



GREENWICH
CAPITAL GROUP



INDUSTRY UPDATE

Healthcare

Q3 2017

INDUSTRY UPDATE | U.S. Middle-Market M&A

M&A Activity Rebounds in Q3 2017

Middle-market M&A activity rebounded from the recent low in Q2 2017, with deal flow increasing 2.3% from Q2 2017. While that is positive news for the middle-market deal environment, this level of activity remains 2.7% lower than Q3 2016 and much lower than the run rate observed from 2014 through Q3 2016. While there was still uncertainty around potential tax, trade, healthcare and regulatory changes, these uncertainties are becoming clearer as we move further past the presidential election. It is also anticipated that the recent strong showing by the public markets, as well as the improving earnings numbers, will enhance the M&A appetite of the buyer base in the fourth quarter and into 2018.

Values Remain Strong as Interest in the Upper Middle Market Continues to Climb

While M&A volumes have been lower in recent quarters than they have been historically, deal values are improving. Enterprise values in Q3 2017 averaged \$66.8 million, representing the strongest quarter this year in terms of deal value and a 6.7% increase from the first quarter. This is a natural outcome as companies continue to improve earnings as the economic expansion continues and the M&A market remains strong.

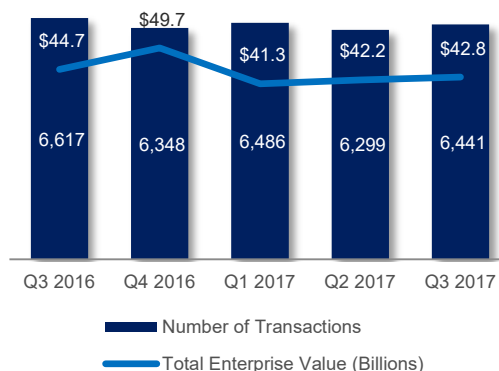
The healthy deal values can also be observed through the amount of middle-market deals that are valued over \$100 million versus those valued below \$100 million. In Q3, 22.7% of all middle-market transactions were valued between \$100 million and \$500 million. This is higher than the first two quarters of 2017 and significantly higher than the percentage historically, which hovered between 13% and 16% until 2014 and has continued to climb from the 16% observed in Q1 2014 to where it is today.

Foreign Buyers Increase Their Presence and Financial Buyers' Interest Remains in the Middle Market

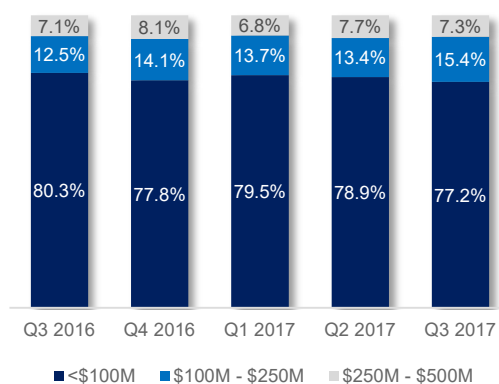
Foreign acquirers continue to grow their presence in the middle market, accounting for 12.2% of the overall middle-market buyer base in Q3 2017. While this is a slight decrease from the prior quarter, this level of activity from foreign buyers remains much higher than the five years prior to 2016. During this period from 2011 through 2015, the percentage of deals completed by foreign acquirers ranged from 9.1% and 10.4% annually.

While foreign acquirers have become more active in the middle market, financial investors have shown continued interest in the sector as well. In Q3 2017, 35% of middle-market transactions were completed by financial buyers, an increase from the 31% observed over the first two quarters of 2017. That said, financial investors' share of middle-market deal flow has maintained a steady level between 35% and 38% over the past five years.

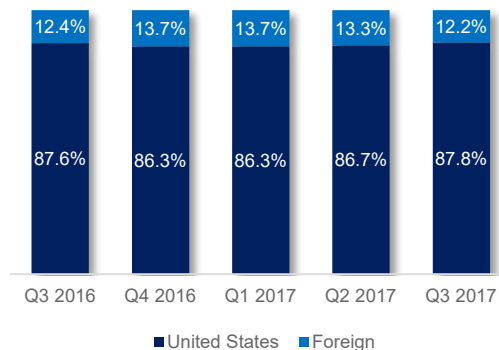
Middle-Market M&A Volume and Value



M&A Activity by Enterprise Value



M&A Activity by Buyer Region



Source: Capital IQ



INDUSTRY UPDATE | Healthcare

Healthcare Activity in Q3 2017 Remains Steady

Q3 2017 middle-market Healthcare M&A volume and value remained relatively static with the results observed in Q2 2017. With \$5.4 billion in total value on 977 transactions, the average enterprise value was approximately \$63.4 million. This represents a 2% increase from the Q2 2017 average value of \$62.0 million, but remains much lower than observed volume and value in Q3 2016, which totaled 1,056 transactions valued at over \$6.8 billion, with an average enterprise value of \$65.5 million.

