



Healthcare M&A Rebounding Nicely; But is Trouble Still Ahead?

After a decade-high 1,829 transactions in 2019, merger and acquisition activity in the healthcare industry continued its torrid pace in January 2020 with more than 170 deals closing. We anticipated a cooling off by the summer, given the uncertainty surrounding the upcoming election and the changes to key regulations and agency rule-making that might bring. Still, we would all soon realize COVID-19 was well on its way to becoming a global pandemic that would present novel challenges to the U.S. health system and disrupt the entire economy.

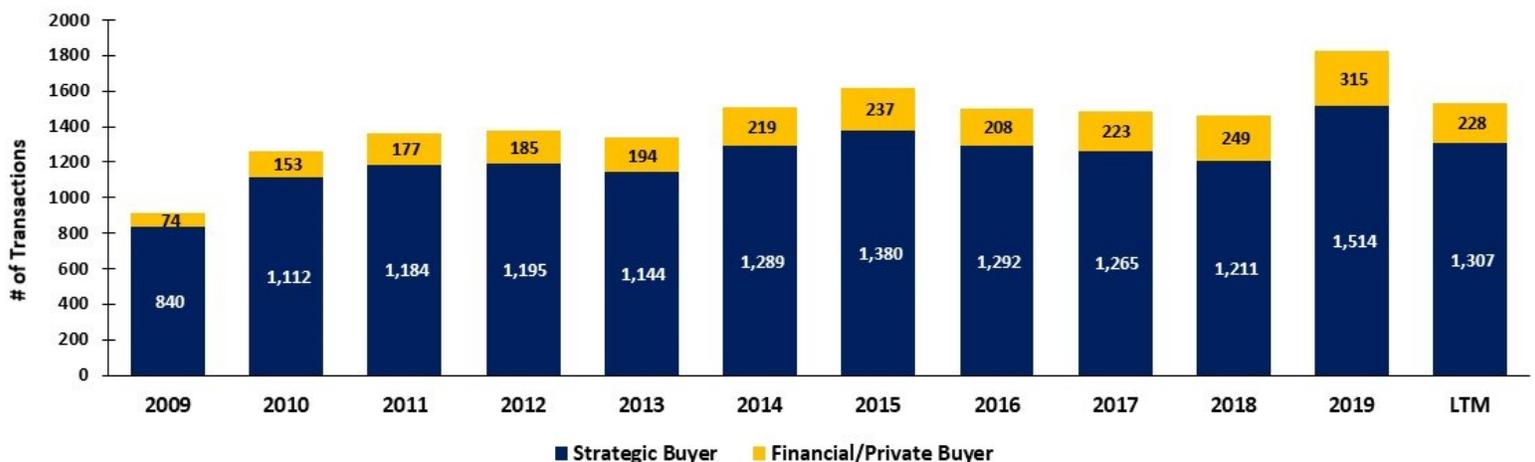
As the chart on the following page illustrates, healthcare M&A volume appears to have hit bottom in April. The jump from 81 transactions in April to 128 in June likely reflects prior months' unclosed deals. However, the 146 August transactions, and the 135 transactions in September, exceeded the average monthly closings for every year over the past decade except 2019. Given the recent resurgence in COVID-19 cases corresponding to the start of flu season and the continuing election uncertainty as control of the Senate awaits runoff elections for both Georgia

seats, we expect deal volume to decline a bit during the fourth quarter, buoyed somewhat by a rush to close deals by year-end over concerns capital gains rates will be going up.

For the first quarter of 2021, barring any further once-in-a-lifetime global upheavals, we anticipate transaction volume will dip just a bit further as markets adjust to the election's final outcome. Beyond that, we expect transaction volume will rise steadily beginning in the second quarter of 2021 as it becomes clear the vaccines are defeating the coronavirus (OK, we'll admit to a bit of hopeful optimism there), and investors seek recession-resistant opportunities. Valuations, as always, will mostly reflect the quality of the underlying business, with premiums being paid for those companies who've demonstrated an ability to adapt effectively. In short, as we've said in previous reports, the demographic tide of aging baby boomers, the need to adjust to a post-pandemic world, and a still highly fragmented industry will assure high levels of M&A activity in all subsectors by both strategic and financial buyers for years to come.

