GREENWICH CAPITAL GROUP

Healthcare M&A Update

Q1 2018

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U.S. Middle-Market M&A Update

Middle-Market M&A Activity Accelerates in Q1 2018

A combination of favorable interest rates, lower corporate tax rates, strong earnings and a thriving economy resulted in a very strong M&A market in Q1 2018. During the quarter, there were 6,910 reported middle-market transactions in the U.S. This is a sharp increase over prior quarters, specifically 9% growth over Q4 2017 and a 7% increase when compared to the first quarter of 2017. Q1 results put 2018 on pace to be the most active M&A market since 2015.

Middle-market deal values averaged $74.2 million in Q1, a level that has not been reached in the last five years. The Q1 average value also represents a 13% increase over the recent high in 2017 of $65.7 million. The increase in valuations can also be observed through the gradual shift away from the lower middle market in favor of slightly larger deals. Companies valued at less than $100 million have historically dominated the middle market and, while they still represent a large portion of total volume, those valued over $100 million are gaining share. In Q1 2018, deals valued over $100 million accounted for 24% of middle-market activity, representing another five-year high. For perspective, this segment accounted for 15% of activity in 2010 and has gradually increased to its recent high of nearly 22% in 2017.

Strategic and Domestic Buyers Continue to Dominate Middle-Market M&A

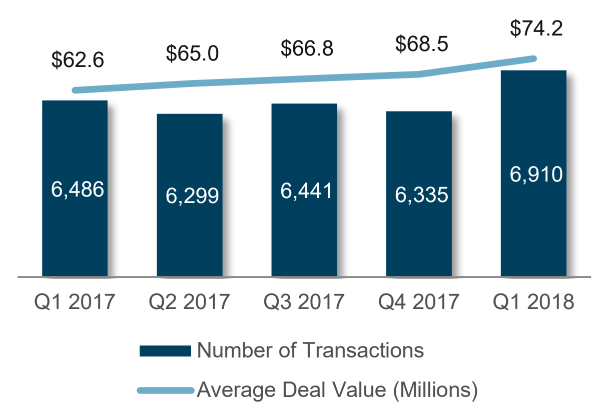
Strategic buyers continue to be the dominant buyer between strategic and financial buyers. This is to be expected given the strong earnings of strategic buyers, their cash positions and the recent tax cuts. Strategic buyers accounted for 68% of middle-market deals during Q1 2018. Despite this being in line with recent results, it is significantly higher than historical levels. From 2012 through 2016, for example, strategic buyers' share of M&A activity ranged between 62% and 65% of total deal flow.

The other component of the buyer base which continues to show strength is the domestic acquirers vs. foreign acquirers. In Q1 2018, domestic buyers accounted for 87% of the buyers targeting U.S.-based companies in the middle market. While this level is consistent with prior quarters, it is notably lower than historical levels due to a growing interest among foreign acquirers. From 2012 through 2016, foreign buyers ranged between 9% and 12% of the buyer base. Foreign buyers' increase to 13% of activity this quarter indicates the growing attractiveness of U.S.-based companies, which is expected to continue due to the relative strength of the U.S. economy and low interest rate environment.

Industry Sectors Tell a Clearer Story

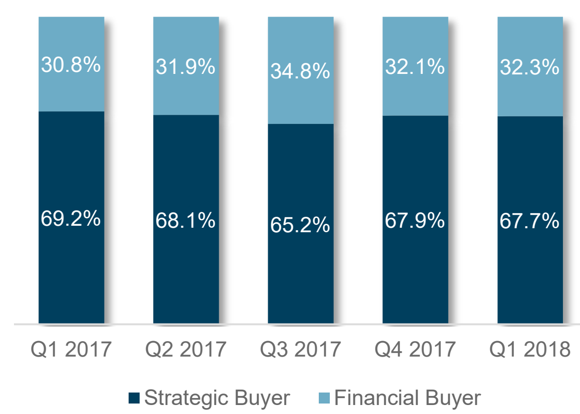
While the overall deal volume and value were quite strong during the first quarter of 2018, the underpinnings of this strength tell a clearer story. Three industries grew significantly in deal activity during the first quarter: Industrials, Healthcare and Technology. Conversely, the Energy, Utilities, Consumer and Financial sectors all showed a decline in deal activity from the prior quarter. While the overall deal activity is strengthening, certain industries are benefitting more than others from this increase.

M&A Volume and Average Enterprise Value



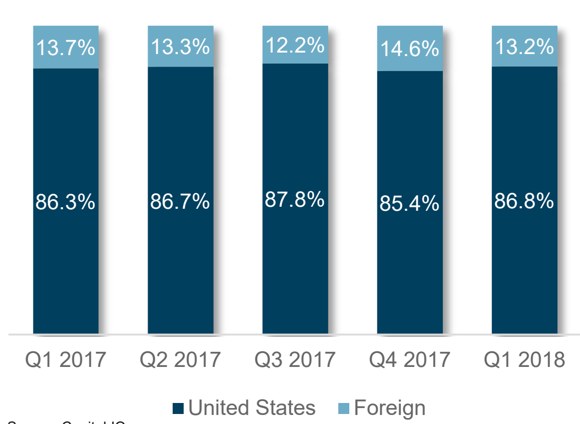
Source: Capital IQ

M&A Activity by Buyer Type



Source: Capital IQ

M&A Activity by Buyer Region



Source: Capital IQ

Q1 2018
Industry Highlight | Healthcare

Increases in Middle-Market M&A Activity Due to Focus on Complete Continuum of Care Among Providers

Middle-market Healthcare M&A activity in Q1 2018 experienced a significant rebound from the 2017 lows in Q4. Both deal volume and value increased with 969 transactions valued at approximately $5.1 billion in total enterprise value, representing increases of 3% and 59%, respectively.

