

US health services deals insights

Analysis and trends in US
health services activity
2014 and 2015 outlook

February 2015

*A publication from the
PwC's Deals practice*

Table of contents

The heart of the matter **2**

Health Services 2014 in review and 2015 outlook

An in-depth discussion **4**

Deal activity in 2014

Hospitals	5
Managed care	7
Post-acute care	8
Physician practices	9
Private equity	10
Other services	11

The heart of the matter

Health Services 2014 in review and 2015 outlook

In 2014, the pace of deal activity started strong and ended stronger. After the first quarter's 9.2% increase in deal activity from the first quarter of 2013, we noted a lull in the second and third quarters' deal pace. However, the fourth quarter of 2014 realized a 29% jump in deal volume as compared to the fourth quarter of 2013. This jump was enough to bring 2014's total deal activity up 16.3% overall from 2013.

In terms of deal value, 2014's \$61 billion total also showed an 18.4% increase compared to 2013's total of \$51.5 billion. In 2014, however, it was the long term care (LTC) sector that delivered the most volume and value of deals; whereas, in 2013, long term care led in volume but trailed the hospital sector in value. The LTC sector had a record 288 deals and \$29.2 billion in announced spending in 2014—with five transactions over \$1 billion. REIT buyers continue to fuel much of the sector's growth and activity.

The biggest increases in announced deal value by sector include Physician Medical Groups and, more notably,

Behavioral Health. The Behavioral Health sector also realized a 24% increase in deal volume from 2013 to 2014. The Behavioral Health sector's trends are consistent with the renewed focus on such services in the US—a trend that may continue as additional legislative and social reforms are enacted. For the Physician Medical Group sector, three publicly traded physician management companies generated over 60% of the total physician practice deal volume in 2014. We expect continued consolidation of this fragmented sector to drive similar volume and value trends in 2015.

One other positive sector worth noting is Managed Care. The sector realized almost a 50% increase in deal volume and 1,500% increase in deal value with the 22 deals announced in 2014. The largest transaction was Optum's \$600 million acquisition of Alere Health.

The largest drops in deal value by sector include Acute Care Hospitals (down 88%) and Rehabilitation Hospitals (down 43%). However, we qualify these trends with the

disclaimer that deal values are often not disclosed in these sectors where private or nonprofit parties are involved. Also, as discussed in our detailed sector analysis, much of the deal volume across the individual sectors—and, in particular, hospitals—are experiencing a shift from traditional mergers and acquisitions to partnerships, collaborations, joint ventures and other non-binding agreements.

For private equity activity in 2014, there were 62 announced transactions compared to 58 in 2013. This stable level of deal activity was bolstered by several large investments as the financing environment remained favorable. However, consistent with our quarterly reports in 2014, crowded auction processes and rising prices are challenging many PE buyers.

Looking forward to 2015, we expect similar deal activity to 2014 across the sectors. However, standing on the precipice of a Presidential election, we are keeping close eyes on any potential legislative changes that may shift the regulatory landscape and affect specific sectors.

An in-depth discussion

Deal activity in 2014

Sector synopses: Hospitals

While hospital deal volume declined since the high of 2012 (94 transactions in 2012 to 79 in 2014), there was a significant increase in Q4'14 with over half of the 2014 transactions occurring in the fourth quarter. This is consistent with expectations, as there were a number of active discussions across the US earlier in the year regarding consolidations / mergers among hospitals and health systems, which were not reflected in earlier counts given the stage of the potential deal. Disclosed transaction value in 2014 approximated \$2.2 billion, which was down significantly from the \$18.6 billion reported in 2013. However, the 2013 values were inflated as a result of multiple \$1+ billion transactions and 2014 values are more in line with those of 2012 (\$1.9 billion). Additionally, many of the 2014 transactions did not have a disclosed deal value as they were private or not-for-profit transactions. The largest transaction with a disclosed value in 2014 was Duke LifePoint Healthcare's acquisition of Conemaugh Health System in Johnstown, Pennsylvania for \$500 million. Conemaugh operates three hospitals with a total of 600 beds, as well as outpatient centers and the Conemaugh Physicians Group practice.