Healthcare Transactions by Year

(Strategic Buyers Include Private Equity Owned Companies)



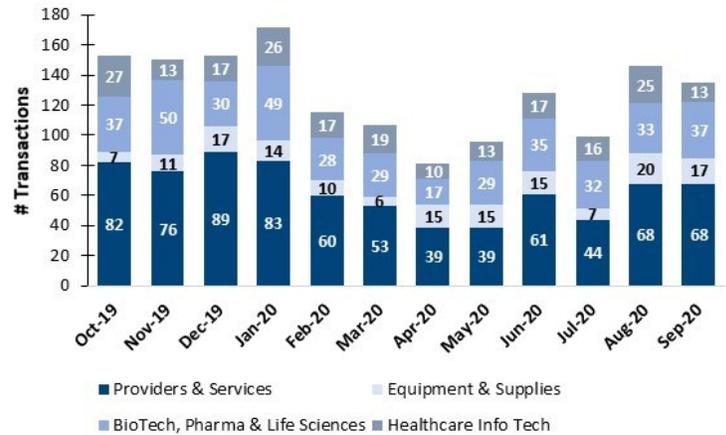
Source: CapIQ

Impact of the COVID-19 Pandemic

After peaking at 172 transactions in January, healthcare M&A volume fell more than 50% overall by April. The decline was broad-based as Providers & Services, BioTech, Pharma & Life Sciences, and Healthcare Information Technology all declined more than 50% from January to April. The temporary dip in transaction volume for the Equipment & Supplies sector was within the normal variability, and volumes in April and May exceeded the LTM monthly average.

As it became clear the “flatten the curve” strategy had successfully prevented the U.S. health system from being overwhelmed, and attention turned toward reopening the economy, buyers began closing on deals suspended in February and March. However, investors remain cautious as rapidly rising infection rates and concerns over how quickly vaccines can be distributed suggest the arrival of flu season could bring many of the same challenges that led to shut-downs this past Spring.

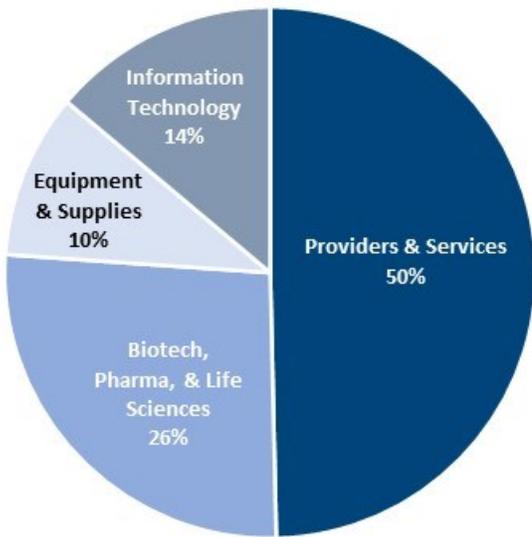
Healthcare Transactions Trend



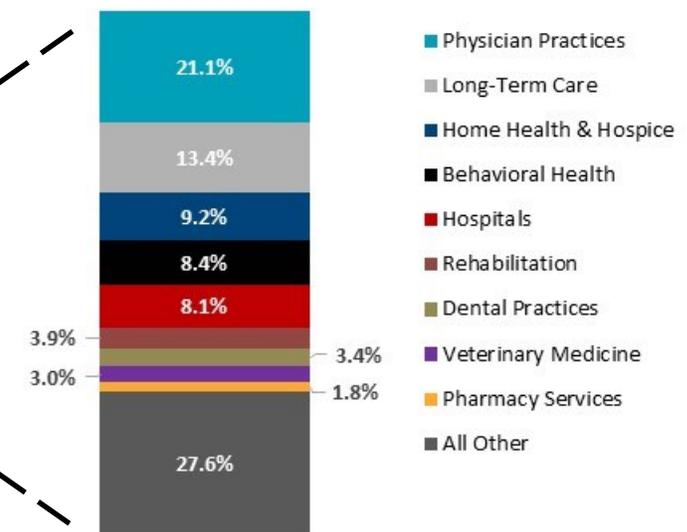
Source: CapIQ

Transactions by Sector (LTM)

Healthcare Transactions by Sector (LTM)



Providers & Services Transactions by Subsector



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

During the last twelve months, most healthcare industry transaction activity occurred in the Providers & Services sector (50%). Biotech, Pharma, & Life Sciences (26%), Equipment & Supplies (10%), and Information Technology (14%) comprised the remaining announced and completed transactions. The share of transactions by sector was weighted towards the Providers & Services sector due to consolidation among regional providers in many industry subsectors. Within the broad Providers & Services sector, EdgePoint noted significant deal activity in the following subsectors: Physician Practices,

