

HEALTHCARE

FOURTH QUARTER

2018

The Healthcare Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Healthcare category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Healthcare M&A

M&A activity for North American based target companies in the Healthcare sector for Q3 2018 included over 200 closed deals, according to data published by industry data tracker FactSet, PitchBook and CFA research.

One of the notable middle market transactions closed in September when HCA Houston Healthcare, a subsidiary of HCA Gulf Coast Division, which is ultimately owned by HCA Healthcare, Inc., acquired North Cypress Medical Center for \$148 million. The acquisition complements HCA Houston Healthcare's medical services. North Cypress Medical Center is located in Houston, Texas.

Transactional Overview

M&A Transaction EV/EBITDA Multiples in Q3			
Sub-Industry	9/30/18	8/31/18	7/31/18
Acute Care Hospitals	10.60x	10.60x	10.60x
Assisted / Independent Living	13.60x	13.50x	14.70x
Behavioral Health	10.70x	11.30x	11.30x
Dialysis Services	10.00x	9.90x	9.40x
Healthcare Staffing	10.90x	11.90x	12.30x
Home Health / Hospice	14.10x	16.60x	17.00x
Rehabilitation	16.20x	12.40x	15.70x
Skilled Nursing	10.10x	10.30x	10.40x
Providers - Other	12.20x	12.20x	12.30x
Max	16.20x	16.60x	17.00x
Mean	12.04x	12.08x	12.63x
Median	10.90x	11.90x	12.30x
Min	10.00x	9.90x	9.40x

Source: CFA Research

Notable closed lower middle market transactions for the period in the Healthcare sector include:

August 2018 - TELUS Corp acquired Medisys Health Group, Inc., a portfolio company of PCP Management, Inc. for CAD 147MM (\$112.3 MM). TELUS Corp. operates as a telecommunications company. Medisys Health Group provides healthcare services to corporations, insurance companies and individuals. It focuses on medical imaging, corporate health, employee wellness and occupational health. The company was founded in 1987 and is headquartered in Montréal, Canada.

August 2018 - Auxly Cannabis Group, Inc., acquired KGK Science, Inc. for CAD 11.7MM (\$8.9MM) in cash and stock. Under the terms of transaction, Auxly Cannabis Group paid CAD 7.3MM (\$5.6 million) in cash and issued 4,132,231 shares to the shareholders of KGK Science. The acquisition enhances the research capabilities of Auxly Cannabis Group.



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For over 60 years CFA has been advocating on behalf of business owners. Whether you're selling, buying or recapitalizing your company, our business is your business.

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Auxly Cannabis Group engages in investment and financial and banking solutions. KGK Sciences operates as a research organization that specializes in human clinical trials for the nutraceutical, dietary supplement and functional food industry. The firm's services include clinical research, regulatory submissions, participant recruitment, clinical trial management and research support. The company was founded in 1997 and is headquartered in London, Canada.

August 2018 - Akumin, Inc., acquired Rose Radiology Centers, Inc. for approximately \$25 MM in cash. Akumin engages in the provision of outpatient

diagnostic imaging services. Rose Radiology Centers provides radiology services. It offers computed tomography (CT) scan, digital x-ray and fluoroscopy, interventional radiology, digital mammography, ultrasound, nuclear medicine, online scheduling and other related services. The company was founded in 2001 and is headquartered in Riverview, FL.

Selected Q4 Closed Transactions	
Target/Issuer	Buyers/Investors
LifePoint	Apollo Global Management
Kindred Healthcare	Humana
Genoa, A Qol Healthcare Co. LLC	UnitedHealth Group, Inc.
Abaxis	Zoetis
North Cypress Medical Center (Texas)	HCA Gulf Coast Division; C/HCA, Inc.
Juniper Pharmaceuticals	Catalent
Medisys Health Group, Inc.	TELUS Corp.
Rose Radiology	Akumin
KGK Science, Inc.	Auxly Cannabis Group, Inc.

Industry Update

An ongoing shortage of sterile injectable drugs - including opioids - has left many US health care facilities scrambling to provide uninterrupted patient care. Pharmaceutical giant Pfizer, the largest US manufacturer of sterile injectables, has struggled to keep up with demand due to production quality control and product recall issues. Other manufacturers have been unable to make up the difference. Opioids such as fentanyl and morphine, used to manage pain in emergency rooms and in critically ill patients, are among the drugs that have been rationed recently. Some health care practitioners are trying alternative pain management products such as laughing gas, nonopioid painkillers, and trigger point injections. In an unprecedented move, the Food and Drug Administration is creating a task force to seek ways to minimize drug shortages. Foreign manufacturers (or US-based manufacturers with overseas production facilities) also have an opportunity to import drugs in order to boost drug supplies.

Industry Indicators

- US consumer prices for medical care commodities, an indicator of healthcare costs, increased 0.3% in August 2018 compared to the same period in 2017.
- US consumer prices for medical care services, an indicator of profitability for healthcare services, rose 1.9% in August 2018 compared to the same month in 2017.
- Total US revenue for healthcare and social assistance rose 4.5% in the second quarter of 2018 compared to the previous year.

Collectively, the Healthcare Practice Group provides M&A advice to public and private companies in all sectors of the healthcare industries, including healthcare information technology, medical devices, pharma, surgical equipment and supplies, biotechnology, assisted living and long-term care. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.

