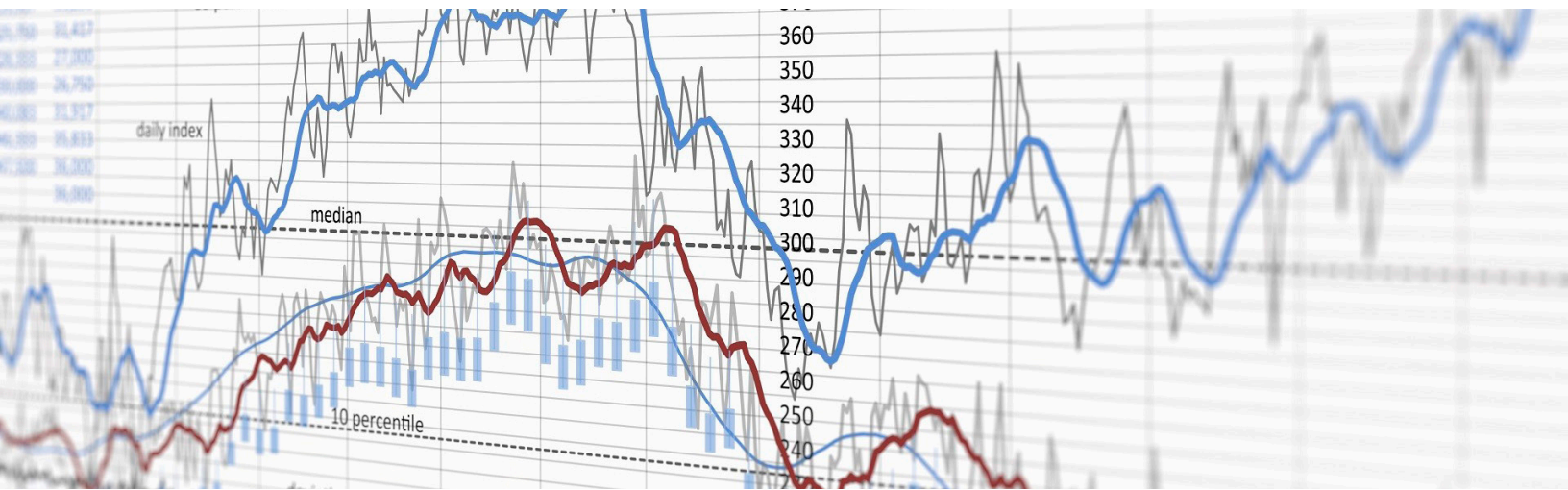


Market Insights | Q4'17



Market Insights is a quarterly perspective on merger and acquisition and private placement activity and public market performance in the healthcare industry.





TripleTree is a healthcare merchant bank focused on mergers and acquisitions, growth capital, strategic advisory and principal investing services. Since 1997, the firm has advised and invested in some of the most innovative, high-growth businesses in healthcare.

We are continuously engaged with decision makers including best-in-class companies balancing competitive realities with shareholder objectives, global companies seeking growth platforms, and financial sponsors assessing innovative investments and first-mover opportunities.

CONTENTS

- 4** QUARTER IN REVIEW
- 8** M&A DEAL STRATIFICATION
- 12** PRIVATE PLACEMENT STRATIFICATION
- 16** NOTEWORTHY M&A TRANSACTIONS
- 23** PUBLIC MARKET PERFORMANCE

Q4'17

QUARTER IN REVIEW

KEY TRENDS DRIVING MARKET ACTIVITY



AUTISM SERVICES

Behavioral health has been top of mind in 2017 with activity across multiple categories. Q4 brought accelerated deal activity around autism service providers, highlighted by the vertical's largest-ever sponsor deal, the \$270M acquisition of Autism Learning Partners by FFL Partners. The autism services market has been fragmented historically, but has recently experienced favorable tailwinds, including an improved reimbursement landscape. As such, we expect to see additional deal activity in 2018 as leading providers seek additional scale.



