PwC Deals

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US Health Services Deals Insights Year-end 2016

Executive summary

2016 was an active year for US Health Services deals, but did not match the prior year, partly because of 2015's exceptional megadeals in Managed Care. The total number of deals decreased by only 1.4%, from 952 to 939, between 2015 and 2016, respectively. Total reported deal value was $71.7 billion in 2016, a decrease of 59.6% from the prior year. Deal volume was greatest in Q2 2016 (256 deals), and reported deal value was greatest in Q3 2016 ($20.7 billion).

Just as in 2015, Long-Term Care represented the largest sub-sector in terms of deal volume (337). However, unlike 2015, it was also the largest sub-sector by deal value ($14.4 billion), finishing the year with a strong Q4 2016.

2016's most-rapidly growing sub-sector in terms of deal volume was Rehabilitation (21.2%), and in terms of deal value it was Physician Medical Groups (384.6%).

2016 witnessed fewer megadeals (transactions exceeding $1 billion), with 14 megadeals compared to 18 in 2015. The greatest number of 2016 megadeals occurred in Q3. The year's largest deal – Envision Health Holdings' announced acquisition of AmSurg in Q2 2016 – accounted for approximately 9% of total deal value for the year.

IPO volume remained low in the health services sector in 2016, with only one reported, priced in Q2 2016.

Industry-wide mean EV/EBITDA multiples decreased by 0.4x in 2016. The SNFs / ALFs / LTACHs sub-sector witnessed the largest change versus 2015, decreasing to 10.2x from 14.8x.

> "Health Services M&A activity has been strong during the past several years with continued momentum being exhibited heading into 2017 across many sectors. However, attention should be paid to the evolution and implementation of the policies of the incoming administration as well as the outcome of the government's review of certain large mergers."
>
> — **Thad Kresho**, US Health Services Deals Leader

Total Deal Value

$71.7B 2016

$18.9B Q4 2016

- **59.6%** Decrease in deal value, 2016 versus 2015
- **8.7%** Decrease in deal value, Q4 2016 versus Q3 2016
- **34.9%** Increase in deal value; Q4 2016 versus Q4 2015

Total Deal Volume

939 2016

227 Q4 2016

- **1.4%** Decrease in deal volume, 2016 versus 2015
- **1.3%** Increase in deal volume, Q4 2016 versus Q3 2016
- **11.7%** Decrease in deal volume, Q4 2016 versus Q4 2015

Mean EV/EBITDA multiples

- **0.4x** Industry-wide decrease, 2016 versus 2015
- **4** Sub-sectors decreased, 2016 versus 2015
- **3** Sub-sectors increased, 2016 versus 2015

Source: *The Health Care M&A Information Source,* www.healthcareMandA.com; *S&P Capital IQ*

Key 2016 Trends

- Deal count decreased slightly in 2016.
- Deal value declined significantly, in part because 2015 was an exceptional megadeal year.
- Q2 2016 was the year's largest quarter by deal volume, and Q3 2016 the largest quarter by deal value.
- Leading sub-sectors included Long-Term Care (deal volume), Rehabilitation (deal volume growth), and Physician Medical Groups (deal value growth).
- The Managed Care sub-sector lagged in terms of both volume and value.
- Mean EV/EBITDA multiples were highest and grew the most in the Home Health/Hospice sub-sector.
- Only one IPO occurred in 2016.

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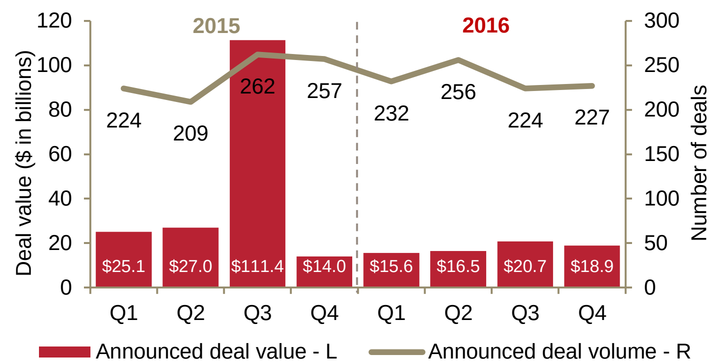
Key trends and insights

Announced M&A transactions declined in 2016

Overall deal volume in 2016 was only slightly lower than in 2015, declining by 1.4% to 939. However, overall deal value was significantly lower, decreasing by 59.6% to $71.7 billion. The decline in total value can be partially attributed to 2015's exceptional Q3 2015, in which Managed Care megadeals were announced.

In Q4 2016, deal volume increased slightly (1.3%) versus the prior quarter, but decreased 11.7% versus the prior year. Q4 2016 deal value decreased by 8.7% versus the prior quarter, but increased 34.9% versus the prior year.

