

PwC Deals

US Health Services Deals Insights Year-end 2017

Megadeals a major highlight in a period of regulatory uncertainty

Executive summary

In a year of regulatory uncertainty, 2017 was an active year for US Health Services deals. Although deal volume decreased slightly year-over-year, deal value increased significantly. Even without the year's largest transaction – CVS Health Corp.-Aetna Inc, which accounted for almost 44% of total deal value – deal value would have been almost 40% greater than 2016 levels. There were five megadeals altogether, including two private equity transactions in the CRO space.

Leading sub-sectors included Managed Care (deal value, value growth, and volume growth) and Long-Term Care (deal volume). Significant declines were seen in Behavioral Care deal value (81%) and Home Health Care deal volume (32%).

Industry-wide mean EV/EBITDA multiples increased by 1.7x in 2017, driven by increases across all sub-sectors except Ambulatory Care/Rehab/Dental. Labs/Imaging saw both the highest multiple and the largest increase.

Interest in IPOs was more muted than the previous two years – none were reported, compared to one per year in 2015 and 2016.

“Q4 2017 transaction activity and the recent tax reform passage presents favorable momentum heading into 2018, where we expect to see continued transaction activity in many of the health services sector. Private Equity interest also continues to be high with additional capital being raised and new entrants entering competitive processes.”



Thad Kresho,
US Health Services Deals Leader,
PwC

Trends and highlights

- In 2017, the number of deals decreased by 2.5% to 967, but deal value increased 145.8% to \$175.2 billion. Deal volume was greatest in Q1 (270 deals), and deal value was greatest in Q4 (\$99.2 billion).
- Just as in 2016, Long-Term Care represented the largest sub-sector in terms of deal volume (297). However, in terms of deal value, Managed Care was the largest sub-sector (\$84.8 billion), finishing the year with a strong Q4 2017.
- 2017's most-rapidly growing sub-sector was Managed Care, both in terms of deal volume (25.0%) and deal value (5225.8%).
- The Labs/Imaging sub-sector witnessed the largest change in mean EV/EBITDA multiples, increasing to 20.8x.
- No IPO occurred in 2017.

Total Deal Value

\$175.2B
2017

146%

Increase in deal value, 2017 versus 2016

468%

Increase in deal value, Q4 2017 versus Q3 2017

424%

Increase in deal value, Q4 2017 versus Q4 2016

\$99.2B
Q4 2017

Total Deal Volume

967
2017

2.5%

Decrease in deal volume, 2017 versus 2016

12.1%

Decrease in deal volume, Q4 2017 versus Q3 2017

12.1%

Decrease in deal volume, Q4 2017 versus Q4 2016

217
Q4 2017

Mean EV/EBITDA multiples

1.7x

Industry-wide increase, 2017 versus 2016

1

Sub-sectors decreased, 2017 versus 2016

6

Sub-sectors increased, 2017 versus 2016

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

Highlights of 2017 deal activity

Decline in M&A volume but not value

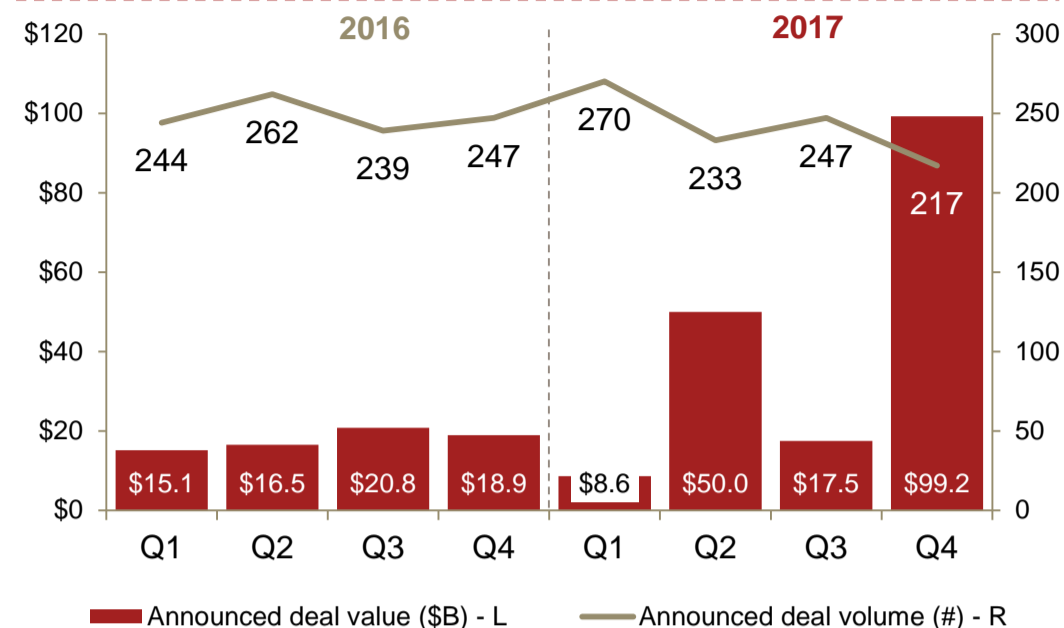
For the thirteenth quarter in a row, Health Services M&A volume exceeded 200 deals, but 2017's total deal volume was slightly lower than 2016's, declining by 2.5% to 967. Deal volumes were lowest in Q4, as deal volume decreased by 12.1% versus the prior year and quarter.