HOSPITALS AND HEALTH SYSTEMS

Q4 marked yet another prolific quarter for merger activity across hospitals and health systems, and capped off a banner year that saw nearly \$70B of hospital and health system deals announced. Two of the largest health system deals of 2017 were announced in December: California-based Dignity Health announced its merger with Colorado-based Catholic Health Initiatives (\$28B in combined revenue), and Illinois-based Advocate Health Care announced its merger with Aurora Health Care (\$11B in combined revenue). Additionally, rumors of a merger between Ascension and Providence St. Joseph leaked in December; if completed, the resulting organization would drive nearly \$45B in combined revenue. Health system M&A activity has proliferated as organizations have come under pressure financially, experiencing reduced margins on the back of increased labor and technology cost. Meanwhile, the shift to value-based care has demanded that providers deliver higher quality care at lower cost.



CONSUMER ENGAGEMENT

A recent and consistent theme around healthcare is the increased emphasis on consumer engagement. Today's healthcare consumer has more access to information than ever before. Additionally, the consumer is demanding more choice and control of its options as it takes on an increasing share of healthcare cost. Health plans have recognized the importance of engaging members, and are responding with an increased appetite for technology platforms that deliver customized communications to better engage their members. It is therefore not surprising that 2017's most significant healthcare deal, CVS' announced acquisition of Aetna in December, cited "empowering consumers and their health professionals to make more informed decisions" as a key rationale for the acquisition. We expect consumer engagement to be a key healthcare trend in 2018, and are paying attention to traditionally consumer-focused companies as they look to enhance their healthcare presence (e.g., Amazon, which announced a partnership with Berkshire Hathaway and JPMorgan to provide US employees and their families with simplified, high-quality, and transparent healthcare at a reasonable cost).



HOME HEALTH

Delivering care to patients in their homes is a lynchpin of today's integrated care model. Not only is delivering care in the home much cheaper than in an acute hospital setting, but it can help ensure patients adhere to established care plans and increase the rate at which annual wellness visits are administered. The rapidly aging population and increase in Medicare-eligible lives has augmented home care delivery. During the fourth quarter, we saw M&A activity from some of the biggest names in home healthcare.

NOTABLE M&A ACTIVITY IN Q4'17



In October, **Express Scripts** announced the signing of a definitive agreement to acquire **eviCore**, a provider of evidence-based medical benefit management (“MBM”) services, for \$3.6 billion. The acquisition, which officially closed in December, allows Express Scripts accelerate its shift to patient benefit management and address overutilization and wasteful spend, which are key issues facing healthcare today. Express Scripts now has an entry point into the \$300B medical benefit management market to go along with its core pharmacy benefit management (“PBM”) capabilities that address \$400B of annual pharmacy spend. eviCore, which manages medical benefits for 100 million people, offers a broad range of integrated MBM solutions that drive significant and immediate cost reductions, and improved quality care outcomes. eviCore has leading positions managing benefits across nine categories including radiology, cardiology, musculoskeletal disorders, post-acute care and medical oncology. eviCore contracts with health plans and commercial clients to better ensure appropriate use of healthcare services. eviCore has approximately 4,000 employees and will operate as a standalone business unit within Express Scripts.



In December, **FFL Partners** acquired **Autism Learning Partners** (“ALP”), a leading provider of Applied Behavior Analysis (“ABA”) therapy services to children and young adults with autism spectrum disorders and developmental disabilities. The deal had a reported value of over \$270M, making it the vertical’s largest-ever sponsor deal. Selling shareholders included Jefferson River Capital, Scopia Capital Management & Great Point Partners. Founded in 1988, ALP’s services feature the use of positive reinforcement techniques that help autistic children and young adults improve their social communication and cognitive abilities. ALP also provides group therapy programs, as well as speech and language programs for improving social interaction. ABA is recognized as the leading standard for treating autism, and state mandated commercial reimbursement for ABA therapy has expanded rapidly (46 states today up from 3 in 2007). Of note, the ALP acquisition was FFL Partners’ second behavioral health investment in Q4 2017; FFL announced a strategic investment in Summit Behavioral Healthcare, a provider of addiction treatment and behavioral health services, alongside Lee Equity Partners.