2014 selected deals

Announcement date	Target	Acquiror	Deal value \$ (million)
1-Jul-14	Houston Orthopedic & Spine	CNL Healthcare Properties	\$76
1-Aug-14	MedWest Haywood	Duke LifePoint Healthcare	\$36
21-Aug-14	Conemaugh Health System	Duke LifePoint Healthcare	\$500
6-Oct-14	Culpeper Regional Hospital	University of Virginia Medical	\$50
6-Nov-14	Swedish American Health	UW Health	\$255
20-Nov-14	Saint Joseph Mercy Health	Prime Healthcare Services	\$20
4-Dec-14	Callaway Community Hospital	Nueterra and MU Health	\$6
16-Dec-14	Runnells Specialized Hospital	Center Management Group, LLC	\$26
23-Dec-14	Bert Fish Medical Center	Florida Hospital Tampa	\$40

Source: *The Health Care M&A Information Source* www.healthcareMandA.com

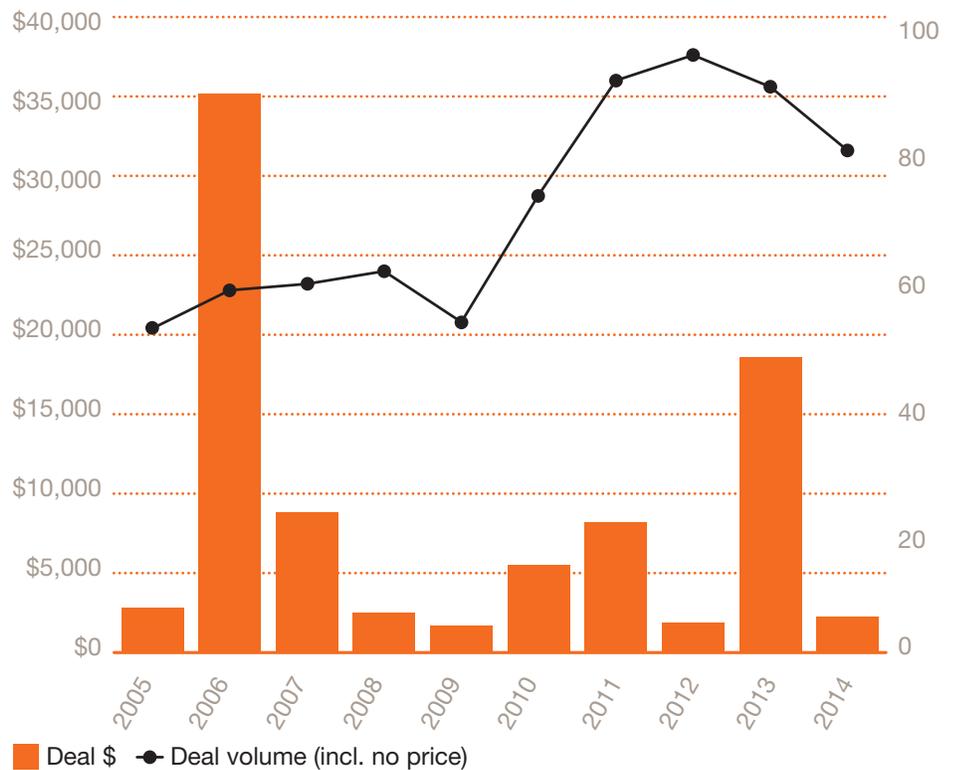
The privately held hospital chain Prime Healthcare Services announced six acquisitions in 2014, which added 12 hospitals and 2,835 beds to their growing organization. Their acquisition of the six hospital system owned by the Daughters of Charity Health System in Los Altos, California was also announced in November, 2014. While the California Department of Health Care Services approved the sale to Prime, other entities are currently contesting the transaction. With the exception of the Dallas Regional Medical Center acquisition, a majority of Prime's acquisitions have focused on not-for-profits in 2014.

