

Staying Ahead of the Curve

A Dresner Partners Newsletter

Sector: Physician Groups



Consolidation Continues to be an Important Trend

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.

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Physician Group Buyer Summary

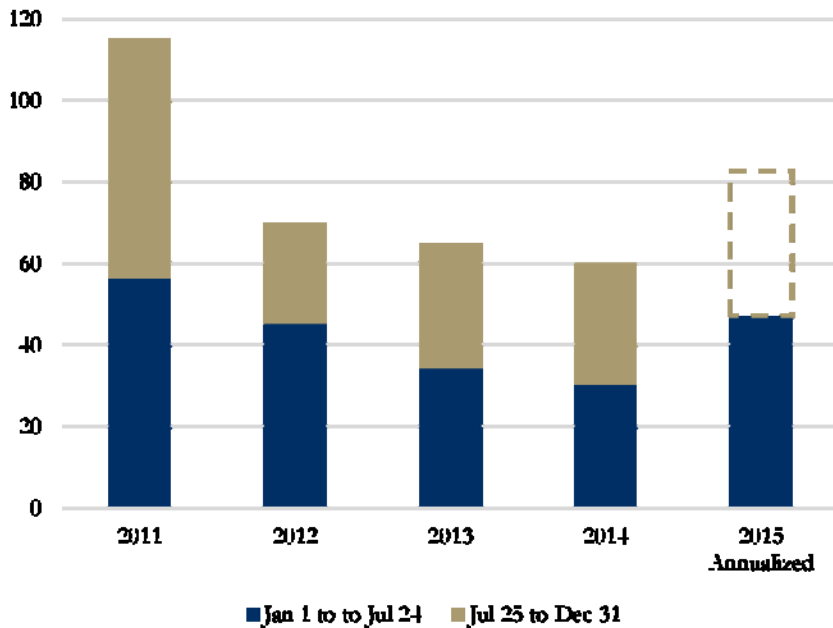
Regional Hospitals and Health Systems	Physician Practice Groups	Managed Care Providers	Private Equity and Family Offices
<ul style="list-style-type: none">Strengthen regional presence and relationshipsSecure patient referralsProvide comprehensive patient care	<ul style="list-style-type: none">Increase scale in order to lower overhead with a focus on implementing EHR programsEnhance 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 physiciansInfluencing patients by implementing wellness programs and other strategic initiatives to improve/maintain patient healthHistorically, more focused on primary care and internal medicine	<ul style="list-style-type: none">Provide capital to execute on a growth planProvide advisory services, including strategy development, operational guidance, sharing of best practices and access to key industry relationshipsHistorically, 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



Source: The Health Care M&A Information Source

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.

Selected Dresner Transactions

<p>Project Neuron (Pending)</p> <p>Neurosurgery Physician Group</p> <p>Sell Side Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>	<p>Project Calypso (Pending)</p> <p>Distributor of Respiratory and Mobility products</p> <p>Sell Side Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>
<p>Project Harley (Pending)</p> <p>Skilled Nursing Facilities, Behavioral Health, Rehabilitation and Pharmacy</p> <p>Sell Side Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>	<p>Project Apple (Pending)</p> <p>Acute Geriatric Psychiatry Hospitals</p> <p>Capital Raise</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>
<p>NovaMed™ Eyecare, Inc.</p> <p>Ambulatory Surgery Centers</p> <p>Advised in the consolidation and financing of four ophthalmology practices</p> <p>Financial Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>	<p>MEDBRIDGE HEALTHCARE</p> <p>Sleep Therapy Clinics and DME</p> <p>Growth Investment</p> <p>Financial Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>
<p>novia CARECLINICS</p> <p>Wellness Center Operator</p> <p>Has been acquired by QuadMed</p> <p>Sell Side Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>	<p>THERAPY PROVIDERS</p> <p>Physical Therapy Clinics and Home Health</p> <p>Strategic Valuation Assessment</p> <p>Financial Advisor</p> <p>DRESNER PARTNERS INVESTMENT BANKING</p>

Drivers	Considerations
Practice Size	Larger practices have greater infrastructure and minimize risk
Geographic Presence	Multi-state practices minimize risk
Reimbursement Pressure	Pressure to margins expected in the near future
Growth Potential	Potential for acquisitions and geographical expansion
Value-Added Services	Medical billing and other ancillary services can be value drivers
Technology Platform	Robust systems and technology add to value
Payor Mix	Private and commercial payors versus Medicare/Medicaid
In-Network vs. Out-of-Network	In-network businesses might have lower margins, but lower investor risk on receipt of cash flow
Employment Agreements	Length and strength of employment agreements with key personnel
Ownership	The greater number of shareholders, the greater the complexity and risks of a transaction
Incentivizing Post-Transaction	Large upfront payout, downward adjustments to current shareholder compensation, average physician age, etc.
Financial Performance	Revenue & margin visibility, audited financials, growth rate, etc.
Management Team	Strong and experienced management team important to spearhead future growth
Other Drivers	Referral network, malpractice and other legal issues, competition, etc.

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 Carle Foundation Hospital Hospital System Divested its Carle Arbours Skilled Nursing, Rehab and Memory Care business to TRADITIONS MANAGEMENT™ Sell Side Advisor 	 Carle Carle Foundation Hospital Hospital System / Pharmacy Divested pharmacy business, CarleRX Express to Walgreens Sell Side Advisor 	 Carle Carle Foundation Hospital Hospital System Divested BroMenn Medical Supply and Infusion Therapy (Home Health) APRIA HEALTHCARE™ Sell Side Advisor
 CM HealthCare Resources Inc. Home Health Divested Private Duty Home Nursing to DHC DEACONESS HOMECARE Sell Side Advisor 	 CM HealthCare Resources Inc. Outpatient Rehabilitation Divested The Pediatric Place to Physiotherapy Associates Sell Side Advisor 	 CM HealthCare Resources Inc. Hospital System Divested its Specialty and Home Infusion Pharmacy to optioncare® Sell Side Advisor
 13 Dialysis Centers Has been acquired by Davita Sell Side Advisor 	 NeuroSource® Neuroscience focused inpatient facilities and physician practices Advised on refinancing of debt and sale to NorthShore University HealthSystem Financial Advisor 	 DESERET HEALTH GROUP Long-term Care (SNFs) Divestiture of 14 Kansas SNFs to MISSION HEALTH Sell Side Advisor

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 Robert Friedman, Jr. Managing Director <i>Healthcare</i>	 Thomas Pyra Senior Advisor <i>Board Advisor of Swedish Covenant Hospital</i>
 Kevin McMurchy Senior Managing Director <i>Financial Institutions</i>	 Pat Cavanagh Managing Director <i>Consumer, Food & Retail</i>
 Omar Diaz Managing Director <i>Industrials</i>	 Brian Graves Managing Director <i>Generalist</i>
 Steve Horkay Managing Director <i>Technology</i>	 Michelle Moreno Managing Director <i>Business Services</i>
 Steve Prada Managing Director <i>Generalist</i>	 David Stastny Managing Director <i>Technology</i>
 Tim Golomb Executive Director <i>Strategy</i>	 Steven Mullin Director of Marketing & Business Development