ASA Ventures Group

M&A Update June 2020

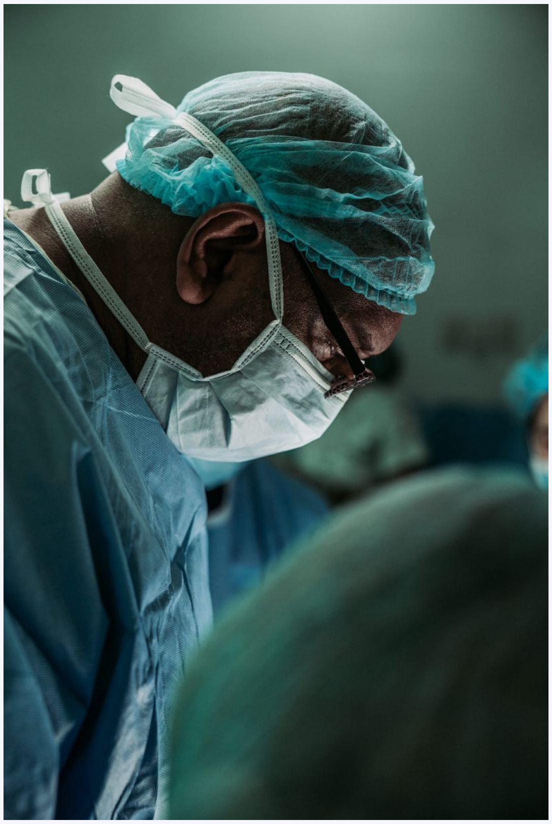
HealthCare

Table of Contents

Summary

Healthcare Will Remain a Top Area of Investment For Years to Come

M&A in Healthcare Will Continue to Be Driven By The Same Issues



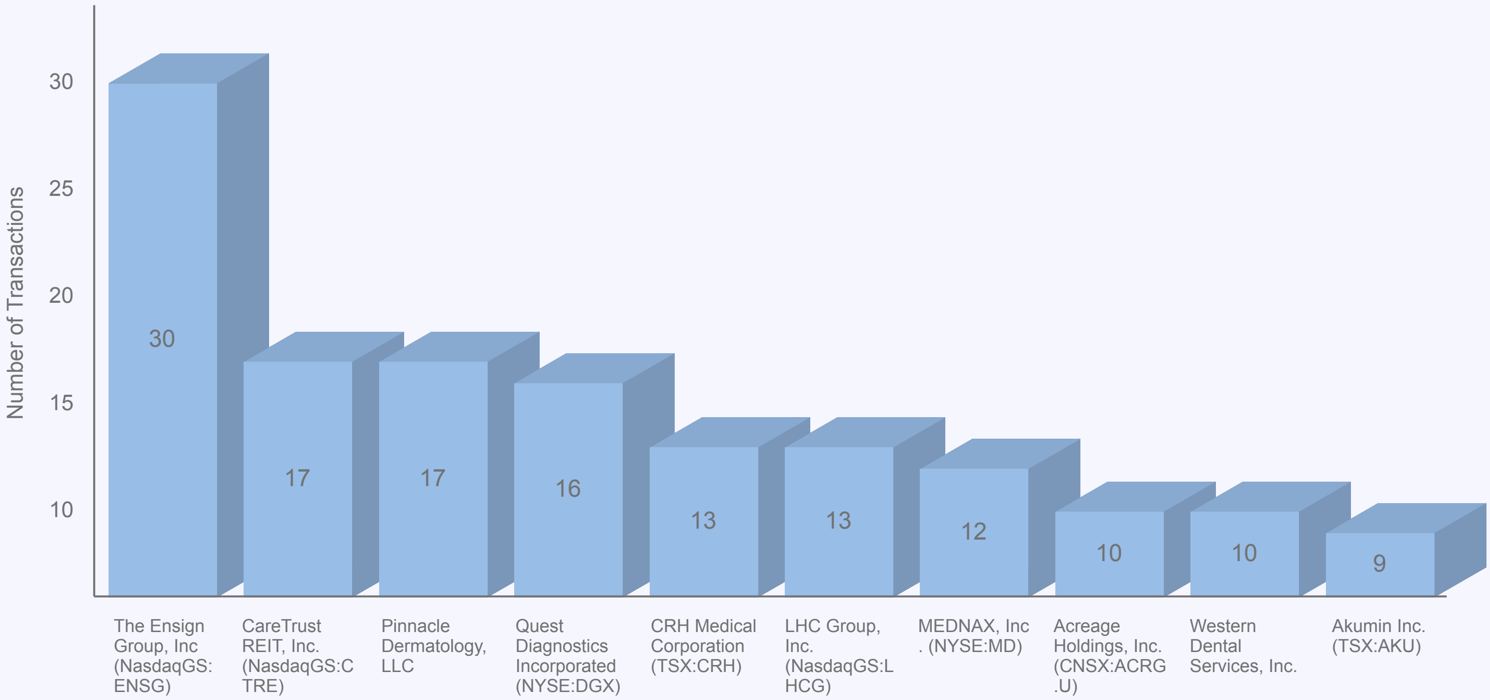
Many healthcare providers look towards M&A for growth in this rapidly evolving sector. This is because it is difficult to meet the demands of a shifting payment structure, advancing technology, and greater patient awareness. M&A can help address these issues by reducing costs, improving healthcare access and quality, and improving staff satisfaction. Buyers may look towards the healthcare industry because of favorable trends and consistent outperformance compared to other sectors.

