



GREENWICH
CAPITAL GROUP



INDUSTRY UPDATE

Healthcare

Q4 2017

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

Middle-Market M&A Remains Strong Despite a Dip in Transaction Volume

Deal flow in Q4 2017 remained consistent with prior quarters and concluded another strong year for middle-market M&A. Transaction volume totaled 25,561 at an aggregate value of \$168.2 billion for the year. While this represents a 3.3% decline from 2016 levels, 2017 still demonstrated a relatively strong M&A market. M&A activity has been on a modest decline since hitting its peak in 2014 with deal flow totaling 28,804 transactions. While 2017 represents an 11.3% decrease from this high, which may signal a weakening market, all of the underlying trends are quite strong.

One clear sign of the strength of this M&A market is the reported average valuation multiple, as measured by Enterprise Value / EBITDA, of 10.7x EBITDA, which represents the highest multiple witnessed over the past six years. Similarly, the average deal value for middle-market transactions has continued to rise over the same time period, reaching a high of nearly \$66 million in both 2016 and 2017. Additional indications of the strength of this market include the greater level of activity resulting from foreign investors, as well as the increased activity among strategic investors. Overall, this is a broad-based market with strong demand from both domestic and global buyers.

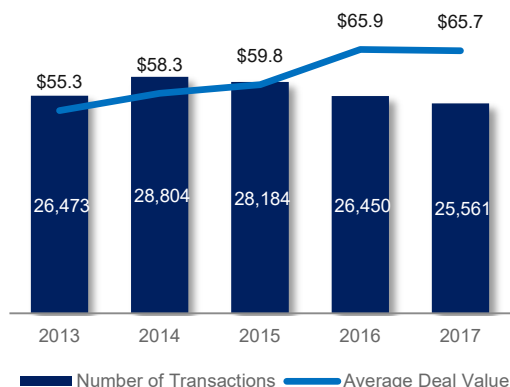
Strategic Buyers Make a Push

One of the more noticeable trends witnessed in 2017 was the continued strengthening of strategic acquirers. During 2017, strategic buyers accounted for 68% of the buyer base for middle-market transactions. This is the highest percentage we have seen from strategic buyers since 2010, a year where this percentage was heavily influenced by a lack of private equity activity due to the financial crisis. The level of activity from strategic buyers has shown continuous growth from the 2014 lows of 62% to the recent high observed in 2017. This trend is anticipated to accelerate even more aggressively in 2018 due to the tax reform taking effect. The corporate tax cuts have primed the pump for strategic buyers to use tax savings on acquisitions and other growth initiatives. The tax bill also provides additional advantages that should allow strategic buyers to pay a higher value for middle-market deals, making them more competitive in the hot M&A market. With lower tax rates and escalating public market multiples, it is expected that middle-market companies will continue to see a growing interest from strategic acquirers.

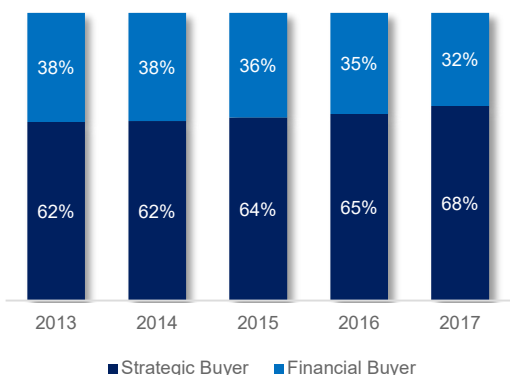
Foreign Buyers Focused on the U.S. Middle Market

Foreign acquirers continue to enhance their focus on the U.S. middle market. During 2017, foreign buyers accounted for 13.4% of the buyer base for middle-market M&A. This is a continuation of the increase in the foreign buyer impact from its low in 2013 of 9.1% of the M&A buyer base. Foreign buyers continue to show interest in U.S. assets given the relative strength of the U.S. economy and the low interest rate environment. This trend picked up considerably in the fourth quarter of 2017 where this percentage jumped to 14.6%. This trend is expected to continue into 2018 as tax reform takes effect and the resulting corporate tax cuts make this business environment more attractive to foreign buyers.