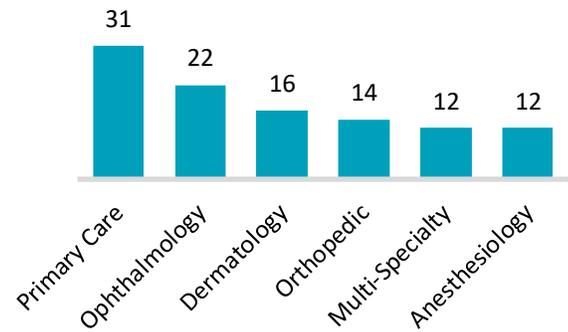
Long-Term Care, Home Health & Hospice, Behavioral Health, Rehabilitation, Dental Practices, Veterinary Medicine, and Pharmacy Services. We have profiled each of these subsectors, as well as the Equipment & Supplies sector, in the following pages of this report. Each of these subsectors is experiencing rapid consolidation by strategic and financial buyers, as healthcare providers seek opportunities to expand geographies, integrate additional services, and improve efficiency. Transactions involving hospitals have also been active, but they are not profiled in this report.

Physician Practices Sector Profile

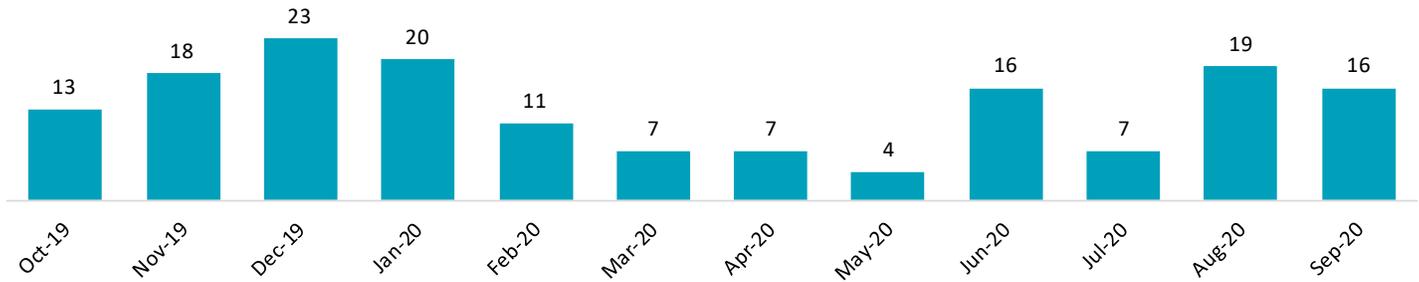
M&A transaction volume involving Physician Practices reached new heights in December 2019, then plummeted more than 80% by May 2020 in reaction to the COVID-19 pandemic. As the pace of new infections declined over the summer and more practices adapted to using telehealth technology, patient visit volumes began to rebound, encouraging buyers to close on transactions they had put on hold months before. Private equity-backed strategic buyers are the most active, as hospitals and health systems prepare for the expected surge in new cases as fall turns to winter.

We anticipate a full and consistent return to pre-pandemic transaction volume will take at least another six months as uncertainties regarding vaccine distribution, acceptance, and effectiveness, as well as the federal government transition, keep investors cautious. Along with renewed transaction volume in ophthalmology and dermatology, we expect to see several transactions in other specialties such as ENT and urology, given they are also highly fragmented and offer opportunities to grow ancillary revenue.

Most Active Specialties (LTM)