The industry has seen a shift from traditional hospital mergers and acquisitions to partnerships, collaborations, joint ventures and other non-binding agreements. In the second half of 2014, affiliation agreements or tentative explorations were announced by Stanford Health System and ValleyCare Health System in California; McCullough-Hyde Memorial Hospital and TriHealth in Ohio, Cabell Huntington Hospital and St. Mary's Medical Center in West Virginia; Saint Anthony's Healthy System and OSF Healthcare in Illinois; and, Adroscoggin Valley Hospital, Littleton Regional Healthcare, Upper Connecticut Valley Hospital, and Weeks Medical Center in New Hampshire. The environment around delivering healthcare services is in flux as providers move from volume to value based business models. Additionally, local and regional hospital operators continue to review their strategic long term alternatives

and the level of on-going negotiations among these hospital systems varies directly based on the current market dynamics. The current healthcare environment, coupled with favorable lending conditions for acquirers/ deal partners, will likely continue to contribute to similar volume levels for hospital transactions for 2015.

Additionally, ongoing partnership discussions that originated in 2014 should generally evolve into a certain level of deal activity in 2015, as not for profit transactions historically take longer to materialize given the intricate community and governance considerations unique to every transaction.

Figure 1: Hospitals



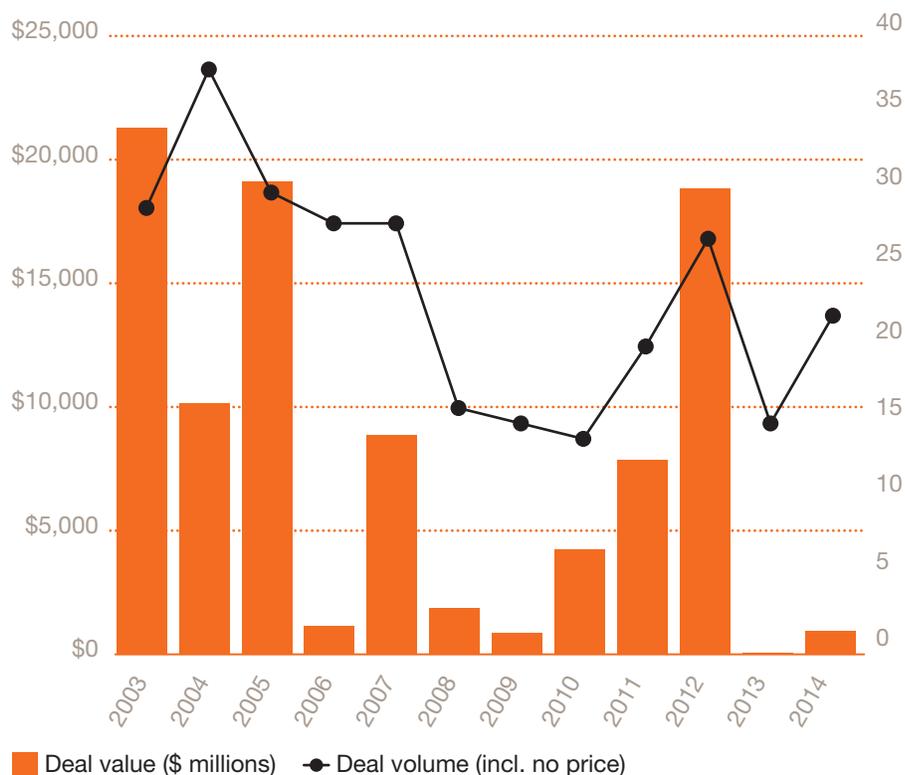
Source: The Health Care M&A Information Source, www.healthcareMandA.com

Managed care

Despite a lag behind some of the other sectors, Managed Care saw close to a 50% increase in M&A activity as 22 deals in 2014 were announced versus 15 in 2013. The overall magnitude of announced deals in 2014 relative to 2013 is not clear given the amount of private acquisition activity and minimal disclosure of deal value during the periods. The largest disclosed deal value for the year was the \$600 million acquisition of Alere Health by Optum, a subsidiary of United HealthGroup. Under the ownership of United, Optum is known for its acquisitions in the eHealth sector.

