



Optimize deals

PwC Deals

US Health Services Deals Insights Q2 2017

Executive summary

For the eleventh quarter in a row, the US Health Services industry witnessed over 200 deals. Although announced deal volumes decreased slightly, deal values were significantly higher, totaling \$49.6 billion. This sum represents an increase of 201% over the prior year and 514% over the prior quarter, and is the highest level seen since Q3 2015.

Behind this trend is an unusually high number of megadeals. The average number of megadeals per quarter since 2015 has been approximately four, but Q2 2017 witnessed 10, accounting for over \$43 billion in deal value, or 87% of the quarter's total. Six of those megadeals were in the Other Services sub-sector, including the quarter's largest deal, Hellman & Friedman and The Carlyle Group's announcement to recapitalize Pharmaceutical Product Development, LLC (\$9.1 billion).

Overall, Long-Term Care deals were, again, the most numerous – 75 were announced. However, Other Services was the single largest sub-sector as a proportion of deal value (71%). In terms of growth, three sub-sectors stood out: Labs, MRI & Dialysis; Hospitals; and Other Services.

Health Services IPO volumes remain muted, with none announced since Q2 2016.

Industry-wide EV/EBITDA multiples grew slightly (0.6x), with the Home Health/Hospice sub-sector experiencing the greatest increase versus LTM 2016 (19.2x versus 15.3x).

“Despite the continued uncertainty on Capitol Hill, the health services deal market pushed forward in Q2 2017 with several mega deals along with continued activity across many of the sub-sectors.”

— **Thad Kresho**,
US Health Services Deals Leader

Total Deal Value, Q2 2017

\$49.6B

201%

Increase in deal
value versus
Q2 2016

514%

Increase in deal
value versus
Q1 2017

Total Deal Volume, Q2 2017

219

15%

Decrease in deal
volume versus
Q2 2016

18%

Decrease in deal
volume versus
Q1 2017

Mean EV/EBITDA multiples

0.6x

Sector-wide
increase versus
LTM 2016

3

Sub-sectors
decreased versus
LTM 2016

4

Sub-sectors
increased versus
LTM 2016

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

Key Trends

- Deal count remained above 200 but declined by 18% over Q1 2017.
- Total deal value increased significantly, to \$49.6 billion, the largest value recorded since Q3 2015.
- There were 10 megadeals announced (exceeding \$1 billion), totaling \$43.3 billion – a significant increase compared to both prior year and prior quarter.
- Hospitals was the only sub-sector to see positive volume growth on both a quarterly and yearly basis. In value terms, the Labs, MRI & Dialysis sub-sector saw the greatest growth.
- No IPOs occurred in Q2 2017.
- Mean EV/EBITDA multiples increased slightly, industry-wide, with Home Health/Hospice experiencing the greatest increase.



Optimize deals

Key trends and insights

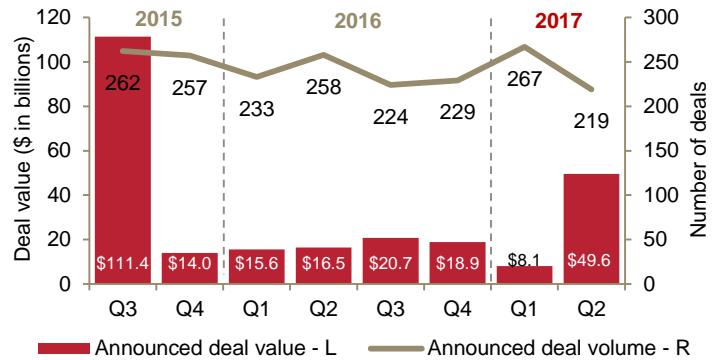
Announced deal volume down, but deal value up

Deal volume remained above 200, but did decrease by 15% and 18% over the prior year and prior quarter, respectively.

However, despite these declines, the quarter experienced a significant increase in deal value. The quarter's \$49.6 billion total represents an increase of 201% over Q2 2016, and 514% over Q1 2017.

Driving much of this growth was the Other Services sub-sector, which accounted for 78% of growth over the prior quarter, and 93% of growth over 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:

- Long-Term Care remained the most active sub-sector in volume terms, with 75 deals accounting for 34% of all Q2 2017 deals.
- Other Services – which saw six megadeals– was the largest sub-sector in value terms, reaching \$35.2 billion and 71% share of total transaction value.

In terms of year-over-year growth:

- The Labs, MRI & Dialysis sub-sector experienced the greatest deal value growth (1428%), followed by Other Services (707%).
- The Managed Care and Home Health Care sub-sectors witnessed the largest declines in terms of deal value, both decreasing by 100% – though it should be noted the sub-sectors did not have any transactions with disclosed deal values in Q2 2017.

