



Healthcare Highlights

Sector Focus: Physician Groups



PHYSICIAN GROUP M&A TRENDS OVERVIEW

Starting in 2009 with the anticipation of healthcare reform and accelerating with the passage of the Patient Protection and Affordable Care Act (PPACA) in 2010, physician groups have received strong interest from a diverse set of parties:

- Primary buyers of physician groups have been hospitals and health systems that place strategic value on expanding their regional presence and referral network as well as ensuring a comprehensive patient care network
- Large physician practice groups have also surfaced as buyers focusing on lowering overhead, gaining efficiencies through implementing new EHR platforms, and improving negotiating power with third parties (payers and hospitals)
- Managed care providers are targeting physician group acquisitions to control costs and improve patient health by adding wellness programs and other health initiatives
- Additionally, private equity buyers are attracted to physician groups, especially physician groups with strong management teams that need capital to pursue a growth plan

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Physician groups are often valued based on historical EBITDA multiples that have ranged between 4.0x – 6.0x. There is potential for a premium multiple of 7.0x or greater (sometimes reaching double digit multiples) based on physician group practice size, geographic presence, number of active buyers competing for a limited supply of physician groups, and the potential in realizing synergies, including control of referral sources, cost savings, and enhanced patient care.

PHYSICIAN GROUP BUYER SUMMARY

Regional Hospitals and Health Systems	Physician Practice Groups	Managed Care Providers	Private Equity
<ul style="list-style-type: none"> ▪ Strengthen regional presence and relationships ▪ Secure patient referrals ▪ Provide comprehensive patient care 	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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 Group M&A Drivers

The current M&A market for physician group transactions is extremely favorable being driven by multiple factors:

- Growing willingness by physicians to sell to hospitals
- Non-acquisition strategies for physician alignment with hospitals (e.g., co-management, which involves the formation of a management company jointly owned by a hospital and independent physicians)
- Hospitals are focused on strengthening their geographic market position as well as existing services lines
- A response by hospitals to protect themselves with strength in numbers from the uncertainty created by the PPACA as well as leverage the benefits of scale, such as:
 - Improved access to capital, especially for non-profits
 - Greater negotiating power with payors; protect reimbursement rates
 - Technology upgrades for small groups that could not afford them independently
- Build “critical mass” to create accountable care organizations (ACOs) in order to share financial risk and reward through a more diversified provider network
 - ACOs make providers jointly accountable for the health of their patients and they can receive Medicare bonuses for quality care and cost savings
 - Consolidation allows for the creation of ACOs without raising possible antitrust issues
 - Physician groups want to join ACOs to eliminate administrative burdens
 - ACOs have spread throughout the U.S., but challenges still remain in the successful implementation of an ACO, which include:
 - Coordination of EHR implementation with hospitals and outpatient locations
 - Shortage of primary care physicians to fuel referrals
 - Cost containment challenges resulting in fewer inpatient admissions
 - Challenges between physicians coordinating care with other physicians
 - Patients going out of network thereby limiting care coordination

POTENTIAL SYNERGIES FOR STRATEGIC BUYERS

Potential Synergies	Hospitals / Health Systems	Physician Practice Groups	Managed Care Providers
Capitalize on Higher Reimbursement Rates	✓		
Taxes	✓ (applicable for non-profit)		
340B Drug Cost Savings	✓ (applicable for non-profit)		
Leverage IT / EHR Infrastructure	✓	✓	✓
Eliminate Duplicative Overhead	✓	✓	
Ability to Lower Cost of Care	✓	✓	✓



