



# Sectorwatch: Healthcare - Ambulatory Care

November 2019

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# Introduction

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Increasing pressure by government, employers, and payors to reduce the total cost of care while delivering improved clinical outcomes is driving a shift in patient volume to the outpatient setting. Additionally, technology advancements have enabled providers to treat higher acuity patients with more complex procedures that have historically been performed in hospital-based facilities requiring over-night admissions. With the widespread adoption of electronic medical records (EMRs) facilitating the exchange of patient information and the coordination of care across provider groups and facilities, payors have implemented financial incentives to direct care delivery to the appropriate site of service with high-quality providers in low-cost outpatient facilities realizing the gains. Demographic shifts and changes in consumer behavior to prioritize convenience and patient-centered care have further accelerated market growth in ambulatory care. Health systems, integrated provider groups, and private equity sponsors have responded by pouring funding into acquiring and expanding the best-in-breed providers.

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# Overview

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7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions, and provide market assessments and benchmarking. As a close knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. We publish our sectorwatch, a review of M&A and operational trends in the industries we focus.

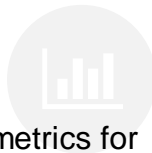
## Dashboard

- Summary metrics on the sector
- Commentary on market momentum by comparing the most recent 12-month performance against the last 3-year averages.



## Public Basket Performance

- Summary valuation and operating metrics for a basket of comparable public companies



## Valuation Comparison

- Graphical, detailed comparison of valuation multiples for the public basket



## Recent Deals

- The most recently announced deals in the sector



# Dashboard



## Revenue Growth

↓ -3.9%

1 - year revenue growth compared to revenue growth average for last 3 years

Current revenue growth rate is less than the average of the last 3 years, indicating that the market may be flattening or declining

## Pricing / Gross Margin

↓ -0.05%

1 - year gross profit % compared to gross profit % average for last 3 years

Current gross profit margin is less than the average of the last 3 years gross profit margins, indicating customer pricing power

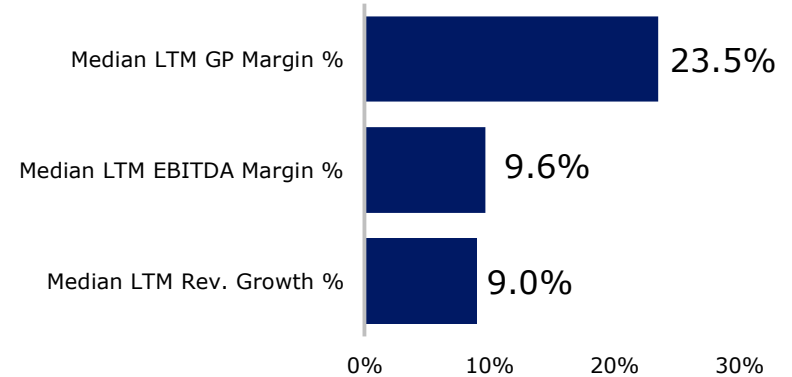
## Profitability Momentum

↑ 1.4%

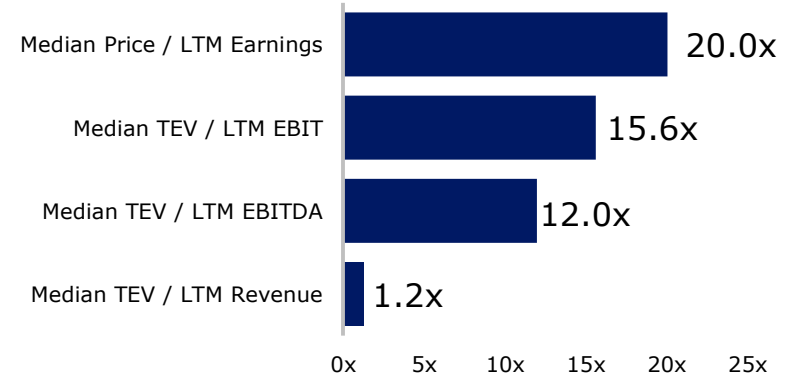
1 - year EBITDA % compared to EBITDA % average for last 3 years

Current EBITDA margin exceeds the average of the last 3 years EBITDA margin by this amount, a condition that may attract new entrants

## Operating Metrics



## Valuation



# Public Basket

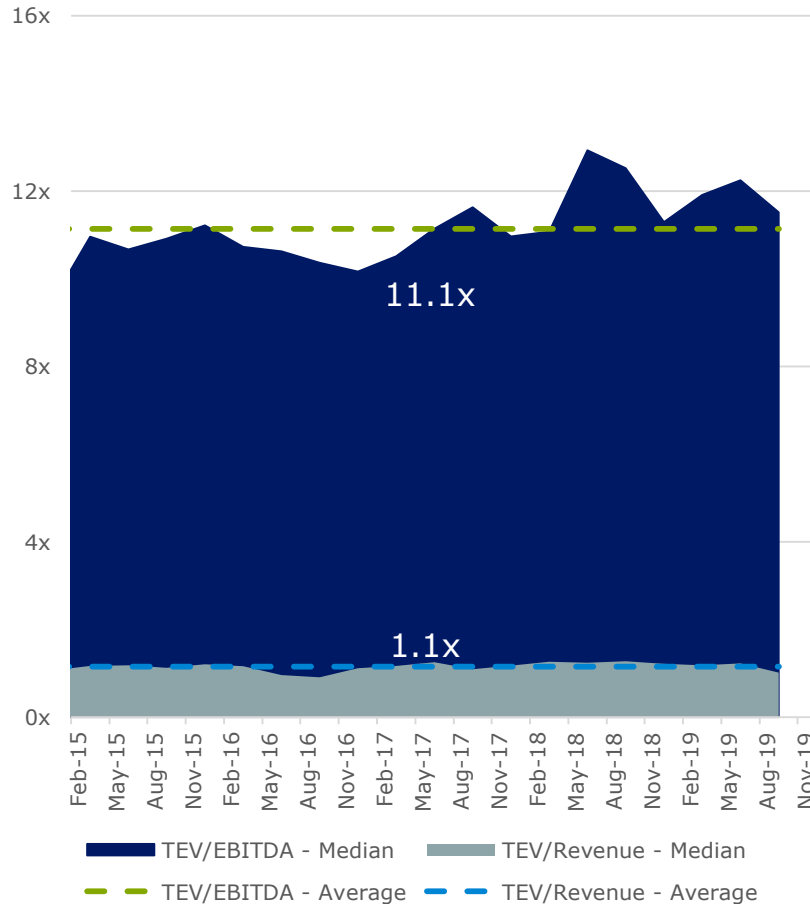


Company	TEV \$m	LTM Rev \$m	Rev Growth YoY	GP %	EBITDA %	TEV / Rev X	TEV / EBITDA X	# FTEs	Rev / FTE \$k
First Choice Healthcare Solutions, Inc.	(0)	37	17%	48%	-7%	0.0	0.2	207	176
Medical Facilities Corporation	337	425	1%	38%	20%	0.8	4.0	1,833	232
The Ensign Group, Inc.	3,460	2,263	14%	15%	10%	1.5	15.8	23,463	96
Surgery Partners, Inc.	4,657	1,805	4%	24%	19%	2.6	13.4	7,900	229
Select Medical Holdings Corporation	8,229	5,344	9%	20%	12%	1.5	12.0	33,700	159
CVS Health Corporation	179,938	243,331	29%	17%	6%	0.7	11.4	295,000	825
UnitedHealth Group Incorporated	298,352	239,671	9%	23%	9%	1.2	14.1	300,000	799

