

# STAYING AHEAD OF THE CURVE

A DRESNER PARTNERS NEWSLETTER

HEALTHCARE – WOMEN'S HEALTH SECTOR

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DRESNER PARTNERS  
INVESTMENT BANKING

IMAP

## The Continuing Consolidation of the Fertility Sector

Within the women's healthcare industry, mergers & acquisitions (M&A) activity over the last couple of years has been prevalent within the fertility space, especially related to in vitro fertilization (IVF) clinics. Though not currently as active as other physician practice management areas, such as dermatology, dental and ophthalmology, fertility clinics have gone through a dramatic consolidation. While still extremely fragmented, many private equity investors have entered or are attempting to enter the space, enhancing acquisition multiples. Though practices have grown in size, there are still many smaller practices that could benefit from a combination. According to 2016 SART statistics, approximately 67% of the 463 reporting U.S. fertility clinics perform less than 500 cycles annually and 86% of clinics perform less than 1,000 cycles.



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## Largest U.S. IVF Clinics (on a consolidated basis)

The top ten U.S. IVF clinics by number of 2016 cycles, on a consolidated basis, based on data from SART (Society for Assisted Reproductive Technology) are as follows:



Prelude



1. **IntegraMed Fertility:** 38,071 cycles, including owned and partner entities (**Shady Grove Fertility**, a partner entity, is the largest U.S. IVF clinic with 11,631 cycles) – IntegraMed was backed by Sagard Holdings in 2012
2. **Prelude Fertility:** 10,740 cycles – Prelude was backed by Lee Equity Partners in 2016
3. **Reproductive Medicine Associates of NJ (RMANJ):** 8,474 cycles – its parent, IVI-RMA Global, is the largest IVF clinic group in the world
4. **Boston IVF / IVF New England:** 7,905 cycles
5. **CCRM (Colorado Center for Reproductive Medicine):** 6,752 cycles – CCRM was backed by TA Associates in 2015
6. **HRC Fertility:** 5,409 cycles – HRC was backed by Huasheng Auxiliary Reproduction Hong Kong in 2017
7. **Center for Reproductive Medicine of Weill Cornell Medicine:** 5,289 cycles
8. **In Vitro Sciences:** 4,478 cycles – In Vitro Sciences is part of Women's Health USA, was backed by Sverica Capital Management in 2017
9. **New Hope Fertility Center:** 4,123 cycles
10. **CNY Fertility Center:** 3,910 cycles

## Valuation Methodologies

Valuations are typically based off a multiple of the latest twelve months (LTM) EBITDA, or earnings before interest, depreciation and amortization. However, the challenging part is determining what is actual post-shareholder compensation EBITDA that a buyer would calculate versus the EBITDA a seller derives. There is a skill in calculating the difference so everyone is on the same page before moving forward with a transaction. Most privately-held physician practices distribute excess earnings to their shareholders either at year-end or on an interim basis; however, going forward post-transaction, shareholders will typically be converted to a base salary plus bonus compensation package. The annual compensation number determined will have to be deducted from pre-shareholder compensation EBITDA.

To achieve the best valuation, EBITDA needs to be adjusted by multiple factors, including but not limited to:

- one-time or non-recurring items;
- personal expenses running through the income statement;
- pro forma events such as new physician hires or departures, new clinic opening or closings, etc.
- correctly accounting for ancillary operations, such as IVF lab, egg bank, sperm bank, surgery center, etc.
- calculating accounts receivables on an accrual basis, as most practices are on a cash-based accounting system – depending on the payor mix, this could increase EBITDA substantially. The buyer typically prepare a Quality of Earnings (QofE) analysis prior to the closing of the transaction and typically won't give the seller significant value for its receivables.



## The Right Time to Sell

A seller needs to be comfortable with a sale process before moving forward as it requires a time and capital commitment and can take 6-9 months or more to complete for a full process. However, if the buyer and seller are already identified and in preliminary discussions, this process can be shortened dramatically. Some of the rationale for moving forward with a transaction consist of:

- Market demographics are positive (women having children later in life and younger women storing eggs earlier)
- Acquisition multiples are currently high and typically go in cycles (evaluate whether selling now with lower EBITDA and a higher multiple could offset selling later with higher EBITDA and lower multiple)
- Current liquidity allows seller to take some future risk off the table
- Prepare for eventual retirement – since most buyers will want the physicians to enter into employment agreements – typically for five years – sellers should think about selling part of the business earlier rather than later
- For the younger physicians, a sale to the right buyer allows them to be part of a group with more capital and higher growth potential so their equity could be worth more in the future – in addition, it can allow for multiple exits throughout their career
- Additional capital to grow the business organically and via acquisitions – larger businesses typically sell at higher multiples
- Buyer could enhance back office operations thereby allowing physicians to focus more on the practice of medicine rather than administrative functions
- Greater size leads to more power with the payors, better purchasing power with suppliers and, hopefully, better marketing to attract more patients
- Don't want to be the “last group standing” – as a defensive maneuver, want to avoid having the competition grow significantly and infuse significant marketing dollars into the local market while you are flat or growing at a slower pace.