However, there was a significant (145.8%) increase in full-year deal value, to \$175.2 billion. The \$77.0 billion CVS Health Corp.-Aetna Inc megadeal announced in Q4 was a key driver, but even without it, 2017's total deal value would have been 37.8% greater than 2016's, and Q4 2017 deal value would have been 27.2% and 17.3% greater over prior quarter and year, respectively.

¹Excludes terminated deals. Includes nominal number of transactions with non-US targets. Quarterly data is subject to source data revisions.

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

Health Services deal volume and value, 2016-2017¹



Growth in megadeal volume, value

In 2017, there were five deals exceeding \$5 billion². By volume, that figure represents only one more than 2016, but by value, the total is 325.9% greater.

Q2 2017 witnessed the greatest number of megadeals (four), but Q4 2017 witnessed the greatest value (\$77.0 billion), due to the year's largest transaction, CVS Health Corp's acquisition of Aetna Inc.



5 megadeals totaling
\$104.8B
2017

Largest transaction: CVS-AET

The CVS Health Corp.-Aetna Inc deal represented approximately 44% of total deal value for the year, and 78% of Q4 2017 deal value.

The megadeal was significantly larger than 2016's largest transaction, Envision Health Holdings' merger with AmSurg Corporation for \$6.7 billion.



CVS Health Corp.
acquisition of Aetna
Inc (\$77.0B)

Two major private equity-CRO deals

Among the year's private equity deals with disclosed values, the two largest were both announced in Q2 and involved CROs:

- Hellman & Friedman and The Carlyle Group's announcement to recapitalize Pharmaceutical Product Development, LLC (\$9.1 billion).
- Pamplona Capital Management, LLP's acquisition of PAREXEL International Corporation (\$5.0 billion).

Additional key announced transactions

Other notable transactions on a deal value basis included:

- Thermo Fisher Scientific Inc.'s acquisition of Patheon N.V. for \$7.2 billion (Q2 2017).
- Avantor Performance Materials, Inc.'s acquisition of VWR Corporation for \$6.6 billion (Q2 2017).

Among deals whose values were not disclosed, there were a number that were strategically significant, including two pairs of hospital mergers announced in Q4 2017: Dignity Health-Catholic Health Initiatives, and Advocate Health Care-Aurora Health Care.

²As of the current edition of this publication, we have revised our definition of megadeals from the previous \$1 billion threshold.
Source: *The Health Care M&A Information Source*, www.healthcareMandA.com

Trading multiples increased

Industry-wide mean EV/EBITDA multiples increased by 1.7x to 13.4x, driven by a significant increase in Labs/Imaging multiples (see next page for details).

Source: S&P Capital IQ

No IPOs in 2017

According to our analysis of Dealogic data, there were no Health Services IPOs in 2017, continuing a trend of muted volumes in recent years. In 2015 and 2016, there was only one IPO per year (Surgery Partners Inc and American Renal Associates Holdings Inc, respectively), down from the six witnessed in 2014.

Sub-sector highlights

Key sub-sectors: LTC, Managed Care

In terms of volume and value:

- In volume terms, Long-Term Care continued to be the most active sub-sector in 2017 (297 deals, or 31% of deal volume), continuing the trend seen in 2015 and 2016. However, deal value was greatest in the Managed Care sub-sector. Its total spend of \$84.8 billion represented 48% of total deal value.
- This pattern of sub-sector significance was seen in Q4 2017 as well: Long-Term Care represented the greatest share of the quarter's deals (31%), and Managed Care represented the greatest share of the quarter's value (81%).