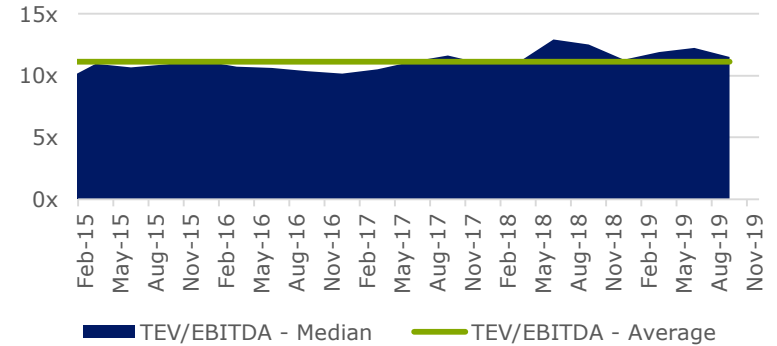
<b>Average</b>	70,710	70,411	12%	26%	10%	1.2	10.1	94,586	359
<b>Median</b>	4,657	2,263	9%	23%	10%	1.2	12.0	23,463	229

share price as of 21Nov19

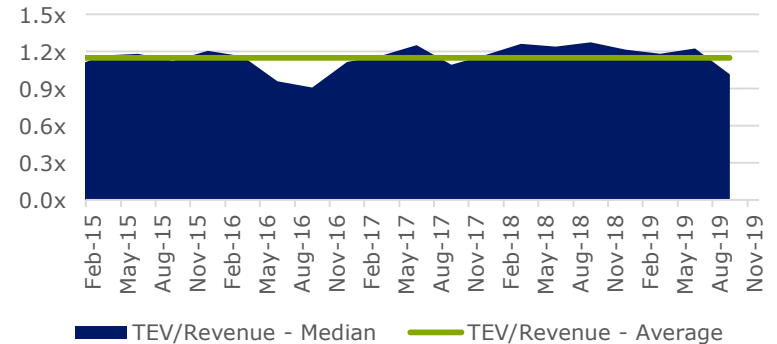
# Public Basket Valuation Trends



## Public EBITDA Multiples over Time



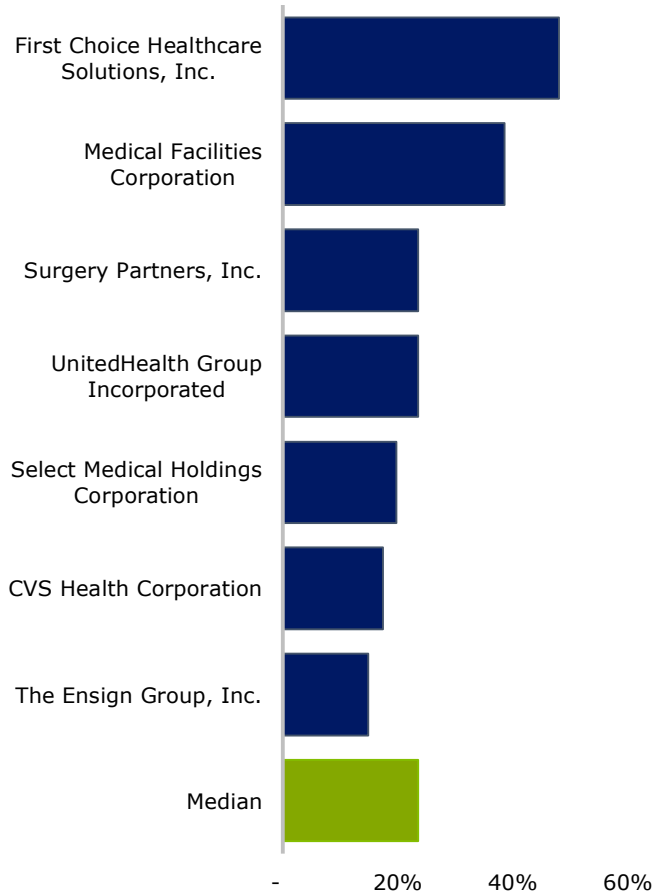
## Public Revenue Multiples over Time



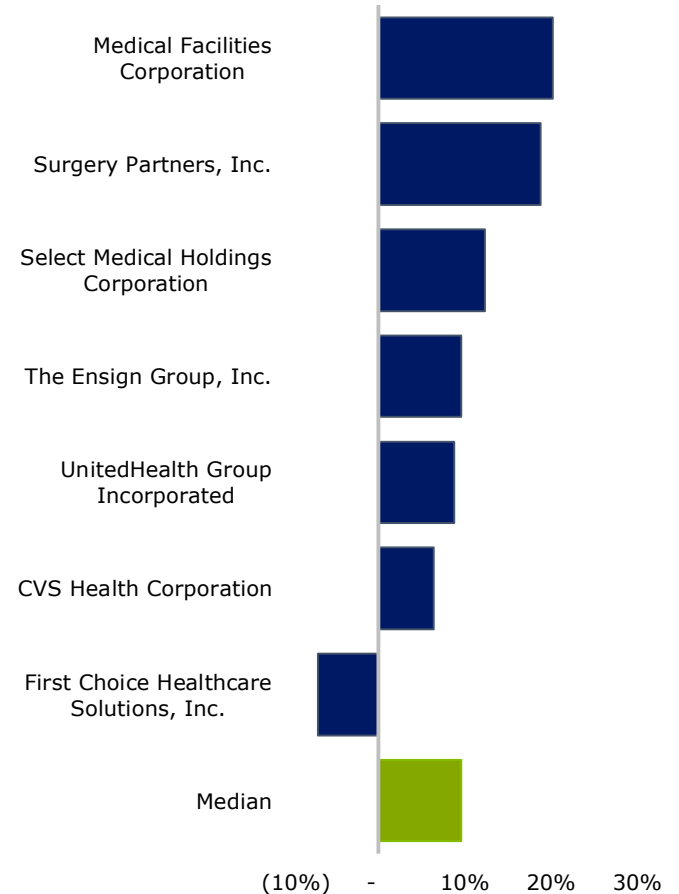
# Operational Metrics



LTM Gross Profit Margin %



LTM EBITDA %

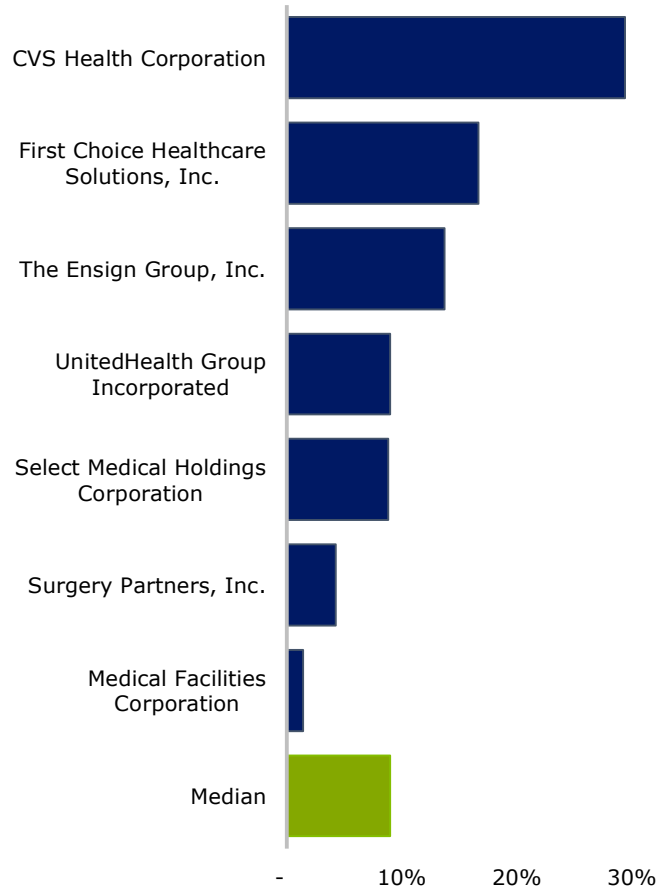




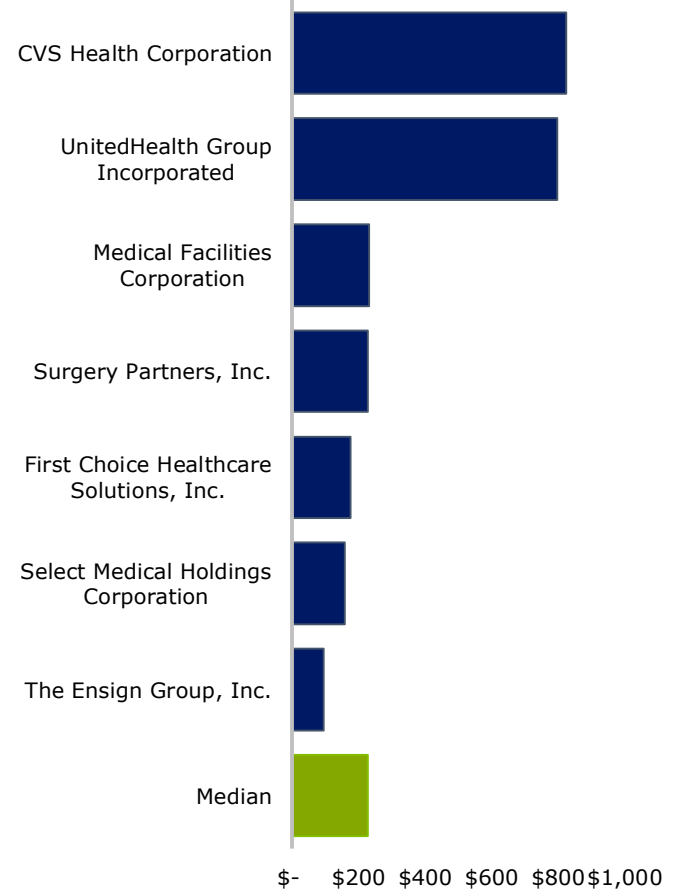
# Operational Metrics



LTM Revenue Growth %



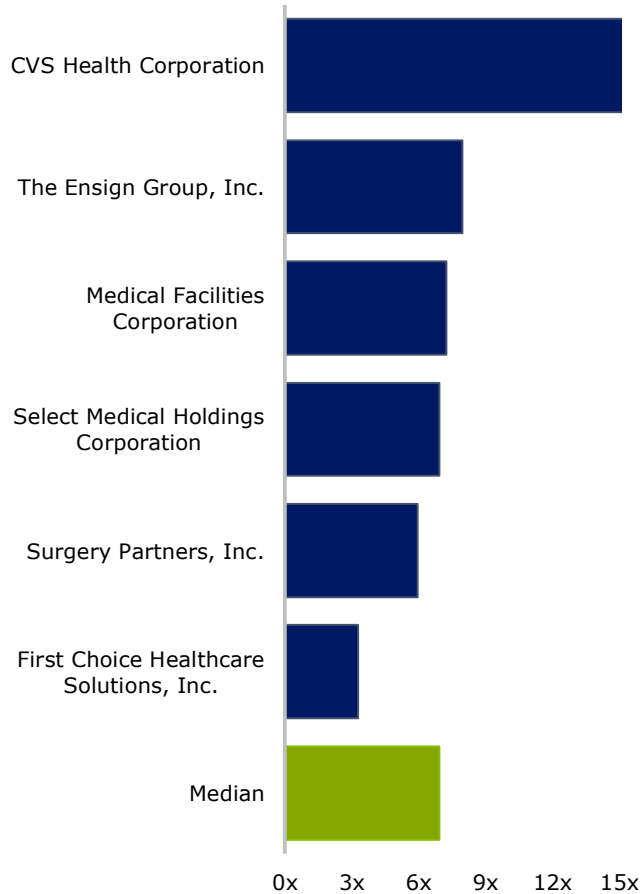
LTM Revenue per Full Time Employee x 000's