Hospital and Managed Care M&A Dynamics

Trends	Recent Activity
Continued emphasis on cost synergies	<ul style="list-style-type: none">▪ Hospitals need to reduce costs 15% - 30% per case in order to offset the expected decline in government reimbursement rates▪ Hospitals are placing additional emphasis on cost synergies, including the implementation of more efficient EHR systems to offset reimbursement cuts
Creativity in structuring affiliations and partnerships	<ul style="list-style-type: none">▪ More creative structures are being developed to meet the changing care and payment models▪ Hospitals are examining multiple opportunities to control referral networks by partnering with physician groups through either acquisitions, affiliations, partnerships or joint ventures▪ The Cleveland Clinic recently announced multiple partnerships with orthopedic practices to form an orthopedic physician hospital organization that consists of: The CORE Institute (Phoenix, AZ), OrthoCarolina (Charlotte, NC), and Rothman Institute (Philadelphia, PA)
Proactive identification of consolidation opportunities	<ul style="list-style-type: none">▪ Large regional systems are expected to continue proactive planning for market consolidation by pursuing opportunities to monetize underperforming assets and identify markets where they can serve in a consolidator role
Consolidation driven by managed care providers	<ul style="list-style-type: none">▪ Managed care players have been acquisitive and the industry is expected to further consolidate as managed care providers try to reduce costs and improve profitability<ul style="list-style-type: none">– The acquisition of Metropolitan Health Networks by Humana– Wellpoint's entrance into the management of senior health clinics with the acquisition of CareMore Medical Group– United HealthCare's acquisition of Monarch Healthcare, which complements the Company's other California operations, including AppleCare Medical Group's management arm and Memorial Healthcare IPA
Continued influx of private equity (PE) investment in healthcare services	<ul style="list-style-type: none">▪ Healthcare industry has benefited from capital infusion that private equity investors have brought to the sector▪ Healthcare investing is appealing to investors looking to generate shareholder return and fund future growth

Physician Group Transaction Activity

Selected Physician Group Transactions

Closed Date	Target	Buyer	Sellers	Enterprise Value (TEV)	TEV / Revenue	TEV / EBITDA
12/19/2013	Neonatology Center of Winchester, P.C. (Winchester, VA)	MEDNAX, Inc. (NYSE:MD) (Sunrise, FL)	-	-	-	-
11/01/2013	Ohio Cancer Specialists (Mansfield, OH)	The Cleveland Clinic (Cleveland, OH)	-	-	-	-
10/29/2013	Pulmonary Consultants Inc. (nka:TriHealth Pulmonary Medicine) (Cincinnati, OH)	Trihealth, Inc. (Cincinnati, OH)	-	-	-	-
10/14/2013	Children's Clinic of South Snohomish County (Edmonds, WA)	Swedish Medical Group (Seattle, WA)	-	-	-	-
