

FOCUS SECTOR: HEALTHCARE PHYSICIAN PRACTICES INDUSTRY UPDATE

FEBRUARY 2019

Public Valuations Level Out; Private Transaction Multiples Still Double Digits

EXECUTIVE SUMMARY

Public physician practices, surgery centers and hospitals are currently trading at a median multiple of 9.8x (TEV / LTM EBITDA), down from the most recent cycle peak of 11.0x reached in June 2015

Industry valuations follow the S&P 500 index relatively closely. However, public market data is limited as most providers are private

Highly fragmented physician practice space (no participant captures more than 10% market share and 47.1% of practices are independently owned) continues to trigger swift consolidation from the largest players via acquisitions. There have been numerous transactions over the last twelve months, and future activity is expected to be brisk with the significant amount of private equity capital ready for deployment & focused on the space

Best-in-class practices have recently garnered 10x-13x EBITDA in our healthcare services transactions

KEY TAKEAWAYS

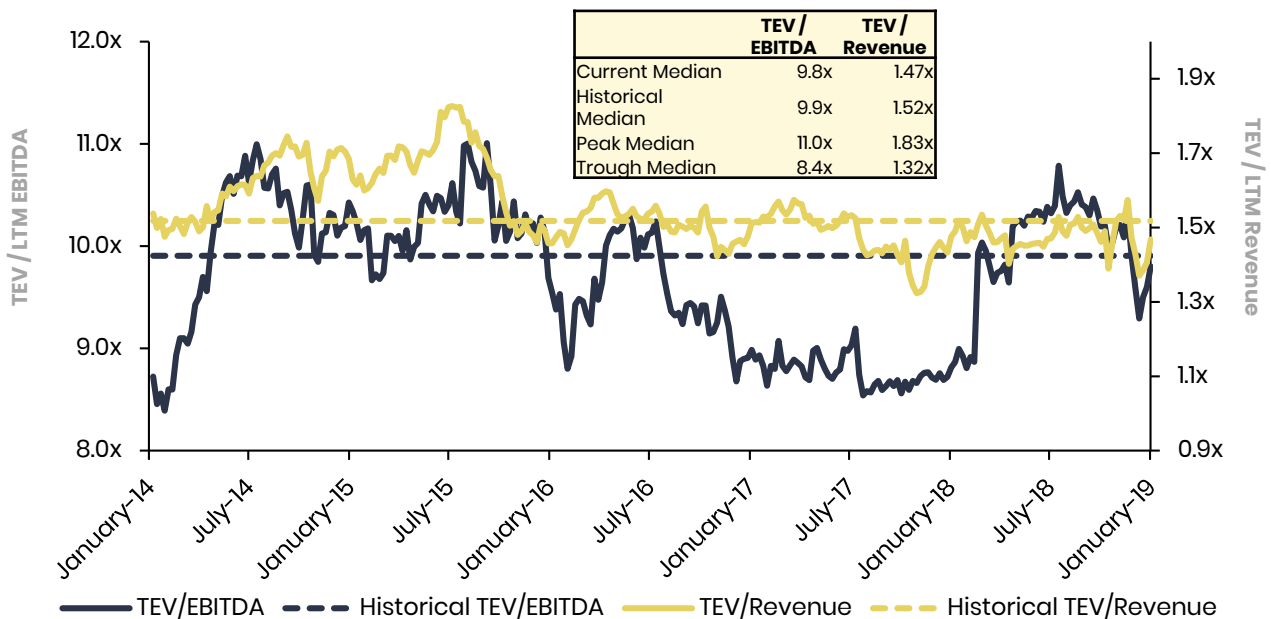
Given the aging and also the active world population, the healthcare industry – with global expenditures of \$7.73 trillion in 2017 – is expected to continue to post 5.4% annual growth from 2019 through 2022

Specialized practices are continuing to seek scale so that they can continue to stay competitive and acquire patients in the current healthcare environment

Bridgepoint Investment Banking advises practice owners seeking liquidity that timing is attractive to consider exploring monetization, financing and other strategic options

There is still ample opportunity to be acquired as the platform – vs. add-on target – in many sub-specialties

Physician Practices Valuation Cycle



Note: Composite composed of selected public comparables as listed on page 2.
 Source: Bridgepoint Investment Banking, Capital IQ, IBISWorld, Modern Healthcare, Deloitte
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Selected Public Comparables

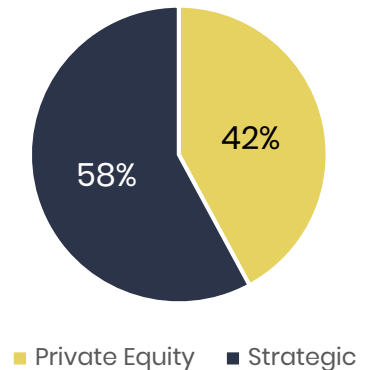
(\$ in millions, except per share data)

