



## Healthcare Services and IT M&A: What Happens Next?

Q2 2020

# AVONDALE PARTNERS

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# AVONDALE PARTNERS

*Healthcare Investment Banking*

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## **I. Avondale Insights**

## Avondale Insights

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### **COVID-19 has had a significant impact on general M&A market activity in recent months**

- Monthly deal volumes have decreased more than 65% since January
- Valuation multiples have also declined

### **While healthcare services deal volumes have declined in line with the general market, healthcare information technology deals have not declined as much**

- A dramatic shift to telehealth and virtual care delivery has resulted in a number of equity financings and recapitalizations of technology companies providing solutions to that sector

### **We examined the impact on transaction activity before and after the two more recent economic crises to help predict how quickly transaction activity and valuations may recover, particularly for the healthcare services and IT sectors**

- We examined data from the Great Recession of 2008-2009 and the Dot-Com Bubble of 2001-2002

### **The data is set out in the next sections, but below summarizes some key observations from those two crises:**

- Healthcare services deal volumes rebounded more quickly from the last two crises than did the general market
- HCIT volumes in the Great Recession were much less affected than the broader market and grew quickly in following years. This appears to be the case again
- Valuation multiples fell in line with credit market tightening, but returned to historical averages within a year

## Avondale Insights, Cont'd

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### What next? Our high-level predictions for healthcare M&A activity:

- Consistent with the quick rebound evidenced in prior recessions, we predict healthcare services deal activity will start picking up in the third quarter of 2020 and return to more normal levels in the first half of 2021
- Activity will be driven by record levels of private and venture capital dry powder, the early life cycle of many of these funds, and significant pressure to put money to work
- HCIT deal volumes will continue increasing and we expect high activity around telehealth, telehealth-related software and other virtual health services, data analytics and behavioral health-related companies
- We believe valuation multiples will also rebound. However, the return to pre-COVID-19 valuation levels will likely take longer than the volume rebound due to the cautious nature of credit markets
  - We expect to see “over” equitization at deal close in anticipation of subsequent refinancings

### Several themes have come to the forefront as COVID-19 has changed the healthcare landscape:

- Quality care doesn't have to be provided in a medical office
- Large facilities with lots of beds are “like a library with lots of books”; their practicality has decreased dramatically
- Payors have significantly more capital than providers...and are using it
- Efficient revenue (cash) collection has become even more critical for providers
- Information, both at the point of care and after treatment, will change the practice of and payment for medical care

**Set forth on the following pages is Avondale's more focused view on five subsectors: Acute Care, Post-Acute Care, Behavioral Health, Outsourcing Services and Healthcare Technology**

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## Avondale Insights, Cont'd

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### Acute Care

- It is clear that the use of **telemedicine tools** will surge considerably for all medical practices and have a lasting effect:
  - **Primary Care** tele-visits will occur more frequently, which may come at the expense of urgent care clinics and “doc-in-the-boxes”
  - **Specialists** will reroute office appointments between tele-visits and office visits, and redefine the real estate need for medical office buildings
- **Hospitals** will continue to be the story of “have’s” and “have not’s”
  - The emergency room (ER) will have a second main entrance via partnered primary care networks, urgent care clinics and free-standing ERs
  - Well-financed integrated **health systems** will accelerate the moving of procedures to outside the box alternatives (e.g. surgery centers, imaging, infusion) or out of the hospital sooner (e.g. at-home recovery), particularly as price transparency is implemented
  - To counter payor moves, we expect some very large integrated health systems to establish new (or expand existing) health plans
  - There is an accelerating trend of rural hospitals closing or shrinking services and referring patients to regional systems
- **Physician practices** will continue to consolidate because the business of medicine is getting much more complex
  - As the technology and regulatory costs of doing business continue to grow, smaller practices will struggle to stay afloat
  - Revenue cycle management is becoming more complex as payors continue to grow stronger and increase their demands on physician practices
  - Tools that help practices and billing firms collect patient-pay receivables will be necessary
  - Competition for patients will increase from well-funded alternatives, providers, and integrated referral sources (e.g. payor-owned providers, healthcare systems, physician practice consolidators)
  - There are also increasing B2C solutions that allow patients to search for and evaluate clinicians

## Avondale Insights, Cont'd

### Post-Acute Care

- **Skilled nursing facilities (SNF's)** will have an on-going perception issue due to COVID-19
  - More **short-term** SNF and **rehabilitation** patients will be pushed to home-based care
  - Aging population, however, will continue to fill **long-term** care beds
  - Care delivery models inside SNF's will change (e.g. greater outsourcing of services); more focus on chronic condition cohorts to reduce costs and increase flexibility
- **Home health and hospice** will benefit from SNF's bruised image and safety concerns
  - The shortage of care providers will continue to affect cost structures
- **Dialysis** will increasingly move to home-based care for safety purposes and patient convenience

### Behavioral Health

- Telemedicine will become the norm for **community-based providers**
- **Payors/managed care companies** will begin to make investments in behavioral health providers in order to better manage and understand all related costs (e.g. comorbidity)
- Outcomes data, the elusive “ask” by payors, will be required in a value-based reimbursement environment
- Science, data, and evidence-based approaches will overcome trial-and-error at an accelerated pace
- Prisons will no longer be the largest behavioral health providers, as the severe mental illness (SMI) population moves to **group homes/facilities**

### Outsourcing Services

- Rapid changes to the healthcare system will favor companies that manage, coordinate, or facilitate care across multiple settings
- **Staffing companies** will benefit as care delivery models will require different skillsets and increased staff flexibility

## Avondale Insights, Cont'd

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### Healthcare Technology

- **Telemedicine** companies will become commoditized and will need to provide value-added features to their offerings in order to win customers and face their competitors
- **Revenue Cycle Management (RCM) software** will become more automated and reduce back-office staff; however, the technology will need to deliver an immediate return on investment to its users to gain meaningful traction
- **Electronic Medical Record (EMR) software** and related solutions will need to be able to extract and provide meaningful (and actionable) insights in order to succeed
- The move to greater price transparency and value-based care will drive demand for **patient communication and engagement tools**



## Avondale Insights, Cont'd

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If our predictions are accurate (or close thereto), companies considering a sale, recapitalization or growth financing will need to craft their transaction process and marketing pitch to differentiate themselves from the crowd

Avondale Partners stands ready to assist and looks forward to discussing strategic options with you. Please do not hesitate to reach out to any of our senior team members below



**Jonathan Morphett**

*Managing Partner*

[jmorphett@avondalepartnersllc.com](mailto:jmorphett@avondalepartnersllc.com)

Office: 615.467.3533

Mobile: 615.594.5905



**Philip Krebs**

*Managing Partner*

[pkrebs@avondalepartnersllc.com](mailto:pkrebs@avondalepartnersllc.com)

