

**An Overview of M&A
in the Healthcare
Industry**

White Paper

Introduction

Strategic buyers are looking to jump start revenue growth or move into adjacent markets. They are acquiring businesses to build out their product portfolio and broaden their customer footprint. At the same time, private equity has capital available and is seeking to acquire or back unique opportunities with large market potential. This includes the physician practice sector and expanding into specialties such as orthopedics, urology, and oncology.

With the emergence of the COVID-19 pandemic, the telehealth market is one example of a sector growing significantly as integrated services gain in popularity. Virtual doctor visits are becoming more widespread with email, video conferencing, phone, and other forms of communication offering an alternative option for non-emergencies.

Telemedicine is having a positive impact on mental healthcare as behavioral health professionals connect with patients in real-time, which is particularly important given that treatment for mental illness has long been underserved. Moreover, remote psychiatry services can reduce costs by having patients avoid emergency room or other hospital visits. As for neurology, stroke specialists can remotely diagnosis a patient by working in tandem with emergency room and nurse practitioners. In addition, telehealth provides a chance for patients in rural communities to access medical expertise that they might otherwise be excluded from.

Data is driving healthcare transformation, with prediction and prevention a central force. Health data is allowing doctors to build better patient profiles and predictive models to more

effectively anticipate, diagnose, and treat disease. Meanwhile, the industry is grappling with the tension between encouraging data sharing to maximize the benefits of collaboration and maintaining patient privacy and trust. All of these developments are altering the role of physicians and their relationships with patients.

The use of real-world data (RWD) and real-world evidence (RWE) within healthcare systems is expanding as stakeholders face pressure to satisfy the needs of a changing industry. RWE is being used by payors, providers, and pharmaceutical companies to help make decisions about cost-effectiveness and usefulness, especially when other data sources are lacking. RWE is bolstering the knowledge obtained from randomized controlled trials (RCTs), leading to data sets that are more inclusive.

Also of note, behavioral health is one of the industry’s most active sectors right now. The treatment of autism with applied behavior analysis (ABA) in particular is drawing considerable levels of investment. It’s difficult to enter the autism market without expertise in treating children with specialized needs, so those with domain expertise tend to be the most successful. As a high growth market that remains fragmented, many strategic buyers and financial sponsors are interested in opportunities to increase their exposure.

Current M&A Market Landscape

Total transaction volume increased 14 percent on a year-to-year basis, from 470 to 535. Aggregate value declined four percent, from \$36.11 to \$34.51 billion.

Strategic Buyers

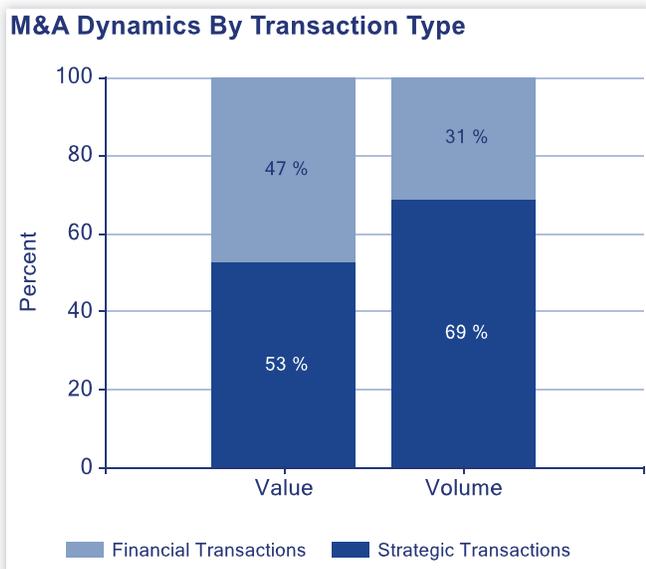
- Strategic volume improved six percent annually, from 336 to 356 deals. Strategic acquirers accounted for 69 percent of volume and 53 percent of value from 2018 to 2019.

Financial Sponsors

- Private equity backed volume gained 34 percent year-over-year, from 134 to 179 deals. Financial sponsors represented 31 percent of volume and 47 percent of value from 2018 to 2019.

Industry Wide Valuations

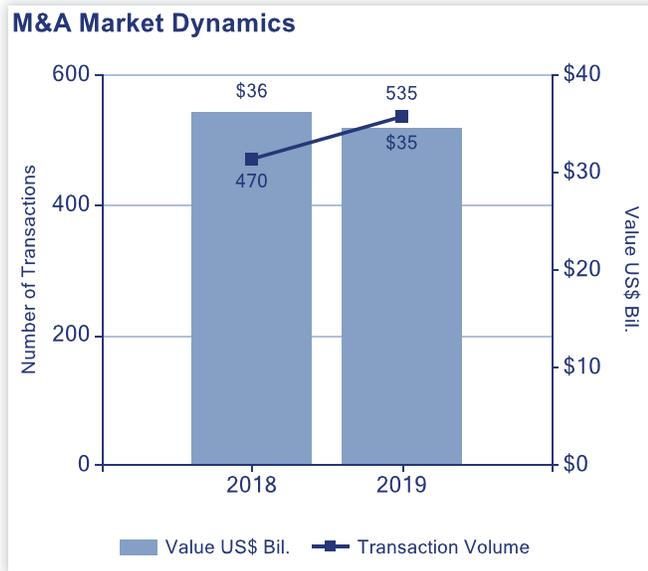
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.4x, while the median EBITDA multiple was 12.1x.



