

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

Introduction

The unprecedented challenges from the COVID-19 pandemic have given rise to new opportunities for healthcare mergers and acquisitions (M&A). Healthcare companies are digitizing their operations and seeking new ways to utilize abundant patient data, creating demand for a wide range of technologies. This includes data-driven patient engagement using artificial intelligence (AI), virtual visits, tele-prescribing, self-management tools, and home-based patient engagement. Businesses focused on medical devices, therapies, and diagnostics continue to be attractive acquisition targets as well.

For the healthcare services market, the operating model has shifted to consumer-driven health and well-being services. Patients are increasingly reliant on online platforms to schedule appointments, discuss test results with physicians, receive medications or refills, recommend self-care protocols, and communicate with care teams. Additionally, the homecare and hospice subsector is undergoing significant changes in the scope of care patients receive and how that care is delivered – some of which have been accelerated by the pandemic. Many organizations in this subsector will see steady growth as companies invest in remote health management/monitoring technologies and telehealth services.

As for larger biopharma companies that are looking to drive sales and improve patient outcomes, cloud-based data analytics solutions with a platform deploying AI and machine learning are attractive candidates for acquisition. Biopharma IT is a growing and evolving area that is helping drug makers improve their communications with patients and physicians alike, just as it is

facilitating virtual clinical trials and precision medicine.

In the behavioral health sector, providers who focus on mental health and substance abuse are even more attractive to investors on the heels of the global pandemic. Innovative niche providers, as well as rollups of outpatient mental health providers, merging into larger more diversified entities, will continue to drive growth in the subsector. To meet the growing demand, it is also likely that many players will seek to consolidate to expand geographic footprint and increase access to care.

Given all of these considerations, strategic buyers are looking to acquire businesses that will help streamline processes and jump-start revenues. As they seek to expand their geographical footprint and broaden their customer base, consolidation in largely fragmented markets will continue. Meanwhile, private equity buyers that are well-capitalized are looking to acquire or back unique opportunities with a large market potential.

Current M&A Market Landscape

Total transaction volume improved three percent over the past year, from 538 to 554. Aggregate value rose 36 percent, from \$34.16 to \$46.42 billion.

Strategic Buyers

- Strategic volume remained nearly constant on an annual basis at 357 deals. Strategic acquirers accounted for 65 percent of volume and 58 percent of value from 2019 to 2020.

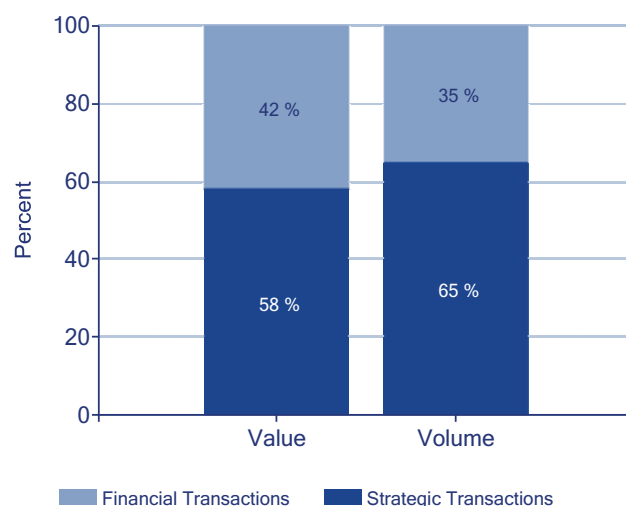
Financial Sponsors

- Private equity backed volume gained eight percent year-over-year, from 182 to 197 deals. Financial sponsors represented 35 percent of volume and 42 percent of value from 2019 to 2020.
- The most active overall acquirer in 2020 either directly or through an affiliated business was New Mountain Capital with ten industry transactions: PatientBlox, Healthcomp, Elysia Group, Laiya Consulting, FlexTech, Medal, Inc., Discern Health, SwervePay, Symplur, and 21GRAMS NY.

Industry Wide Valuations

Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.8x, while the median EBITDA multiple was 14.7x.