In terms of year-over-year growth:

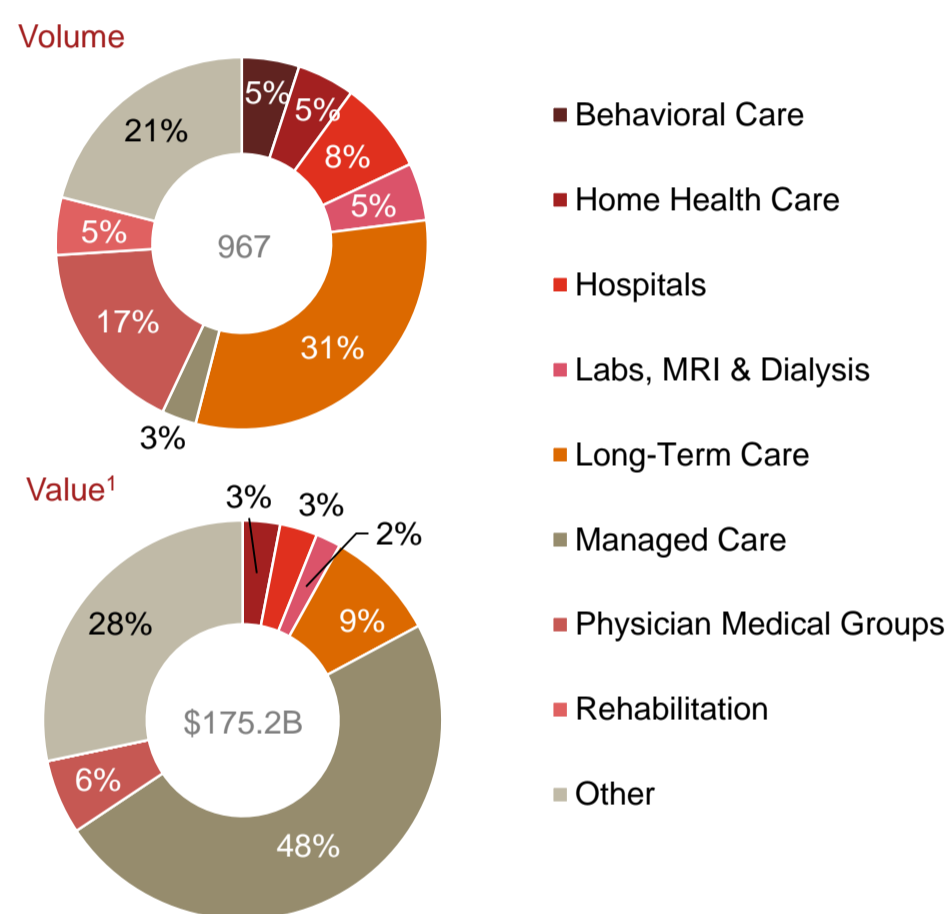
- In volume terms, Managed Care and Physician Medical Groups grew the most (25.0% and 22.1%, respectively).
- Deal value in the Managed Care sub-sector was 53 times higher in 2017 than in 2016, driven by the CVS-AET deal. The next highest-growth sub-sectors by value were Home Health Care and Other Services (approximately 330-340% year-over-year).
- There were some notable declines: Home Health Care had the largest decline by deal volume (32.1%), and Behavioral Care had the largest decline by deal value (81.2%).

Health Services sub-sector deal volume, value, and year-over-year growth, 2017

	# of Deals	Deal value (\$ in millions)	YoY Deal Growth	
			By volume	By value
Managed Care	25	\$84,750	25.0%	5225.8%
Other	204	\$49,784	2.0%	331.2%
Long-Term Care	297	\$15,505	-12.1%	7.3%
Physician Medical Groups	160	\$10,399	22.1%	-21.6%
Hospitals	79	\$5,311	-11.2%	-62.0%
Home Health Care	53	\$5,104	-32.1%	338.2%
Labs, MRI & Dialysis	53	\$2,893	15.2%	-74.1%
Rehabilitation	45	\$861	2.3%	20.9%
Behavioral Care	51	\$640	10.9%	-81.2%
967		\$175,247	-2.5%	145.8%

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

Health Services sub-sector deals by share of total volume and value, 2017



¹Labels not shown for sub-sectors representing <1% of 2017 disclosed deal value. Totals may not sum to 100% due to rounding. Source: The Health Care M&A Information Source, www.healthcareMandA.com