Deal volume, value, and year-over-year growth, by sub-sector, Q2 2017

| | # of Deals | Deal Value (\$ in millions) | YoY Deal Growth | |
|--------------------------|------------|-----------------------------|-----------------|----------|
| | | | By volume | By value |
| Other Services | 51 | \$35,232 | 4% | 707% |
| Long Term Care | 75 | \$9,735 | (17%) | 299% |
| Hospitals | 23 | \$2,155 | 15% | 12% |
| Labs, MRI & Dialysis | 12 | \$1,375 | (0%) | 1428% |
| Physician Medical Groups | 30 | \$760 | (29%) | (89%) |
| Behavioral Care | 8 | \$380 | (53%) | 26% |
| Rehabilitation | 6 | \$3 | (40%) | (93%) |
| Home Health Care | 9 | \$0 | (31%) | (100%) |
| Managed Care | 5 | \$0 | (0%) | (100%) |

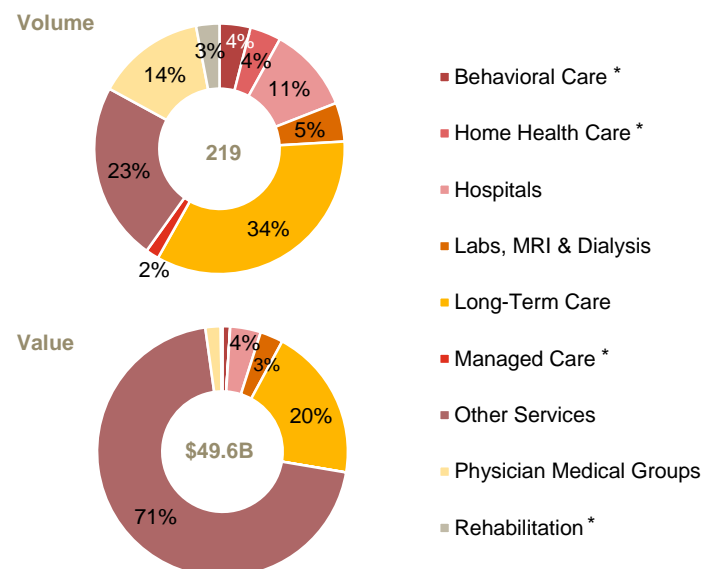
219

\$49,639

(15%)

201 %

Deals by sub-sector, as share of total Health Services volume and value, Q2 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

Optimize Deals
US Health Services
Deals Insights
Q2 2017 update



Key trends and insights

Significant megadeal volume, value growth

Since 2015, there has been an average of four megadeals (exceeding \$1.0 billion) per quarter. Q2 2017 broke that trend, witnessing 10, with total deal value of \$43.3 billion. The most-recent quarter to witness that much announced deal value was Q3 2015, when three Managed Care megamergers contributed to total megadeal value in excess of \$100 billion.

In Q2 2017, the Other Services sub-sector alone witnessed six megadeals, totaling \$34.0 billion in deal value. Within that sub-sector, contract research saw significant activity, with four related deals, including the quarter's largest deal, Hellman & Friedman and The Carlyle Group's announcement to recapitalize Pharmaceutical Product Development, LLC (PPD).

Another major contributor to the quarter's tally was the Long-Term Care sub-sector, which had two megadeals equaling \$6.6 billion in total value:

- The announced merger of Sabra Health Care REIT, Inc. and Care Capital Properties, Inc., for \$4.0 billion
- Columbia Pacific Advisors LLC's announced acquisition of Hawthorn Retirement Group for \$2.6 billion

Together, megadeals represented approximately 87% of total deal value for the quarter, significantly higher than the 66% average for 2015-2016.

Slight increase in industry trading multiples

Versus LTM 2016, industry-wide mean EV/EBITDA multiples increased by 0.6x to 13.3x.

The Home Health/Hospice sub-sector had the highest mean EV/EBITDA multiple in the LTM 2017 period (19.2x), as well as the largest increase in multiple value versus the LTM 2016 period (3.9x).

The Ambulatory Care/Rehab/Dental sub-sector experienced the greatest decline, decreasing by 2.5x¹ to 12.1x between LTM 2016 and LTM 2017.

No IPOs in Q2 2017

According to our analysis of Dealogic data, there were no IPOs in the Health Services sector in Q2 2017.

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

¹Differs from chart's depicted decrease of 2.4x due to rounding.

Megadeal highlights, Q2 2017

Total number and value

10 megadeals
totaling \$43.3 billion



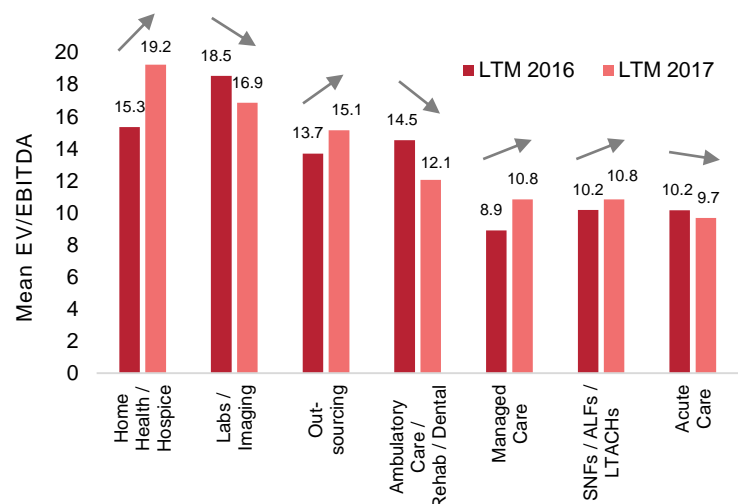
Largest transaction

Hellman & Friedman and
Carlyle's announced
recapitalization of PPD
(\$9.1 billion)



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

Trading multiples, LTM 2016 vs. LTM 2017



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 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.

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.