



Optimize deals

# PwC Deals

## US Health Services Deals Insights Q1 2017

### Executive summary

For the tenth quarter in a row, the US Health Services industry witnessed over 200 deals, but deal volume growth was nearly flat, increasing 0.9% over the same quarter last year. Long-Term Care remained the most active sub-sector, with 73 announced deals, and Physician Medical Groups experienced the greatest volume growth; its 48 transactions represented an increase of 108.7% over Q1 2016 and 77.8% over Q4 2016.

The most significant trend was a sharp decline in disclosed deal value. Only \$7.9 billion worth of deals were disclosed, representing a decline of 49.3% over the prior year and 58.2% over the prior quarter. All but three sub-sectors experienced near-100% declines over Q1 2016: Long-Term Care, Physician Medical Groups, and Other Services.

2017 also started out on a weaker note in terms of megadeals, with only two announced versus Q1 2016's four. Together, the megadeals represented \$5.8 billion, a decline of 43.8% versus prior year. The largest deal – Optum's announced acquisition of Surgical Care Affiliates Inc – represented 41.4% of total deal value for the quarter.

It continued to be a dry spell for IPOs, with none reported in the quarter. There have been no Health Services IPOs since Q2 2016.

Industry-wide EV/EBITDA multiples decreased slightly, by 0.2x. The Home Health/Hospice sub-sector witnessed the largest change versus LTM 2016 (17.2x versus 11.9x).

“ Stability in announced transaction volume continued through Q1 2017 despite increased uncertainty on the healthcare reform front. Additionally, conversations around alternative transaction types / structures (e.g. JVs, affiliations, etc.) remain active in many markets.

”

– Thad Kresho,

US Health Services Deals Leader

### Total Deal Value, Q1 2017

**\$7.9B**

**49.3%**

Decrease in deal value versus Q1 2016

**58.2%**

Decrease in deal value versus Q4 2016

### Total Deal Volume, Q1 2017

**235**

**0.9%**

Increase in deal volume versus Q1 2016

**2.6%**

Increase in deal volume versus Q4 2016

### Mean EV/EBITDA multiples

**0.2x**

Sector-wide decrease versus LTM 2017

**4**

Sub-sectors decreased versus LTM 2016

**3**

Sub-sectors increased versus LTM 2016

Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com); S&P Capital IQ

### Key Trends

- Deal count increased slightly in Q1 2017.
- Deal value declined significantly.
- There were two megadeals announced (exceeding \$1.0 billion), totaling \$5.8 billion – a lower total transaction value than seen in any quarter over 2015-2016.
- Leading sub-sectors included Long-Term Care (deal volume), Physician Medical Groups (deal volume growth), and Other Services (deal value growth). Physician Medical Groups deal value growth over prior year was also notable, at 2604%.
- No IPOs occurred in Q1 2017.
- Mean EV/EBITDA multiples decreased slightly, industry-wide, but increased significantly in the Home Health/Hospice sub-sector.



Correction: In our Year-end 2016 Update, we erroneously characterized the transaction between Envision Healthcare Holdings Inc and AmSurg Corp. as an acquisition; rather, it was a merger.



## Key trends and insights

### Announced deal value declined

Deal volumes remained healthy, with 235 deals announced in Q1 2017, but growth was modest, increasing only 0.9% and 2.6% over prior year and prior quarter, respectively.

Announced deal value declined significantly – 58.2% versus Q4 2016 – to \$7.9 billion. This decline can be partly attributed to a lower-than-usual number of transactions disclosing deal values. All sub-sectors except Other Services experienced a decline in deal value over the prior quarter.

### Sub-sector highlights

In terms of volume and value:

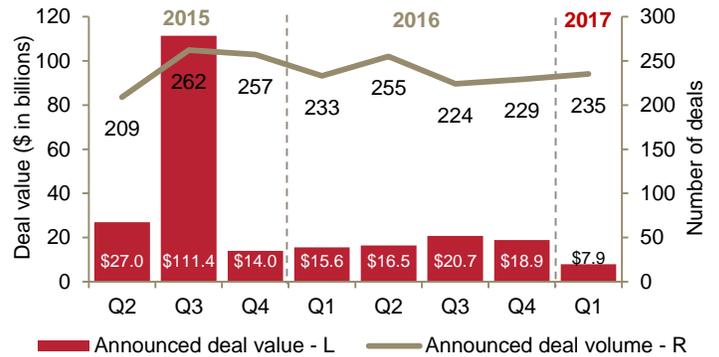
- Long-Term Care continued to represent the most active sub-sector in volume terms. With 73 deals, it accounted for 31% of all Q1 2017 deals.
- By deal value, Physician Medical Groups was the largest sub-sector, with a spend of \$3.3 billion and 41% share of total transaction value. The announced acquisition of Surgical Care Affiliates accounts for 100% of this disclosed deal value.