Office: 615.467.3482

Mobile: 615.403.6530



**Pat Shepherd**

*Managing Partner*

[pshepherd@avondalepartnersllc.com](mailto:pshepherd@avondalepartnersllc.com)

Office: 615.467.3515

Mobile: 615.430.2282



**Allison Brown**

*Managing Director*

[abrown@avondalepartnersllc.com](mailto:abrown@avondalepartnersllc.com)

Mobile: 312.952.2078

More information can be found at [www.avondalepartnersllc.com](http://www.avondalepartnersllc.com)

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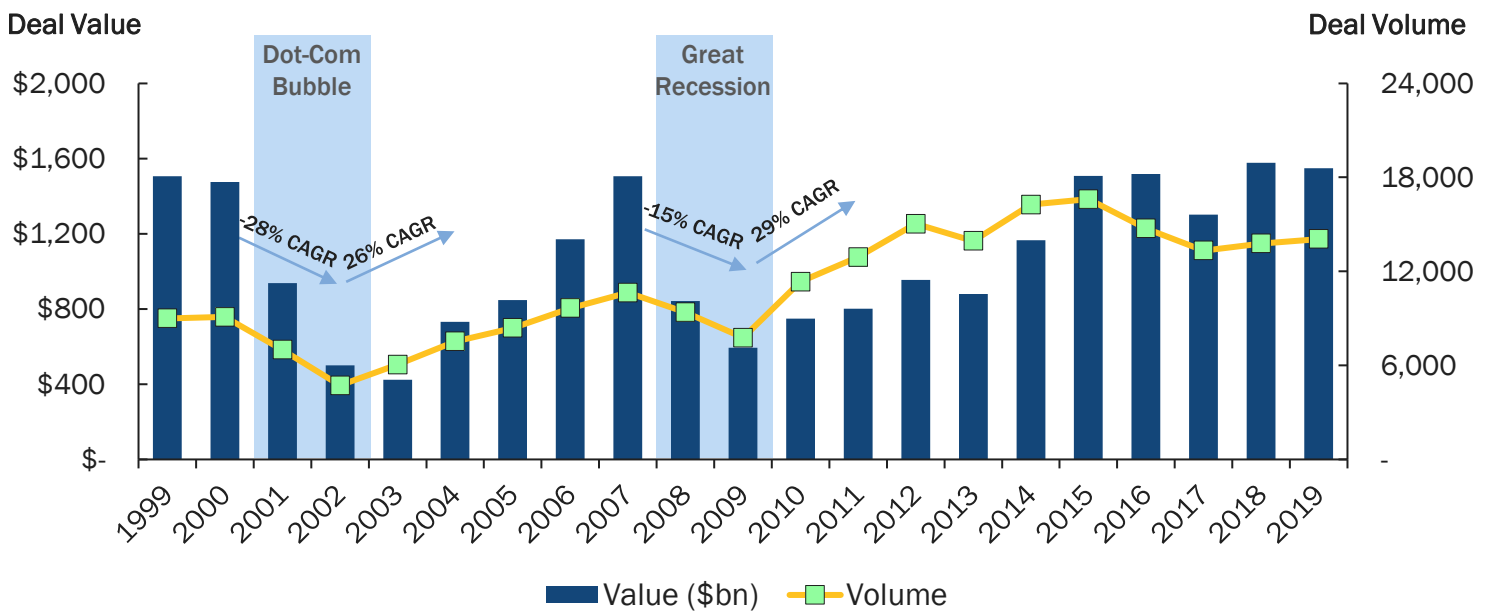
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## **II. General M&A Market History**

