

# HEALTHCARE SERVICES



## Quarterly Update First Quarter 2021



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# KEY HIGHLIGHTS

## HEALTHCARE SERVICES FIRST QUARTER 2021 KEY HIGHLIGHTS

The recovery in equity capital markets, rollout of COVID-19 vaccine programs, supportive central bank monetary policy and robust access to capital available to private equity (PE) investors and special purpose acquisition companies (SPACs) all point to a rebounding M&A market in 2021. According to preliminary figures from Irving Levin Associates Inc., healthcare M&A transactions totaled 596 in Q1 2021, a 17% increase from the prior quarter, with almost \$90 billion in total transaction value.

- **Physician Services:** Poised for an active 2021 with 110 M&A transactions in Q1, an 83% increase from the prior quarter
- **Ambulatory Care:** M&A activity in Q1 experienced several high profile transactions
  - KKR buys Abode Healthcare
  - HCA buys Brookdale Home Health & Hospice
  - ATI Physical Therapy, operator of 900 clinics in 25 states merges with SPAC for \$2.5B transaction
- **Long Term Care:** Continues to struggle to recover from sharp occupancy declines from pandemic (occupancy below 80% in many SNFs and ALs)
- **Hospitals and Health Systems:** Continue to try to rebound from suspended elective procedures, plummeting ED visits, temporary closures of physician practices and home health visit cancellations from 2020. Even with economy reopening with vaccine roll-out, AHA predicts hospitals could lose between \$53 billion and \$122 billion due to the lingering effects of Covid-19.

The M&A recovery that began in the second half of 2020 is likely to accelerate in 2021. With low cost of capital and accessible debt markets, large balance sheets, availability of \$2.5 trillion of private equity dry powder, and a record \$81 billion raised by SPACs in 2020 that must be invested in the next two years, corporate and private investors have access to capital and are able to pursue deals to build scale and expand scope. As COVID-19 continues to impact our families and friends around the world, our thoughts and prayers are that you and your family are healthy, safe, and making the best of a reality that continues to change. We welcome your comments and hope you find our *SOLICconnect* report informative.



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# SUB-SECTOR HIGHLIGHTS

## PHYSICIAN SERVICES

With 110 transactions in Q1 2021, an 83% increase from the prior quarter, the physician practice sector is poised for an active 2021. Given limited resources, depressed revenues, and infrastructure lacking telehealth, many of these practices were attracted to the support gained joining larger platforms. Buyers included PE firms and their sponsored portfolio companies, but there were also several deals involving hospitals and health systems. Potential for a higher capital gains rate may lead to a surge in transactions prior to year-end.

Notable M&A transactions include:

- UnitedHealth's Optum (NYSE: UNH) announced its acquisition of Atrius Health, the largest independent physicians network in Massachusetts (725 physicians)
- Ochsner Health System added Louisiana Women's Healthcare, the largest private practice of obstetricians and gynecologists in the state (33 physicians)
- Apollo recapitalizes US Acute Care Solutions through a \$470 million investment
- Clayton, Dubilier & Rice acquires Millennium Physician Group, the largest primary care group in Florida with over 300 providers

DATE CLOSED	BUYER/INVESTOR	TARGET	DESCRIPTION
3/23/2021	Clayton, Dubilier & Rice	Millennium Physician Group	Largest primary care group in Florida with over 300 providers
3/19/2021	Ochsner Health System	Louisiana Women's Healthcare	Largest private OB-GYN practice in Louisiana (33 physicians)
3/5/2021	Access Dental Management (Surge Private Equity)	Harlingen Family Dentistry	6 South Texas multispecialty dental operations
3/2/2021	UnitedHealth's Optum (NYSE: UNH)	Atrius Health	Largest independent physicians network in Massachusetts (725 physicians)
3/2/2021	Solaris Health	Associated Urological Specialists	Leading Urology practice in Illinois with 64 physicians across 47 locations
2/9/2021	Apollo Global Management	US Acute Care Solutions	Leading multi-specialty medical practice with 3,000 clinicians across 220 locations in 19 states
2/1/2021	Charlesbank	MB2 Dental	Leading DSO with 275 practices across 24 states
1/7/2021	Kinderhook Industries	AbsoluteCARE	Integrated healthcare provider with 5 facilities



# SUB-SECTOR HIGHLIGHTS

## AMBULATORY CARE

With Covid highlighting the importance of home and community-based services, the post-acute sector including surgery centers, hospice, home health, physical therapy and personal care, is poised to build off its record setting 2020 with increased M&A deal velocity and transaction size into 2021. This market is large and growing as the provision of anticipated care continues to move into lower cost settings and with only a handful of large platforms, the sector has robust consolidation opportunities.