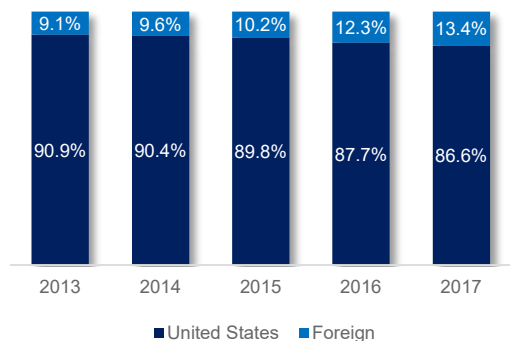
Middle-Market M&A Volume and Value



M&A Activity by Buyer Type



M&A Activity by Buyer Region



Source: Capital IQ



INDUSTRY UPDATE | Healthcare

Decreases in Middle-Market M&A Activity Due to Uncertainty Surrounding Regulatory and Tax Reform

Observed middle-market Healthcare M&A volume and value were at trailing-twelve-month lows, with 938 transactions valued at approximately \$3.2 billion in Q4 2017. When compared to Q4 2016, observed year-over-year decreases in volume and value were 1.4% and 45%, respectively, which is likely due to uncertainty in Healthcare due to proposed changes in the Affordable Care Act (“ACA”), ongoing regulatory ambiguity with the Trump administration and Republican control of both the Senate and House of Representatives. Another major factor that may have contributed to the steep declines observed in Q4 2017 was the passage of tax reform, pushing potential transactions off until 2018 and beyond, where more favorable tax environment will support further M&A activity.

Healthcare M&A by sector in Q4 2017 remained well-diversified, with an emphasis on Biotech (21%), Medtech (17%), Equipment (15%) and Services (15%). Sectors with growth prospects and outsized margins, as is the case with Biotech and Medtech, or those that can benefit from scale, diversification and technological efficiencies, as with Healthcare Equipment and Services, will continue remain in focus for M&A strategies.

Elevated EBITDA Multiples Observed in 2017 Reflect Overall Market Health and Sustainability

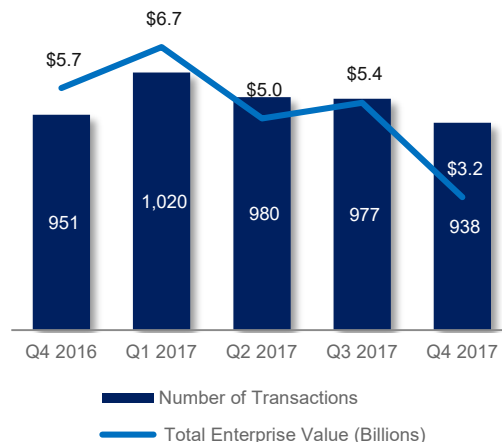
Middle-market Healthcare valuation multiples averaged 12.5x EBITDA in 2017, demonstrating the continued strength of the current Healthcare M&A market despite the slowdown in activity. Multiples have not exceeded 12.0x EBITDA in the sector since a historical high of 12.4x in 2010. Despite limited disclosure of transaction multiples, it is widely accepted that higher valuations are being supported by high-performing, well-capitalized Healthcare products and services companies looking for opportunities for diversification and scale. Additionally, the vast availability of capital, driven by overhang in private equity and debt lenders’ desire for high-quality transactions across all sectors, is expected to support higher valuations for the foreseeable future.

2018 Healthcare Outlook

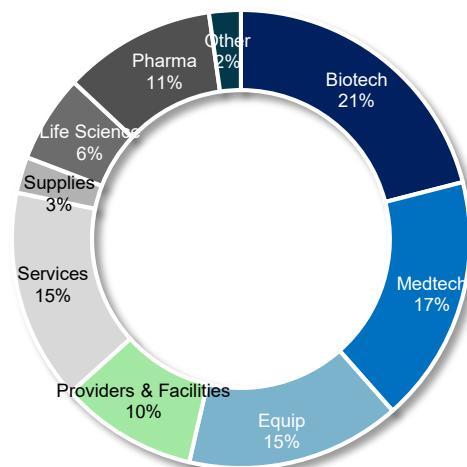
In consideration for the ongoing evolution of Healthcare experienced in 2017, 2018 will likely usher in even more change. Themes that will dominate the Healthcare market in 2018 will include the following:

- Heightened interest in the Services sector from non-traditional sources, including those seeking to capitalize on cost-containment, prevention and continuum of care.
- Monumental shift from fee-for-service (“FFS”) reimbursement to value-based contracts, where Healthcare providers and plans take on additional responsibility for the health of their patients and members.
- New methodologies, including predictive analytics and artificial intelligence to enhance the value chain, including telemedicine, next-generation EMR implementations and revenue cycle management initiatives, in order to bolster profitability in value-based care environments.

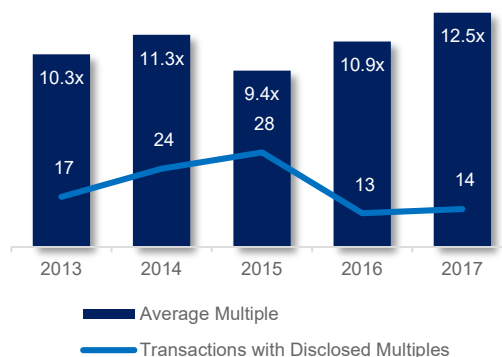
Healthcare M&A Volume and Value



Q4 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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