COVID-19 Will Delay Current Deals

The healthcare industry is known for being less susceptible to economic shocks, especially with COVID-19, where there is an increased demand for healthcare. According to the S&P and Dow Jones US Market Indices, the healthcare sector is only down 2.8%, much less than the S&P 500, which is down 10.5%. Deals that are currently in the works will have to be re-evaluated following this economic downturn, but not many have been terminated to date. Buyers may demand another round of due diligence to see how coronavirus has impacted a company's cash flows, and valuations may be adjusted following that. However, it is expected that deal activity in the healthcare industry will pick back up by the end of this calendar year.

TOTAL TRANSACTIONS BY COMPANY: 2017-2020

Most Active Investors by Number of Transactions



Investments in Post Acute Care

The highest volume of transactions in the last three years has been from The Ensign Group, Inc. Most of their activity comes from acquiring healthcare facilities or nursing homes that specialize in post acute care. They have expanded their operations to over a dozen different states and have been able to reduce costs, while improving the quality of care.

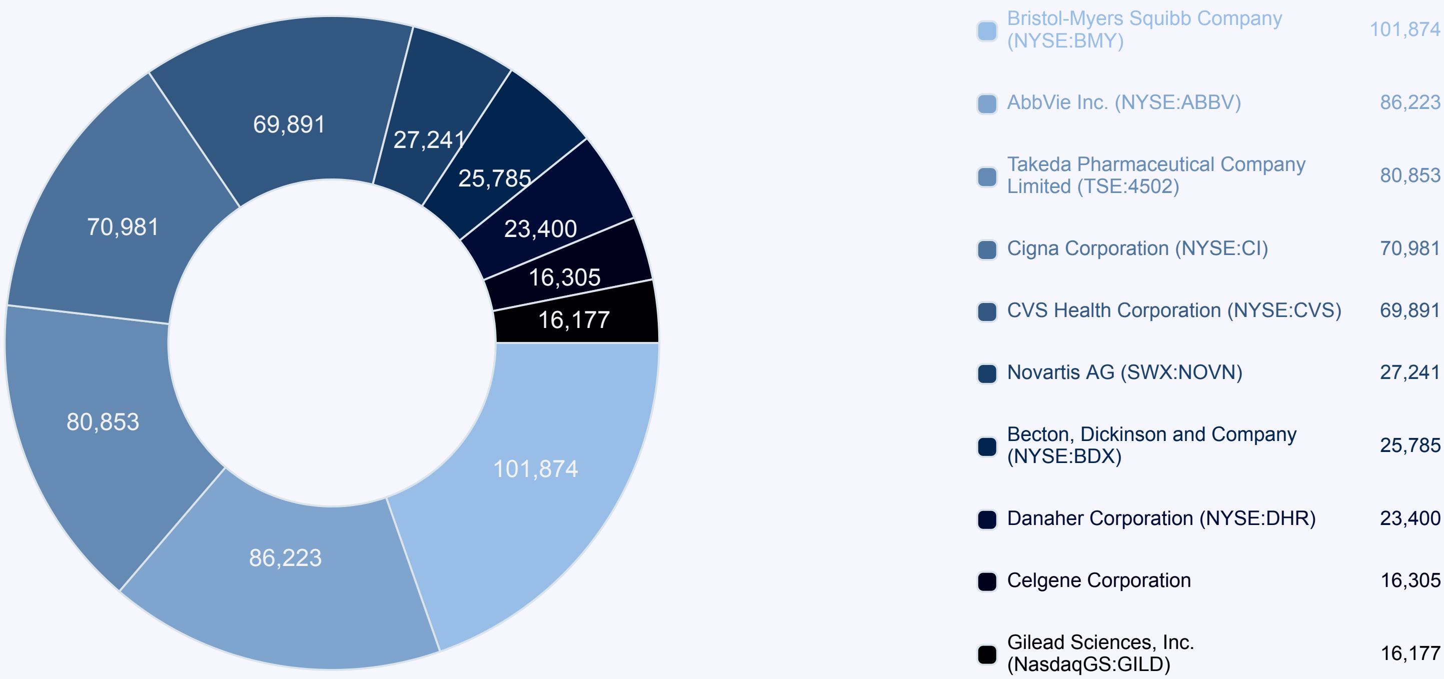
MEDNAX. Inc Acquiring Subsidiary Medical Services