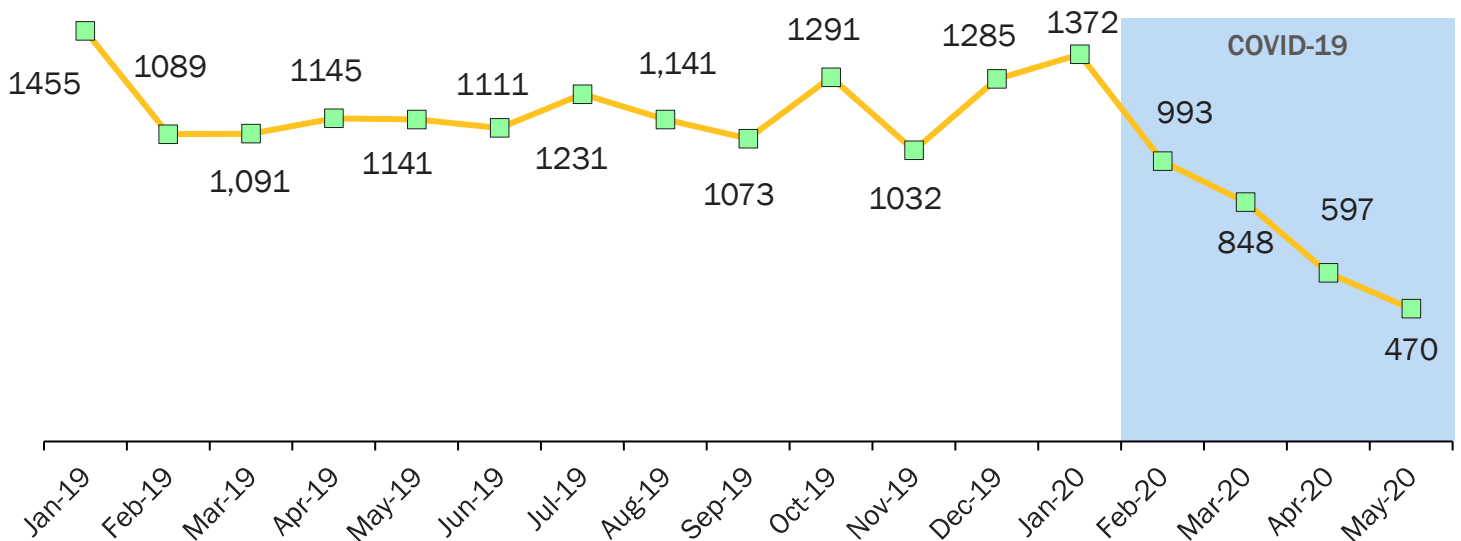
# General M&A Market History

## U.S. M&A Annual Deal Volumes & Disclosed Values: 1999 – 2019<sup>(1)(2)</sup>



Source: Capital IQ

## U.S. M&A Monthly Deal Volumes: Jan 2019 – May 2020<sup>(1)</sup>



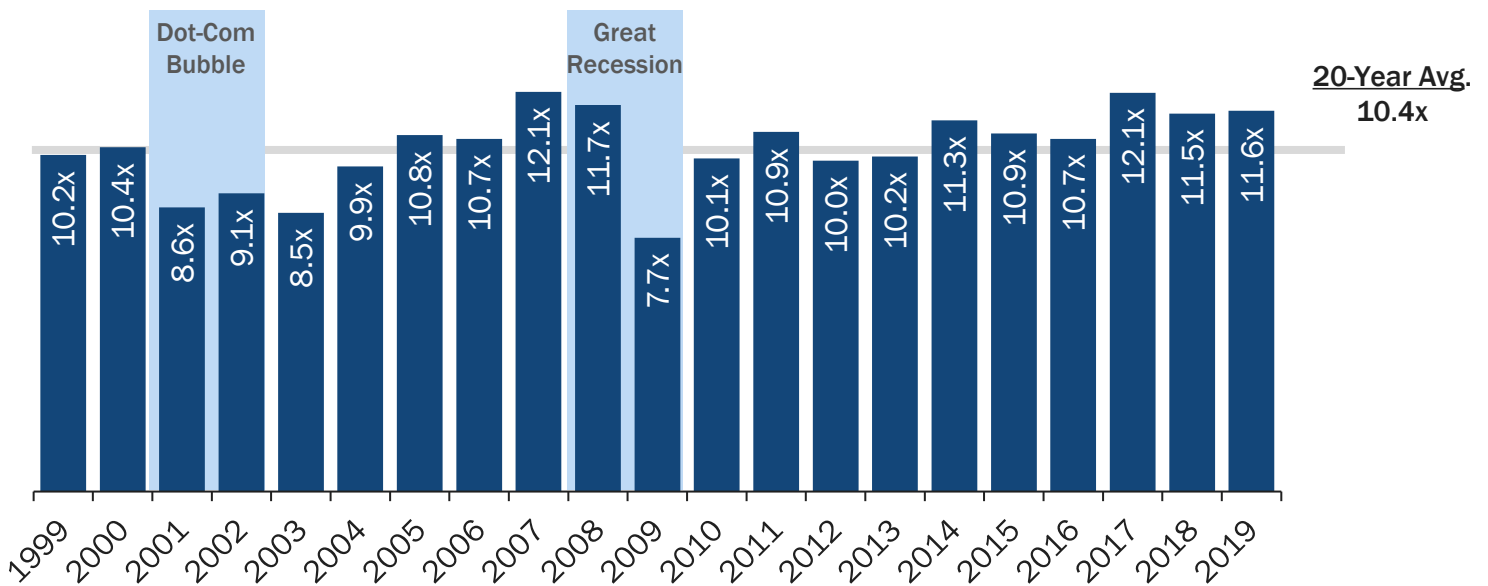
Source: Capital IQ

(1) Transaction volumes shown above include closed deals across all industries. Deal value only represents transactions that disclosed value

(2) CAGR is calculated based on deal volume over a period of two years

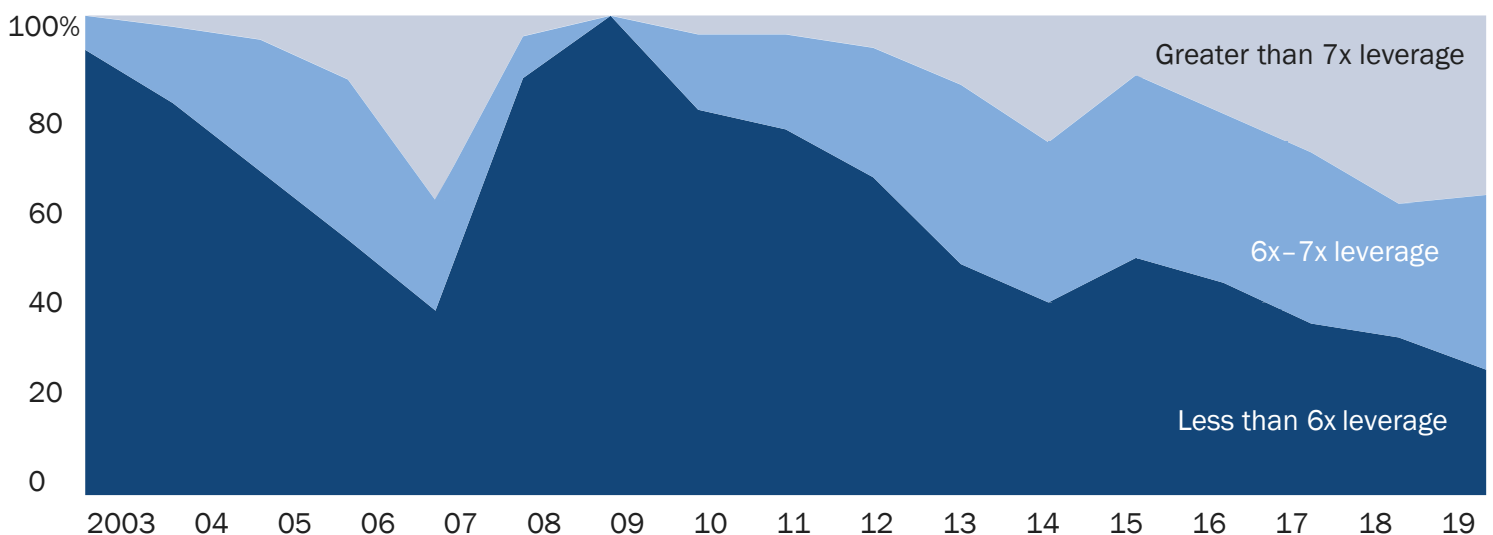
# General M&A Market History, Cont'd

## U.S. M&A Disclosed Valuation Multiples (EV/EBITDA): 1999 – 2019<sup>(1)</sup>



Source: Capital IQ

## Share of U.S. Leveraged Buyout Market, By Leverage Level



Sources: Bain & Company, Thompson PLC

(1) Multiples shown include closed deals across all industries in which valuation was disclosed. Data excludes outliers (multiples <1.0x and >50.0x) and reflects median EBITDA