- BrightSpring Health Services, a provider of home- and community-based services serving more than 350,000 patients, acquired Abode Healthcare, a home health & hospice provider, in a \$775 million transaction
- HCA Healthcare acquired an 80% stake in Brookdale's (NYSE: BKD) Health Care Services division in a \$400 million transaction

COMPANY / TICKER <sup>[1]</sup>		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)		TO LTM REVENUE	TO LTM EBITDA	P/E
Amedisys	AMED	\$264.79	81.4%	\$8,698.0	\$8,924.7		4.3x	30.8x	48.0x
DaVita	DVA	\$107.77	86.0%	\$11,732.9	\$24,095.0		2.1x	10.7x	16.9x
Fresenius Medical Care	FME	\$73.53	79.5%	\$21,534.1	\$36,604.9		1.8x	8.3x	16.3x

[1] AMED has been excluded from mean EBITDA & P/E multiple calculations

Mean 2.7x 9.5x 16.6x

## HOSPITALS AND HEALTH SYSTEMS

The acute care hospital sector continues to try to rebound from suspended elective procedures, plummeting ED visits, temporary closures of physician practices and home health visit cancellations from 2020. With only 16 M&A transactions in Q1 2021, the sector was down 43% from the prior quarter. According to industry analysts by the end of 2021, hospital margins could be 10% to 80% below pre-pandemic levels and half of all hospitals could operate with negative margins. The possibility of a growing number of distressed hospitals spiking in 2021 could drive increased M&A. Additionally, hospitals will continue to pursue M&A alternatives to diversify both across markets and revenue sources as a result of Covid.

Significant M&A transactions included:

- UK HealthCare, the clinical healthcare system of the University of Kentucky, and King's Daughters Health System announced a joint venture partnership to expand access to tertiary-level services
- OU Medicine announced a merger with the University of Oklahoma College of Medicine to create Oklahoma's first integrated, comprehensive academic health system

COMPANY / TICKER		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)		TO LTM REVENUE	TO LTM EBITDA	P/E
Community Health Systems	CYH	\$13.52	96.0%	\$1,752.4	\$13,529.4		1.1x	6.7x	3.1x
HCA Management Services	HCA	\$188.34	97.1%	\$63,458.7	\$97,041.7		1.9x	10.0x	17.2x
Tenet Healthcare	THC	\$52.00	89.8%	\$5,536.5	\$21,670.5		1.2x	8.6x	13.9x
Universal Health Services	UHS	\$133.39	92.7%	\$11,348.2	\$14,407.5		1.2x	7.7x	12.1x

Mean 1.4x 8.2x 11.6x

# SUB-SECTOR HIGHLIGHTS

## HEALTHCARE TECHNOLOGY AND TELEMEDICINE SERVICES

Within the health IT sector, the already strong investment and M&A trends seen in 2020 have only accelerated with 102 M&A transactions in Q1, a 32% increase from Q4 2020 and a 70% increase compared to the same quarter a year prior. Much of the demand was due to Covid and corresponding virtual care needs, but other specialties, such as remote patient monitoring firms and revenue cycle management providers, were sold at a premium.

Significant M&A transactions included:

- SOC Telemed's (Nasdaq: TLMD) acquisition of Access Physicians for \$194 million to solidify its acute care telemedicine services
- Apriss Health acquired PatientPing to create the largest care coordination network in the U.S.
- Clinical Navigation platform, Grand Rounds, merged with telehealth provider Doctor On Demand to form a multibillion-dollar digital health company
- OptumInsight, a member of UnitedHealth Group (NYSE: UNH), and Change Healthcare (NASDAQ: CHNG) combined in a \$13 billion transaction to advance a more modern, information and technology-enabled healthcare platform

VC funding for Digital Health companies in Q1 2021 was the highest ever in a quarter with \$7.2 billion in 179 deals compared to \$4.5 billion in 139 deals in Q4 2020, a 60% increase. Funding rose by 100% year-over-year compared to \$3.6 billion in Q1 2020. Telemedicine was the top-funded category in Q1 with \$2 billion in investment. Since 2010, VC funding in Digital Health has reached nearly \$66 billion in 5,579 deals.

