GREENWICH CAPITAL GROUP

Healthcare M&A Update

Q2 2017

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U.S. Middle-Market M&A Update

M&A Activity Continues to Fall

Middle-market M&A activity continued its downward trend and hit a low of 6,302 reported transactions in Q2 2017. This represents a 3% decrease from the first quarter and the lowest level of activity observed since Q1 2013. It is difficult to explain the decline given the favorable underlying factors that typically impact the M&A environment (e.g., low interest rates, abundance of capital yet to be deployed, etc.). The dip in activity is likely a result of the uncertainty around potential tax, trade and regulatory changes, heightening value expectations among sellers, and the lengthy positive run in the overall M&A market. While volumes are down from their historical highs, the market remains very heated, especially for companies with strong growth potential.

Values Remain Strong as Interest in the Upper Middle Market Remains Steady

Middle-market aggregate deal value remained strong in Q2 with disclosed transactions totaling $47.4 billion. This is in line with historical levels despite the decrease in the number of reported deals this quarter. The average disclosed deal value for the first six months of 2017 was $74.8 million, a 50% increase from the average value in 2016. In addition to the notable increase from last year, this also represents the highest average deal size over a six-month span during any period since 2010.

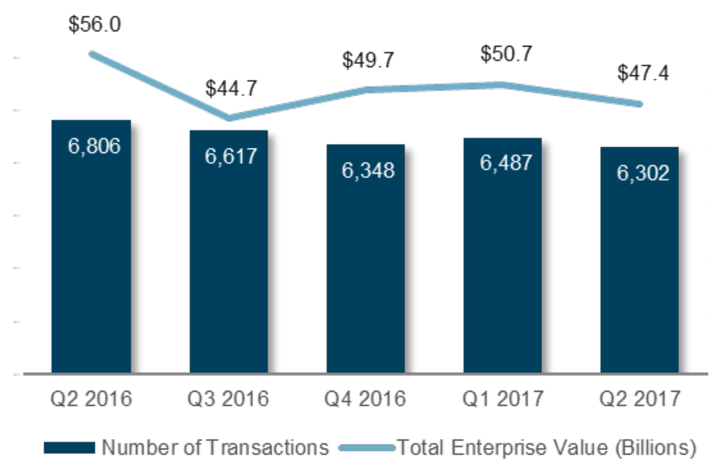
The substantial increase in average enterprise value can be attributed to sustained deal flow in the core middle market (deals valued between $100 million and $250 million) and the upper middle market (deals valued between $250 million and $500 million), coupled with a decrease in the number of lower middle market transactions (deals valued less than $100 million). Q2 demonstrated that in this slowed M&A environment, the level of interest in core and upper middle market companies has persisted and the lower middle market, therefore, felt the impact of the weakening market.

As overall activity has continued trending downward, the lower middle market has followed suit, experiencing quarter-over-quarter declines in volume. This segment has historically represented approximately 85% of total middle-market activity until recent years, falling to a low of 78.9% of total deal flow in Q2 2017.

Foreign Buyers' Interest Continues to Grow

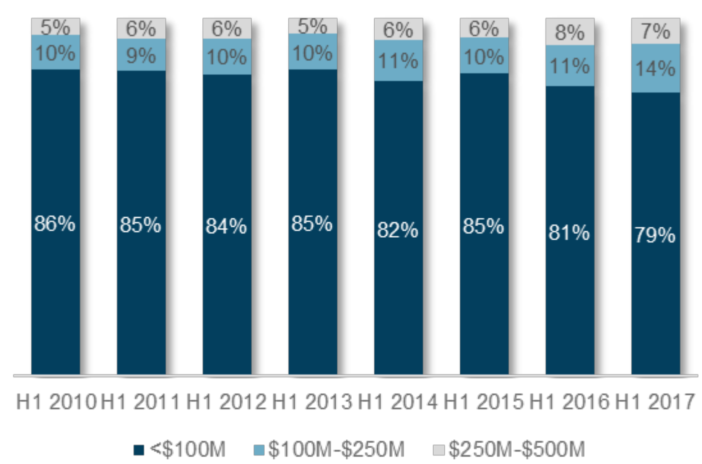
This quarter, foreign acquirers accounted for 13.3% of the overall buyer base. This is the third consecutive quarter that foreign buyers' share of U.S. M&A activity exceeded 13%. This buyer base had not exceeded 10% of deal flow until 2015 and is now reaching new post-recessionary levels. This should be viewed as a welcome addition to middle-market sellers. It provides another source for a potential exit in addition to the existing base of domestic strategic acquirers and financial investors.