The uptick in activity can be directly related to managed care companies seeking opportunities through acquisitions to balance uncertainty and potential financial losses as a result of ACA. Part of this evolved into a trend towards acquisition of targeted small, specialty firms and health plans participating in government sponsored healthcare programs. Moving forward into 2015, this trend is expected to continue as managed care companies seek opportunities to expand their member population to balance any financial uncertainty.

Figure 2: Managed Care



Source: *The Health Care M&A Information Source*, www.healthcareMandA.com

2014 selected deals

Table B

Announcement date	Target	Acquiror	Deal value \$ (million)
02-Apr-14	QualChoice Holdings	Catholic Health Initiatives	NA
09-Apr-14	Premier Access Insurance Company	The Guardian Life Insurance Co.	NA
5-June-14	Louisiana State Contract	Centene Corporation	\$125
01-Jul-14	Medicaid assets of Healthfirst New Jersey	WellCare Health Plans, Inc	NA
08-Aug-14	Florida Medicaid assets	Molina Healthcare, Inc	NA
15-Aug-14	Medicaid contract of Healthy Palm Beaches	Molina Healthcare, Inc	NA
09-Sep-14	Citizens Choice Health Plan	Alignment Healthcare USA	NA
10-Oct-14	Alere Health	Optum	\$600
10-Oct-14	Medicare Advantage contracts	MMM Healthcare LLC	NA
22-Dec-14	Simply Healthcare Holdings, Inc	Anthem, Inc	NA

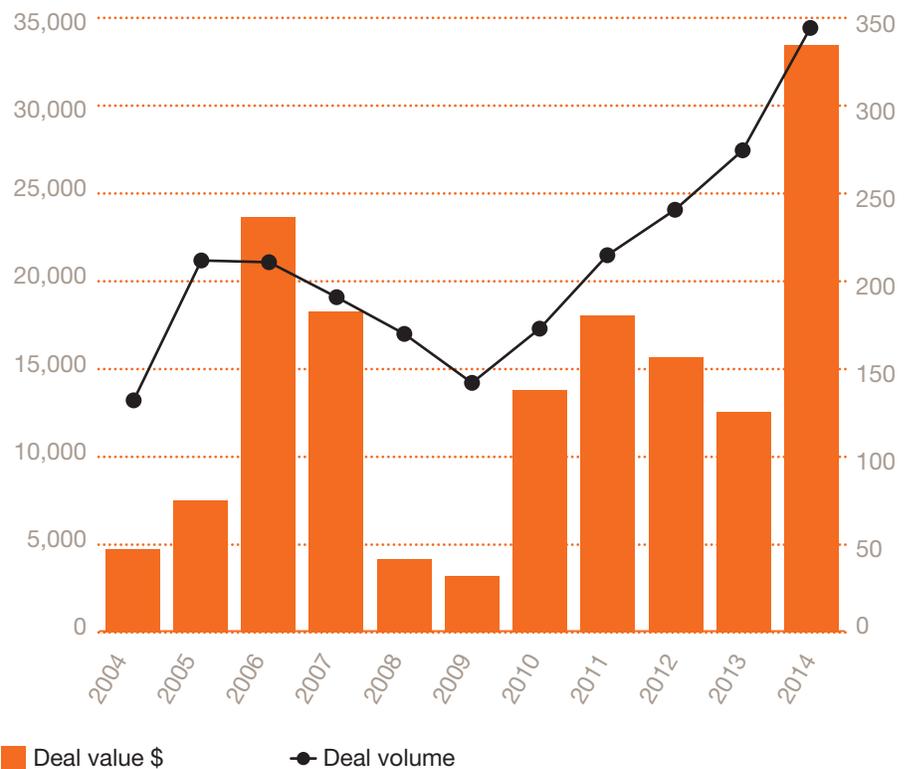
Source: *The Health Care M&A Information Source*, www.healthcareMandA.com