LTM Physician Practice Transaction Count



Source: CapIQ

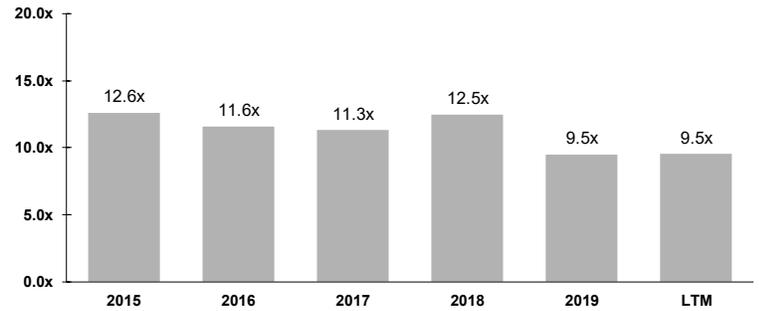
Notable Physician Practice Transaction

Date Closed	Buyer / Investor	Target	Description
09/18/2020 04/06/2020	Axia Women's Health (Audax Private Equity)	Ob-Gyn practices	Ocean Obstetric & Gynecologic Associates LLC Seven Hills Ob-Gyn Associates, Inc.
09/10/2020	Radiology Partners, Inc.	Mednax (Radiology Solutions Business)	Radiology services
09/01/2020 08/04/2020 07/07/2020 06/22/2020 06/08/2020	CRH Medical Corporation (TSX:CRH)	Anesthesiology practices	Coastal Carolina Sedation Associates Orange County Anesthesia Associates Central Virginia Anesthesia Associates Metro Orlando Anesthesia Associates Lake Lanier Anesthesia Associates
09/01/2020 08/06/2020	EyeSouth Partners (Shore Capital)	Ophthalmology practices	Medical Center Ophthalmology Associates, LLP Retina Associates of Middle Georgia, P.C.
09/01/2020	Trive Capital	Valor Healthcare, Inc	Operates community based outpatient clinics for veterans
08/05/2020 06/16/2020	Pinnacle Dermatology (Chicago Pacific Founders)	Dermatology practices	Gary D. Waldman, M.D., P.A. Lehman Advanced Dermatology, PLLC
06/16/2020	Lee Equity Partners, LLC	Urology Practices	Integrated Medical Professionals, PLLC Tri State Urologic Services P.S.C., Inc.
04/14/2020	Varsity Healthcare Partners	Surgical Affiliates Management Group, Inc.	Surgical hospitalist company that provides hospital-based surgical programs/services

Long Term Care Sector Profile

M&A activity in the Long-Term Care sector had spiked to over 170 transactions in 2019 as smaller providers sought a safe haven in advance of the implementation of the new Medicare Patient-Driven Payment Model (PDPM). Transaction volume dropped precipitously in March and April 2020 as the tragic impact of COVID-19 on senior facilities filled media reports. The industry struggles to maintain patient census in light of continuing concerns over the pandemic, with many facilities relying on CARES Act funding and other support programs to remain open. This dependence has limited the rebound in transaction volume as well; and we anticipate it may take another year or more to reach 2018 activity, let alone the level seen in 2019.

Long Term Care Public Company EV/EBITDA



Source: CapIQ

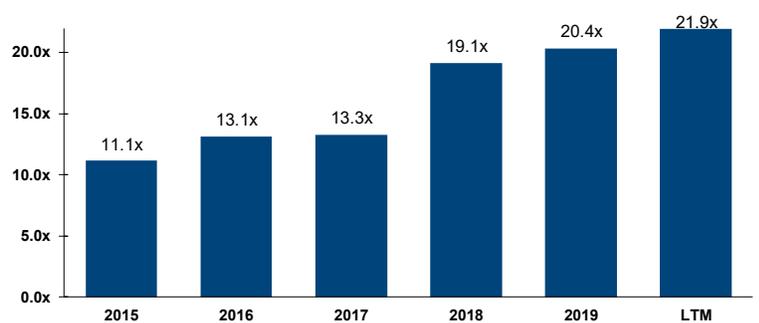
Notable Long-Term Care Transactions

Date Closed	Buyer / Investor	Target	Description
09/22/2020	Merrill Gardens, LLC	Assisted living	Two Senior Living Communities In San Jose And Gilroy
09/16/2020	WindRiver Management Corp	Assisted living	Three Assisted Living Communities comprising 132 units in East Texas
08/04/2020 08/04/2020 07/02/2020	SLP Operations, LLC	Skilled nursing facilities	Pinehurst Nursing and Rehabilitation Center Seabreeze Nursing and Rehabilitation Centre Two Skilled Nursing and Rehab Centers in Texas
08/03/2020	The Ensign Group, Inc.	Skilled nursing and assisted living facilities	Tempe Post Acute 62 Bed Nursing facility and Desert Marigold Senior Living of Tempe in Arizona

Home Health & Hospice Sector Profile

Home Health public company valuation multiples remain high relative to historical valuations and other healthcare service providers (see our comparison on page 8). Investors continue to place a premium on services that lower the total cost of care, are well-positioned to benefit from the demographic tide of baby boomers hitting their 70s, and cater to patients seeking alternatives to a nursing home. We anticipate transaction volume will accelerate by mid-2021 as concerns over the pandemic dissipate and agencies finish adapting to the Patient-Driven Groupings Model reimbursement system.

