Pediatric Therapy Services

A PORTFOLIO COMPANY OF

 **SHORE**
Capital Partners

ACQUIRED AND RECAPITALIZED

 **AlphaVista**

TNAA
TRAVEL NURSE ACROSS AMERICA

RECAPITALIZED BY

 **GRIDIRON**
CAPITAL

 **HIMS**
CONSULTING GROUP

ACQUIRED BY

 **HCTEC**

A PORTFOLIO COMPANY OF

SNOW Phipps

 **McKINNIS**
CONSULTING SERVICES

ACQUIRED BY

NAVIGANT

INTERMED

RECAPITALIZED BY

WAFRA
CAPITAL PARTNERS

Sagacious consultants


ACQUIRED BY

accenture
High performance. Delivered.


 **STOWE GROUP**

ACQUIRED BY

 **Experis**
ManpowerGroup


 **Advanced Medical**

RECAPITALIZED BY

 **CLEARVIEW CAPITAL**

 **aspen**
advisors

ACQUIRED BY

 **THE CHARTIS GROUP**
Management Consultants
a portfolio company of RLH

 **Best Doctors**
THE REINVENTION OF RIGHT™

ACQUIRED

 **RiseHealth**
Population Health, One Patient at a Time

 **SCRIBEAMERICA**

RECAPITALIZED BY

 **cgp** Chicago Growth Partners

 **Cumberland**
consulting group

A PORTFOLIO COMPANY OF

 **TAILWIND CAPITAL**

ACQUIRED

cipe

PARTNER
Professional Solutions

ACQUIRED BY

 **HCTEC**

A PORTFOLIO COMPANY OF

SNOW Phipps

locymleaders

ACQUIRED BY

 **OGH, LLC**
Workforce Solutions

 **Nordic**
CONSULTING
creating meaningful partnerships

RECAPITALIZED BY AN INVESTOR GROUP LED BY

SV Life Sciences

 **Cumberland**
consulting group

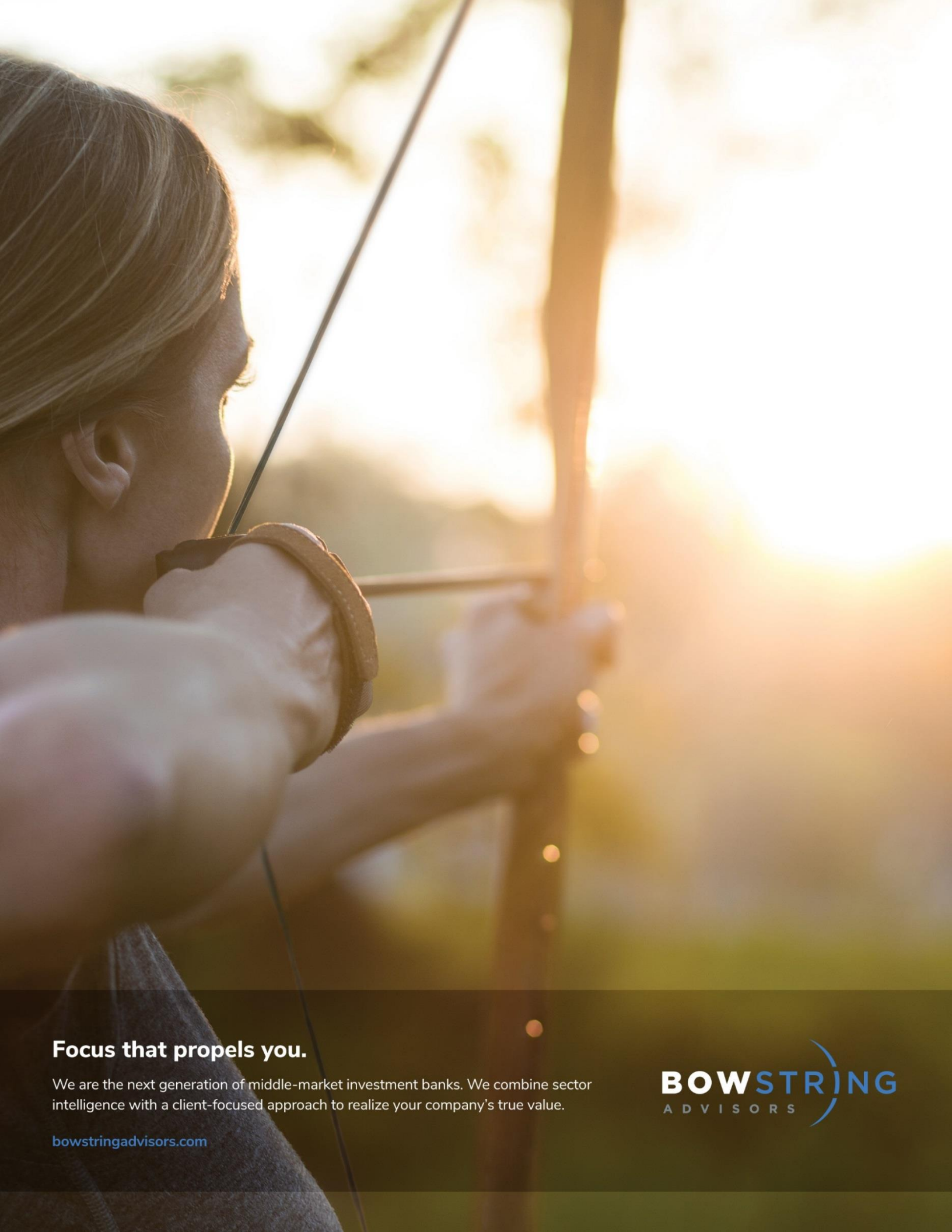
RECAPITALIZED BY

 **TAILWIND CAPITAL**

 **MDI**
Medical Staffing

ACQUIRED BY

 **Cirrus**
MEDICAL STAFFING



Focus that propels you.

We are the next generation of middle-market investment banks. We combine sector intelligence with a client-focused approach to realize your company's true value.

bowstringadvisors.com

BOWSTRING
ADVISORS