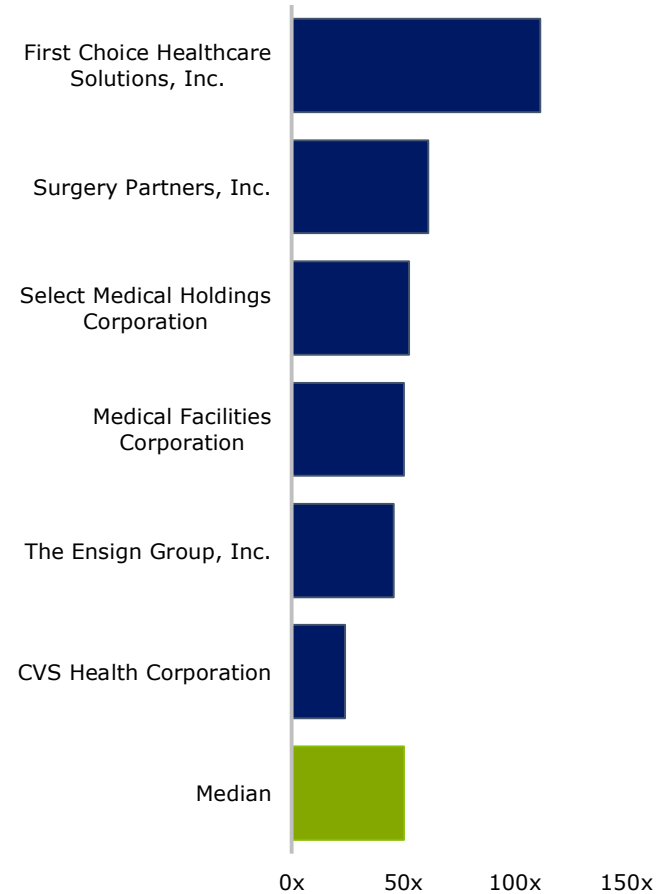
# Operational Metrics



## Accounts Receivable Turnover



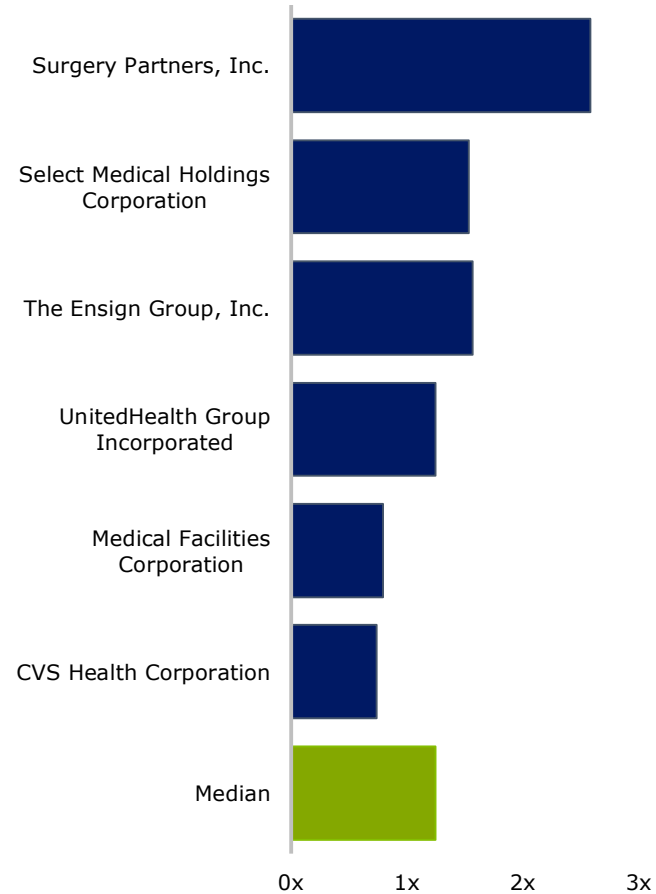
## Average Days Sales Outstanding



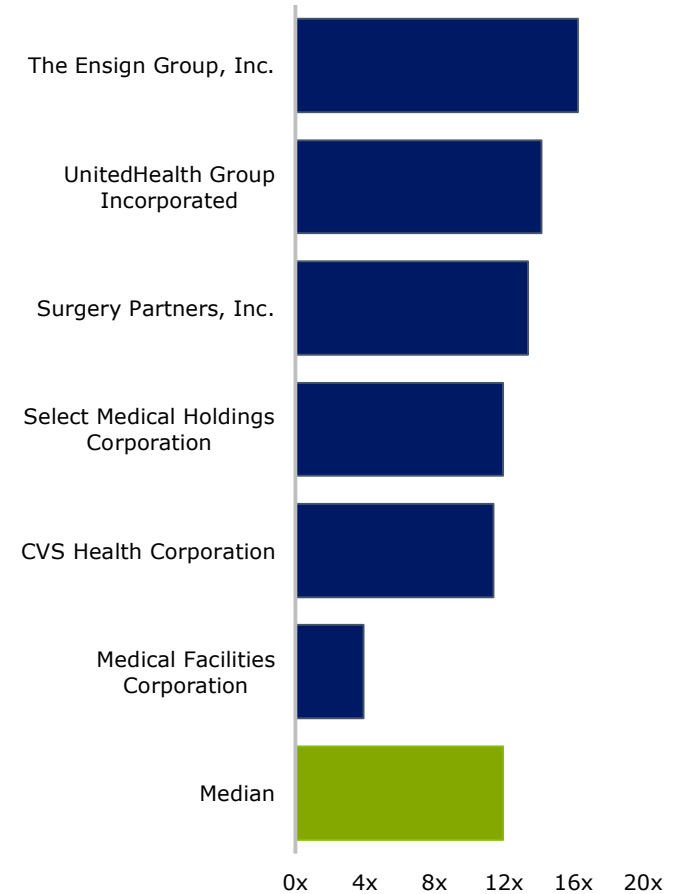
# Valuation



TEV / LTM Revenue



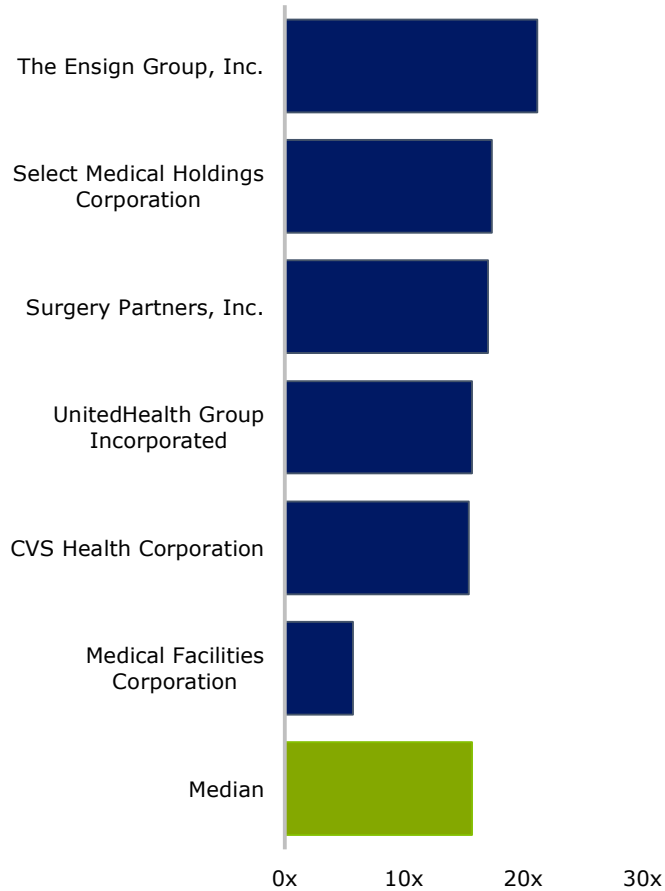
TEV / LTM EBITDA



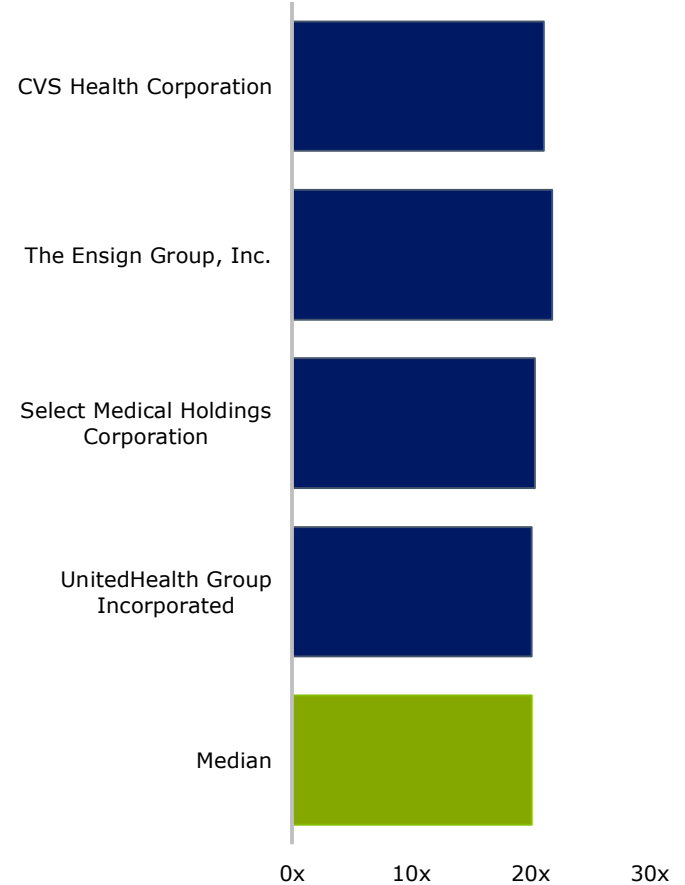
# Valuation



TEV / LTM EBIT



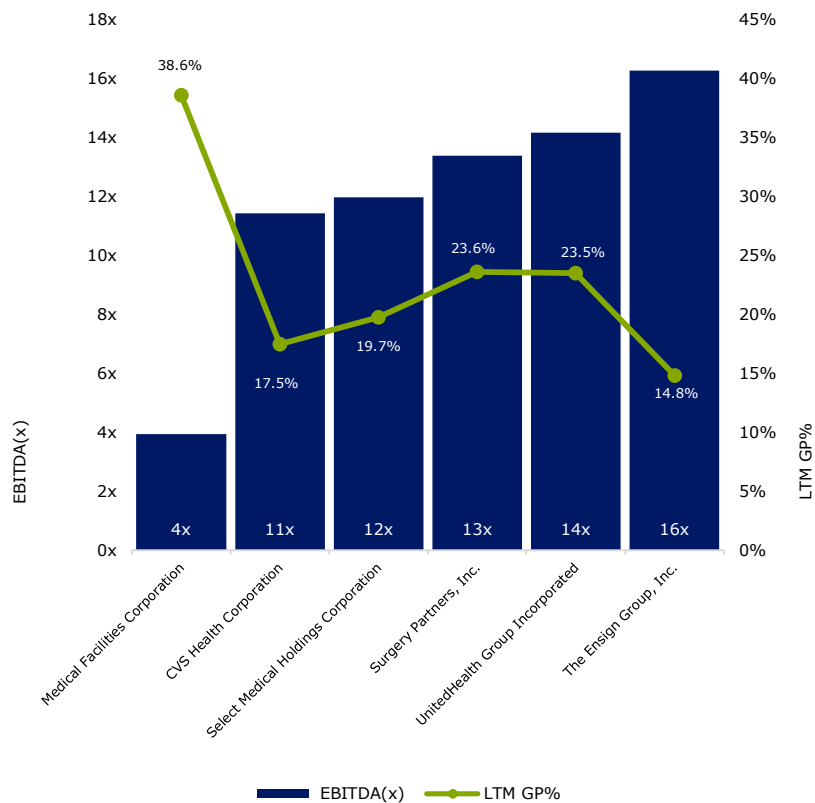
Price / LTM Earnings



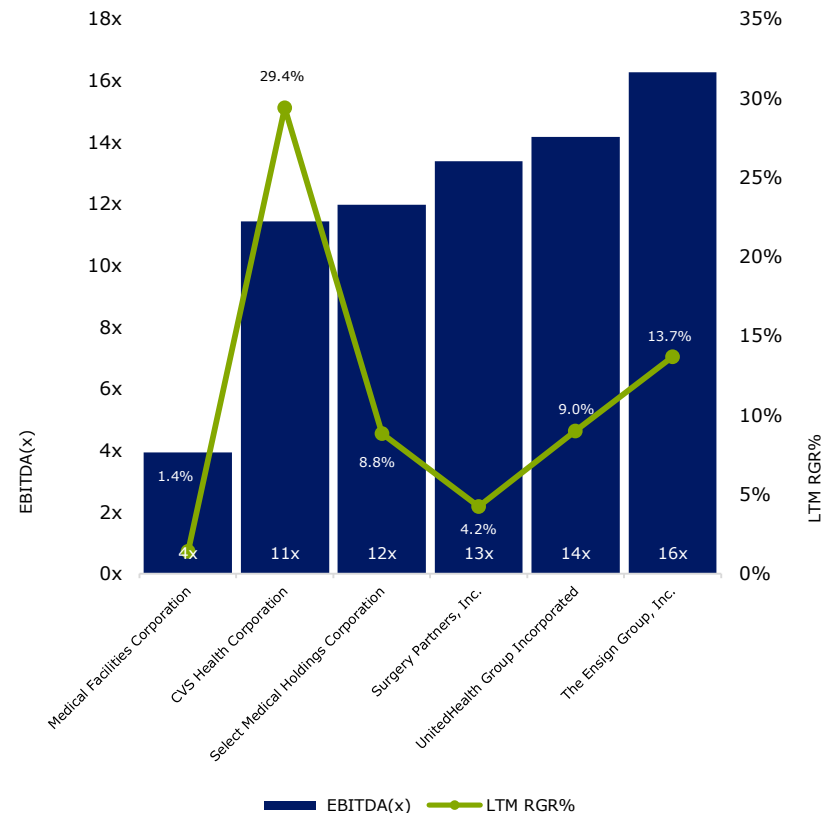
# Valuation



## Historical Valuation Multiples versus Gross Profit



## Historical Valuation Multiples versus Revenue Growth Rate



# Recent Transactions



Date	Target	Buyer / Investor	Total Transaction Value	Target Revenue	TEV / Revenue	TEV / EBITDA
19Nov19	Triad Sedation Associates LLC	CRH Medical Corporation	-	-	-	-
15Nov19	Gastroenterology Associates of Northern Virginia	Gastro Health, LLC	-	-	-	-
14Nov19	Desert Institute of Physical Therapy	EXOS, Inc.	-	-	-	-
7Nov19	Aligned Telehealth, Inc.	American Well Corporation	-	-	-	-
6Nov19	Elliott Bay Dialysis Portfolio	-	142.90	-	-	-
31Oct19	Island Urgent Care - Hawaii Kai LLC	The Queen's Medical Center	-	-	-	-
28Oct19	seven Healthcare Clinics of Walgreen Co.	Trihealth, Inc.	-	-	-	-