COMPANY / TICKER <sup>[2]</sup>		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)		TO LTM REVENUE	TO LTM EBITDA	P/E
Allscripts Healthcare Solutions	MDRX	\$15.02	83.6%	\$2,102.6	\$1,854.8		1.2x	19.0x	na
Cerner	CERN	\$71.88	85.4%	\$22,016.4	\$22,294.4		4.0x	12.8x	28.5x
Computer Programs & Systems	CPSI	\$30.60	84.1%	\$448.5	\$519.3		2.0x	14.6x	31.2x
Benefitfocus	BNFT	\$13.81	78.6%	\$448.9	\$611.8		2.3x	26.4x	na
NextGen Healthcare	NXGN	\$18.10	76.1%	\$1,212.7	\$1,193.9		2.2x	25.9x	226.3x
Omnicell	OMCL	\$129.87	89.0%	\$5,589.8	\$5,621.9		6.3x	52.5x	175.5x

[2] OMCL has been excluded from mean EBITDA & P/E multiple calculations and NXGN has been excluded from mean P/E multiple calculation

Mean 3.0x 19.7x 29.9x

# SUB-SECTOR HIGHLIGHTS

## LONG-TERM CARE / SENIOR LIVING

Despite building optimism in effective Covid vaccine distribution to residents, senior housing M&A transactions were down 39% from Q4 2020 and totaled 77 deals in Q1 2021. With census finding a bottom soon, Covid-related expenses stabilizing and buyers able to obtain financing and third-party approvals more quickly, M&A is positioned to rebound later into 2021.

Significant M&A transactions included:

- Larry H. Miller Group of Companies acquired Advanced Health Care Corporation and its 20 post-acute care facilities in eight states
- White Oak Healthcare REIT announced the largest seniors housing deal of the quarter with its acquisition of 16 properties from Healthpeak Properties for \$230 million

COMPANY / TICKER <sup>[3]</sup>		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)		TO LTM REVENUE	TO LTM EBITDA	P/E
Addus HomeCare	ADUS	\$104.59	81.1%	\$1,655.3	\$1,749.9		2.3x	30.9x	50.3x
Brookdale Senior Living	BKD	\$6.05	88.5%	\$1,109.9	\$6,003.9		1.8x	9.2x	13.8x
Capital Senior Living	CSU	\$38.50	80.6%	\$80.1	\$972.1		2.5x	na	na
Encompass Health	EHC	\$81.90	92.6%	\$8,129.9	\$11,862.8		2.6x	13.2x	28.7x
The Ensign Group	ENSG	\$93.84	95.1%	\$5,132.6	\$5,996.8		2.5x	21.6x	30.7x
Polypipe Group	GEN	\$7.63	91.0%	\$1,885.5	\$1,923.3		3.8x	26.7x	na
LHC Group	LHCG	\$191.21	80.7%	\$6,041.2	\$5,981.0		2.9x	30.0x	53.7x

[3] ADUS & LHCG have been excluded from mean P/E multiple calculation

Mean 2.6x 21.9x 24.4x

# SUB-SECTOR HIGHLIGHTS

## DIAGNOSTIC SERVICES

Diagnostic services M&A could accelerate in 2021 after a relatively subdued 2020 as the operating environment stabilizes and companies position themselves for future growth. Many diagnostics M&A transactions are either driven by cancer or Covid and the M&A transactions by key industry players have recently been heavily influenced by the pandemic. Longer term, cancer will continue to be a growth driver for the sector.

- IQVIA (NYSE: IQV) acquired Quest Diagnostics' (NYSE: DGX) minority stake in Q2 Solutions, a central laboratory services joint venture the two companies formed in 2015, for \$760 million
- Hologic (Nasdaq: HOLX) acquired near-patient, acute care diagnostic company Mobidiag for approximately \$795 million
- Philips completed the acquisition of BioTelemetry, Inc. (NASDAQ: BEAT), a leading U.S.-based provider of remote cardiac diagnostics and monitoring

COMPANY / TICKER		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)	TO LTM REVENUE	TO LTM EBITDA	P/E
Laboratory Corporation of America	LH	\$255.03	98.4%	\$24,890.9	\$30,347.2	2.2x	9.9x	16.1x
Quest Diagnostics	DGX	\$128.34	95.3%	\$17,127.6	\$20,909.6	2.2x	8.7x	12.3x
RadNet	RDNT	\$21.75	85.3%	\$1,136.9	\$2,312.4	2.2x	11.6x	na
Mean						2.2x	10.1x	14.2x

## HEALTHCARE DISTRIBUTION

Healthcare distributors are playing a central role as the Covid vaccination campaign accelerates. Distributors' integral role is set to grow as rising demand for vaccinations requires a heightened level of engagement across the entire pharmaceutical supply chain in close coordination with the public sector.