## Common Mistakes of Sellers

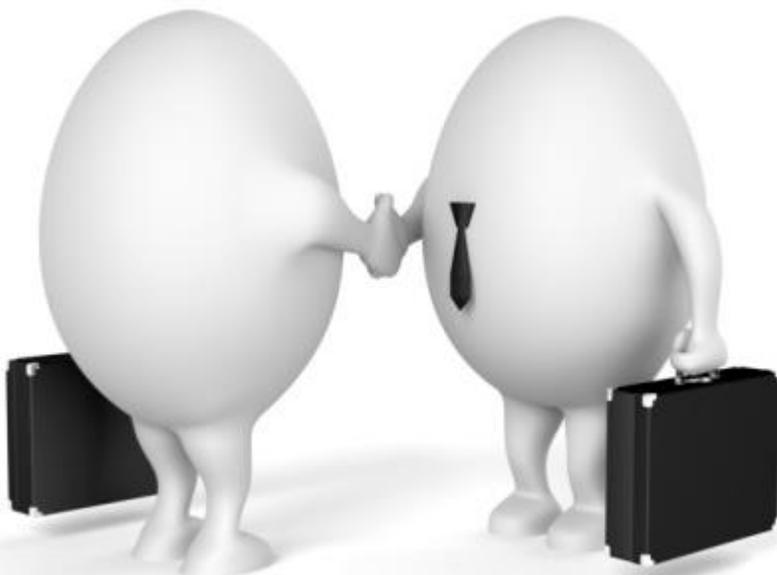
Throughout our discussions with companies contemplating transactions, we have witnessed a number of things that we would advise a seller to do differently if we were working together. Some of the more prevalent issues include:

- ***Retaining the Wrong Counsel*** – selecting the right law firm for a transaction can assist in getting the best terms, shortening the timeframe to a closing, and ensuring that one even gets to a closing – we typically work with our clients to assist them in selecting counsel that knows the physician practice management sector and has significant M&A experience (i.e., they are M&A lawyers) – also, the firm needs to have the bandwidth to react quickly to significant buyer information requests and turn around of the multitude of documents
- ***Not Preparing the Company Ahead of Time*** – preparing the proper materials with the investment bank, as well as making sure the financial information is provided in the most advantageous methodology for a successful transaction
- ***Entering into a Letter of Intent (LOI) or Exclusivity Period Too Early*** – there are multitudes of terms and structures that need to be determined prior to locking into a transaction
- ***Trying to Do Too Much at Once*** – it is tough enough to try and put together two groups of doctors at one time let alone trying to roll-up multiple groups simultaneously – the current preference by buyers is to acquire an initial platform and then add-on smaller groups to that platform
- ***Trying to Go Alone or Retaining the Wrong Investment Bank*** – the toughest part of the transaction is not finding the buyer but assembling all the information necessary to get the best valuation, structuring the transaction properly and getting to a closing that is a win-win for all parties. The investment bank should act as the “General” in the transaction, making sure all parties (shareholders, legal counsel, accountants, etc.) move forward in a well-defined and timely process.

## Selecting the Right Investment Bank

Retaining an investment bank to act as an intermediary on the transaction to represent your business is extremely important. We see too many groups not getting a satisfactory transaction completed or not getting the deal closed at all. Some qualities to seek when choosing an investment bank include:

- FINRA-registered – many finders/brokers are not registered by the appropriate regulatory bodies and have not been trained in how to complete a process from start to end – this entails much more than just finding a buyer
- Global breadth – since many of the buyers are from all over the country and even internationally, having offices throughout the world can enhance the buyer universe
- Firms that have completed dozens, if not hundreds, of M&A deals – a buyer should seek a firm that has been through complicated issues to get the deal done
- Significant dedicated healthcare expertise – physician practice management deals require special knowledge
- Fertility sector transaction experience – there are many specifics that relate solely to the fertility sector – a investment bank with knowledge of these issues will be able to better gain full value
- Senior level attention from start to finish – want to ensure that the team pitching the transaction will be running the transaction and won't be led by a junior banker once retained



## Dresner Partners – Healthcare Investment Banking Team

Dresner Partners is a FINRA-registered middle market investment bank specializing in merger & acquisition advisory, institutional private placements of debt and equity, valuations and strategic consulting. Domestically, the firm is headquartered in Chicago with additional locations in Fort Lauderdale, New York, Boston and California. Through our IMAP partnership, Dresner Partners maintains a well-established network of international offices in over 35 countries.

We have significant healthcare transaction experience having completed over 100 transactions and are one of the leading investment banks in the fertility sector. Some of our experience includes:

- Represented IGENOMIX in its sale to a group of European private equity firms;
- Represented RMA of NJ in its merger with IVI, creating the largest group of IVF clinics worldwide with over 70 clinics in 13 countries;
- Represented Advanced Fertility of Chicago in its sale to Prelude Fertility; and
- Representing a Midwest fertility clinic group in its pending sale



Advanced Fertility Center of Chicago

has been acquired by



**Prelude**

Sell-Side Advisor




The Source for New Beginnings  
**RMA**  
Reproductive Medicine Associates  
of New Jersey

has merged with



Sell-Side Advisor




PIONEERS IN REPRODUCTIVE GENETICS

Genetic Testing  
Laboratories and Services

has been acquired by



Sell-Side Advisor




Healthcare Patient  
Satisfaction Surveys

has been recapitalized by



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Ophthalmology Physician  
Practices and Laser Vision  
Correction Centers / ASCs

Advised in the consolidation and  
financing of ophthalmology practices

Financial Advisor




Carle Foundation Hospital  
Hospital System

divested BroMenn Medical Supply and  
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