Middle-Market M&A Volume and Value



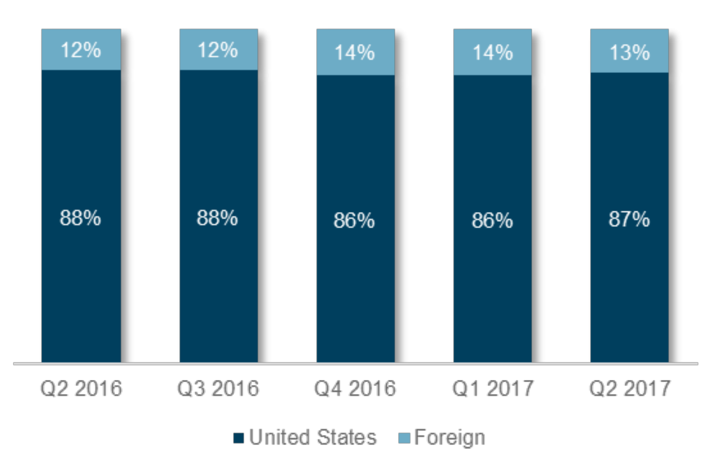
Source: Capital IQ

H1 2010 - 2017 M&A Activity by Enterprise Value



Source: Capital IQ

Middle-Market Activity by Buyer Region



Source: Capital IQ

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Industry Highlight | Healthcare

Middle-Market Healthcare Deals Dip in Volume and Value in Q2 2017

Healthcare M&A activity slowed in Q2 2017, with 981 transactions totaling approximately $5.0 billion in enterprise value. These results are down dramatically from the recent highs in transaction volume (1,101 deals) and value ($8.5 billion) observed in Q2 2016. Similarly, average deal value fell to $61.2 million, marking its lowest point in the last four quarters for transactions with disclosed values.

Healthcare Services and Medtech Poised for Continued M&A Activity

Healthcare Services and Medtech made up approximately 35% of M&A activity in Q2 2017, as businesses in these sectors continue to mature from early-stage start-up companies into investible platforms for growth and diversification. Companies and shareholders alike are leveraging the attractive sector valuations and are increasingly seeking outside capital from equity markets or exploring sales to larger strategic market participants. Concurrently, large corporations are being faced with a ‘build vs. buy’ decision when it comes to new products and services and are often turning to M&A to acquire outside talent and jumpstart new initiatives.

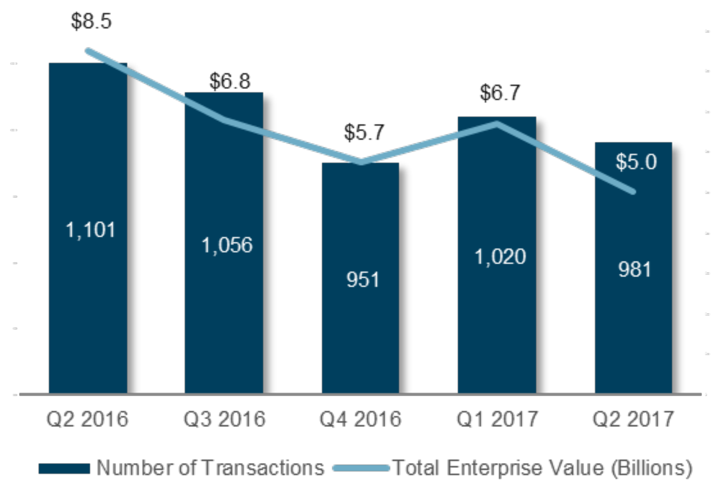
Notable transactions include Warburg Pincus’ $231 million investment in Modernizing Medicine in May 2017. Modernizing Medicine’s main product is a mobile, cloud-based, specialty-specific EMR software, which is currently being utilized by over 10,000 providers nationwide. Additionally, virtual care leader, Teladoc (NYSE: TDOC), announced its acquisition of Best Doctors for $440 million in June. Best Doctors is a leading medical consultation company, utilizing advanced analytics and cognitive computing through a subscription-based model to provide solutions for complex medical issues and drive down the cost of care.