MEDNAX. Inc, a medical service company that specializes in pediatrics, has been one of the most active investors in the healthcare sector from 2017-2020. Most of their M&A activity comes from acquiring subsidiary practices that specialize in optometry, radiology, neonatal services, and cardiology. They offer these pediatric services across the country, and as of March 12, 2020, MEDNAX operates network of 4,325 physicians.

TOTAL TRANSACTION VALUE BY COMPANY: 2017-2020

Most Active Investors by Transaction Size

Values in Millions ($)



Leading Bio-pharma Acquisition

The largest transaction in the past three years has come from two of the most prominent bio-pharmaceutical companies, Bristol-Myers Squibb and Celgene Corporation. This acquisition creates complimentary product portfolios of pharmaceuticals that will help patients prevail over serious diseases such as tumors, immunology, and cardiovascular diseases. This deal is expected to be 40% accretive and realize $2.5 Billion in cost synergies by 2022.

CVS Causing Trouble For Hospitals

At the end of 2017, CVS acquired Aetna for just under $70 Billion. This merger combined two non-provider medical entities, and CVS claims this will simplify a complicated system, and help people achieve healthcare at a lower cost. However, providers fear that this could drive patients away from hospitals and their primary care providers. Instead, patients would receive care from CVS-run clinics, which could result in higher prescription drug prices.

Impacts of COVID-19

M&A in Healthcare Will Pick Back Up By The End of 2020

Timeline of M&A Deals Will Be Pushed Back

For both existing and new deals in the healthcare industry, it is expected that deal timelines will be significantly extended. Initial negotiations and due diligence will both take longer, with any new complications COVID-19 may create. Buyers will also be more cautious, since it has become much more difficult to properly value a seller in these volatile markets. Deals that require substantial financing will also run into more issues and delays with the uncertain state of debt markets.

The Expanding Role of Virtual Healthcare

Virtual health visits have become increasingly popular with the surge of COVID-19. They offer a range of benefits including: increasing the capacity of the healthcare system, reduced workforce exposure to coronavirus, and the opportunity for medical workers to tend to patients from home. If this pandemic can illustrate the potential of virtual healthcare, long term investments in this space may continue to grow.

Long-Term Impact of COVID-19

In the long term, the COVID-19 pandemic may actually act as a catalyst for future M&A activities in the healthcare industry. Although deal-flow is expected to remain lower than previous years for 2020, there may be an uptick in deal activity near the end of this year. This is due to the healthcare sector maintaining attractive valuations, and a very sturdy demand with relatively minimal supply disruptions. Deals already in the works may have to be modified following COVID-19, however most of them will still be finalized because of the stability in the healthcare industry.