NOTABLE M&A ACTIVITY IN Q4'17 CONTINUED



In December, **Humana** (NYSE: HUM), announced it had entered a definitive agreement to acquire a 40% minority interest in the Kindred at Home division of **Kindred Healthcare** (NYSE:KND). **TPG** and **Welsh, Carson, Anderson & Stowe** acquired the remaining 60% of Kindred at Home as well as the entirety of Kindred's specialty hospital division. The transaction provides Humana a path to full ownership of Kindred at Home in three to five years through a put/call arrangement. The announced acquisition will give Humana access to the 40,000 caregivers treating 130,000 patients each day, enhance Humana's integrated care delivery model and furthering its mission to excel in today's era of value-based care. Humana also noted ~65% overlap with its individual Medicare Advantage membership, and that robust data sharing between Humana and Kindred at Home would result in enriched analytics and predictive modeling. All in all, Humana is signaling to the market that value-based care is a priority as they aim to improve quality of care and close care gaps. The transaction is expected to close in mid-2018.



Also in December, **New Mountain Capital** announced that it had recapitalized **CenseoHealth** and **Advance Health**, two leading providers of technology-enabled in-home health assessments. The combined entity will offer health plans a deep network of physicians and nurse practitioners to perform in-home assessments, as well as provide a range of chronic care management and care coordination services. The agreement gives New Mountain Capital a majority stake in the combined entity.

In-home assessments are seen as a key method for driving improved outcomes and reduced cost, two major pillars of value-based care. CMS has pointed to hospital readmissions within 30 days of discharge as a barometer for care quality (i.e., lower readmission rates for a population equates to better care quality). A 2014 study showed that hospital readmissions within 30 days of discharge accounted for \$40B+ of hospital cost across 3.3M adults in the US. In-home assessment vendors, like CenseoHealth and Advance Health, have shown an ability to reduce readmissions and curb unnecessary cost by delivering quality care to patients in their homes.