Home Health & Hospice Public Company EV/EBITDA



Source: CapIQ

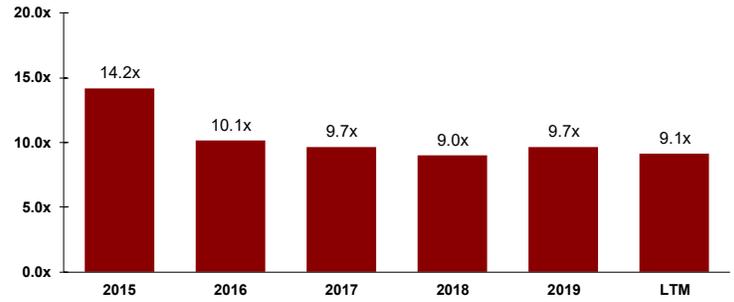
Notable Home Health & Hospice Transactions

Date Closed	Buyer / Investor	Target	Description
09/17/2020 08/04/2020 06/02/2020	Traditions Health, LLC	Hospice providers	Palladium Hospice and Palliative Care, LLC Faith Hospice Of Oklahoma, Inc. Hospice with Grace
08/19/2020 08/19/2020 08/19/2020	Caring People, Inc.	Home health services	AMR Care Group Inc. Acappella In Home Care Aging Care, LLC
07/02/2020 05/18/2020	The Pennant Group, Inc. (NasdaqGS:PNTG)	Home health and hospice providers	The Assets of two Signature HealthCARE, LLC agencies Prime Hospice/Harmony Hospice

Behavioral Health Sector Profile

Behavioral Health continues to be an active sector for M&A transactions, averaging five transactions each month over the last 12 months. For the six months that ended in September, there were 30 transactions, with 14 of them related to the acquisition of clinics that specialize in addiction recovery. Clinics serving children with autism or developmental disabilities were also favored targets for acquisition, with seven completed transactions over the past six months. We expect this focus on higher-margin niche services to continue; however, we also expect to see more health systems acquire or partner with behavioral health clinics, given the importance of integrating behavioral health with medical care to maintain good community health at a reasonable cost.

Behavioral Health Public Company EV/EBITDA



Source: CapIQ

Notable Behavioral Health Transactions

Date Closed	Buyer / Investor	Target	Description
08/25/2020 04/06/2020	LifeStance Health (Summit Partners)	Psychiatric services	Edgewood Clinical Services, P.C. Assets of Heart Centered Counseling, Inc.
8/17/2020	Pinnacle Treatment Centers (Linden)	HealthQwest, Inc.	Medication assisted treatment services focusing on opioid addiction
08/06/2020	Blue Sprig Pediatrics (KKR)	Assets of Aptitude Habilitation Services, Inc.	ABA treatment services
07/08/2020	BrightView (Shore Capital)	Rebound Recovery Centers	Substance abuse clinics
07/01/2020	Summit BHC (FFL / Lee Equity)	Highland Hospital	In-patient drug and alcohol addiction treatment
06/23/2020	Odyssey Behavioral Healthcare (Carlyle Group)	Clearview Centers, LLC	Drug and mental illness rehabilitation facility
06/23/2020 06/19/2020 06/19/2020	BayMark Health Services (Webster Equity)	Outpatient addiction treatment clinics	Norton Health Care, P.C. Narcotic Addiction Treatment Agency, Inc. Middlesex Recovery Professional Corporation

For additional detail on the Behavioral Health market, click on the picture to the right to view a copy of our July Flash Report.

FLASH REPORT JULY 2020

EDGEPOINT

Is the Behavioral Health Sector a Shelter from the COVID-19 Storm?

There is little doubt COVID-19 impacted almost every aspect of the healthcare industry; however, some sectors were able to adapt and pivot better than others. Behavioral health providers have been particularly successful at leveraging telemedicine to continue providing care to their patients. Many behavioral health companies, particularly community-based therapy centers, have even reported an increase in patients and a decrease in cancellations.

The comparative strength of behavioral health is reflected in public market data as illustrated by comparing share prices of Acadia Healthcare, Universal Health Services, and HCA Healthcare. All three saw their share prices plummet more than 50% once a national health emergency was declared in March, bottoming out on March 23rd. Since that date, Acadia—the most “pure play” behavioral health company of the group—has regained most of its lost share price and is now up over 100% since its low point. Universal and HCA, which are heavily weighted toward general acute care, have also rebounded, but are up only 26% and 29% respectively.