10/02/2013	Upper Michigan Cardiovascular Associates (Marquette, MI)	Marquette General Hospital (Marquette, MI)	-	-	-	-
10/01/2013	Physician Care Network (Rockford, IL)	SwedishAmerican (Rockford, IL)	-	-	-	-
09/03/2013	Northwestern Medical Faculty Foundation (Chicago, IL)	Northwestern Memorial HealthCare (Chicago, IL)	-	\$350.0	-	-
08/05/2013	North Canton Medical Foundation (Canton, OH)	Aultman Health Foundation (Canton, OH)	-	-	-	-
07/01/2013	M & M Orthopaedics, Ltd. (Downers Grove, IL)	DuPage Medical Group, Ltd (Downers Grove, IL)	-	-	-	-
07/01/2013	Michigan Multispecialty Physicians, P.C. (Ann Arbor, MI)	Integrated Health Associates, Inc. (Ann Arbor, MI)	-	-	-	-
04/02/2013	Culpeper Medical Associates, L.L.C. (Culpeper, VA)	UVA Physicians Group (Charlottesville, VA)	-	-	-	-
01/11/2013	Infectious Diseases Associates P.C. (Ypsilanti, MI)	Integrated Health Associates, Inc. (Ann Arbor, MI)	-	-	-	-
01/03/2013	Four Separate Physician Practices (Memphis, TN; West Memphis, AR; Bartlett, IL; Brighton, MI; Covington, KY; Millington, TN; Germantown, PA)	Baptist Medical Group, LLC (Pensacola, FL)	-	-	-	-
12/28/2012	Physician Associates, LLC (Altamonte Springs, FL)	Orlando Health, Inc. (Orlando, FL)	-	\$50.0	-	-
12/20/2012	Fox Valley Women & Children's Health Partners (St. Charles, IL)	Dreyer Medical Clinic (Aurora, IL)	-	-	-	-
12/14/2012	Memphis Primary Care Associates, PLLC (Memphis, TN)	Baptist Medical Group, LLC (Pensacola, FL)	-	-	-	-
11/01/2012	HealthCare Partners, LLC (Torrance, CA)	DaVita HealthCare Partners Inc. (NYSE:DVA) (Denver, CO)	Summit Partners	\$4,693.0	2.0x	8.9x
10/18/2012	Southwest Medical Associates, Inc. (Albuquerque, NM)	Lovelace Health Systems, Inc. (Albuquerque, NM)	-	-	-	-
10/02/2012	East Tennessee Medical Group, P.C. (Alcoa, TN)	Blount Memorial Hospital, Incorporated (Maryville, TN)	-	\$24.3	-	-
04/02/2012	First Choice Medical Group of Brevard, LLC (Melbourne, FL)	FCID Medical, Inc. (Melbourne, FL)	-	\$2.5	-	-
03/14/2012	Weber Medical Clinic Ltd (Olney, IL)	Southern Illinois Healthcare Foundation (East Saint Louis, IL)	-	-	-	-
02/09/2012	Mid America Medical Associates And Garcia, Rosenberg & Associates (Lincolnwood, IL)	Concentra, Inc. (Humana Inc. (NYSE:HUM)) (Addison, TX)	-	-	-	-
02/08/2012	MidAmerica Cardiovascular Consultants (Oak Lawn, IL)	Advocate Health Care, Inc. (Oak Brook, IL)	-	\$3.5	-	-
01/11/2012	Midwest Heart Specialists Ltd. (Oak Brook, IL)	Advocate Health Care, Inc. (Oak Brook, IL)	-	-	-	-
01/01/2012	Hennepin Faculty Associates Inc. (Minneapolis, MN)	Hennepin Healthcare System Inc. (Minneapolis, MN)	-	-	-	-
12/31/2011	PinnacleHealth Medical Group, Inc. (Lemoyne, PA)	Pinnacle Health System (Harrisburg, PA)	-	-	-	-
12/31/2011	Premier Medical Associates, P.C. (Monroeville, PA)	Highmark Inc. (Pittsburgh, PA)	-	\$70.0	-	-
12/19/2011	Burlington Anesthesia Associates PA (Mount Holly, NJ)	American Anesthesiology, Inc. (Sunrise, FL)	-	-	-	-
11/22/2011	Monarch Healthcare (Irvine, CA)	OptumHealth, Inc. (UnitedHealth Group Incorporated (NYSE:UNH)) (Edina, MN)	-	-	-	-