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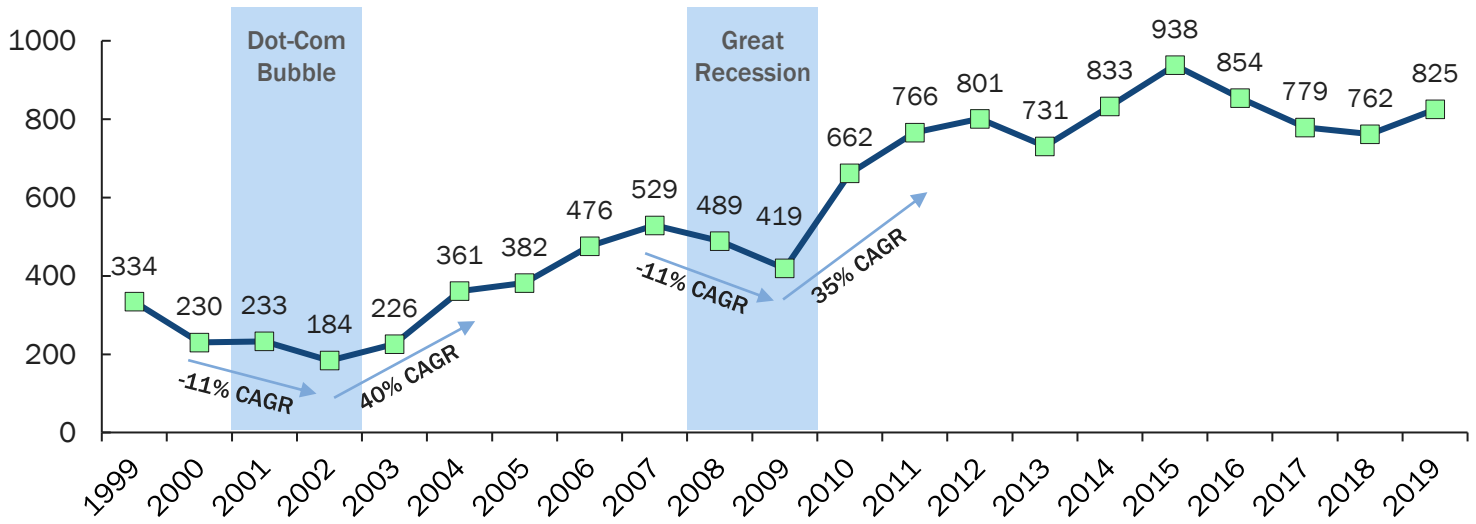
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## **III. Healthcare M&A Market History**

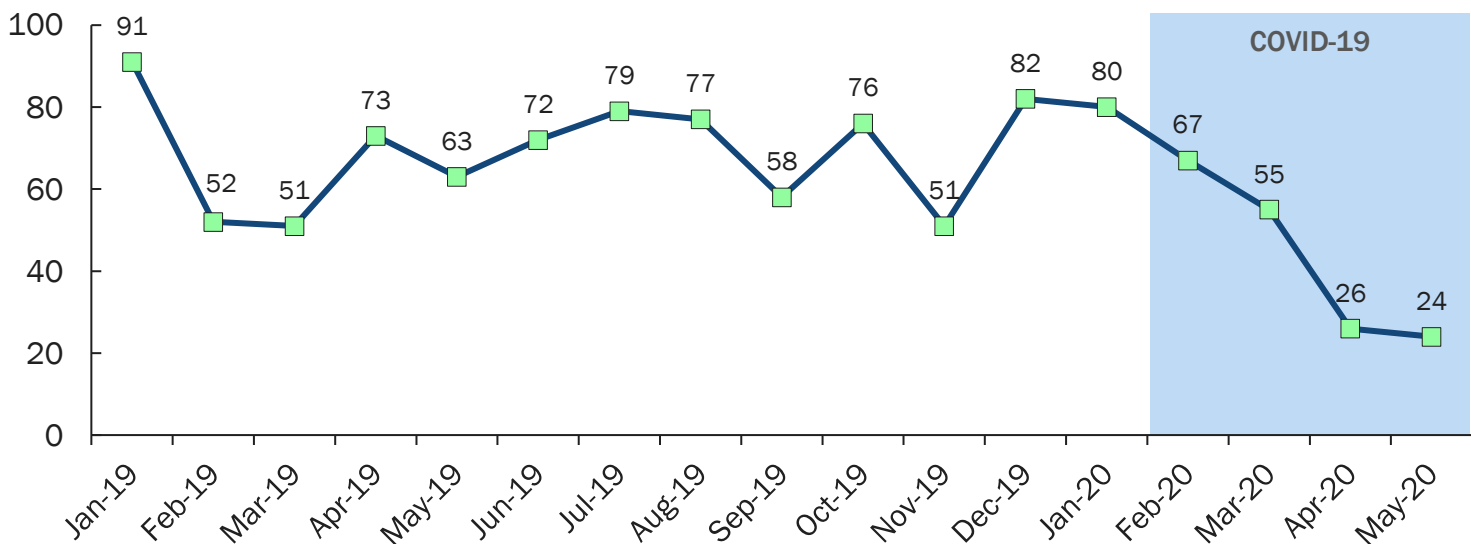
# Healthcare Providers & Services M&A History

## U.S. Healthcare Providers & Services Deal Volumes: 1999 – 2019<sup>(1)(2)</sup>



Source: Capital IQ

## U.S. Healthcare Providers & Services Deal Volumes: Jan 2019 – May 2020<sup>(1)</sup>



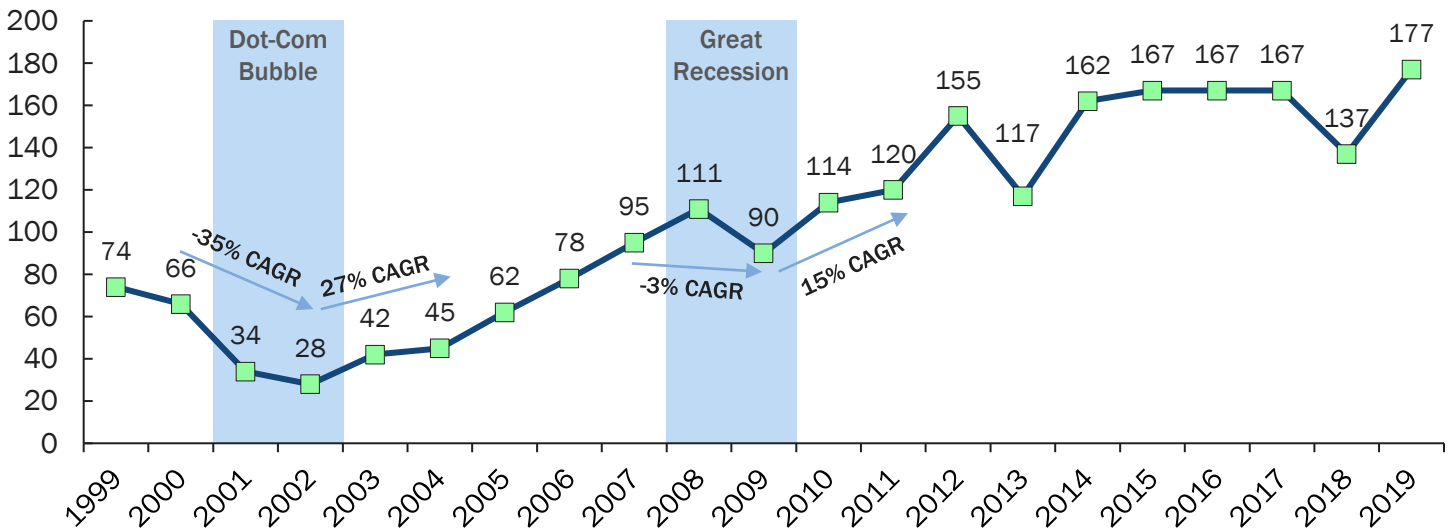
Source: Capital IQ

(1) Transaction volumes shown above include closed deals across the Healthcare Providers & Services sector