10Oct19	MD Urgent Care P.C.	PhysicianOne Urgent Care	-	-	-	-
20Oct19	Blacksburg Physical Therapy Associates, Inc.	CORA Health Services, Inc.	-	-	-	-
20Sep19	New Jersey Urology, LLC	Premier Urology Group, LLC	-	-	-	-
11Sep19	Apollo Medical Holdings, Inc.	-	300.00	499.12	-	-
3Sep19	Black Mountain Physical Therapy, LLC	Phoenix Rehabilitation & Health Services Inc.	-	-	-	-
15Aug19	Healthcare Outcomes Performance Company	Linden LLC	-	-	-	-
4Sep19	VillageMD	Adams Street Partners, LLC; Kinnevik AB; Oak HC/FT Partners, L.P.; Oak HC/FT Partners LLC; Town Hall Ventures	100.00	-	-	-
3Sep19	Urgent Care for Kids, LLC	-	15.50	-	-	-
19Aug19	Five Diagnostic Centers of Southwest X-Ray, LP	Akumin Inc.	-	13.30	-	-
6Aug19	Laser and Skin Surgery Center Of New York Management Corporation	BelHealth Investment Partners, LLC; NavaDerm Partners, LLC	-	-	-	-
5Aug19	RHA Health Services, Inc.	Blue Wolf Capital Partners LLC	-	-	-	-
26Jul19	High Field and Open MRI, LLC	Outpatient Imaging Affiliates, LLC	-	-	-	-
25Jul19	Hand Surgery Associates of Indiana, Inc.	Caddis Partners, LLC	-	-	-	-
22Jul19	Center for Diagnostic Imaging, Inc.	Atlantic Medical Imaging LLC	-	-	-	-
1Jul19	Frontline Foundations, Inc.	North Shore Health Centers, Inc	-	-	-	-