Health services deal volume and value



Source: *The Health Care M&A Information Source,* www.healthcareMandA.com

Sub-sector highlights

In terms of volume and value:

- As in 2015, Long-Term Care was the most active sub-sector in 2016. It experienced the greatest volume and share of deals: 337 and 36%, respectively.
- Deal value was greatest in the Long-Term Care sub-sector in 2016. Its total spend of $14.4 billion represented 20% of total deal value. The Hospitals sub-sector was the second-largest, with 19% of total deal value.

In terms of year-over-year growth:

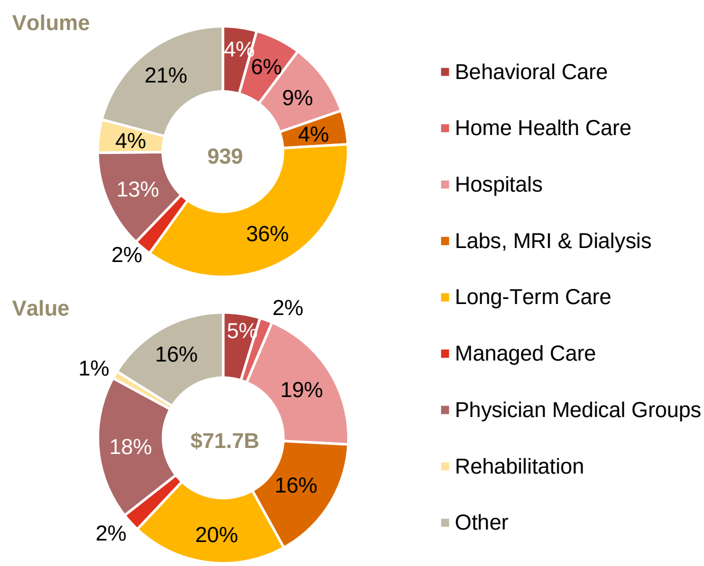
- The Physician Medical Groups sub-sector experienced the greatest deal value growth, almost quintupling with a growth rate of 384.6%. In terms of deal volume, the Rehabilitation sub-sector grew most rapidly (21.2%).
- The Managed Care sub-sector witnessed the largest decline in terms of both deal value and volume, decreasing by 98.3% and 53.3%, respectively.

Sub-sector deal volume, value, and year-over-year growth, 2016

# of Deals	Sub-sector	Deal value ($ in millions)	Deal growth By volume	Deal growth By value
337	Long-Term Care	$14,387	-5.9%	0.8%
89	Hospitals	$13,950	-12.7%	46.7%
119	Physician Medical Groups	$13,263	19.0%	384.6%
41	Labs, MRI & Dialysis	$11,563	-21.2%	162.8%
196	Other	$11,546	14.6%	-73.5%
41	Behavioral Care	$3,410	2.5%	165.8%
21	Managed Care	$1,708	-53.3%	-98.3%
55	Home Health Care	$1,160	7.8%	121.0%
40	Rehabilitation	$712	21.2%	-10.9%
939		**$71,699**	**-1.4%**	**-59.6%**

Source: *The Health Care M&A Information Source,* www.healthcareMandA.com

Sub-sector deals by share of total Health Services volume and value, 2016



Totals may not sum to 100% due to rounding.
Source: *The Health Care M&A Information,* www.healthcareMandA.com

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Key trends and insights

Megadeal transactions decreased

In 2016, there were 14 deals exceeding $1 billion, representing a decrease of 4 deals from 2015, with 71.1% lower deal value. Megadeals represented only 59.3% of total deal value for the year, compared with 82.9% in 2015.

In Q4 2016, there were only 2 megadeals, valued at $7.2 billion in total. These figures represent a decrease in both volume and value, compared to both the prior year and the prior quarter.

The largest transaction announced in 2016 was Envision Health Holdings' acquisition of AmSurg Corporation for $6.7 billion, approximately 9% of 2016's total deal value.

Other notable transactions on a deal value basis included:

- Fresenius Helios' announcement to acquire Quironsalud for $6.5 billion (Q3 2016).
- The Blackstone Group's announcement to acquire Team Health for $6.1 billion (Q4 2016)
- Abbott Laboratories' announcement to acquire Alere Inc for $5.8 billion (Q1 2016).
- Danaher Corporation's announcement to acquire Cepheid for $3.9 billion (Q3 2016).

Megadeal highlights, 2016

Total number and value

14 megadeals totaling $42.5B

Largest megadeal sub-sectors

By volume: Other Services (4), Physician Medical Groups (3)

By value: Physician Medical Groups ($13.8B)

Largest transaction

Envision acquisition of AmSurg ($6.7B)

Source: *The Health Care M&A Information Source,* www.healthcareMandA.com

Trading multiples decreased

Industry-wide mean EV/EBITDA multiples declined slightly, decreasing by 0.4x to 12.4x.