(2) CAGR is calculated based on deal volume over a period of two years

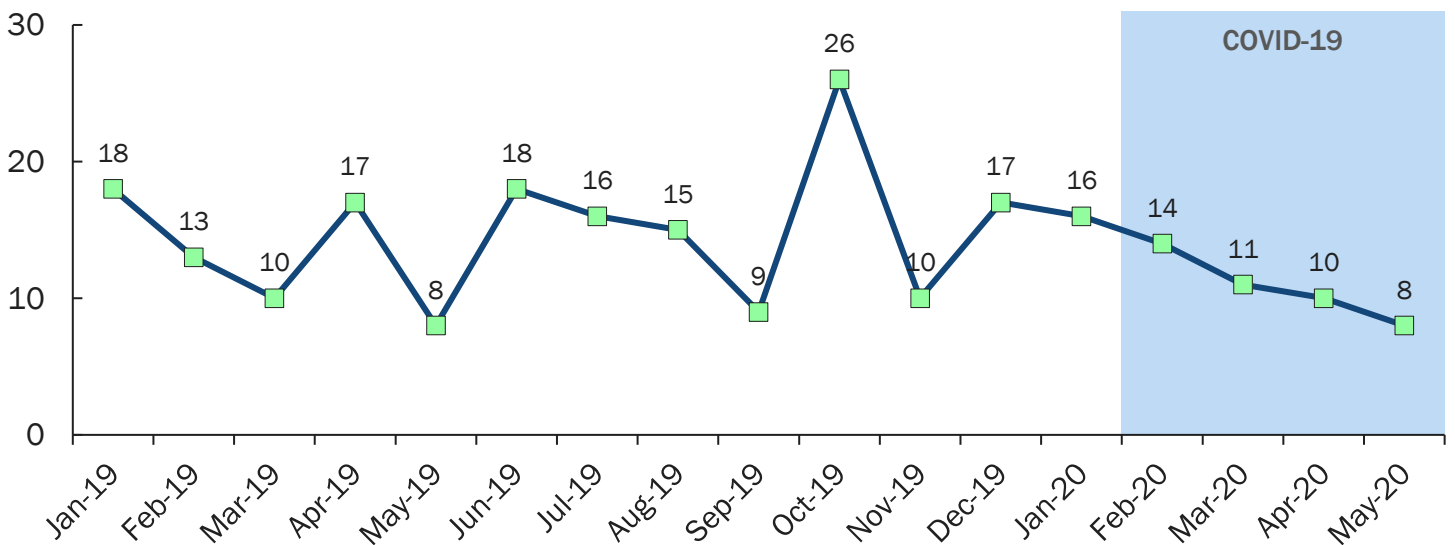
# Healthcare Technology M&A History

## U.S. Healthcare Technology Deal Volumes: 1999 – 2019<sup>(1)(2)</sup>



Source: Capital IQ

## U.S. Healthcare Technology Deal Volumes: Jan 2019 – May 2020<sup>(1)</sup>

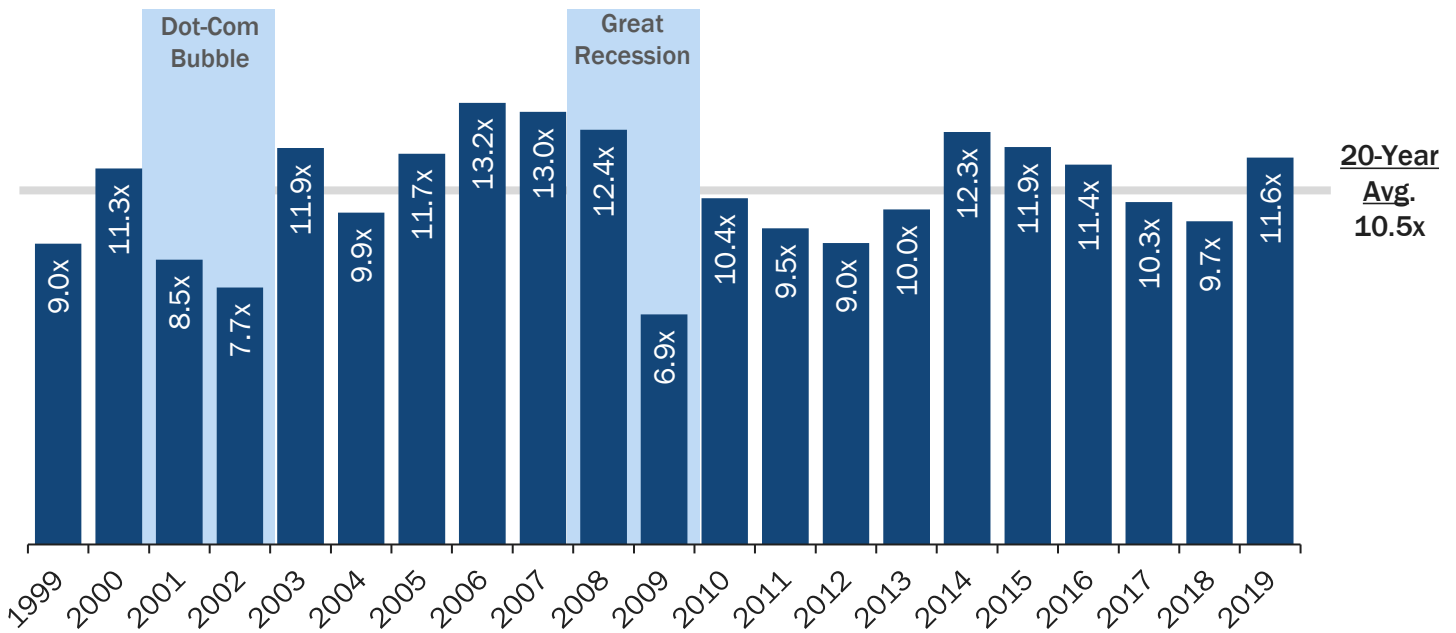


Source: Capital IQ

(1) Transaction volumes shown above include closed deals in the Healthcare Technology sector  
 (2) CAGR is calculated based on deal volume over a period of two years

