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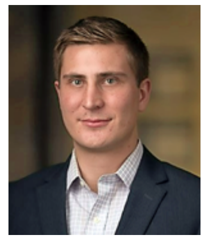
Health-Care Transactions Update: September

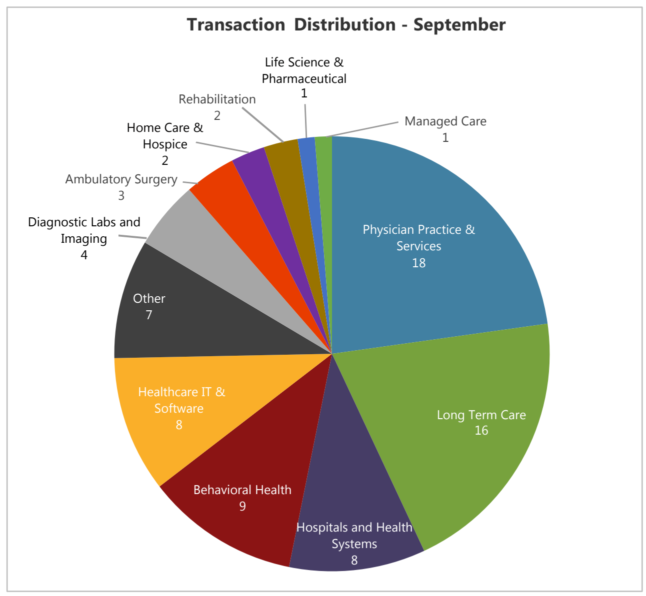


BY PAUL A. GOMEZ, GARY W. HERSCHMAN, MIKE TIERNEY AND ROBERT APRILL

The healthcare industry continues to confront headwinds. Both consumers and employers are frustrated over rising healthcare costs and fewer insurance options, and both continue to look for ways to reduce cost, often aiming for patients to receive care in lower cost settings.

For providers, finding ways to deliver low cost care is easier said than done. As observed over the third quarter, many are turning to mergers and acquisitions (M&A) as the preferred tool to lower cost.

Providers involved in such transactions benefit from the substantial capital and resources spent by larger organizations on advanced IT and analytics, care management staff, and other investments. These tools help them to succeed in furthering clinical integration activities—thereby achieving better outcomes more cost-effectively.



The year's third quarter started slowly. Transaction volume in July was sluggish, but, as anticipated, picked up considerably in August and September.

The 49 transactions announced in September, along with the 29 closed in September, made it a very active month. Leading the way were physician practice and long term care transactions. Buyers continue to view those sectors as attractive. Together with Healthcare IT, these sectors accounted for half of all 2016 transactions.

For the year overall, we have observed a steady deal flow, but not an overwhelming number of transactions. As discussed last quarter, we have observed a rise in

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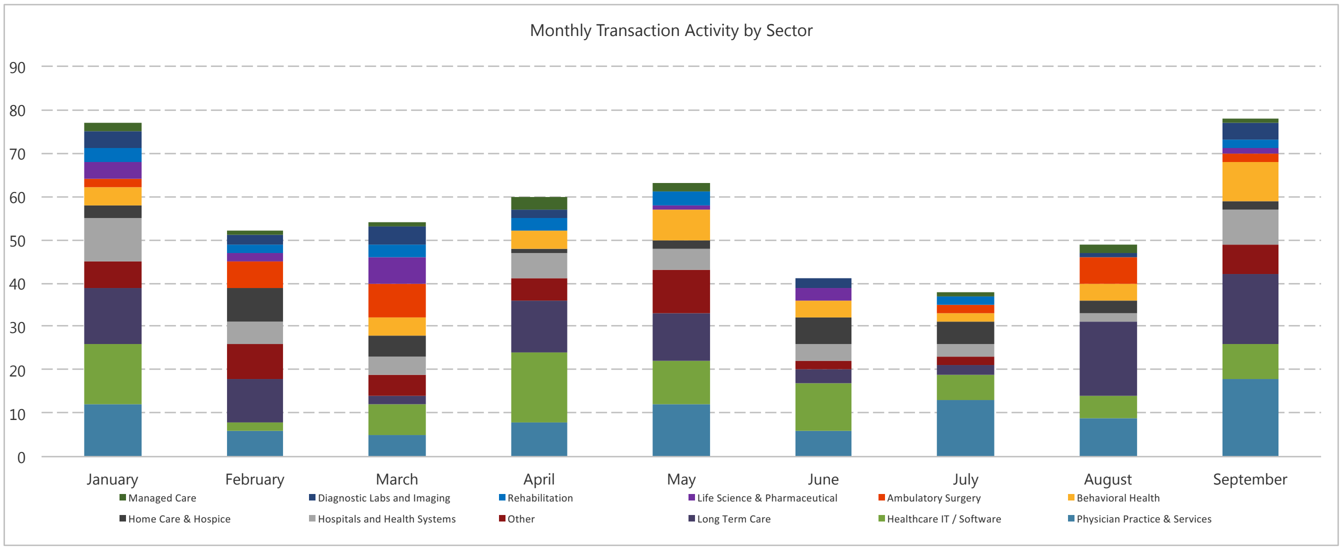