Given the uncertainty surrounding the reopening of the economy, larger companies and private equity investors alike are looking to grow and fortify their businesses with “pandemic resistant” services such as behavioral health. Acquisition activity in the space is already showing signs of improvement, with May 2020 merger and acquisition volume rebounding to Q4-2019 levels after a brief pause in April. Over the last twelve months, strategic buyers (including those backed by private equity) have been active, representing nearly 80% of buyers. Nine private equity firms made new investments in the sector, which we expect will lead to future M&A activity as they seek add-on acquisitions.

Total Behavioral Health Transactions

Source: CapIQ, EdgePoint research

Buyer Mix

Legend: Strategic Buyer (80%), PE Backed Strategic (25%), Financial Buyer (10%)

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has been acquired by

EdgePoint initiated the above transaction, led negotiations of the sale, and served as exclusive sell-side advisor to Northeast Health Services, LLC

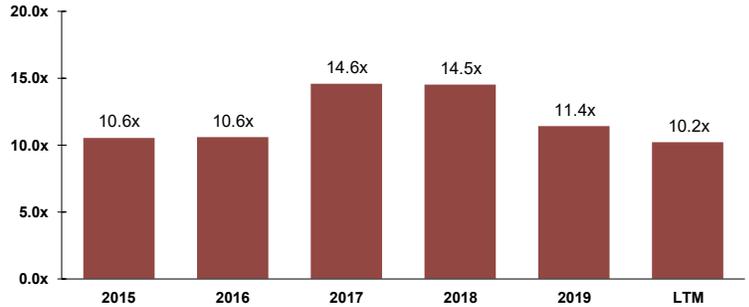
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Rehabilitation Sector Profile

M&A transaction volume for 2020 started strong with 11 deals closing in the first quarter. As cases of COVID-19 increased rapidly in March, several state departments of health imposed restrictions on “elective” surgeries in an attempt to conserve personal protective equipment (PPE). Physicians and patients deferred many orthopedic surgeries until the crisis had abated, leading to significant reductions in rehab hospital admissions and physical therapy visits. As a result, rehabilitation transactions came to a halt in April and May, with only a single deal closing. We expect transaction volume to remain modest until mid-2021.

Rehabilitation Public Company EV/EBITDA



Source: CapIQ

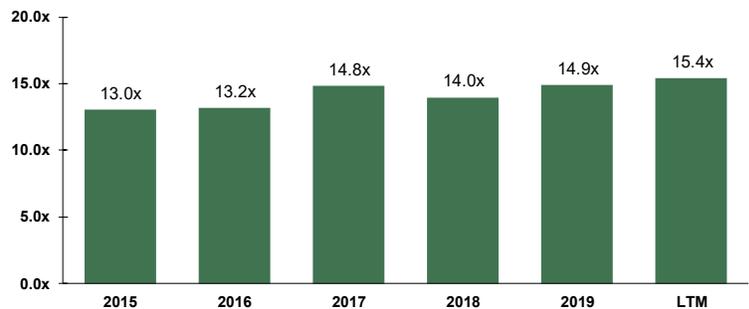
Notable Rehabilitation Transactions

Date Closed	Buyer / Investor	Target	Description
09/01/2020 06/17/2020	Post Acute Medical, LLC	Rehabilitation hospitals	Cobalt Rehabilitation Fargo Recap of Rehabilitation Hospital of Dover after sale / lease-back of real estate (see below)
07/01/2020 06/17/2020	Undisclosed	U.S. Physical Therapy, Inc.	Sale of Interest in four wholly-owned clinics Certain Assets of Six Clinics
06/15/2020	Harrison Street Real Estate Capital	Post Acute Medical, LLC	42,140 Square Foot Class A Inpatient Rehabilitation Facility located in Dover, Delaware
04/15/2020	Empower Physical Therapy	Premier Rehab Physical Therapy	Provider of a full range of therapy services

Equipment & Supplies Sector Profile

Companies involved in the manufacture and distribution of medical equipment and supplies accounted for one of every 10 healthcare transactions over the past 12 months. Transaction volume in this sector rebounded more rapidly than other sectors, returning to pre-COVID levels in April and maintaining that average through September. Public company valuation multiples also remain strong, reflecting continued robust demand for products despite disruption to the supply chain due to the pandemic. We expect this sector to remain stable for the remainder of 2020 and renew its upward trend in 2021.