Data as of December 30, 2013
Source: Capital IQ



Physician Group Transaction Activity

Selected Physician Group Transactions (cont.)

Closed Date	Target	Buyer	Sellers	Enterprise Value (TEV)	TEV / Revenue	TEV / EBITDA
11/08/2011	Five Primary Care Physician Practices in Texas and Howard Family Practice Associates (San Antonio, TX)	WellMed Medical Management, Inc. (San Antonio, TX)	-	-	-	-
11/01/2011	Vine Street Clinical Associates (Springfield, IL)	Memorial Health System (Springfield, IL)	-	-	-	-
11/01/2011	Osler Medical, Inc. (Melbourne, FL)	The Space Coast Health Foundation Inc. (Rockledge, FL)	-	-	-	-
10/04/2011	Northwest Family Physicians (Arlington Heights, IL)	Affinity Healthcare LLC (nka:NCH Medical Group) (Riverwoods, IL)	-	-	-	-
09/16/2011	Memorial Healthcare IPA (Los Angeles County, CA; Orange County, CA)	OptumHealth, Inc. (UnitedHealth Group Incorporated (NYSE:UNH)) (Edina, MN)	-	-	-	-
08/22/2011	CareMore Medical Group, Inc. (Cerritos, CA)	Anthem Holding Corp. (WellPoint Inc. (NYSE:WLP)) (Indianapolis, IN)	CCMP Capital Advisors	-	-	-
08/03/2011	Zion Clinic (Zion, IL)	Aurora Health Care (Milwaukee, WI)	-	-	-	-
05/12/2011	Associates in Family Health Care, P.A. (Lansing, KS)	Saint John Hospital Inc.; Providence Medical Center, Inc. (Leavenworth, KS; Kansas City, KS)	-	-	-	-
03/31/2011	Three Physician Group Practices (San Antonio, TX; Miami, FL)	MEDNAX, Inc. (NYSE:MD) (Sunrise, FL)	-	\$11.3	-	-
01/01/2011	Intermountain Medical Group, Inc. (Kingston, PA)	Community Health Systems, Inc. (NYSE:CYH) (Franklin, TN)	-	-	-	-
12/21/2010	Concentra (Addison, TX)	Humana Inc. (NYSE:HUM) (Louisville, KY)	Ferrer Freeman & Company, LLC; Goldman Sachs Group, Merchant Banking Division; Hamilton Lane ; Welsh, Carson, Anderson & Stowe	\$804.7	1.0x	-
12/09/2010	Wichita Clinic, P.A. (Wichita, KS)	Via Christi Health Inc. (Wichita, KS)	-	-	-	-
11/06/2010	Integrated Health Associates, Inc. (Ann Arbor, MI)	Saint Joseph Mercy Health System (Ann Arbor, MI)	-	-	-	-
09/02/2010	Affinity Healthcare LLC (nka:NCH Medical Group) (Riverwoods, IL)	Northwest Community Hospital (Arlington Heights, IL)	-	-	-	-
07/01/2010	Skagit Valley Medical Center, Inc. P.S. (Mount Vernon, WA)	Skagit Regional Clinics (Mount Vernon, WA)	-	\$17.5	-	-
05/03/2010	Adult & Pediatric Urology Center of the Carolina, PA, Atlantic Urology Clinics, LLC, Carolina Regional Cancer Center, P.A., Coastal Urology Center, P.A., and Grand Strand Urology, LLP (Loris, SC; Myrtle Beach, SC; Fort Myers, FL Conway, SC)	Radiation Therapy Services Holdings, Inc. (Fort Myers, FL)	-	\$34.5	-	-
04/01/2010	Carle Clinic Association, P.C. (nka:Carle Physician Group) (Urbana, IL)	Carle Foundation Hospital (Urbana, IL)	-	\$249.7	-	-
12/21/2009	Neonatal Physician Group in Alexandria, Louisiana (Alexandria, LA)	MEDNAX, Inc. (NYSE:MD) (Sunrise, FL)	-	-	-	-
09/13/2009	Carle Clinic-Bloomington (Bloomington, IL)	OSF Healthcare System (Peoria, IL)	Carle Clinic Association, P.C.	-	-	-
11/17/2008	Primary Care Associates Medical Group, Inc. (Vista, CA)	NAMM Holdings Inc. (Ontario, CA)	-	-	-	-
11/04/2008	Neonatal Physician Practice in Hammond, Louisiana (Hammond, LA)	MEDNAX, Inc. (NYSE:MD) (Sunrise, FL)	-	-	-	-
07/01/2008	Madrona Medical Group, P.S. (Bellingham, WA)	PeaceHealth St. Joseph Medical Center (Bellingham, WA)	-	-	-	-
01/01/2008	Columbia Park Medical Group (Minneapolis, MN)	Fairview Health Services, Inc. (Minneapolis, MN)	-	-	-	-
06/01/2007	Pomona Valley Medical Group, Inc. (Ontario, CA)	Prospect Medical Group Inc. (Santa Ana, CA)	-	-	-	-