M&A Analysis of the Past Two Years

Berkery Noyes recorded 1,005 industry merger and acquisition (M&A) transactions from the beginning of 2018 through the end of 2019. Based on volume, the most active market segment during the past two years was Healthcare IT with about half of the industry’s aggregate activity.

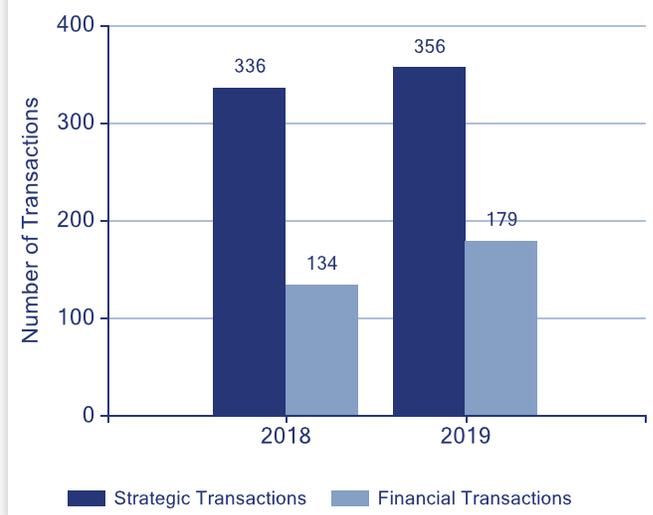
The median revenue multiple shifted from 2.5x to 2.3x, while the median EBITDA multiple saw a slight uptick from 11.9x to 12.6x. Transactions in the \$10-\$20 million range received a median revenue multiple of 1.7x. Deals above \$20 million in enterprise value garnered a median revenue multiple of 3.1x.



M&A Activity Per Industry Segment

- **Healthcare IT.** Deal volume in the Healthcare IT segment increased 11 percent on a year-to-year basis. The highest value Healthcare IT transaction in 2019 was private equity firm EQT and Canada Pension Plan Investment Board’s (“CPPIB”) acquisition of a majority stake in Waystar, a revenue cycle management (RCM) provider, for \$2.7 billion. In terms of specific subsectors, notable deals with a telehealth or telemedicine component included GoodRx’s acquisition of HeyDoctor; American Well’s acquisition of Aligned Telehealth; VirTrial’s acquisition of SnapMD; and Crossover Health’s acquisition of Sherpaa.
- **Healthcare Business Services.** The Healthcare Business Services segment underwent a 17 percent rise in volume. Notable segment transactions during 2019 included Leonard

Transaction Type



Green & Partners’ and Ares Management’s announced acquisition of Press Ganey Associates, which offers patient experience measurement and performance improvement solutions to healthcare providers, with a reported valuation of more than \$4 billion; and UnitedHealth Group’s acquisition of Equian, which offers payment-processing services for healthcare companies and insurers, for \$3.2 billion.

As for the insurance sector, high profile deals included Prudential Financial’s acquisition of Assurance IQ, a consumer solutions platform for health and financial wellness needs, for \$2.35 billion; and HealthEquity’s acquisition of WageWorks, which administers consumer-directed benefits such as Health Savings Accounts (HSAs), for \$1.34 billion.

- **Behavioral Health.** M&A activity in the behavioral health sector rose 24 percent. Notable transactions in 2019 included Golden Gate Capital’s acquisition of Invo, a provider of autism and childhood behavioral health services; Gryphon Investors’ acquisition of a majority stake in LEARN Behavioral, a network of providers serving children with autism and other special needs; and The Stepping Stones Group’s acquisition of New England ABA, an in-home and community-based Applied Behavioral Analysis (ABA) therapy company.
- **Pharma IT, Information, and Business Services.** Transaction volume in the combined Pharma segments improved 32 percent. The largest Pharma IT deal in 2019 was Dassault Systèmes’ acquisition of Medidata, a SaaS-based platform for clinical development, commercial, and real-world data, for \$5.82 billion. Other notable deals relating to RWD and RWE

over the past year included Evidera's acquisition of Medimix International; ZYUS' acquisition of Revon Systems; and Audax Group's recapitalization of Corrona, in partnership with the Company's management team.

Conclusion

Healthcare institutions are investing in various areas of information technology such as electronic health portals, consumer focused applications, remote monitoring of test results, and digital image transmission. Constituents in the healthcare industry are also seeking niche software vendors that promote interoperability, structure clinical data, improve outcomes, and reduce costs.

A high rate of new business formation is occurring, with many of these companies supported by venture capital and private equity investment. The most attractive acquisition candidates

enjoy high cash flow margins, low capital expenditures, and defensible positions in their marketplace.

The breadth of acquirers should continue to expand as buyers look to capitalize on the size, quickly evolving dynamics, and growth characteristics of the healthcare market.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory to middle market companies in the information, software, services, and technology industries.

The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

**SELECTED HEALTHCARE TRANSACTIONS
COMPLETED BY BERKERY NOYES**



HAS ENTERED INTO
A STRATEGIC
PARTNERSHIP WITH




HAS ACQUIRED



A PORTFOLIO COMPANY OF




HAS BEEN ACQUIRED BY



A PORTFOLIO COMPANY OF




HAS ACQUIRED




HAS BEEN ACQUIRED BY



A PORTFOLIO COMPANY OF




HAS BEEN ACQUIRED BY