Equipment & Supplies Public Company EV/EBITDA



Source: CapIQ

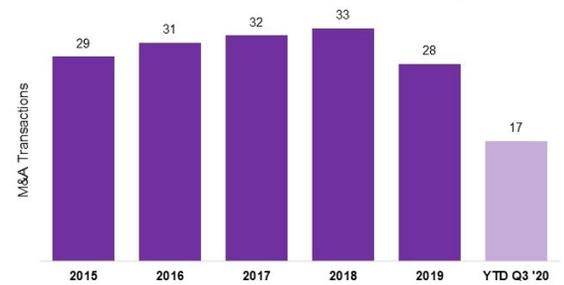
Notable Equipment & Supplies Transactions

Date Closed	Buyer / Investor	Target	Description
08/05/2020 08/05/2020	WishBone Medical	Spinal implants	Substantially All Assets of Back 2 Basics Direct Orbbö Surgical, LLC.
07/22/2020	Levine Leichtman Capital Partners	UltiMed, Inc., d/b/a Ulticare	Manufactures and markets medical devices for use in clinics, nursing homes, visiting nurses associations, and flu clinics
05/26/2020	Universal Health Services, Inc. (NYSE:UHS)	Presige Ameritech, Ltd.	Manufactures surgical masks and other disposable medical products in the United States
04/08/2020	Hammond, Kennedy, Whitney	Advanced HomeCare, Inc.	Home medical equipment business

Dental Practice Sector Profile

The growing pace of Dental Practice M&A activity was severely interrupted by COVID-19, but the rate is expected to pick up steam as dental practices reopen. Private equity-backed DSOs continue to drive transaction volume, capitalizing on the industry's still highly fragmented nature. This fragmentation level, combined with consumer spending on dental services, which is expected to grow at nearly 5% per year until 2025, creates a strong landscape for continued M&A activity in the dental sector, especially for practices that can quickly return to historical volume levels.

Dental Practice Transactions by Year



Source: CapIQ

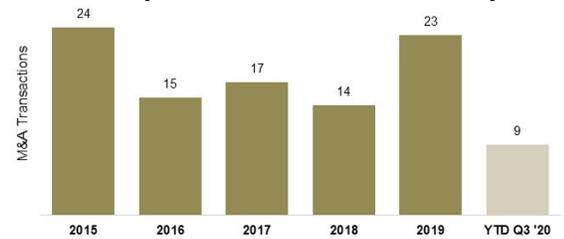
Notable Dental Practice Transactions

Date Closed	Buyer / Investor	Target	Description
06/30/2020	Marquee Dental Partners (Chicago Pacific Founders)	Dental practices in Kentucky and Arkansas	Davis Dental Center, PSC; New Health Dental; Moore Smiles, and Perelmuter & Goldberg Orthodontics
06/30/2020	North American Dental Group (Colosseum Dental (UK))	Dental practices in Nevada and Connecticut	Kids First Pediatric Dentistry & Orthodontics, PC, and Bluetree Dental, LLC

Veterinary Medicine Sector Profile

Surprisingly, Veterinary Medicine has experienced a similar drop in transaction volume as other healthcare industry sectors despite most states classifying veterinary practices as essential businesses, and pet adoptions spiking during the stay-at-home order period. Private equity-backed companies such as People, Pets, and Vets (Cressey & Company) have been highly acquisitive and returned to the M&A markets in May 2020. Still, transaction volumes remain below recent historical averages.

Veterinary Medicine Transactions by Year



Source: CapIQ

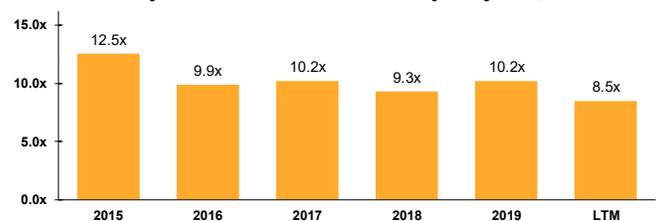
Notable Veterinary Medicine Transactions

Date Closed	Buyer / Investor	Target	Description
06/23/2020	Fidelio Capital	Veterinary Orthopedic Implants	Develops and manufactures orthopedic implants for veterinary surgeons
05/27/2020	People, Pets and Vets, LLC (Cressey & Company)	Leonard Animal Clinic	Animal hospital providing veterinary, pet boarding, and grooming services

Pharmacy Services Sector Profile

Pharmacy Services M&A activity has been modest recently, with transactions averaging slightly over one per month over the past 12 months. We expect transaction volume to remain highly selective for the foreseeable future, focused on niche services rather than traditional retail pharmacies.