Integration Opportunities Likely to Continue Driving Activity

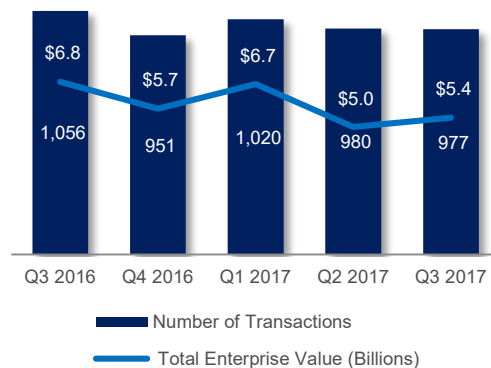
Within the Healthcare industry, companies are increasingly interested in diversifying into new and differentiated service lines. As an example, there have been several recent accounts of CVS Health engaged in ongoing negotiations to acquire Aetna in order to become the exclusive provider to Aetna subscribers and gain greater power over drug companies, while buoying its front-of-store sales that are being eroded by online retail. Likewise, Amazon is faced with the opportunity to transition into selling prescription drugs, which further perpetuates this service evolution, as consumers are expected to continue to gravitate toward shopping for prescriptions online.

As large, multinational healthcare companies look at diversification strategies and opportunities to vertically integrate, it is anticipated that the number of transformational transactions will continue to grow. This activity will likely be a leading indicator for the next wave of M&A activity, along with a trend towards smaller companies as targets due to their technologies, products and talent, with an ability to create added scale for large multinational industry consolidators.

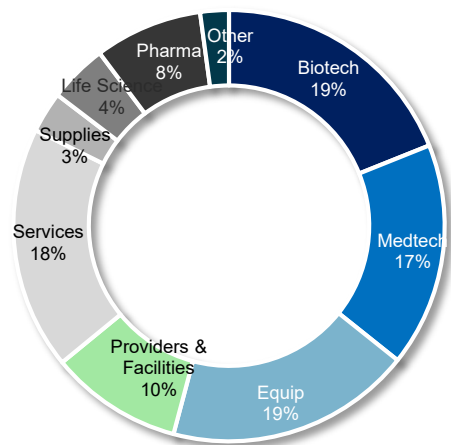
Q3 2017 Observed EBITDA Multiples Spike on Activity from European Investors

Despite a limited number of observed transactions with disclosed EBITDA multiples, those transactions with multiples were at a recent high of 16.2x EBITDA in Q3 2017, up from 10.5x EBITDA in Q2 2017 and 13.6x EBITDA in Q3 2016. Each of the transactions were commenced with European buyers investing in U.S. companies. Similarly, three of the four transactions were in Biotech and Life Sciences, which included GE Healthcare's divestiture of its gene synthesis business, Dharmacon, Inc., to UK-based Horizon Discovery Group plc (AIM:HZD) for \$86.5 million (at 16.8x EBITDA), the sale of CellRight Technologies, LLC, a developer of regenerative medicine and wound care scaffolds to UK-based Tissue Regenix Group plc (AIM:TRX) for \$30.0 million (at 19.0x EBITDA) and Welsh, Carson, Anderson and Stowe's sale of Aptuit, LLC, a drug discovery and development business, to Germany's Evotec AG (XTRA:EVT) for \$300 million (at 25.8x EBITDA).

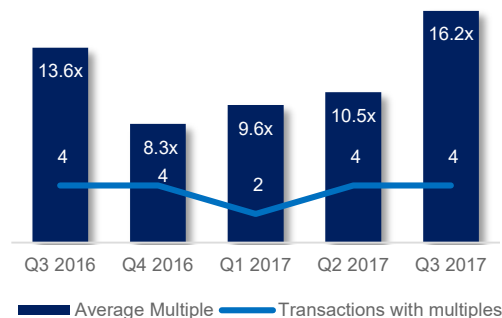
Healthcare M&A Volume and Value



Q3 2017 Healthcare M&A by Sector



Observed Healthcare EBITDA Multiples



Source: Capital IQ



ABOUT THE REPORT

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.

Healthcare Expertise

Healthcare is an evolving industry facing many opportunities and challenges. GCG's healthcare investment banking team leverages its deep industry knowledge and experience to provide strategic financial solutions for our clients in this rapidly changing environment. Our professionals are dedicated to understanding complex industry dynamics while providing merger and acquisition advisory services to companies and investors across several sectors in Healthcare.

More about Greenwich Capital Group

Greenwich Capital Group ("GCG") is a middle market focused advisory firm offering a range of investment banking and consulting services to private companies, public companies and private equity investors. For additional perspective or to discuss M&A related opportunities in the healthcare industry, please reach out to GCG's healthcare practice leader, Joe Schmitt. For more information, please visit www.greenwichgp.com.



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