1Jul19	Center For Sight, P.L.	Pamlico Capital Management, LP	-	-	-	-
8Jul19	VIP Surgical Center	Tricity Pain Associates P.A.; Spindletop Pain Management Holdings, LLC	-	-	-	-
8Jul19	Orthopaedic & Neurosurgery Specialists, PC	Kohlberg & Company, L.L.C.	-	-	-	-

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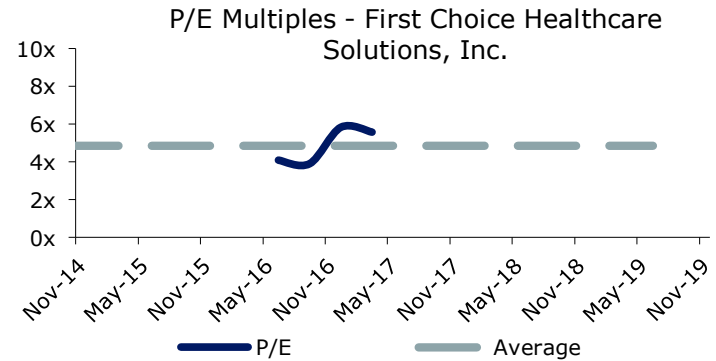
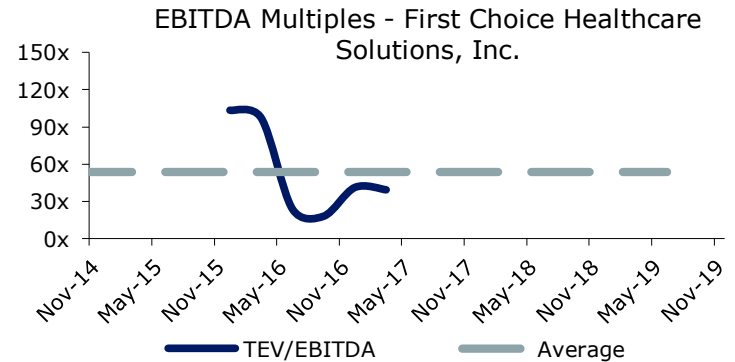
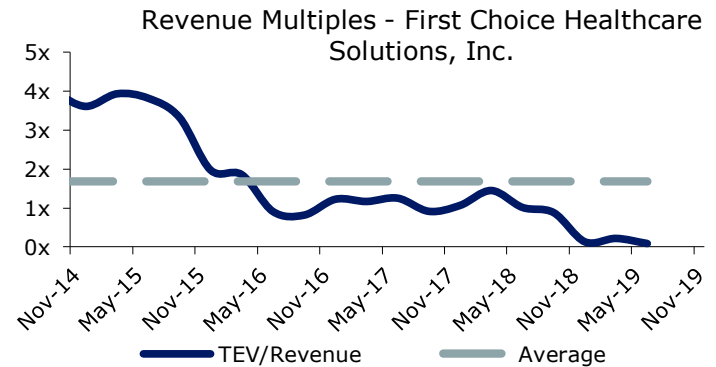
APPENDIX:  
Public Basket  
Constituents

# Public Basket



## First Choice Healthcare Solutions, Inc.

First Choice Healthcare Solutions, Inc., through its subsidiaries, provides healthcare services in the United States. Its network of non-physician-owned medical centers offer musculoskeletal and rehabilitative care services specializing in orthopaedics, spine surgery, interventional pain management, and ambulatory surgical care. The company also provides ancillary and diagnostic services comprising magnetic resonance imaging, X-ray, durable medical equipment, and physical/occupational therapy. In addition, it subleases 29,629 square feet of commercial office space to affiliated and nonaffiliated tenants. The company is headquartered in Melbourne, Florida.