Pharmacy Services Public Company EV/EBITDA

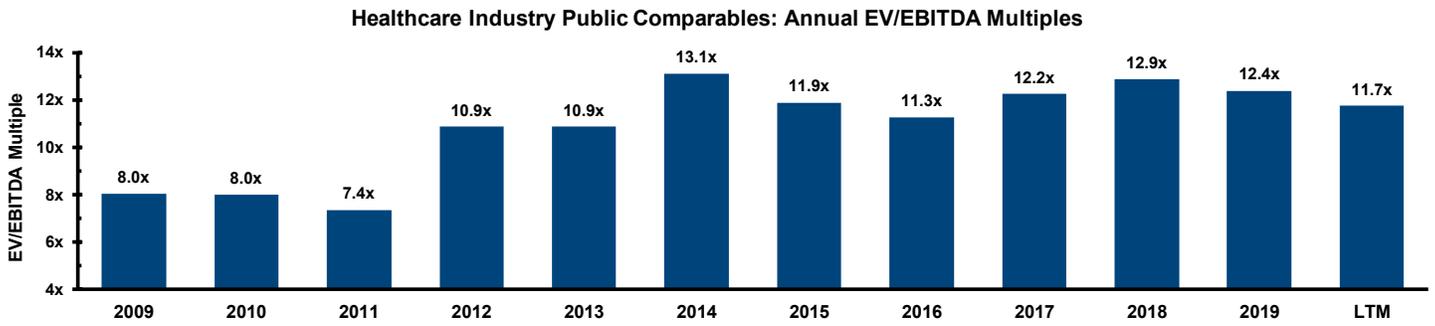


Source: CapIQ

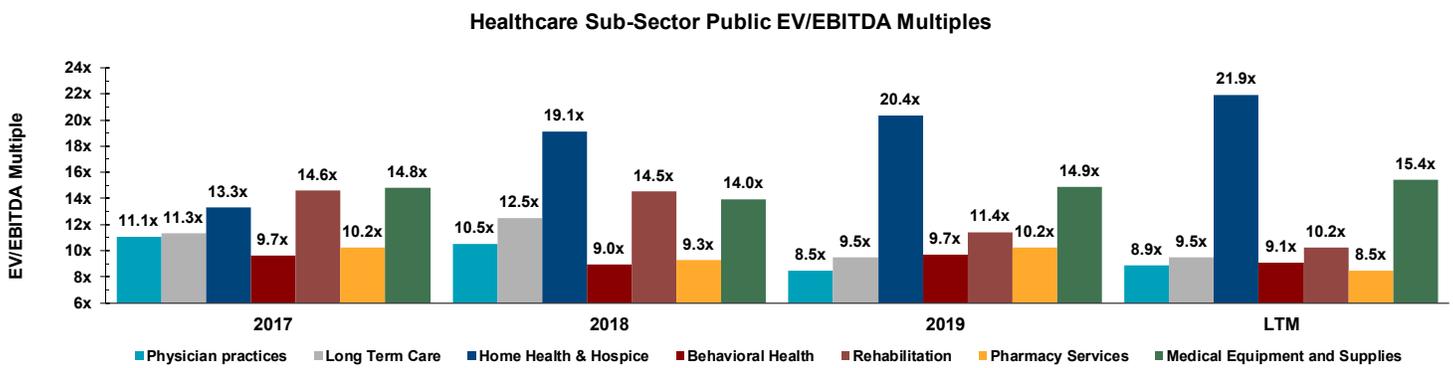
Notable Pharmacy Services Transactions

Date Closed	Buyer / Investor	Target	Description
09/15/2020	Peak Rock Capital LLC	Paragon Healthcare, Inc.	Provides infusible and injectable pharmacy services at home, in a physician office, and in the infusion centers
04/07/2020	TRC Healthcare Inc.	Pharmaceutical training	CriticalPoint, LLC
04/07/2020	(Levine Leichtman Capital)		Kastango Consulting Group

Public Company Comparisons Trading Multiples



Source: CapIQ, public trading data as of November 20, 2020



Source: CapIQ, public trading data as of November 20, 2020

Representative EdgePoint Healthcare Transactions

 has been acquired by 	 has been acquired by 	 has been acquired by 	 has been acquired by 	 has been acquired by
 has completed a capital raise	 has been acquired by An Undisclosed Private Company	 has acquired 	 has been acquired by A Private Equity Group	 has been acquired by



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