Company Name	Country	1/11/2019	Equity	Enterprise	P/E	TEV/Revenue	TEV/EBITDA	TEV/EBIT
		Share Price	Value	Value	LTM	LTM	LTM	LTM
U.S. Physical Therapy, Inc.	United States	\$106.73	\$1,353.8	\$1,511.2	73.7x	3.42x	21.6x	25.2x
Acadia Healthcare Company, Inc.	United States	\$29.03	\$2,562.1	\$5,757.1	11.3x	1.92x	9.8x	13.3x
Select Medical Holdings Corporation	United States	\$14.92	\$2,019.2	\$6,104.3	9.4x	1.24x	9.8x	14.1x
Civitas Solutions, Inc.	United States	\$17.59	\$638.2	\$1,333.7	44.0x	0.83x	8.1x	17.9x
Community Health Systems, Inc.	United States	\$3.76	\$424.5	\$14,229.5	NM	1.03x	16.4x	50.6x
Tenet Healthcare Corporation	United States	\$21.69	\$2,223.2	\$18,783.2	NM	1.01x	6.8x	9.6x
HCA Healthcare, Inc.	United States	\$129.14	\$44,444.9	\$78,802.9	14.5x	1.71x	9.0x	12.0x
Surgery Partners, Inc.	United States	\$12.39	\$605.8	\$4,170.4	NM	2.41x	13.1x	16.5x
Universal Health Services, Inc.	United States	\$125.73	\$11,631.4	\$15,649.8	14.1x	1.47x	9.2x	12.5x

	P/E	TEV/Revenue	TEV/EBITDA	TEV/EBIT
High	73.7x	3.4x	21.6x	50.6x
Mean	27.8x	1.58x	12.1x	21.8x
Median	14.3x	1.47x	9.8x	14.1x
Low	9.4x	0.83x	6.77x	9.56x

Selected Recent Industry Transactions

Date	Target	Country	Acquirer	Buyer Type
02/19/2019	Complete Care Physical Care Therapy	United States	Great Point Partners	Private Equity
01/08/2019	EyeCare Specialties, P.C.	United States	Acuity Eyecare Holdings, LLC	Private Equity
01/01/2019	Virginia Institute for Sports Medicine	United States	OrthoVirginia	Strategic
01/01/2019	Orthopedic Associates	United States	Mercy Clinic	Private Equity
12/21/2018	Abba Eye Care Inc.	United States	Acuity Eyecare Holdings, LLC	Private Equity
12/04/2018	Ophthalmology practice in Greater Los Angeles	United States	Trilogy Eye Medical Group, Inc.	Strategic
10/18/2018	Retina Associates, Southwest, P.C.	United States	The Retina Group of Washington	Strategic
10/17/2018	Trauma Healing Centers Incorporated	United States	Harvest Medicine Inc.	Strategic
10/17/2018	Decatur Radiology Physician Services Corporation	United States	Envision Healthcare Corporation	Strategic
10/10/2018	Rose Dental Group PLLC	United States	MBF Healthcare Partners, L.P.	Private Equity
10/03/2018	Birner Dental Management Services, Inc.	United States	Mid-Atlantic Dental Service	Private Equity
10/03/2018	South Carolina Optometry Practice in South	United States	Eye Health America	Strategic
09/05/2018	Bethesda-Chevy Chase Orthopaedic Associates,	United States	Atlantic Street Capital	Private Equity
09/04/2018	Pennsylvania Centre for Dermatology, LLC	United States	Schweiger Dermatology Group,	Strategic
08/28/2018	Sun City Dermatology, P.A.	United States	Epiphany Dermatology, PA	Strategic
08/07/2018	Orthopedic Institute of North Mississippi, PLLC	United States	Northeast Orthopaedics & Sports	Strategic
08/07/2018	Duneland Dermatology, P.C.	United States	Pinnacle Dermatology, LLC	Strategic
07/25/2018	Dermatology and Surgery Associates	United States	BelHealth Investment Partners,	Private Equity
10/08/2017	Excel Physical Therapy	United States	Athletico	Strategic



KEY PHYSICIAN PRACTICES TRENDS

- Merit Based Incentive Based Payment Structures (“Value Based Healthcare”)
- Shifting Competitive Landscape
- Reimbursement Schemes in Value Based Healthcare Leading to Increased Focus on Ancillary Services
- Consolidation Has Been Active In Some Specialties And Is Beginning To Gain Traction in Others
- Advanced Alternative Payment Models and Merit Based Incentive Pay Recognize Quality Physician Practices

BUSINESS CONSIDERATIONS

- High performing practices will be able to command higher valuations due to their ability to better attract patients and generate cash flow
- Industry consolidation has not only been driven by financial motives, practices are viewing consolidation as a necessary or viable way to remain competitive
- Practice consolidation will be rampant as providers try to take control of the entire continuum of care to maximize reimbursement with capitation models
- Specialties including Dermatology and Vision have historically seen strong rollup activity while specialties like Orthopedics are projected to see increasing consolidation in 2019
- Providers who successfully manage higher risk and generate higher reimbursement rates will be attractive targets for acquisitive Private Equity firms

EXECUTIVE SUMMARY

186+ years cumulative investment banking experience

\$102+ billion of M&A, capital raising, corporate finance and transaction advisory service experience

40 completed M&A assignments spanning more than \$30 billion

77 completed corporate finance transactions, raising more than \$73 billion in capital

Significant healthcare experience with multiple live engagements as well as senior banker Board experience

SELECTED BRIDGEPOINT FOCUS SECTORS



HEALTHCARE



CONSUMER & RETAIL



FINANCIAL SERVICES



BUSINESS SERVICES



INDUSTRIALS



IMPACT



REAL ESTATE



TRUCKING &
TRANSPORTATION



SOFTWARE &
TECHNOLOGY



ENERGY

186

YEARS OF EXPERIENCE

MORE THAN

\$102B

IN TRANSACTIONS

117

TOTAL TRANSACTIONS

SENIOR LEADERSHIP



Matt Plooster
Managing
Director



Wm. Lee Merritt
Managing
Director



Gary Grote
Managing
Director



Mike Anderson
Managing
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