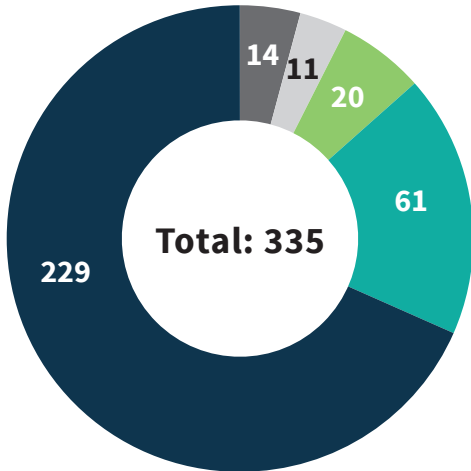


Q4'17

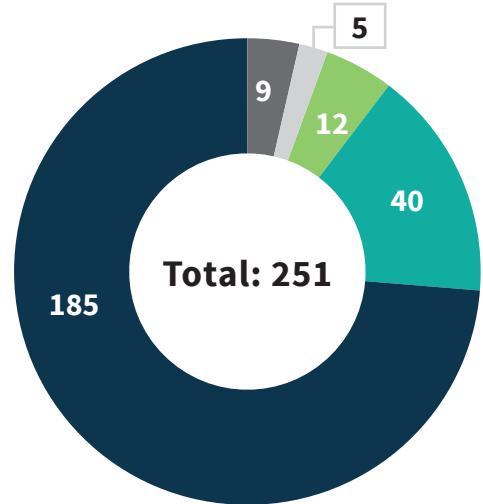
M&A Deal Stratification

Q4'17 HEALTHCARE M&A DEAL STRATIFICATION

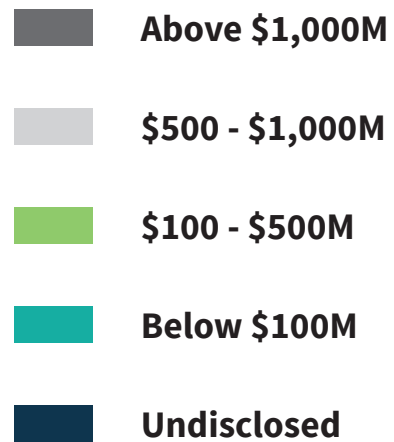
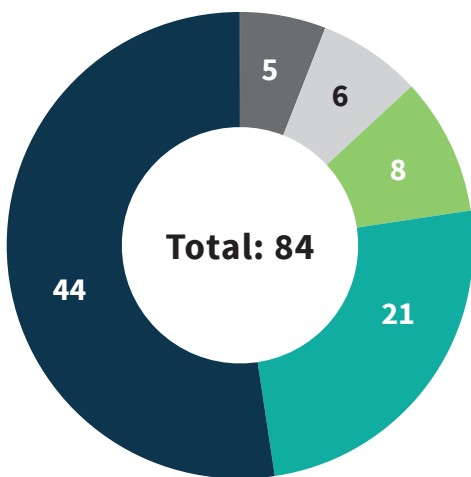
Deals Announced & Closed by Transaction Ranges