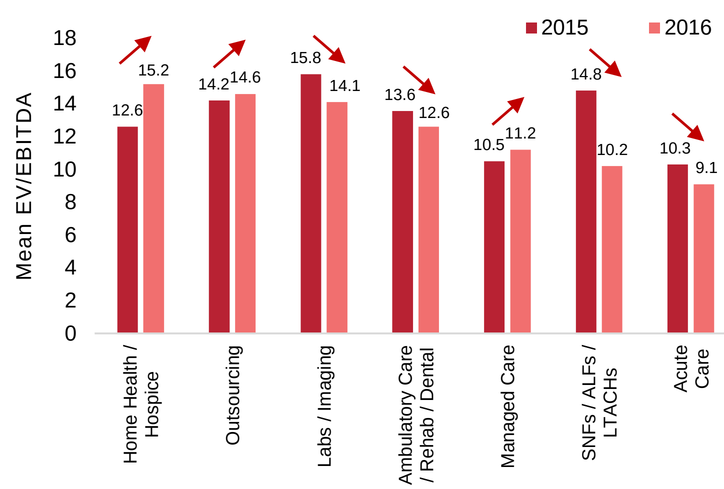
The Home Health/Hospice sub-sector had the highest mean EV/EBITDA multiple in 2016 (15.2x), as well as the largest increase in multiple value versus 2015 (2.5x[1]).

The SNFs / ALFs / LTACHs sub-sector[2] experienced the largest decrease, declining by 4.6x to 10.2x.

Only one IPO in 2016

According to our analysis of Dealogic data, IPO volumes in Health Services remain low, with only two IPOs reported in the last two years, down from the six witnessed in 2014 alone[3]. These two IPOs were: Surgery Partners Inc, priced at $271.4 million in Q3 2015, and American Renal Associates Holdings Inc priced at $165.0 million in Q2 2016.

Trading multiples



[2]Skilled Nursing Facilities, Assisted Living Facilities, Long-Term Acute Care Hospitals.
[3]This IPO count is one higher than previously reported due a classification change.

[1]Differs from chart's depicted increase of 2.6x due to rounding.
Source: *S&P Capital IQ*

About PwC's Deals Practice

Author

Nick Donkar
Partner, PwC's Deals Practice
213 217 3791
nick.donkar@pwc.com

For a deeper discussion on deal considerations, please contact one of our practice leaders or your local Deals partner:

Thad Kresho
Partner, US Health Services Leader
PwC's Deals Practice
678 419 4151
thaddeus.c.kresho@pwc.com

Bob Saada
Partner, US Deals Leader
646 471 7219
bob.d.saada@pwc.com

East

Dan Farrell
Partner, PwC's Deals Practice
267 330 1479
daniel.a.farrell@pwc.com

New York Metro

Steve Moore
Partner, PwC's Deals Practice
646 471 6602
stephen.mark.moore@pwc.com

Central

Manoj Mahenthiran
Principal, PwC's Deals Practice
312 298 3162
manoj.c.mahenthiran@pwc.com

West

Nick Donkar
Partner, PwC's Deals Practice
213 217 3791
nick.donkar@pwc.com

Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, smart deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals Practice can advise health services companies and health services-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine deep health services industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

For more information about M&A and related services in the health services industry, please visit **https://www.pwc.com/us/deals** or **https://www.pwc.com/us/en/health-industries/health-services.html**

About the data

Deal volumes and value: We defined US M&A activity as mergers, acquisitions, shareholder spin-offs, capital infusions, consolidations and restructurings where acquisition targets are US-based companies acquired by US or foreign acquirers. Transactions are based on announcement date, excluding repurchases, rumors, withdrawals and deals seeking buyers. We consider deals to be mergers or acquisitions when there's a change of control or the makeup of the controlling interest changes. In the instance of an acquisition, one company takes effective control over another company or product. In a merger situation, two boards are combined and/or monies are combined. An affiliation or collaboration is neither considered a merger nor an acquisition. The merger and acquisition data contained in various charts and tables in this report has been included with the permission of the publisher of The Health Care M&A Information Source, www.healthcareMandA.com.

Multiples: Data on EV/EBITDA multiples was sourced from S&P Capital IQ (a division of McGraw-Hill Financial) and includes publicly-traded companies in the following sub-sectors: Acute Care, Ambulatory Care/Rehab/Dental, Home Health/Hospice, Labs/Imaging, Managed Care, Outsourcing, SNFs/ALFs/LTACHs

IPOs: IPO information was sourced from Dealogic Equity Capital Markets Analytics, for the following sectors: Healthcare-Practice Management, Hospitals/Clinics, Healthcare-Miscellaneous Services, Outpatient Care/Home Care, Insurance-Multi-line.