Data as of December 30, 2013
Source: Capital IQ

Selected Transaction Experience

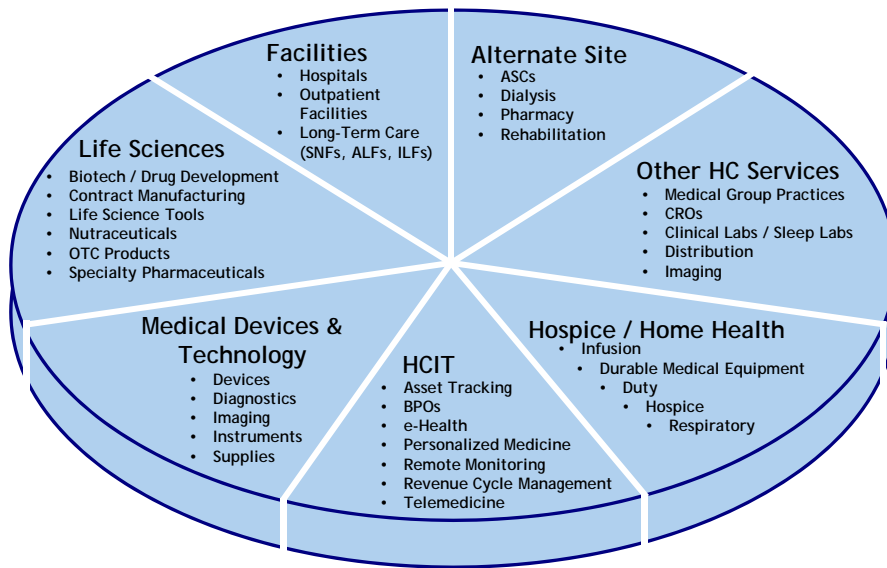
<p>PROJECT HARLEY (Pending)</p> <p>14 Skilled Nursing Facilities, Behavioral Health, Rehabilitation, DME, In-Home Services and Pharmacy</p> <p>Sell side advisor</p> 	 <p>Physical Therapy Clinics and Home Health</p> <p>Strategic Valuation Assessment</p> <p>Financial advisor</p> 	 <p>Wellness Center Operator</p> <p>has been acquired by</p>  <p>Financial Advisor</p> 	 <p>Wellness Center Operator</p> <p>has raised capital from</p>  <p>Financial Advisor</p> 	 <p>Ambulatory Surgery Centers</p> <p>Advised in the consolidation and financing of four ophthalmology practices</p> <p>Financial advisor</p> 
 <p>Carle Foundation Hospital Hospital System / L-T Care</p> <p>Divested its Carle Arbours skilled nursing, rehab and memory care business</p> <p>to</p>  <p>Sell side advisor</p> 	 <p>Carle Foundation Hospital Hospital System / Pharmacy</p> <p>Divested pharmacy business, CarleRX Express</p> <p>to</p>  <p>Sell side advisor</p> 	 <p>Carle Foundation Hospital Hospital System / Home Health</p> <p>Divested BroMenn Medical Supply and Infusion Therapy (Home Health) to</p>  <p>Sell side advisor</p> 	 <p>Hemodialysis and Peritoneal Dialysis Centers</p> <p>has been acquired by</p>  <p>Sell side advisor</p> 	 <p>Home Health (Nursing, Physical Therapy, Behavioral Health)</p>  <p>Financial advisor</p> 
 <p>CM HealthCare Resources, Inc.</p> <p>Hospital System</p> <p>Divested its Specialty and Home Infusion Pharmacy to</p>  <p>Sell side advisor</p> 	 <p>CM HealthCare Resources, Inc.</p> <p>Hospital System</p> <p>Divested Private Duty Home Nursing to</p>  <p>Sell side advisor</p> 	 <p>CM HealthCare Resources, Inc.</p> <p>Hospital System</p> <p>Divested The Pediatric Place (Outpatient Rehabilitation)</p>  <p>Sell side advisor</p> 	 <p>Rockford Health System IT'S CALLED COMMITMENT</p> <p>Health Clinic Network</p> <p>Divested its Outpatient Dialysis Unit to</p>  <p>Sell side advisor</p> 	 <p>13 Dialysis Centers</p> <p>has been acquired by</p>  <p>Sell side advisor</p> 
 <p>MacNeal Hospital Caring for Generations</p> <p>Hospital system</p> <p>Advised on strategic alternatives</p> <p>Financial advisor</p> 	 <p>MultiCare</p> <p>Long-Term Care (SNFs)</p> <p>\$114mm acquisition of Concord Health Group, Inc</p> <p>Buy side Advisor</p> 	 <p>MultiCare</p> <p>Long-Term Care (SNFs)</p> <p>\$100mm acquisition of The ADS Group, Inc.</p> <p>Buy side advisor</p> 	 <p>MultiCare</p> <p>Long-Term Care (SNFs, ALFs)</p> <p>\$1.5bn sale to Genesis Health, Cypress Group, and Texas Pacific Group</p> <p>Sell side advisor</p> 	 <p>Nephrology and Acute Nephrology LLC Dialysis Clinics</p> <p>have entered into a joint venture with</p>  <p>Sell side advisor</p> 
<p>Country House Retirement Homes</p> <p>Long-Term Care (SNFs)</p> <p>\$102mm sale to</p>  <p>BUPA Health Services Ltd.</p> <p>Sell side advisor</p> 	 <p>ResCare</p> <p>Behavioral Healthcare, Home Health, and Healthcare Staffing</p> <p>\$300mm Senior Notes Offering</p> <p>Co-Manager</p> 	<p>Nicolet Nursing & Rehabilitation Center</p> <p>Long-Term Care (SNFs)</p> <p>Strategic advisory services regarding rollup and private placement</p> <p>Strategic advisor</p> 	 <p>SouthernCare Where caring is a way of life.</p> <p>Hospice</p> <p>Acquired by</p> <p>Morgan Stanley Capital Partners</p> <p>\$45mm financing provided by</p>  <p>BNP PARIBAS</p> <p>Lead Arranger for senior secured facilities</p> 	<p>MEDIQ Inc.</p> <p>Medical Supply Distribution</p> <p>Acquired by</p> <p>Bruckmann, Rosser, Sherrill & Co.</p> <p>\$325mm financing provided by</p>  <p>BNP PARIBAS</p> <p>Joint lead arranger for senior secured facilities</p> 



Dresner Partners Healthcare Group

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Subsector Expertise Spanning Key Areas



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