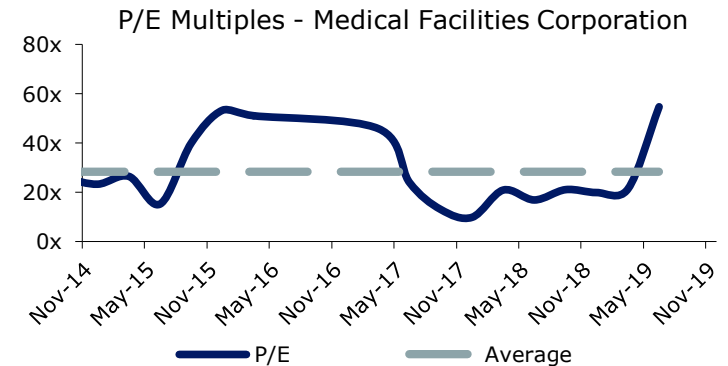
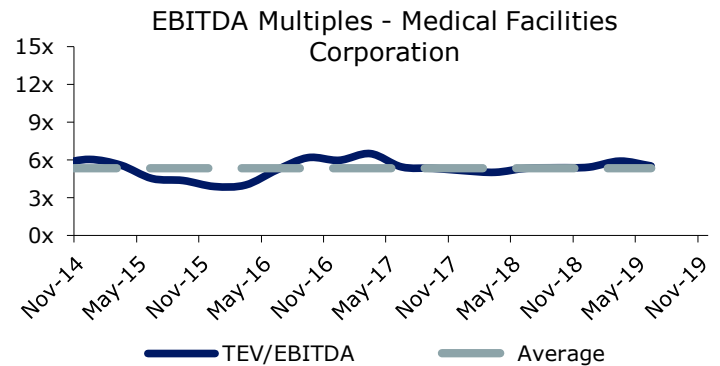
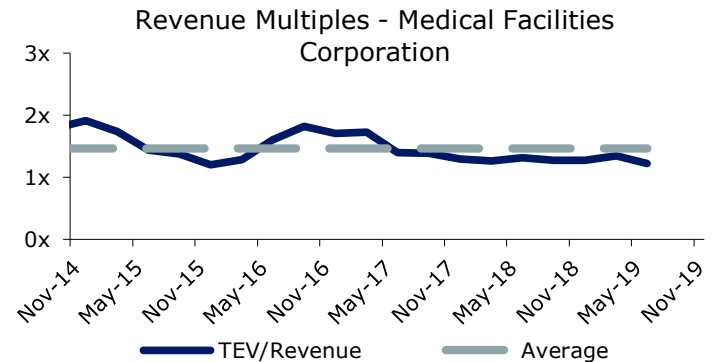
# Public Basket



## Medical Facilities Corporation

Medical Facilities Corporation, through its subsidiaries, owns and operates specialty surgical hospitals and an ambulatory surgery center in the United States. The company's specialty surgical hospitals provide scheduled surgical, imaging, diagnostic, and other pain management procedures; and other ancillary services, such as urgent care and occupational health. It also offers ambulatory surgery center, which performs scheduled outpatient surgical procedures; and third-party business solutions to healthcare entities. The company was founded in 2004 and is headquartered in Toronto, Canada.

Date	Key Development Headline
5/28/19	St. Luke's Hospital, Medical Facilities Corporation and NueHealth to Partner with Local Physicians to Develop New Ambulatory Surgery Center at St. Luke's in Chesterfield
3/14/19	Medical Facilities To Seek Acquisitions
8/30/18	Medical Facilities Mulls Acquisitions
8/9/18	Medical Facilities Seeks Acquisitions



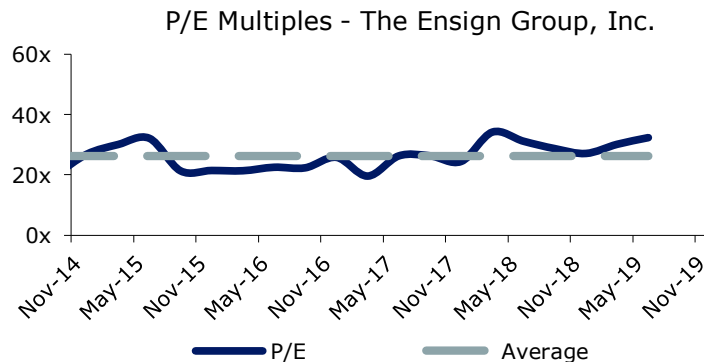
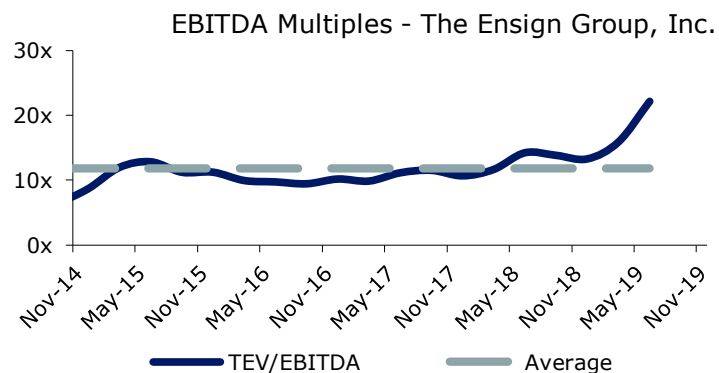
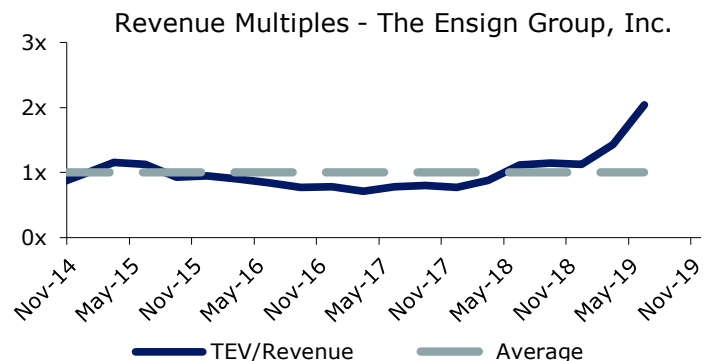
# Public Basket



## The Ensign Group, Inc.

The Ensign Group, Inc. provides health care services in the post-acute care continuum and other ancillary businesses. The company operates in three segments: Transitional and Skilled Services; Assisted and Independent Living Services; and Home Health and Hospice Services. The Transitional and Skilled Services segment offers a range of medical, nursing, rehabilitative, and pharmacy services, as well as routine services, such as daily dietary, social, and recreational services to Medicaid, private pay, managed care, and Medicare payors. The Assisted and Independent Living Services segment provides residential accommodations, activities, meals, security, housekeeping, and assistance in the activities of daily living to independent seniors. The Ensign Group, Inc. was founded in 1999 and is based in Mission Viejo, California.

Date	Key Development Headline
11/3/19	The Ensign Group, Inc. (NasdaqGS:ENSG) acquired three skilled nursing operations across Texas.
11/3/19	The Ensign Group, Inc. (NasdaqGS:ENSG) acquired three skilled nursing operations in San Antonio, Texas.
9/3/19	The Ensign Group, Inc. (NasdaqGS:ENSG) acquired the Operations of Temple View Transitional Care Center.
8/29/19	The Ensign Group, Inc. (NasdaqGS:ENSG) acquired Rexburg Care Center in Idaho.
8/12/19	The Ensign Group, Inc. (NasdaqGS:ENSG) acquired Real Estate and Operations of Surprise Health and Rehabilitation Center.