Significant M&A transactions included:

- AmerisourceBergen Corporation (NYSE: ABC) announced it will acquire the majority of Walgreens Boots Alliance's Alliance Healthcare businesses (Nasdaq: WBA) for \$6.5 billion

COMPANY / TICKER		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)	TO LTM REVENUE	TO LTM EBITDA	P/E
AmerisourceBergen	ABC	\$118.07	98.0%	\$24,169.7	\$23,164.5	0.1x	na	na
Cardinal Health	CAH	\$60.75	96.5%	\$17,840.3	\$20,840.3	0.1x	12.5x	13.0x
Henry Schein	HSIC	\$69.24	92.5%	\$9,850.7	\$11,395.8	1.1x	16.2x	24.6x
McKesson	MCK	\$195.04	98.3%	\$31,044.0	\$38,486.0	0.2x	na	na
Owens & Minor	OMI	\$37.59	95.3%	\$2,763.0	\$3,785.9	0.4x	13.2x	27.0x
Stericycle	SRCL	\$67.51	84.9%	\$6,184.5	\$8,300.8	3.1x	na	na
Thermo Fisher Scientific	TMO	\$456.38	85.7%	\$179,719.4	\$191,129.4	5.9x	19.0x	28.6x
Mean						1.6x	15.3x	23.3x

# SUB-SECTOR HIGHLIGHTS

## MANAGED CARE

As digital adoption in healthcare grows, organizations are reconsidering the evolution of the provider-patient relationship and how to meet and exceed customer expectations. In the post pandemic world, providers and payers will face ongoing shifts in payment models and a trend toward payer-provider convergence.

Significant M&A transactions included:

- K Health, Anthem and Blackstone Growth are teaming up to launch a joint venture, Hydrogen Health, that aims to lower healthcare costs and make care more accessible, developing new platforms targeting the direct-to-consumer, direct-to-employer and direct-to-insurer markets
- Centene Corporation (NYSE: CNC) announced the \$2.2 billion acquisition of Magellan Health, Inc. (NASDAQ: MGLN), a healthcare management company specializing in behavioral health and pharmacy benefits
- Anthem, Inc. (NYSE: ANTM) announced it will acquire PE-backed myNEXUS, Inc., a comprehensive home-based nursing management company for payors
- The tech-enabled insurance startup, Oscar Health, raised over \$1 billion dollars in initial public offering

COMPANY / TICKER		STOCK PRICE	% OF 52 WEEK HIGH	MARKET CAP (\$ MM)	ENTERPRISE VALUE (\$ MM)		TO LTM REVENUE	TO LTM EBITDA	P/E
Anthem	ANTM	\$358.95	94.7%	\$87,908.9	\$102,202.9		0.8x	12.5x	20.0x
Cigna	CI	\$241.74	97.1%	\$83,976.1	\$113,951.1		0.7x	7.5x	10.5x
Centene	CNC	\$63.91	85.6%	\$37,169.6	\$43,295.6		0.4x	9.1x	20.5x
CVS Health	CVS	\$75.23	97.4%	\$98,653.2	\$173,153.2		0.6x	10.1x	13.8x
Humana	HUM	\$419.25	88.3%	\$54,087.7	\$56,394.7		0.7x	10.3x	16.6x
UnitedHealth Group	UNH	\$372.07	97.8%	\$351,725.0	\$380,459.0		1.5x	15.0x	23.2x

Mean 0.8x 10.8x 17.4x

## REPRESENTATIVE TRANSACTION

\$87,000,000



*has been acquired by*



Financial Advisor

Unipharma LLC was a Tamarac, Florida-based pharmaceutical and health care products manufacturer.

SOLIC served as Financial Advisor to Unipharma. Specific activities included:

- *Strategic and operational assessment*
- *Evaluation of strategic alternatives*
- *Development of alternative recovery analysis*
- *Support in restructuring Debtor-in-Possession Loan facilities*
- *Analyses and support of bondholder claims during the bankruptcy case*

In connection with its reorganization plan and exit from bankruptcy, Unipharma was acquired by New Vision Pharmaceuticals.



# NOTES

## SOURCES

PitchBook, Bond Buyer, Bloomberg, company 10-K, 10-Q and 8-K SEC filings, annual reports, press releases, and others as indicated.

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