The physician group industry is changing as consolidation continues among healthcare providers and the Patient Protection and Affordable Care Act (ACA) accelerates the trend. Last year alone, the percentage of physician practices owned by hospitals doubled from about 30% to 60%. This consolidation is occurring for a variety of reasons, including economies of scale, managed care contracting, and the substantial shifts in payment methodologies.

Physician reimbursements have not kept pace with annual spending on healthcare, so industry operators have turned to M&A in order to cut costs and generate new revenues. In addition, the ACA has helped progress a general shift toward value-based reimbursements, which pressure providers to improve and coordinate care across the healthcare continuum. Many players are looking to vertical integration in order to achieve this goal.

Traditionally, private equity firms have invested in medical groups with high-reimbursement potential, such as dermatology, anesthesia, pain management and dentistry. This is still the case, but private equity firms have also begun to look at other subspecialties (neurosurgery, podiatry, OB/GYN, etc.), as well as primary care physician groups, betting on changing payment models.

Consolidation Continues to be an Important Trend

Physician Group Buyer Summary

Regional Hospitals and Health Systems
- Strengthen regional presence and relationships
- Secure patient referrals
- Provide comprehensive patient care

Physician Practice Groups
- Increase scale in order to lower overhead with a focus on implementing EHR programs
- Enhance ability to negotiate with third parties, including payor groups and hospitals

Managed Care Providers
- Opportunity to control costs by implementing strategies that reward more efficient use of resources by physicians
- Influencing patients by implementing wellness programs and other strategic initiatives to improve/maintain patient health
- Historically, more focused on primary care and internal medicine

Private Equity and Family Offices
- Provide capital to execute on a growth plan
- Provide advisory services, including strategy development, operational guidance, sharing of best practices and access to key industry relationships
- Historically, more focused on specialty groups
Physician Groups Are Unlocking Value in an Active Market

The first half of 2015 started strong with the highest volume of physician group M&A activity since the first half of 2011 (see chart below).

**Physician Group M&A Transactions**

Strategic acquirers remain active, seeking potential synergies, as demonstrated by some high-profile deals. In May 2015, MEDNAX acquired Virtual Radiologic for $500 million and, in August 2015, Team Health announced a deal to acquire IPC Healthcare for nearly $1.5 billion.

Financial parties (private equity, family offices, etc.) also remain active, seeking physician groups that are ahead of the curve in offering new care delivery and payment models. Financial buyers anticipate that these practices will be valuable in a healthcare system that rewards cost-effective care, care-coordination expertise and data analytics capabilities.

Over the last couple of years, valuation multiples have reached record highs, in many cases achieving double digit EBITDA multiples for selected in-network providers with over $10 million of EBITDA. These high valuations will likely remain in the near term as active buyers continue to compete for a limited supply of physician groups and low interest rates help finance the transactions. Selected factors that can influence acquisition multiples are summarized on the following page.
### Valuation Considerations

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<td>Ownership</td>
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<td>Incentivizing Post-Transaction</td>
<td>Large upfront payout, downward adjustments to current shareholder compensation, average physician age, etc.</td>
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<td>Financial Performance</td>
<td>Revenue &amp; margin visibility, audited financials, growth rate, etc.</td>
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<tr>
<td>Management Team</td>
<td>Strong and experienced management team important to spearhead future growth</td>
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<td>Other Drivers</td>
<td>Referral network, malpractice and other legal issues, competition, etc.</td>
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About Dresner Partners

Dresner Partners is a FINRA-registered, middle-market investment bank headquartered in Chicago, Illinois with offices in New York City, Palo Alto and Irvine, Calif., and Richmond, Va. For more than 24 years, Dresner Partners has provided financial advisory services to middle market companies throughout the world, including institutional private placements of debt and equity, merger and acquisitions advisory, financial restructuring & corporate turnarounds, valuations and strategic consulting services. Through our IMAP partnership, Dresner Partners maintains a well-established network of international offices in over 30 countries.

Other Selected Dresner Transactions

- **Carle Foundation Hospital**
  - Hospital System / Pharmacy
  - Divested BroMenn Medical Supply and Infusion Therapy (Home Health)
  - Sell Side Advisor

- **CM Healthcare Resources Inc.**
  - Home Health
  - Divested Specialty and Home Infusion Pharmacy to Option Care
  - Sell Side Advisor

- **NeuroSource**
  - Neuroscience focused inpatient facilities and physician practices
  - Advised on refinancing of debt and sale to NorthShore University HealthSystem
  - Financial Advisor

- **DaVita**
  - 13 Dialysis Centers
  - Has been acquired by
  - Sell Side Advisor

- **Carle Foundation Hospital**
  - Hospital System / Pharmacy
  - Divested pharmacy business, CarleRX Express to Walgreens
  - Sell Side Advisor

- **CM Healthcare Resources Inc.**
  - Outpatient Rehabilitation
  - Divested The Pediatric Place to Physiotherapy Associates
  - Sell Side Advisor

- **Deseret Health Group**
  - Long-term Care (SNFs)
  - Divestiture of 14 Kansas SNFs to Mission Health
  - Sell Side Advisor

- **Apria Healthcare**
  - Sell Side Advisor

- **HCA Healthcare**
  - Sell Side Advisor

- **Traditional Management**
  - Sell Side Advisor

- **Other Selected Dresner Transactions**
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