Closed Deals by Transaction Ranges



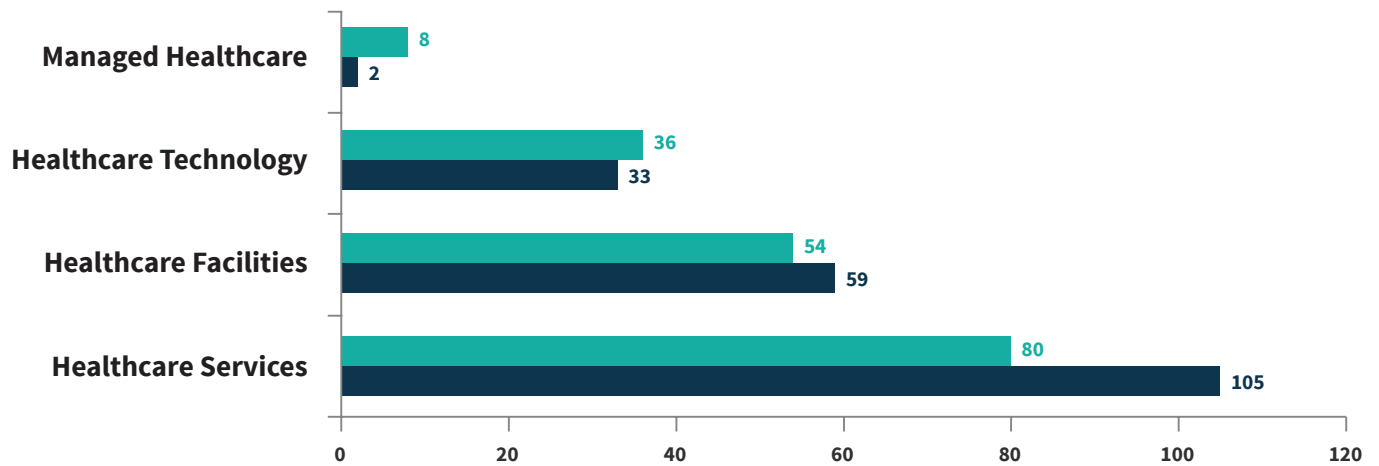
Announced Deals by Transaction Ranges



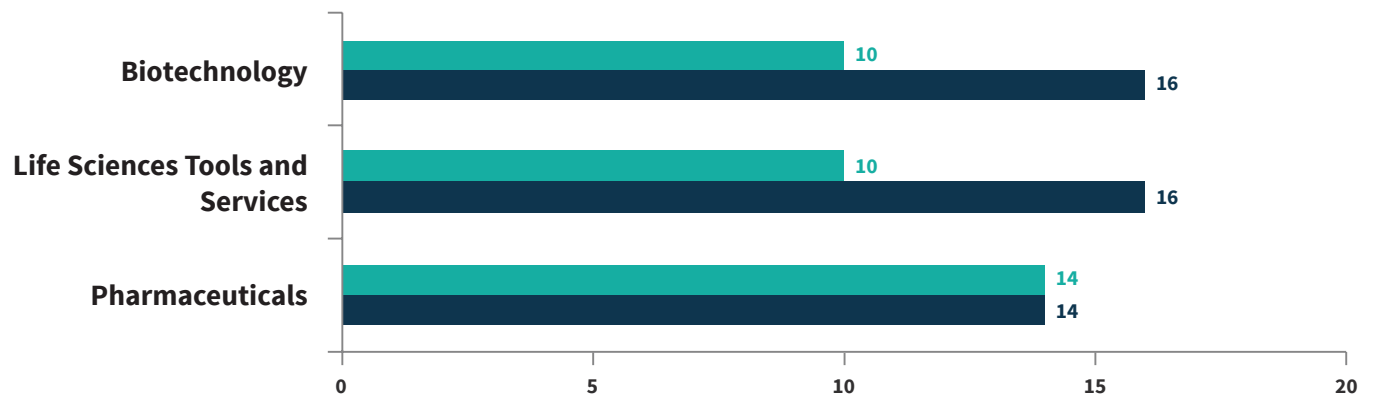
Q4'17 M&A DEAL STRATIFICATION CONTINUED

Q4 2017 Q3 2017

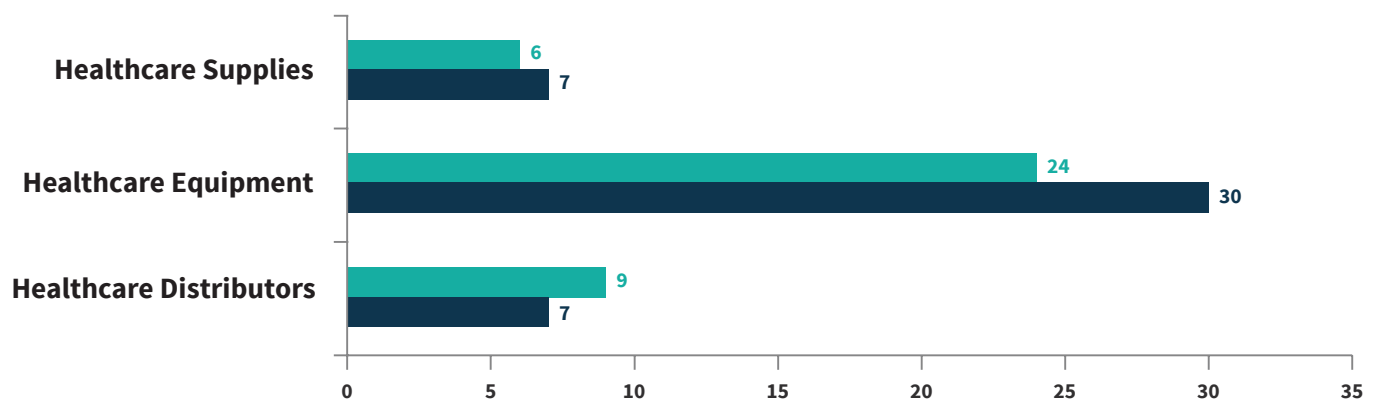
Healthcare Services, Facilities & Technology – 178 Closed Transactions



Life Sciences Technology & Services – 34 Closed Transactions



Healthcare Equipment and Distribution – 39 Closed Transactions



Source: S&P Capital IQ

Q4'17 M&A DEAL STRATIFICATION CONTINUED

(\$ in Millions)

All Q4 Deal Activity

Total Deals Reported in Q1	335
# of Deals Disclosing Metrics	106
# Reported TEV	96
# Reported TEV & Rev	6
# Reported TEV, Rev & EBITDA	4
Average TEV	\$1,464
Average TEV/Rev	2.6x
Average TEV/EBITDA	18.6x
Median TEV	\$53
Median TEV/Rev	1.1x
Median TEV/EBITDA	18.5x
Total Deal Value	\$155,135
Prior Quarter Total Deal Value	\$62,149
% Change	149.6%