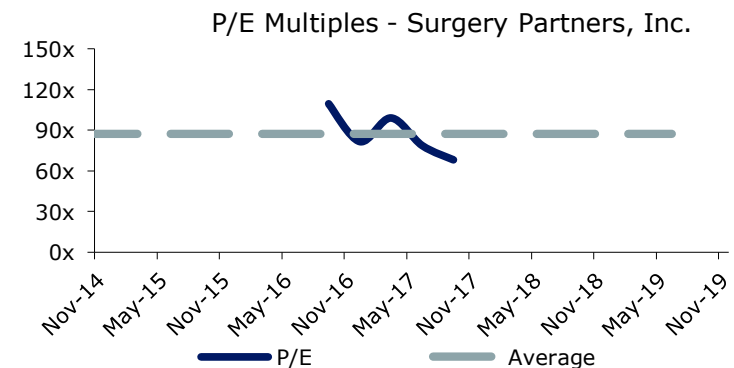
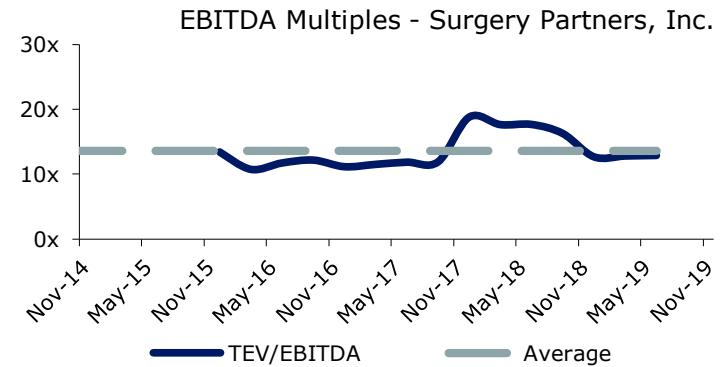
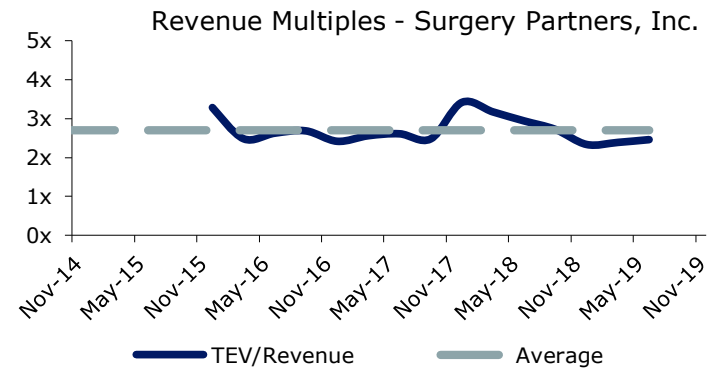
# Public Basket



## Surgery Partners, Inc.

Surgery Partners, Inc., through its subsidiaries, owns and operates a network of surgical facilities and related services in the United States. The company operates through three segments: Surgical Facility Services, Ancillary Services, and Optical Services. Its surgical facilities comprise ambulatory surgery centers and surgical hospitals that offer non-emergency surgical procedures in various specialties, including gastroenterology, general surgery, ophthalmology, orthopedics, and pain management. The company's surgical hospitals also provide ancillary services, such as diagnostic imaging, pharmacy, laboratory, obstetrics, oncology, physical therapy, and wound care; and a suite of ancillary services, which consist of a diagnostic laboratory, multi-specialty physician practices, urgent care facilities, anesthesia services, and optical services. It also operates optical laboratory that manufactures eyewear. As of December 31, 2018, the company owned or operated a portfolio of 123 surgical facilities, including 108 ambulatory surgical centers and 15 surgical hospitals in 31 states. Surgery Partners, Inc. was founded in 2004 and is headquartered in Brentwood, Tennessee.

Date	Key Development Headline
3/13/19	Surgery Partners To Seek Acquisitions



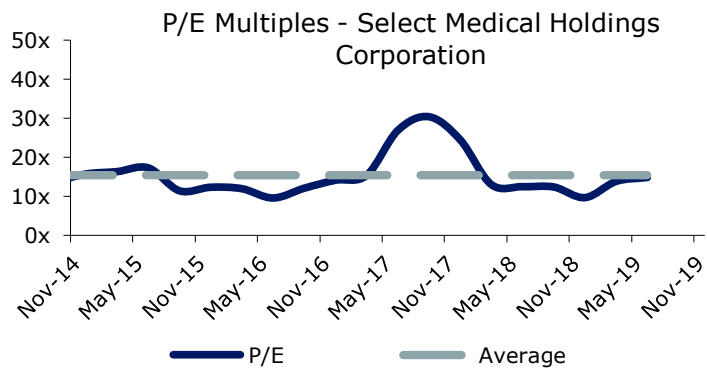
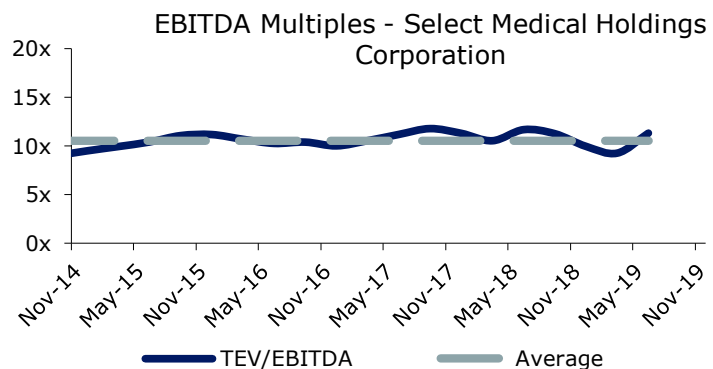
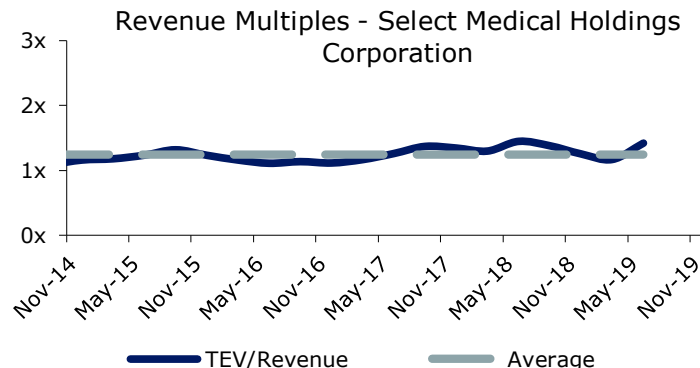
# Public Basket



## Select Medical Holdings Corporation

Select Medical Holdings Corporation, through its subsidiary, Select Medical Corporation, operates critical illness recovery hospitals, rehabilitation hospitals, outpatient rehabilitation clinics, and occupational health centers in the United States. It operates through four segments: Critical Illness Recovery Hospital, Rehabilitation Hospital, Outpatient Rehabilitation, and Concentra. The Critical Illness Recovery Hospital segment consists of hospitals that provide services for heart failure, infectious disease, respiratory failure and pulmonary disease, surgery requiring recovery, renal disease, neurological events, and trauma. The Rehabilitation Hospital segment offers therapy and rehabilitation treatments, including rehabilitative services for brain and spinal cord injuries, strokes, amputations, neurological disorders, orthopedic conditions, pediatric congenital or acquired disabilities, and cancer. Select Medical Holdings Corporation was founded in 1996 and is headquartered in Mechanicsburg, Pennsylvania.