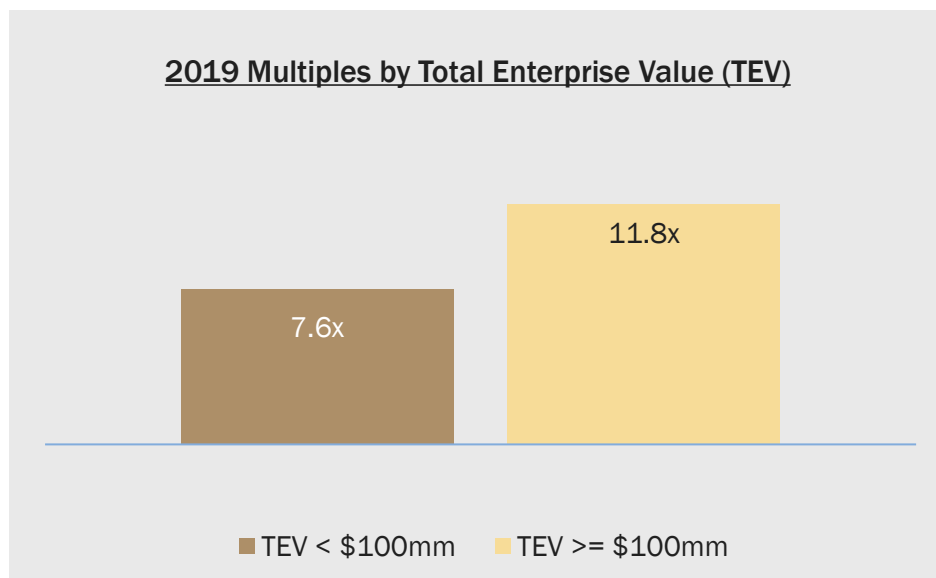
# Healthcare Valuation History

## U.S. Healthcare M&A Valuation Multiples (EV/EBITDA): 1999 – 2019<sup>(1)</sup>



Source: Capital IQ

## U.S. Healthcare M&A Valuation Multiples (EV/EBITDA): 2019 Size Premia



Source: Capital IQ

(1) Multiples shown above include closed deals in the healthcare providers, services, and technology subsectors in which valuation was disclosed. Data excludes outliers (multiples <1.0x and >50.0x) and reflects median EBITDA





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## **IV. Notable Deals During COVID-19**

## Notable Deals During COVID-19

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### Telemedicine

#### Venture / Growth Equity Deals:

##### March 2020

- **Bright.md**, an AI-powered platform for primary care providers, closed an \$8 million Series C raise led by B Capital and Seven Peaks Ventures
- **AristaMD**, a San Diego, California-based digital health company that provides eConsult solutions, has raised \$18 million in Series B funding. The round was led by Cigna Ventures and MemorialCare Innovation Fund (MCIF), with participation from Avalon Ventures, CU Healthcare Innovation Fund and Stanford Health Care
- **RubiconMD**, the leading eConsult platform providing access to specialist expertise, announced it raised \$18 million in Series C funding led by Deerfield Management Company
- **Pager**, a New York City-based virtual healthcare companion, has raised \$33 million in a Series B equity and debt round led by Health Catalyst Capital

##### April 2020

- **98point6**, a Washington-based provider of virtual primary care services raised \$43 million in a Series D round
- **SonderMind**, an online platform dedicated to making behavioral health more accessible, has completed a \$27 million Series B financing round led by General Catalyst
- **Medici**, a virtual healthcare company based in the U.S., completed the raise of its Series B financing round of \$24 million by current investors
- **XRHealth**, a Boston, Massachusetts-based virtual reality medical headset maker, raised \$7 million in a funding round led by Bridges Israel, Flint Capital, and 20/20 HealthCare Partners
- **Tyto Care**, a New York City-based company that performs remote medical exams on demand, has raised \$50 million in a growth round co-led by Insight Partners, Olive Tree Ventures, and Qualcomm Ventures LLC

##### May 2020

- **Carbon Health**, a California-based telehealth company, raised \$26 million in an extended Series B from DCVC
- **Amwell**, a provider of telemedicine technology solutions, raised \$194 million in Series C funding from early stage investors and strategic partners, including Allianz X and Takeda

## Notable Deals During COVID-19, Cont'd

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### Telemedicine (Cont'd)

#### Venture / Growth Equity Deals (Cont'd):

##### May 2020

- **Braid Health**, a digital health innovation company that develops AI-powered diagnostic tools for radiology, announced the close of \$9 million in seed and Series A investment rounds led by Lux Capital and Rucker Park Capital
- **TimeDoc, Inc.**, a virtual care management platform that enables the leading healthcare providers to manage their chronic care population, has completed a \$5.7 million Series A round of financing led by Vocap Investment Partners
- **Mindstrong**, a mental health virtual care company, has secured \$100 million in Series C fundraising from new and existing investors, including General Catalyst, ARCH Venture Partners, Foresite Capital, 8VC, Optum Ventures, and What If Ventures, among others

#### Private Equity Buyout / Corporate M&A Deals:

##### March 2020

- New Capital Partners has made an investment in **TeleHealth Solution**, a provider of virtual medical support for patients in senior living facilities

##### April 2020

- UnitedHealth Group's Optum is in late stage discussions to acquire mental health-focused virtual therapy provider **AbleTo** for a reported \$470 million

##### May 2020

- Omada Health has acquired **Physera**, a telehealth-focused physical therapy provider

## Notable Deals During COVID-19, Cont'd

### Healthcare Technology/Tech-Enabled Services

#### Venture / Growth Equity Deals:

##### March 2020

- **emids**, a Nashville, Tennessee-based provider of digital engineering and transformation solutions to healthcare providers, payors, and technology companies, received an equity investment from BlueCross BlueShield Venture Partners
- **Olive**, a Columbus, Ohio-based company developing artificial intelligence and RPA solutions, has raised \$51 million in a funding round led by General Catalyst
- **Diligent Robotics** announced the close of a \$10 million round to expand its fleet of nurse assistant robots for hospitals. The round was led by DNX Ventures, with participation from True Ventures, Ubiquity Ventures, Next Coast Ventures, Grit Ventures, E14 Fund, and Promus Ventures
- **Inbox Health**, a patient communication platform for medical billers, has raised \$3.5 million in funding led by Healthy Ventures, joined by Collaborative Fund and Commerce Ventures
- **Tempus**, a technology company advancing precision medicine through the practical application of artificial intelligence in healthcare, announced an additional \$100 million financing
- **b.well Connected Health**, the platform designed to provide consumers a new front end to healthcare, closed a \$16 million Series A investment round led by UnityPoint Health Ventures, the venture capital arm of UnityPoint Health
- **Heartbeat Health**, a New York City-based leading digital health company aimed at improving heart health and addressing cardiovascular disease, announced that it has closed \$8.2 million in Series A funding. The funding was led by .406 Ventures and Optum Ventures
- **Suki**, a Redwood City, California-based voice-enabled digital clinical assistant, has raised USD 20m in a Series B funding round led by Flare Capital Partners
- **axialHealthcare**, a Nashville, Tennessee-based healthcare information technology firm focused on opioid addiction, has closed \$15 million in equity financing from previous institutional investors Oak HC/FT, .406 Ventures, BlueCross BlueShield Venture Partners, and Sandbox Advantage Fund