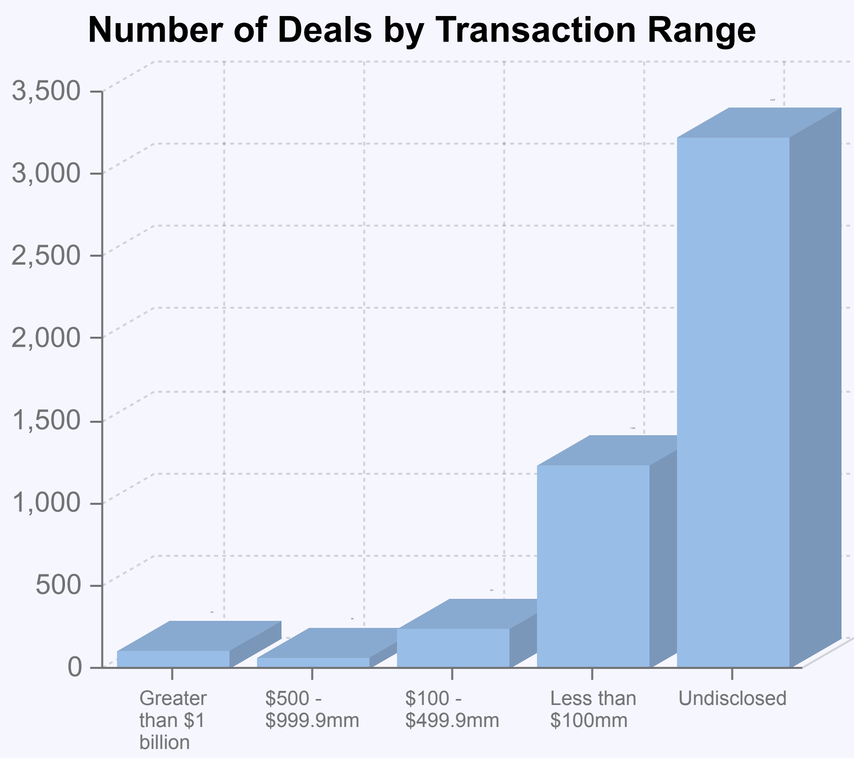
Valuations

Nearly $1 Trillion Deals Closed: 2017-2020

Average Deal Value (Millions of $)	227.93
Average TEV/Revenue	4.92
Average TEV/EBITDA	8.78

Demand for M&A In Healthcare Continues to Raise Valuation Multiples

Valuations of private lower middle market healthcare companies have been rising over the past three years. The average Total Enterprise Value (TEV)/EBITDA reached nearly 9x and the average TEV/Revenue was almost 5x. These appealing valuation levels can be explained by the increasing number of buyers in this sector, especially Private Equity firms. Attractive margins from past M&A deals in healthcare continue to be a top driving factor for M&A activity, and PE firms want to capitalize on these profits. This has caused a shortage of attractive targets, especially ones valued under $100 million. This shortage is driving valuations up, as PE firms are willing to pay a higher premium for attractive companies that fit their screening criteria.



Private Equity Firms Taking Interest In DSOs

In the past few years, Private Equity Firms have been looking towards Dental Service Organizations (DSOs) as one of the safest investments in the healthcare sector. They have seen DSOs with 4-8x multiples growing all the way to 14-16x and this has lead to growing investments in this space. In a recent DSO transaction, CRG committed $70 million to Mid-Atlantic Dental Partners, a Dental Service Organization dedicated to improving dental services for patients in several markets across the country. This transaction will allow Mid-Atlantic Dental Partners to extend their reach to more markets, and help build them as a leading DSO for years to come.

Conclusion

M&A In HealthCare Will Continue

Although COVID-19 put a pause on many deals, M&A activity will pick back up. There is still a very robust demand in the healthcare sector, with very little supply disruptions. This means valuations will remain relatively high, and investments in this space will continue.

DSOs Growing In Popularity

PE firms view dental service organizations as one of the safest investments in the healthcare space, due to their potential for increased IRR. There is also minimal risk involved in these transactions as the default rate for DSOs is around .5%, which is much lower than the target rate most PE firms are looking for of 1%.

The Future of Virtual HealthCare

Coronavirus brought new challenges to the healthcare system, as hospitals filled up and patients had to find an alternative way to receive medical treatment. This has led to the growing popularity of virtual healthcare, as it helps reduce the number of patients in hospitals and reduces workforce exposure to COVID-19. Investments in virtual healthcare may grow in the future as it has made receiving healthcare more convenient for patients around the world.

Senior Management Team

Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.

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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.

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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from $5 million to $200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

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ASA Ventures Group

Investment Banking for Private Companies: We Make a Market to Sell Your Company

Trusted Advisors

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ASA clients are typically companies with EBITDA up to $25 million and enterprise values of $3 million to $250 million. ASA is focused on clients in the manufacturing, distribution, industrial, construction, technology and service sectors. Our emphasis is on industry leaders, niche markets, efficient operations and recurring revenue.

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