clinical affiliations and integrated networks, which are not reported as transactions.

A first-of-its kind direct-to-employer accountable care organization (ACO) created in June by MemorialCare Health System and The Boeing Company is a type of transaction that probably wouldn't get reported as an M&A deal. MemorialCare Health System contracted directly with The Boeing Company to provide comprehensive health-care services to thousands of Boeing employees and their dependents in Southern California. Epstein, Becker & Green represented MemorialCare in that transaction.

Health Systems Continue to Fortify Market Presence.

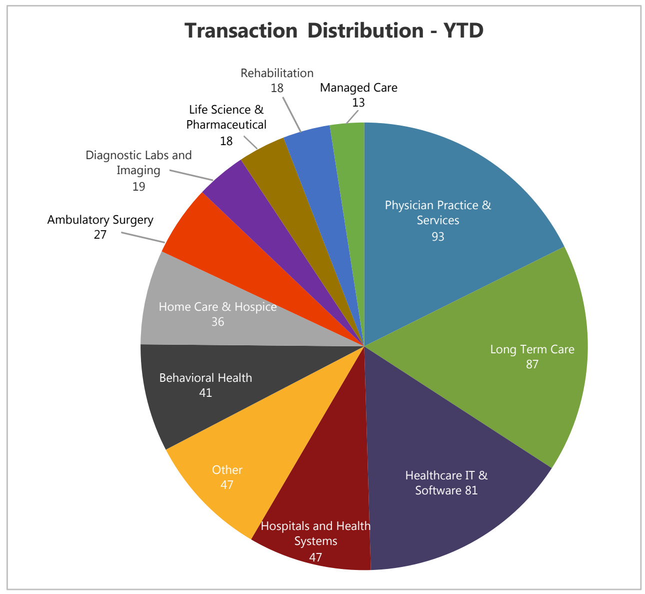
In the third quarter, super-regional health-care providers continued to increase their market presence. Jefferson Health System merged with Aria Health, creating a $4.5 billion regional player in northeast Pennsylvania. Baylor Scott & White Healthcare closed its acquisition of Lakeway Regional Medical Center, which supported the former's expanding presence in North Central Texas. UnityPoint Health also announced its intention to acquire Pekin Hospital in Pekin, Ill. The move solidifies UnityPoint's presence in Central Illinois, complementing its operations across the border in Iowa.

Major Deal on the Horizon?

In September, Community Health Systems (CHS) announced it is looking to divest an additional 12 hospitals, on top of a 10-hospital sale announced in May, and the April spin-off of 38 hospitals into Quorum Health Resources. Rumors began to circulate in September that CHS was exploring a sale, which the company confirmed to investors.

Following its acquisition of Hospital Management Association (HMA) in January 2014, CHS became the largest, for-profit hospital management company in the U.S. with 159 hospitals across 22 states.

As the Affordable Care Act proves to be "unaffordable" for many Americans, health-care providers also are facing challenges adapting to the new reimbursement landscape. The uptick from Medicaid reimbursement for the newly insured has been offset by the rise



in high deductible plans. Providers are being forced to find other avenues to reduce costs and preserve margins. CHS is the latest example of a for-profit health system looking for other ways to obtain value for its hospitals and shareholders.

Physician Practice Activity Remains Robust.