Many of the companies that are garnering attention from acquirers are in sectors that generally take pressure off hospitals and aim to give patients more specialized and cost effective treatments. Additionally, the key underlying demographic trends and compelling cost savings achieved through vertical integration are driving consolidation throughout the industry. The need for greater scale, operational efficiency and comprehensive care capabilities have led a diverse group of buyers into these fragmented sectors within healthcare.

Home Healthcare Consolidation Driven by Traditional and Non-Traditional Strategic Buyers

Q1 2018 included 21 announced transactions in the home health and hospice segments, which was a 67% increase from Q4 2017. Additionally, this represents the highest quarterly volume for the sector since Q4 2016. Large personal care providers, like Addus Homecare, have been leading the consolidation efforts in 2018. In April 2018, Addus acquired Southfield, MI-based Arcadia Home Care for $18.5M (~6x EBITDA) to go along with their $40M (~7.5x EBITDA) acquisition of New Mexico-based Ambercare Corporation in February of 2018.

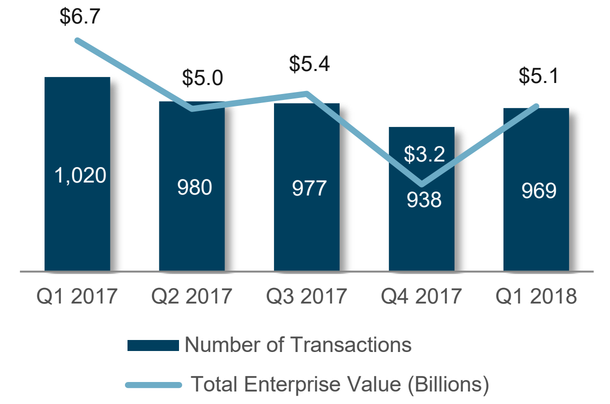
In addition to traditional strategic buyers, non-traditional buyers have also participated in the consolidation of this sector. Large insurance companies are continuing to push for low cost home health options for their Medicare populations as an alternative to higher cost hospital stays. In December 2017, Humana announced its majority investment in Kindred Healthcare, the nations largest home health and long term care provider for ~$4B (9.2x EBITDA).

This move by Humana set a precedent going into 2018 for both large and small insurers to manage their heavily Medicare-based patient population by preventing unnecessary hospitalizations and readmissions. Regional hospital systems have responded by acquiring or entering into joint ventures with home health and hospice providers in order to increase patient retention while also gaining a broader patient base.

Despite Decreased EBITDA Multiples Observed in Q1 2018, Market Dynamics Still Reflect Positive Trend

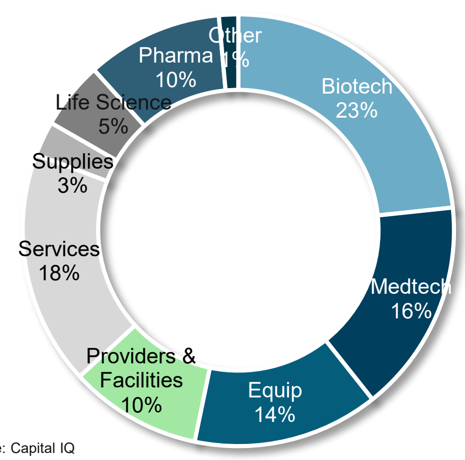
Despite a limited number of observed transactions with disclosed EBITDA multiples, the 8.3x average EBITDA multiple in Q1 is down from 12.1x in Q4 2017. R1 RCM Inc.'s (NASDAQ:RCM) acquisition of Intermedix Corporation for $460M (9.6x EBITDA) reflects further attention in improving patient and physician oriented interactions. The integration of Intermedix's assets into RCM's revenue cycle management services aims to simplify and connect revenue cycle operations across all points of care.

Healthcare M&A Volume and Total Value



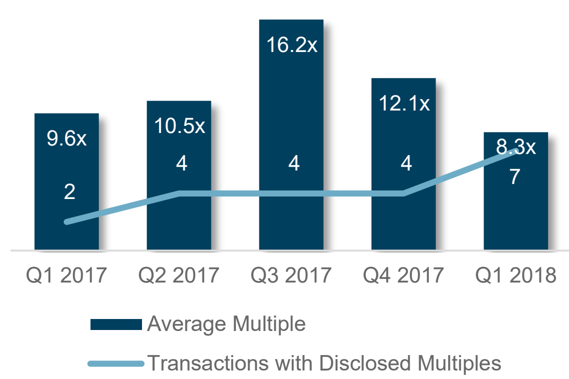
Source: Capital IQ

Q1 2018 Healthcare M&A by Sector



Source: Capital IQ

Observed Healthcare 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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