Post-acute care

The post-acute care sector, here comprising long term care, home health and hospice, and rehabilitation continued to demonstrate impressive increases in deal volume and deal value for the three and twelve months ending December 2014. While long term care has always been a strong volume leader, what is unique about the sector as it ended 2014 is the anticipation for continued strong M&A trends in 2015 sub-sectors continue to look as promising as it experienced in 2014. An economic environment of low interest rate and available financing helped drive significant deal activity in 2014. Many analysts believe the increased level of M&A activity over the last two years will continue in 2015 as long as interest rates remain low, which it appears will likely happen through at least June 2015. Consolidation is also expected to continue among the health care real estate investment trusts (“REITs”) and private providers.

Long term care—For the second straight year, the sector had more than double the volume of the next comparable healthcare services sector in 2014. The sector achieved an annual record of 288 deals and \$29.2 billion in announced spending in 2014. The sector also set another quarterly record with at least 83 deals and demonstrated impressive published deal value of \$9.6 billion. Long term care recorded five transactions over \$1 billion in 2014, whereas the two previous years only had two billion-dollar-plus deals. The five billion-dollar-plus deals comprise

Figure 3: Post Acute—Long Term Care, Home Health and Rehabilitation



Source: *The Health Care M&A Information Source*, www.healthcareMandA.com

46% of the announced deal value for the year. The two largest deals involved REITs acquiring other REITs. The largest was NorthStar Realty Finance Corp’s acquisition of Griffin-American Healthcare REIT for \$4 billion in August. The second largest was Omega Healthcare Investors stock-for-stock acquisition of Aviv REIT for \$3 billion in October which creates the publicly traded skilled nursing facility REIT.

Home Health and Hospice—The home health & hospice sector demonstrated 65 deals in 2014

with published deal value over \$3 billion. The sector finished the year strong with two large deals in Q4-14 comprising 85% of the announced deal value for 2014. The largest deal was Kindred Healthcare’s acquisition of Gentiva Health Services for \$1.8 billion in October. The next largest was HealthSouth Corporation’s \$750 million acquisition of privately held Encompass Home Health and Hospice. Consolidation is expected to continue in 2015 as private equity firms seek to exit investments.

2014 selected deals

Table C			
Announcement date	Target	Acquiror	Deal value \$ (million)
5-Aug-14	Griffin-American Healthcare	NorthStar Realty Finance	\$ 4,000
31-Oct-14	Aviv REIT, Inc.	Omega Healthcare Investors, Inc.	3,000
20-Feb-14	Emeritus Corp	Brookdale Senior Living, Inc.	2,800
2-Jun-14	American Realty Capital	Ventas, Inc.	2,600
17-Mar-14	80 senior care facilities	NorthStar Realty Finance	1,050
13-Aug-14	HealthLease Properties REIT	Health Care REIT, Inc.	950
2-Jun-14	29 senior living communities	Ventas, Inc.	900
7-Nov-14	Extendicare U.S. Portfolio	Formation Capital, LLC	870
23-Dec-14	38 senior living properties	Senior Housing Properties Trust	790
3-Nov-14	The NHP Group	Formation Capital, LLC	761
18-Aug-14	Skilled Healthcare Group, Inc.	Genesis HealthCare LLC	710
Others			10,742
Long-term care			29,173
# of deals			288
9-Oct-14	Gentiva Health Services	Kindred Healthcare, Inc.	\$1,800
24-Nov-14	Encompass Home Health	HealthSouth Corporation	750
Home health care & Hospice			3,023
			65
Rehabilitation			1,249
# of deals			19
Total post-acute			\$33,445
# of deals			372

Source: *The Health Care M&A Information Source*, www.healthcareMandA.com

Rehabilitation—Rehabilitation deals haven't dominated the landscape. There were just 19 deals announced in 2014, 6 of which occurred in Q4-14. However, momentum has started to pick up, especially among private equity firms. This sector had a strong year, with \$1.3 billion in spending, compared to just \$100 million in 2013.