In September alone, physician practice activities accounted for 23 percent of all activity. Private equity buyers and strategic buyers continue to show an appetite to acquire physician practices.

After the third quarter activity, physician practice acquisitions are now the most active area in 2016. As falling reimbursement rates put pressure on the entire sector, groups are seeking size and scale to remain viable. With the greatest pinch being felt by the smallest providers, these practices have turned to mergers to secure the future of the group.

In July, four North Carolina-based orthopedic practices (OrthoWilminton, Blue Ridge Bone & Joint, Carolina Orthopaedic Specialists and Triangle Orthopaedic Associates) merged to form EmergeOrtho in an effort to secure more favorable payment models and bundled

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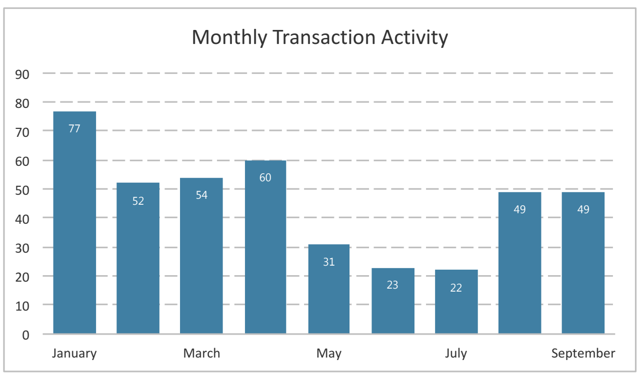
payments. The merger will allow the joint entity to cut costs by integrating systems, share services, negotiate more favorable payer contracts, and ultimately add stability to the practice for the foreseeable future.

Private equity groups have recognized the unrest in the physician services sector and have made significant investments into the space. Groups have continued to make platform investments across a number of specialties including dermatology, urology, urgent care, pain management, and ophthalmology. Private equity groups then use these platform investments to roll up smaller practices into the entity.

Quantum Vision Centers was recently acquired by Clarkson Eyecare, a portfolio company of Friedman Fleischer & Lowe (FFL Partners). FFL Partners is using its investment in the Clarkson platform to make tuck-in acquisitions in the eye care space. Examples of similar consolidation can be seen in nearly every sub-specialty within the physician services industry.

Ambulatory Surgery and Physical Therapy.

The Surgery Center of Chevy Chase (SCCC) sold to Surgical Care Affiliates (SCA) after a competitive process. This transaction highlighted the focus of the large ambulatory surgical center (ASC) companies on growing their portfolios. We continue to see a growing number of deals in the physical therapy space.



With demand growing for physical therapy services—to some degree the result of the aging of the population—a few industry consolidators are using the favorable market dynamics to build super-regional and national brands, such as AmSurg, HCA, SCA and USPI (part of Tenet).

Slowdown Exaggerated? Some outlets are reporting a slowdown in transactions overall when compared with 2015, but those reports aren't borne out by Epstein, Becker & Green's experience. The firm reports it hasn't seen a slowdown in certain types of sector transactions, such as hospital and health system affiliations related to clinical integration and population health goals, physician practice acquisitions—both private equity and transactions involving hospitals, health systems and other physician groups—post-acute care, rehabilitation, behavioral health and health IT.

A slowdown in deals involving life sciences entities, which some analysts put under the health-care umbrella, may be occurring. It also is possible health-care M&A volume isn't down at all, but the total dollar value of the deals has declined due to a fewer number of very large, high-dollar deals.

Fourth Quarter Outlook.

As the year comes to a close, we expect a busy transaction season. Despite the political uncertainty surrounding the November election, we expect transactions to proceed on schedule. While always difficult to forecast, we've observed many transactions sprinting to close by calendar year end in the past.

The lists of select transactions involving health-care providers, managed care and services companies for September 2016 and for 2016 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites and press releases.

The September list is at http://src.bna.com/jtN.

The year-to-date list is at http://src.bna.com/jtF.

Bloomberg BNA would like to thank its Health-Care Transactions Editorial Committee for their guidance: Paul A. Gomez, of Epstein, Becker & Green PC, Los Angeles (pgomez@ebglaw.com); Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpoindexter@h2c.com); and Robert Aprill, of Provident Healthcare Partners LLC, Boston (raprill@providenthp.com).

Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.