##### April 2020

- **Particle Health** announced its \$12 million Series A funding led by Menlo Ventures, with participation from existing investors Collaborative Fund, Story Ventures and Company Ventures
- **CyberMDX**, a New York City-based healthcare cybersecurity software firm, secured \$20 million in a funding round led by Sham (Relyens Group)
- **Aledade**, a Bethesda, Maryland-based medical back office software company, raised \$64 million in a Series C funding round led by OMERS Growth Equity

## Notable Deals During COVID-19, Cont'd

### Healthcare Technology/Tech-Enabled Services (Cont'd)

#### Venture / Growth Equity Deals (Cont'd):

##### May 2020

- **Holmusk**, a leading data science and health technology company announced a Series A \$21.5 million funding round. The round was led by Optum Ventures (OV) and Health Catalyst Capital (HCC)
- **Stellar Health**, a value-based healthcare technology company headquartered in New York City, announced that it has raised over \$10 million in Series A funding led by Point72 Ventures
- **Dascena Inc.**, a machine-learning diagnostic algorithm company, closed on a \$50 million Series B financing round led by Frazier Healthcare Partners

#### Private Equity Buyout / Corporate M&A Deals:

##### March 2020

- **DXC Technology [NYSE:DXC]**, a Virginia-based provider of information technology services, has agreed to sell its U.S. State and Local Health and Human Services business to Veritas Capital for \$5 billion in cash
- HealthStream (NASDAQ: HSTM) has acquired **NurseGrid**, the top-rated schedule coordination mobile app for nurses. The purchase price was approximately \$25 million in cash

##### April 2020

- Blackstone completed the acquisition of **HealthEdge Software**, a healthcare technology company that delivers core administrative processing systems solutions
- W2O Group, a San Francisco, California-based healthcare digital marketing firm backed by New Mountain Capital, has acquired Pasadena, California-based **Symplur**
- HealthChampion, a Chicago, Illinois-based digital health analytics company, will acquire Chicago-based **alligatortek**, a provider of custom software solutions

##### May 2020

- Kaufman Hall (backed by Madison Dearborn Partners) closed on acquisition of **Change Healthcare's Connected Analytics division**. Total consideration is \$55 million – \$30 million paid in cash and a \$25 million seller note
- CareCentrix, a provider of care management services for post-acute care, has acquired **Turn-Key Health**, a palliative-care focused data analytics company
- PointClickCare Technologies, a provider of SaaS solutions for the senior care market, has acquired **Co-Pilot** from Consonus Healthcare

## Notable Deals During COVID-19, Cont'd

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### Healthcare Technology/Tech-Enabled Services (Cont'd)

#### Private Equity Buyout / Corporate M&A Deals (Cont'd):

##### May 2020

- OptumHealth Inc. (division of UnitedHealth Group) has acquired **naviHealth**, a Nashville, Tennessee-based healthcare software and analytics company focused on post-acute care, from Cardinal Health Inc. and Clayton, Dubilier & Rice in a deal valued at \$2.5 billion
- RevSpring, a Livonia, Michigan-based provider of billing and communications solutions backed by GTCR, acquired Lafayette, California-based **Loyale Healthcare**

##### June 2020

- Change Healthcare [Nasdaq:CHNG] has announced the acquisition of Fort Worth, Texas-based **PDX**, a leader in providing patient centric and innovative technologies for pharmacies and health systems
- R1 RCM [NASDAQ:RCM], the Chicago, Illinois-based provider of healthcare revenue cycle management services, will acquire **Cerner RevWorks**, who provides revenue cycle management services to healthcare providers, from Cerner [NASDAQ:CERN]

## Notable Deals During COVID-19, Cont'd

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### Post-Acute Care

#### Private Equity Buyout / Corporate M&A Deals:

##### March 2020:

- Bristol Hospice (portfolio company of Webster Equity Partners) closed its acquisition of **Sojourn Hospice & Palliative Care** (portfolio company of Martis Capital)
- BrightSpring Health Services announced the acquisition of **Advanced Home Care's** home health and specialty infusion lines of business in the Southeast

##### April 2020

- Amedisys Inc. (NASDAQ: AMED) has agreed to acquire **Homecare Preferred Choice** (d.b.a. AseraCare Hospice) for cash consideration of \$235 million, or ~2.0x revenue. The transaction is expected to close June 1, 2020
- Choice Homecare of Texas, LLC, a Tyler, Texas-based hospice, rehab service, and home health provider, has acquired **Nextgen Hospice LLC**, a Houston, Texas-based provider of hospice services
- Missouri Home Hospice, a provider of home health and hospice services, has acquired **HomeCare of Mid Missouri**, a provider of home health and hospice services
- Amedisys [NASDAQ:AMED] the Louisiana-based provider of home health and personal care, signed a definitive deal agreement to acquire Arkansas-based hospice care provider **AseraCare** Hospice, for a cash price purchase of \$235 million

##### May 2020

- The Pennant Group, Inc. (NASDAQ: PNTG) has acquired two Arizona-based hospice agencies – **Prime Hospice and Harmony Hospice of Arizona**

## Notable Deals During COVID-19, Cont'd

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### Physician Practices

#### Private Equity Buyout / Corporate M&A Deals:

##### March 2020:

- Florida Orthopaedic Institute (portfolio company of MD Healthcare Partners) acquired **OrthoCare Florida**, an orthopedic physician group with 46 physicians

##### April 2020

- Signature MD (backed by Blue Sea Capital), a provider of concierge medicine, has acquired **Paragon Private Health**
- One GI, a gastroenterology management services organization formed by Webster Equity Partners, signed a definite agreement to partner with **Gastro One**, a 30 physician GI practice in Tennessee

##### April/May 2020:

- Southern Orthodontic Partners (portfolio company of Shore Capital Partners) completed strategic partnerships with **two orthodontic practices in Nashville and one in Houston**

##### May 2020

- North American Partners in Anesthesia (“NAPA”) has acquired **American Anesthesiology** from MEDNAX, Inc. (NYSE: MD) for \$250 million. Consideration includes \$50 million of cash, MEDNAX retention of ~\$110 million in accounts receivable, and a contingent payment based upon the future exit valuation of NAPA

##### June 2020

- Maryland-based Foot and Ankle Specialists of the Mid-Atlantic (backed by NMS Capital) expands with the acquisition of **Carolina Foot and Ankle of Huntersville**
- Enhanced Healthcare Partners, a New York-based private equity firm, announced its joint investment in the business merger of **Synergy Surgicalists**, a surgicalist staffing provider in the acute care setting, and **EA Health**, a leading provider of specialty physician on-call compensation solutions