Date	Key Development Headline
8/1/19	Select Medical Holdings Corporation (NYSE:SEM) acquired 3 new critical illness recovery hospitals in Florida.
5/1/19	Select Medical Forms Joint Venture with Norton Healthcare
10/17/18	Select Medical Holdings Corporation, UC San Diego Health and Vibra Healthcare LLC Form Two Post-Acute Joint Ventures to Serve Southern California



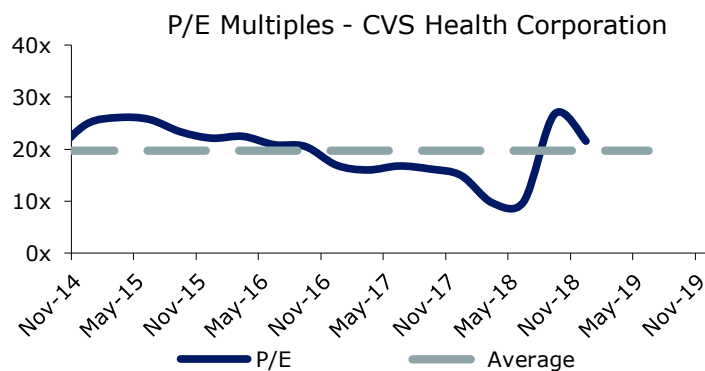
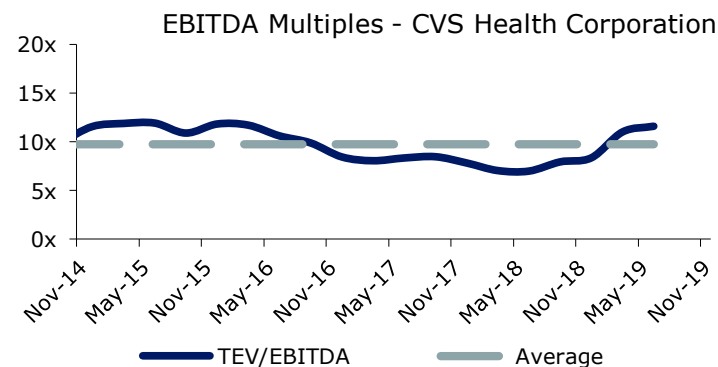
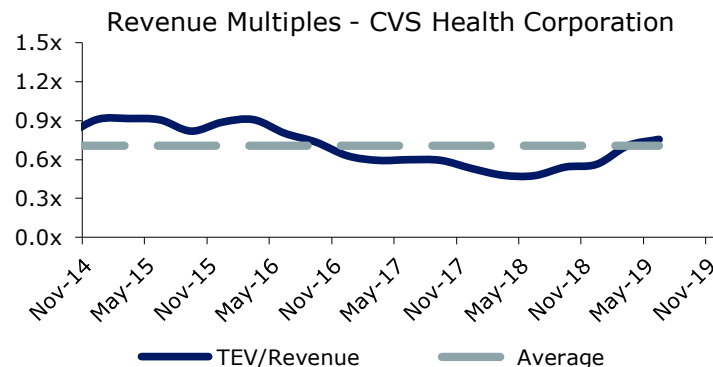
# Public Basket



## CVS Health Corporation

CVS Health Corporation provides health services and plans in the United States. Its Pharmacy Services segment offers pharmacy benefit management solutions, such as plan design and administration, formulary management, retail pharmacy network management, mail order pharmacy, specialty pharmacy and infusion, Medicare Part D, clinical, disease management, and medical spend management services. The company's Retail/LTC segment sells prescription drugs and general merchandise, such as over-the-counter drugs, beauty products, cosmetics, and personal care products, as well as provides health care services through its MinuteClinic walk-in medical clinics. CVS Health Corporation was founded in 1963 and is headquartered in Woonsocket, Rhode Island.

Date	Key Development Headline
4/25/19	CVS Health and Smile Direct Club Team Up to Expand Access and Affordability to Innovative Solution for Achieving A Straighter Straighter Smile
11/27/18	CVS Health Corporation (NYSE:CVS) completed the acquisition of Aetna Inc. (NYSE:AET).
11/27/18	NMR & Associates acquired Six Health Store Sites of CVS Health Corporation.
9/23/18	CVS Health Corporation (NYSE:CVS) acquired the business of Fort Hill Pharmacy, Inc.



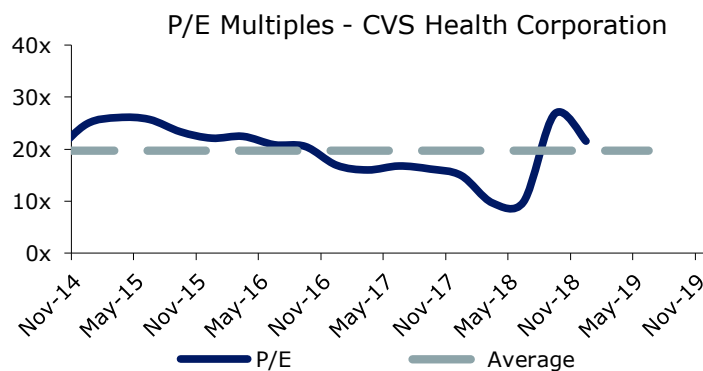
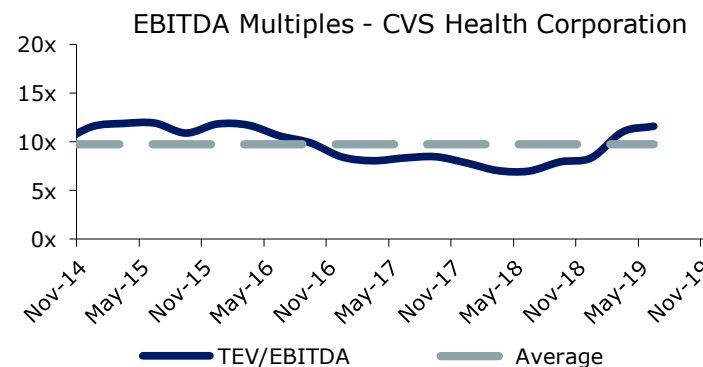
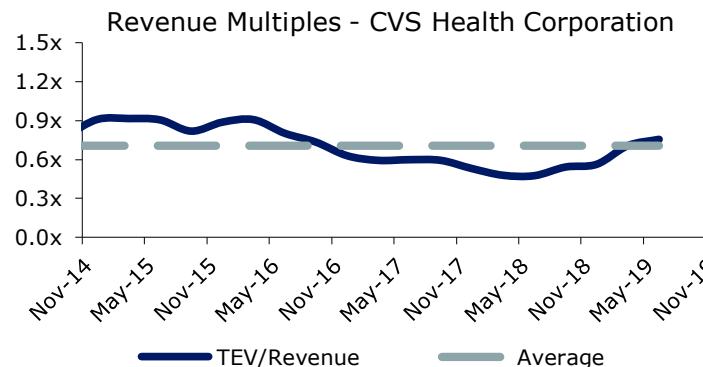
# Public Basket



## UnitedHealth Group Incorporated

UnitedHealth Group Incorporated operates as a diversified health care company in the United States. It operates through four segments: UnitedHealthcare, OptumHealth, OptumInsight, and OptumRx. The UnitedHealthcare segment offers consumer-oriented health benefit plans and services for national employers, public sector employers, mid-sized employers, small businesses, and individuals; health and well-being services to individuals age 50 and older, addressing their needs for preventive and acute health care services, as well as services dealing with chronic disease and other specialized issues for older individuals; and Medicaid plans, Children's Health Insurance Program, and health care programs; and health and dental benefits. The OptumHealth segment provides access to networks of care provider specialists, health management services, care delivery, consumer engagement, and financial services. UnitedHealth Group Incorporated was founded in 1974 and is based in Minnetonka, Minnesota.

Date	Key Development Headline
11/19/19	UnitedHealth Group Incorporated (NYSE:UNH) acquired HealthSCOPE Benefits, Inc.
7/24/19	UnitedHealth To Seek Acquisitions
6/23/19	UnitedHealth Group Incorporated (NYSE:UNH) acquired PatientsLikeMe Inc. from iCarbonx and others.
4/16/19	UnitedHealth Group Intends To Seek Acquisitions
11/27/18	UnitedHealth Group Seeks Acquisitions



# CONTACT INFO

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