Physician practices

Announced deal volumes of 58 deals in 2014 was down slightly from the 65 deals announced in 2013; however, announced deal values increased substantially due to several large acquisitions made during 2014. On May 29, 2014 Amsurg Corp., developer and operator of ambulatory surgery

centers, acquired Sheridan Healthcare, Inc. for \$2.35 in the largest announced deal since DaVita's 2012 acquisition of Healthcare Partners, LLC. In June 2014, Fresenius Medical Care AG & Co. KGaA, the world largest provider of dialysis services, paid \$600 million to become the majority shareholder of Sound Physicians. These deals represent major strategic decisions for these companies

to expand their service offerings and enable additional touchpoints throughout patients' continuum of care.

Three publicly traded physician management companies generated over 60% of the total physician practice deal volume in 2014. IPC The Hospitalist Company led the way with 14 announced deals, followed by MEDNAX Inc. with 11 deals and TeamHealth Holdings, Inc. with 10 deals. These companies continue to focus on consolidation of the highly fragmented physician practice market, specifically targeting hospitalist, anesthesiology, and multi-specialty groups.

The current trend of physician practice acquisitions will likely continue into the near future, as healthcare providers continue to evaluate adding additional clinical service offerings to complement their current business model and as opportunities for consolidation continue to exist in many non-referral based physician practices.

Private equity

Overall for 2014, 62 announced transactions involving private equity ("PE") firms compared to 58 in 2013. We continue to see stable and consistent year over year trends. 2014 announced values were headlined by several large investments (discussed further below). Overall the financing markets remained favorable as rates

Table D

PE deals by type	Transaction count		Announced deal value (\$mm)	
	FY13	FY14	FY13	FY14
Healthcare Providers & Services	34	33	462.0	1,786.0
Healthcare Equipment & Supplies	18	24	58.0	5,144.0
Hospitals	4	2	35.0	-
Payers	2	3	14.0	10.5
Total	58.0	62.0	569.0	6,940.5

Source: Thomson Reuters

on high-yield debt remained around 6% (evidenced by yields on high yield bond ETFs throughout the year). High stock market prices, strong corporate balance sheets and new entrants into the health care market have challenged private equity deal making in 2014. In fact, we've observed that market dynamics coupled with high EBITDA multiples allowed private equity funds to opportunistically sell portfolio companies in 2014 thus providing their investors with returned capital.

2014 provider and services deals were highlighted by Clayton Dubilier & Rice's ("CD&R") acquisition of Healogs, and Summit Partners acquisition of Ability Networks. We continue to see private equity seek niche providers (rather than broad based hospital and provider deals) and technology deals.

Private equity investments into the equipment and supply deals were headlined by corporate carve-outs: The

Carlyle Group's \$4.0 billion acquisition of Ortho Clinical Diagnostics and GTCR's \$480 million acquisition of Cole-Parmer. Carve-outs continue to be popular in the equipment space, however, are not as prevalent within the provider/services group.

In the payer sector, Beacon Health Strategies completed its acquisition of ValueOptions in Q4'14. Beacon Health is backed by Bain Capital and Diamond Castle private equity firms. While no transaction value was announced, Moody's reported that approximately \$415 million of debt was rated as part of the transaction. The newly combined entity is a managed behavioral care company that will service 43 million people across the United States and United Kingdom.

Looking forward to 2015 another corporate carve-out has already been announced in January with Madison Dearborn's announced acquisition of Walgreens intravenous infusion service business.

Other Services

In the fourth quarter of 2014, 16 transactions with an announced deal value of \$293.7 million which compares to 10 transactions with an announced deal value of \$8.3 billion in 2013. The 2013 value is solely attributable to McKesson's acquisition of Celesio. Excluding that transaction, Q4'14 exhibits positive momentum in the other health care sector.

Highlighting Q4'14 is Catamaran Corporation's acquisition of Salveo Specialty Pharmacy, an independent specialty pharmacy company headquartered in St Petersburg, FL with operations in New York and California. Catamaran is a leading provider of technology and pharmacy benefit management ("PBM") services.