Q2 2017 Observed EBITDA Multiples Remain Strong and Show Continued Improvement

Healthcare M&A valuation multiples, as measured by enterprise value / EBITDA, averaged 10.5x EBITDA in Q2 2017, up from 9.6x EBITDA in the prior quarter. This reflects an increase of approximately 9.4% in Q2, despite limited valuation multiple observations for middle-market transactions up to $500 million in enterprise value.

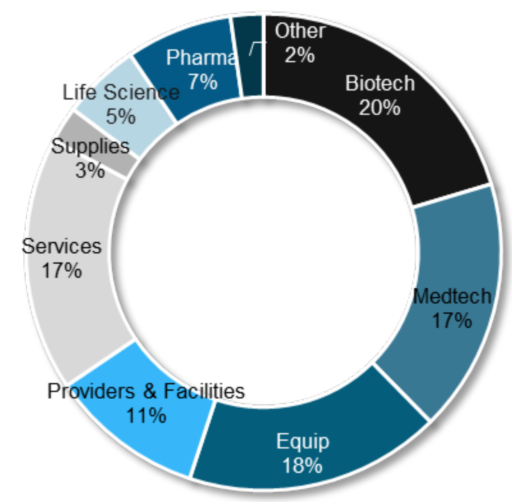
Despite limited valuation data points observed year-to-date, the overall market sentiment remains strong and will likely continue to support high valuations for healthcare businesses with attractive growth prospects, a specialty focus and solid underlying fundamentals.

Healthcare M&A Volume and Value



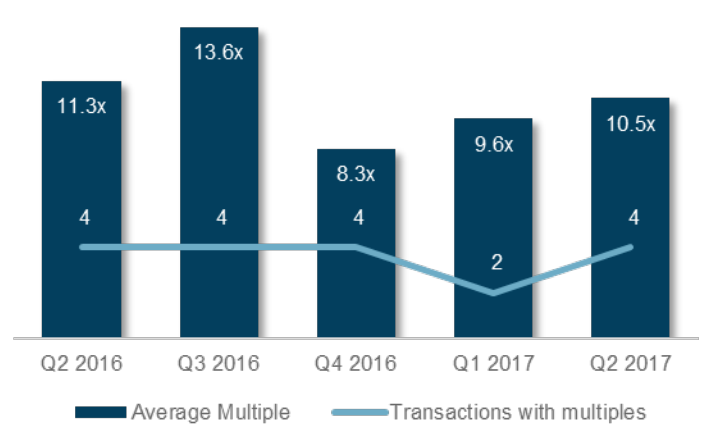
Source: Capital IQ

Q2 2017 Healthcare Activity by Sector



Source: Capital IQ

Healthcare Observed EBITDA Multiples



Source: Capital IQ

About the Report

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About Greenwich Capital Group

GCG is a middle-market focused investment bank offering a range of strategic and financial advisory services to privately held businesses, private equity investors and divisions of publicly traded companies. Our senior bankers have held leadership positions at global investment banking firms, bringing a wealth of experience to each of our clients.

Research Methodology

For the purpose of this report, GCG defines middle-market M&A as an announced and/or completed transaction in which one company purchases a minority or majority equity stake in another company that is based in the United States and has an undisclosed or disclosed enterprise value less than or equal to $500 million. The information provided in this market overview was obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Statements provided herein reflect GCG's objective opinions and are not to be construed as legal, accounting, financial or investment advice.

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