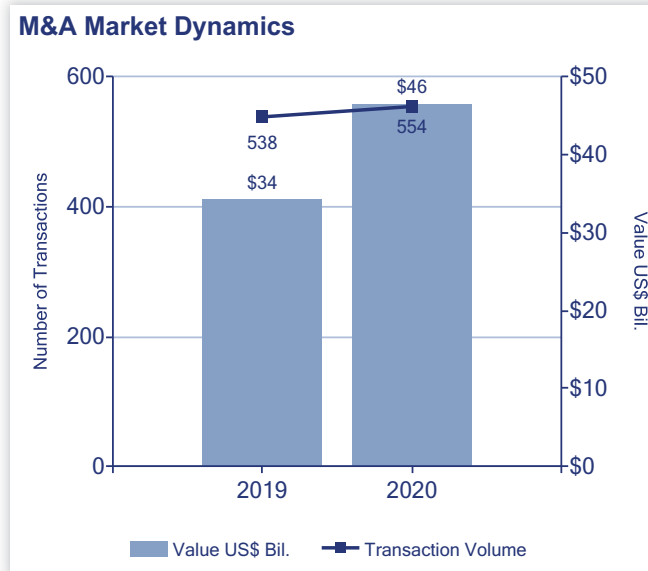
M&A Dynamics By Transaction Type



M&A Analysis of the Past Two Years

Berkery Noyes recorded 1,092 industry merger and acquisition (M&A) transactions from the beginning of 2019 through the end of 2020. 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 increased from 2.3x to 3.0x, while the median EBITDA multiple improved from 12.4x to 15.8x. Transactions in the \$10-\$40 million range received a median revenue multiple of 2.5x. Deals above \$40 million in enterprise value garnered a median revenue multiple of 3.6x.

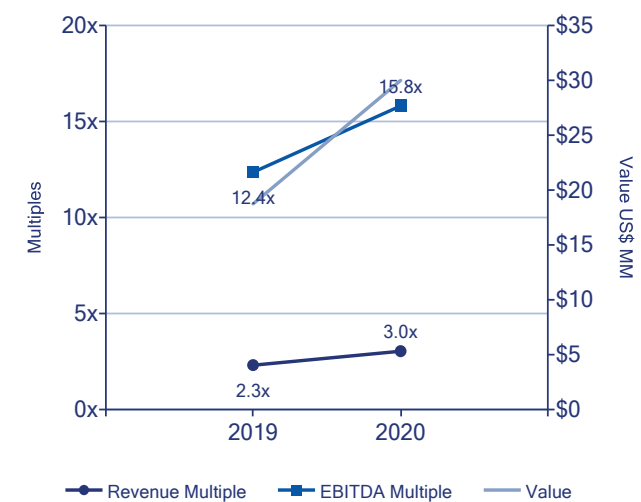


M&A Activity Per Industry Segment

- **Healthcare IT.** Deal volume in the Healthcare IT segment underwent a two percent uptick on a year-to-year basis. Notable segment deals over the past year included WellSky's acquisition of CarePort Health, which bridges acute and post-acute EHR data and provides visibility into the patient journey for providers, physicians, payers, and ACOs, for \$1.35 billion; TelaDoc's acquisition of InTouch Health, a provider of enterprise telehealth solutions for hospitals and health systems, for \$600 million; and Align Technology's acquisition of exocad, which offers dental CAD/CAM software to dental labs and dental practices, for \$412 million.

- **Healthcare Business Services.** The Healthcare Business Services segment saw an eight percent decline in volume. The segment's largest deal in 2020 was TelaDoc's announced

Median Enterprise Value Multiples



merger with Livongo for \$16.6 billion. The combination of TelaDoc and Livongo will create a global leader in consumer-centered virtual care. Other notable segment transactions included Gainwell Technologies' announced acquisition of HMS, which provides a broad range of payment accuracy and population health management solutions, for \$3.38 billion; Clayton, Dubilier, & Rice's acquisition of Huntsworth PLC, a healthcare communications and public relations company, for \$665 million; and AMN Healthcare's announced acquisition of Stratus Video Interpreting, which offers video remote language interpretation services for the healthcare industry, for \$475 million.

- **Behavioral Health.** M&A activity in the Behavioral Health sector rose 43 percent. Notable transactions in 2020 included CentralReach's acquisitions of Thread Learning, an ABA data collection, analysis, and care coordination platform as well as Cartocal, an AI-based scheduling algorithm company; K1 Investment Management's acquisition of Rethink First, which offers cloud-based treatment tools, training, and clinical supports for individuals with developmental disabilities and their caregivers; and Anthem's acquisition of Beacon Health Options, which provides behavioral health solutions for regional and specialty health plans.

- **Pharma IT, Information, and Business Services.** Transaction volume in the combined Pharma segments decreased seven percent. However, the Pharma IT segment alone experienced a 27 percent gain. The largest Pharma related deal in 2020 was Clarivate Analytics' acquisition of Decision Resources Group, a provider of data, analytics and insights products and services

used by pharma, biotech and medical technology companies, for \$950 million.

Conclusion

Healthcare M&A volume and value increased significantly in the second half of 2020, a trend that is likely to continue. The pandemic has accelerated technological advancements that are transforming the entire healthcare ecosystem. Moreover, there is a high rate of new business formation occurring, often supported by steadily growing venture capital and private equity investment. Companies of scale with rapid revenue growth are perfect bolt-ons for strategic buyers and quite a few of the large

private equity groups have come down market looking for new platforms to buy and build.

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