Also notable in Q4'14 is Charles River Laboratories acquisition of ChanTest in the contract research outsourcing ("CRO") space. This is Charles River's second announced acquisition this year. Terms of the transaction were not disclosed.

Both the PBM and CRO sub-sectors have been highlighted frequently throughout the past year and we will continue to watch if the continued momentum illustrated in Q4'14 carries over into 2015.

About the data

We defined US M&A activity as mergers, acquisitions, shareholder spin-offs, capital infusions, consolidations and restructurings where acquisition targets are US-based companies acquired by US or foreign acquirers. Transactions are based on announcement date, excluding repurchases, rumors, withdrawals and deals seeking buyers.

We consider deals to be mergers or acquisitions when there's a change of control or the makeup of the controlling interest changes. In the instance of an acquisition, one company takes effective control over another company or product. In a merger situation, two boards are combined and/or monies are combined. An affiliation or collaboration is neither considered a merger nor an acquisition.

The merger and acquisition data contained in various charts and tables in this report has been included with the permission of the publisher of *The Health Care M&A Information Source*, www.healthcareMandA.com.

Acknowledgments

For a deeper conversation about health services deal considerations, please contact one of our industry leaders or your local health services deals partner:

Martyn Curragh
Principal, US Deals Leader
PwC's Deals Practice
646 471 2622
martyn.curragh@us.pwc.com

Steven Elek, III
Partner, Global Healthcare Leader
PwC's Deals Practice
267 330 2240
steven.elek@us.pwc.com

Brett Hickman
Partner, US Healthcare Leader
PwC's Deals Practice
312 298 6104
brett.hickman@us.pwc.com

Keith Bodnar
Partner, PwC's Deals Practice
617 530 6129
keith.e.bodnar@us.pwc.com

Jay Meldrum
Principal, PwC's Deals Practice
214 999 1444
jay.d.meldrum@us.pwc.com

John Frazier
Director, PwC's Deals Practice
267 330 1426
john.frazier@us.pwc.com

Nick Donkar
Partner, PwC's Deals Practice
213 217 3791
nick.donkar@us.pwc.com

Steve Moore
Partner, PwC's Deals Practice
646 471 6602
stephen.mark.moore@us.pwc.com

Lisa Jackson
Director, PwC's Deals Practice
312 298 4308
lisa.jackson@us.pwc.com

Jeffrey Dunne
Principal, PwC's Deals Practice
267 330 3449
jeffrey.d.dunne@us.pwc.com

Ross Richard Nelson, M.D.
PwC Strategy& (US) Inc
Principal, Global Health Practice
312 578 4596
ross.r.nelson@strategyand.pwc.com

Dan Price
Director, PwC's Deals Practice
617 530 7694
charles.d.price@us.pwc.com

Dan Farrell
Partner, PwC's Deals Practice
267 330 1479
daniel.a.farrell@us.pwc.com

Shurjo Sen
Partner, PwC's Deals Practice
646 471 5199
shurjo.k.sen@us.pwc.com

Robert Rose
Director, PwC's Deals Practice
312 298 3305
robert.a.rose@us.pwc.com

Thad Kresho
Partner, PwC's Deals Practice
678 419 4151
thaddeus.kresho@us.pwc.com

Jim Tunney
Partner, PwC's Deals Practice
312 298 3230
jim.tunney@us.pwc.com

Melissa Sigmond
Director, PwC's Deals Practice
415 498 5267
melissa.sigmond@us.pwc.com

Gordon Medeiros
Partner, PwC's Deals Practice
612 596 6434
gordon.medeiros@us.pwc.com

Ejaz Elahi
Managing Director,
PwC's Deals Practice
312 218 1489
ejaz.elahi@us.pwc.com

About our deals publications:

Published by our health services specialists in our Deals practice, PwC's health services deals insights covers deal activity and trends in the US Healthcare industry.

For views on the Pharmaceuticals and Life Sciences sector refer to the US Pharmaceuticals and Life Sciences deals insights report on the Deals section of our website.