### Deal volume, value, and year-over-year growth, by sub-sector, Q1 2017

Sub-sector	# of Deals	Deal Value (\$ in millions)	YoY Deal Growth	
			By volume	By value
Physician Medical Groups	48	\$3,277	108.7%	2604.1%
Other	47	\$2,973	14.6%	45.7%
Long-Term Care	73	\$1,401	(13.1%)	(45.3%)
Behavioral Care	12	\$150	33.3%	(93.3%)
Hospitals	19	\$68	(29.6%)	(95.2%)
Labs, MRI & Dialysis	10	\$29	25.0%	(99.5%)
Rehabilitation	9	\$18	(25.0%)	(96.3%)
Home Health Care	13	\$0.4	(38.1%)	(99.8%)
Managed Care	4	\$0	(50.0%)	(100.0%)
<b>Total</b>	<b>235</b>	<b>\$7,916</b>	<b>0.9%</b>	<b>(49.3%)</b>

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

### Health services deal volume and value

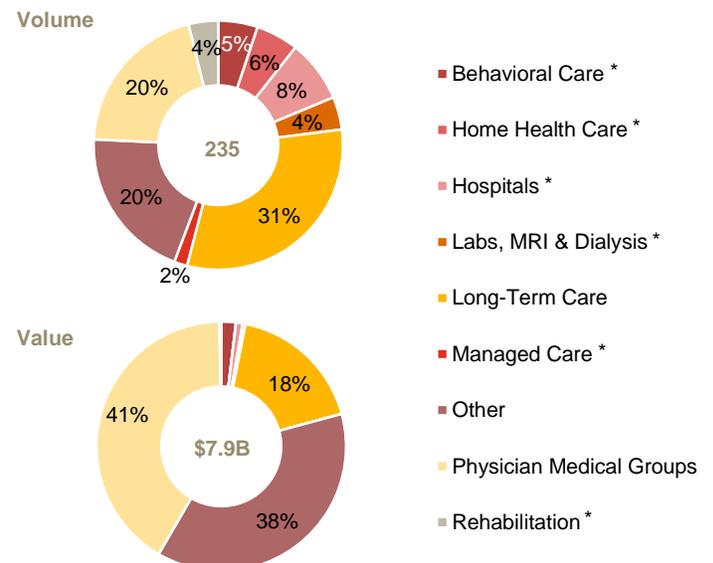


Source: The Health Care M&A Information Source, www.healthcareMandA.com

In terms of year-over-year growth:

- Physician Medical Groups experienced the greatest deal value growth of 2604%. The sub-sector also witnessed the highest growth in volume terms, increasing by 108.7% from Q1 2016.
- The Managed Care sub-sector witnessed the largest decline in terms of both deal value and volume, decreasing by 100.0% and 50.0%, respectively – though it should be noted the sub-sector did not have any deals with disclosed deal values.

### Deals by sub-sector, as share of total Health Services volume and value, Q1 2017



\*Sub-sectors accounting for <2% of total deal value, each (data labels not shown on chart).

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



## Key trends and insights

### Value of megadeals decreased

In each quarter of 2015 and 2016, there were at least two megadeals (exceeding \$1.0 billion), with total deal value of at least \$7 billion. In Q1 2017, there were two megadeals, but total megadeal value was 20.4% lower than the prior quarter, and 43.8% lower than the prior year.

Still, megadeals represented approximately 73% of total deal value for the quarter, higher than the 66% average for 2015-2016.

Optum, a part of UnitedHealth Group, agreed to acquire Surgical Care Affiliates Inc for \$3.3 billion, representing the largest deal of the quarter.

The quarter's other megadeal was American Securities LLC's announcement that it would acquire Air Methods Corporation for \$2.5 billion.

### Megadeal highlights, Q1 2017

**Total number and value**  
2 megadeals  
totaling \$5.8 billion



### Largest transaction

**Optum's announced acquisition of Surgical Care Affiliates (\$3.3 billion)**



Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

### Industry-wide trading multiple decreased

Industry-wide mean EV/EBITDA multiples declined marginally, decreasing by 0.2x to 12.3x.

The Home Health/Hospice sub-sector had the highest mean EV/EBITDA multiple in 2017 (17.2x), as well as the largest increase in multiple value versus 2016 (5.3x).

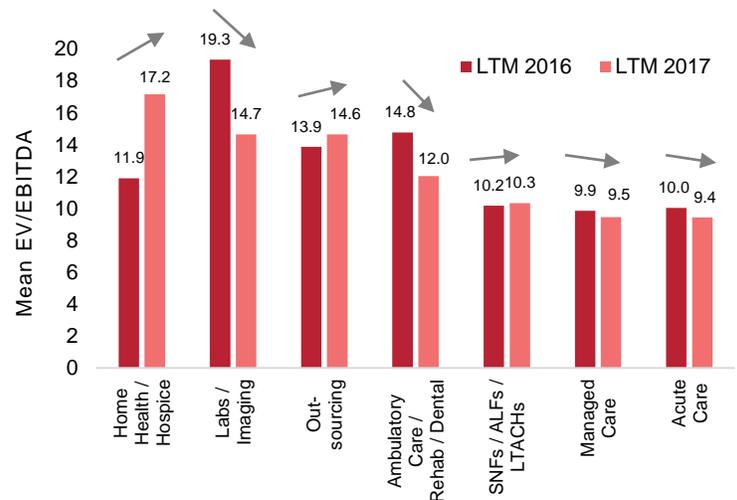
The Labs/Imaging sub-sector experienced the greatest decline, decreasing by 4.7x<sup>1</sup> to 14.7x.

### No IPOs in Q1 2017

According to our analysis of Dealogic data, there were no IPOs in the Health Services sector in Q1 2017.

Altogether, there were only two IPOs in 2015 and 2016, down from the six witnessed in 2014 alone.

### Trading multiples, LTM 2016 vs. LTM 2017



<sup>1</sup>Differs from chart's depicted decrease of 4.6x due to rounding.

Source: *S&P Capital IQ*

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## About PwC's Deals Practice

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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 divestiture 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](http://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.