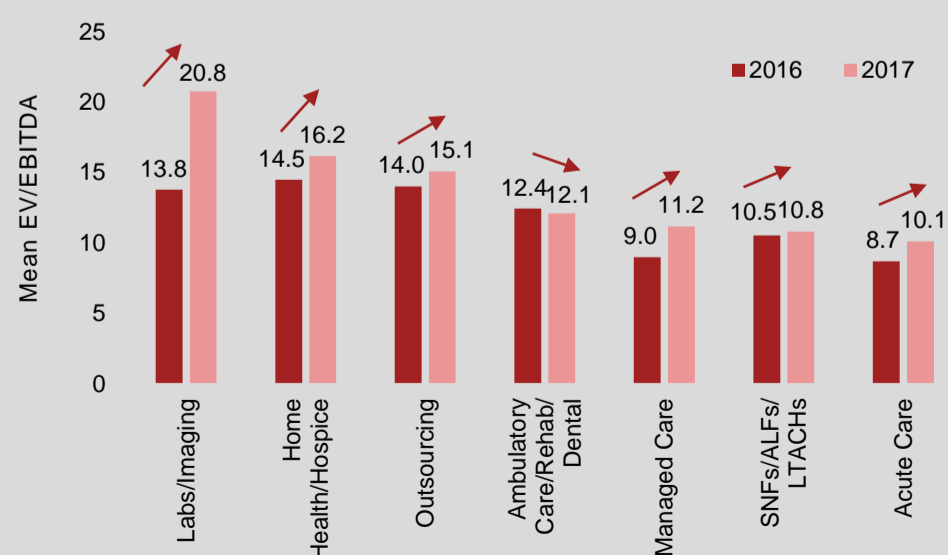
Higher trading multiples, particularly in Labs/Imaging

Industry-wide mean EV/EBITDA multiples increased by 1.7x to 13.4x.

The Labs/Imaging sub-sector had the highest mean EV/EBITDA multiple in 2017 (20.8x), as well as the largest increase in multiple value versus 2016 (7.0x).

Ambulatory Care/Rehab/Dental is the only sub-sector that experienced a decrease in EV/EBITDA multiple, declining slightly by 0.3x to 12.1x.

Trading multiples, LTM 12/31



Source: S&P Capital IQ

Deal activity seen in 2017 likely to continue

The Health Services sector continued to exhibit strong signs of deal activity during 2017 and has now eclipsed 200+ transactions for 13 consecutive quarters. We expect a continuation in this Health Services deal activity in 2018 based on a variety of trends and factors highlighted below:

Overall trends

- Uncertainty in the future of the ACA and the current political landscape continues to disrupt corporate strategies around all forms of deals;
- Resurgence of megadeals in 2017 (\$5 billion and greater), relative to all sub-sectors in Health Services, as both for-profit and not-for-profit entities continue to refine their strategies and geographical presence. The CVS Health Corp.-Aetna Inc deal could also be a potential catalyst for additional deals, as companies seek ways to combat higher drug costs and to unify disparate data sources to create more powerful insights about patients;
- Continued trend of consumerism among patients and the evolving impact of technology on treatments, cost reduction, and care delivery resulting in various forms of deals (i.e. alliances, JVs, etc.);

- Tax reform is likely to impact all forms of capital decisions across all health care sub-sectors;
- Near-record private equity fundraising, coupled with low interest rates and the anticipation of repatriation of overseas cash, is likely to provide increased capital to fund all types of deals for 2018.

Sub-sector observations driving future deal activity

- Activist investors in health care continue to disrupt strategy resulting in a review of portfolios, with an emphasis on non-core assets potentially being divested;
- Private Equity's focus on "office based" practices and specialties is likely to continue, as fragmented markets (e.g. dental, dermatology and ophthalmology, etc.), continue to provide platform consolidation opportunities;
- The hospital sector, both for-profit and not-for-profit, is likely to continue to experience deal activity with systems consistently reviewing portfolios on a geographical basis. Key drivers are likely to continue to include the pursuit of growth, and scale to aid population health management efforts.

Top 5 deals of 2017, by deal value

Rank	Deal Value (\$B)	Target	Target Sub-Sector	Acquirer	Acquirer Sub-Sector	PE deal?	Date announced
1	\$77.0	Aetna Inc	Managed Care	CVS Health Corp.	Other Services	No	3 Dec 2017
2	\$9.1	Pharmaceutical Product Development, LLC	Other Services	Hellman & Friedman LLC	Private Equity	Yes	26 Apr 2017
3	\$7.2	Patheon N.V.	Other Services	Thermo Fisher Scientific Inc.	Medical Devices	No	15 May 2017
4	\$6.6	VWR Corporation	Other Services	Avantor Performance Materials, Inc.	Other Services	No	5 May 2017
5	\$5.0	PAREXEL International Corporation	Other Services	Pamplona Capital Management, LLP	Private Equity	Yes	20 Jun 2017

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

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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 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 primarily 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. Information provided by or through third parties is provided "as is", without any representations or warranties by PwC or such third party. PwC and such third party disclaims any contractual or other duty, responsibility or liability to Client and any person or entity that receives such Information

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.