## Notable Deals During COVID-19, Cont'd

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### Behavioral Health

#### Venture / Growth Equity Deals:

##### April 2020

- Yukon Partners has made an investment in the medication assisted treatment provider **Crossroads Treatment Centers** (portfolio company of Revelstoke Capital Partners). This follows on from a sale process launched in 2019 that was put on hold
- TPG Capital has made an investment in **LifeStance Health** (backed by Summit Partners and Silversmith Capital), a provider of outpatient mental health services both in-person and through telemedicine

##### May 2020

- **Broadstep Behavioral Health**, a provider of programs and services to individuals living with intellectual, developmental or behavioral disabilities, has received a significant investment from Bain Capital Double Impact

#### Private Equity Buyout / Corporate M&A Deals:

##### May 2020

- AppleGate Recovery, a Texas-based provider of opioid addiction treatment services (subsidiary of Webster Equity-backed BayMark Health Services), has acquired **Medication Assisted Recovery Centers**
- Acorn Health, a Florida-based provider of ABA therapy for children with autism (backed by MBF Healthcare Partners), has acquired **Behavior Basics** in Virginia

##### June 2020

- Kindred Healthcare, LLC, a Louisville, Kentucky-based hospital operator, will acquire **two behavioral health hospitals in Dallas-Fort Worth** from WellBridge Healthcare, a Plano, Texas-based hospital company



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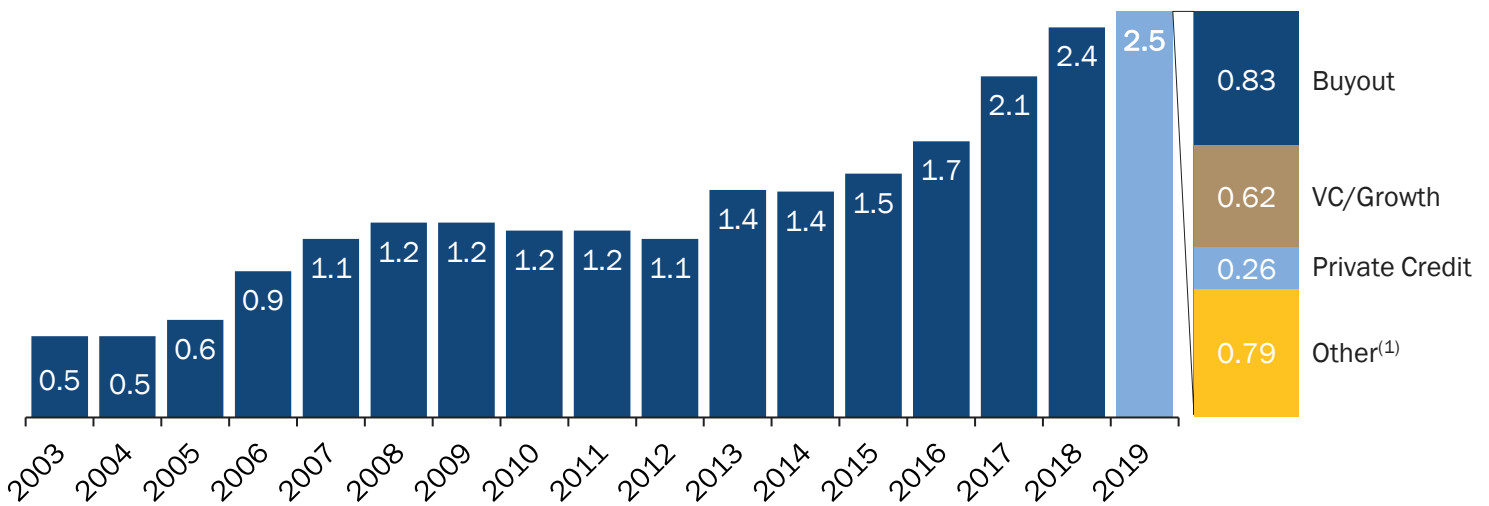
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## **V. Private Capital Availability**

# Private Capital Availability

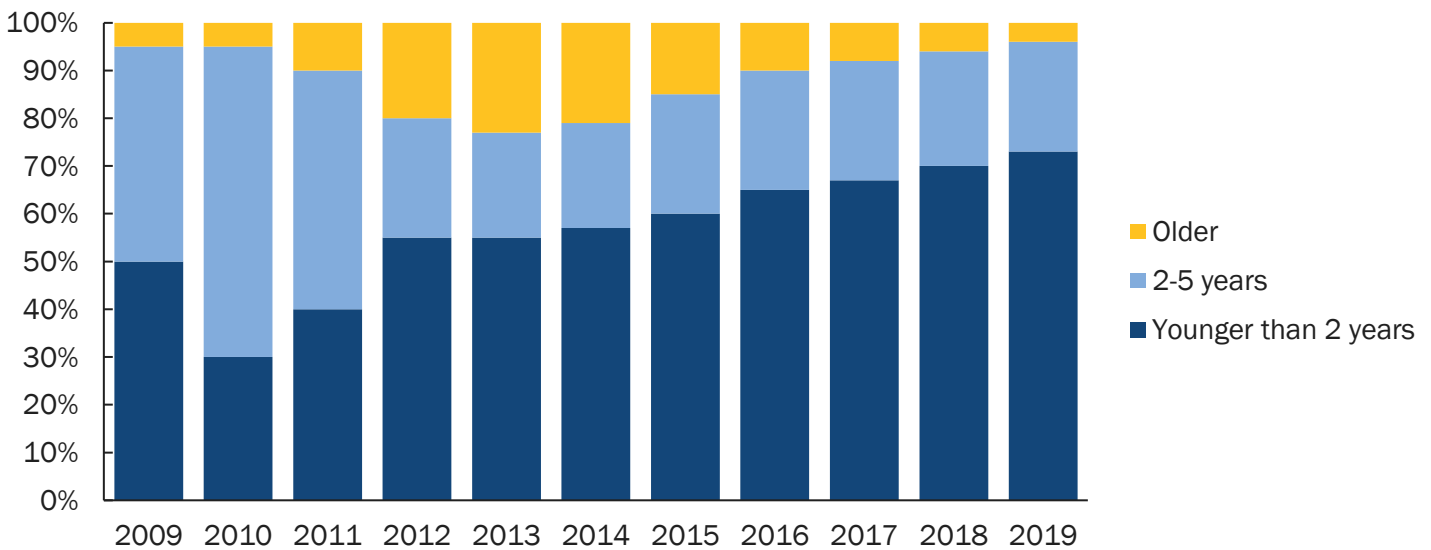
## Dry Powder Accumulation in Global Private Capital Funds

(\$ in trillions)



Sources: Preqin, Bain & Company

## Distribution of Global Buyout Dry Powder, By Age



Sources: Preqin, Bain & Company

(1) Other includes funds focused on real estate, infrastructure, natural resources, and others