Q4 Deal Activity Closed¹

Total Deals Reported in Q1	251
# of Deals Disclosing Metrics	66
# Reported TEV	65
# Reported TEV & Rev	1
# Reported TEV, Rev & EBITDA	0
Average TEV	\$1,018
Average TEV/Rev	0.5x
Average TEV/EBITDA	NA
Median TEV	\$58
Median TEV/Rev	0.5x
Median TEV/EBITDA	NA
Total Deal Value	\$67,190
Prior Quarter Total Deal Value	\$40,511
% Change	65.9%

Q4 Deal Activity Announced²

Total Deals Reported in Q1	84
# of Deals Disclosing Metrics	40
# Reported TEV	31
# Reported TEV & Rev	5
# Reported TEV, Rev & EBITDA	4
Average TEV	\$2,199
Average TEV/Rev	3.0x
Average TEV/EBITDA	18.6x
Median TEV	\$24
Median TEV/Rev	1.2x
Median TEV/EBITDA	18.5x
Total Deal Value	\$87,945
Prior Quarter Total Deal Value	\$21,638
% Change	306.4%

(1) Transactions that closed during the quarter, regardless of when the transaction was announced

(2) Deal was announced but did not close during the quarter

Source: S&P Capital IQ

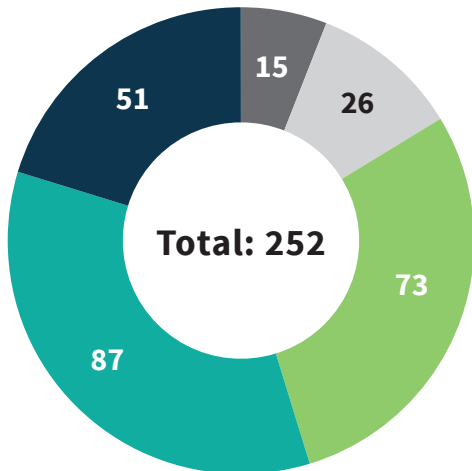


Q4'17

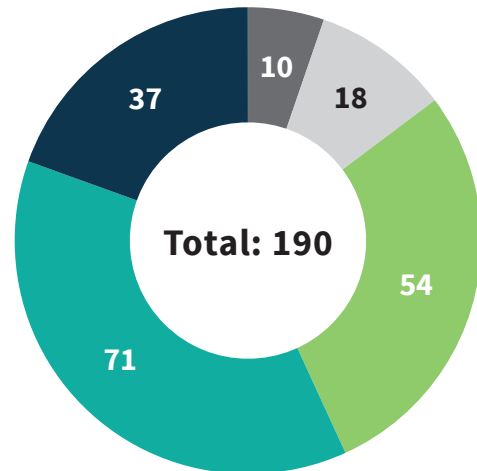
Private Placement Stratification

Q4'17 HEALTHCARE PRIVATE PLACEMENT STRATIFICATION

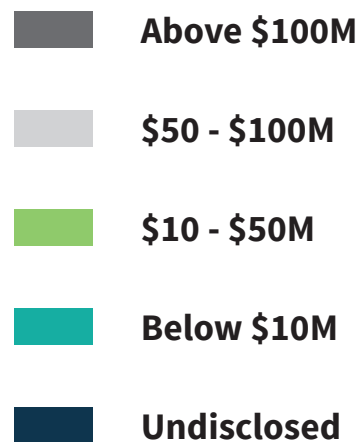
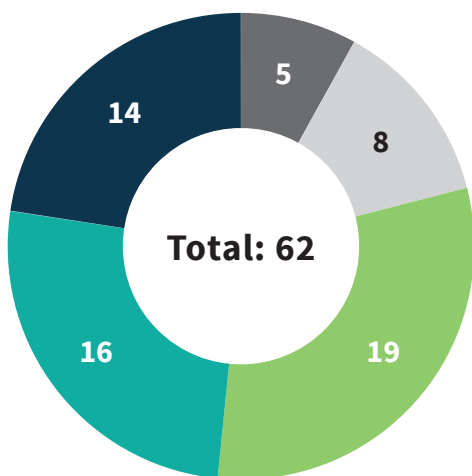
Private Placements Announced & Closed by Investment Value



Closed Private Placements by Investment Value



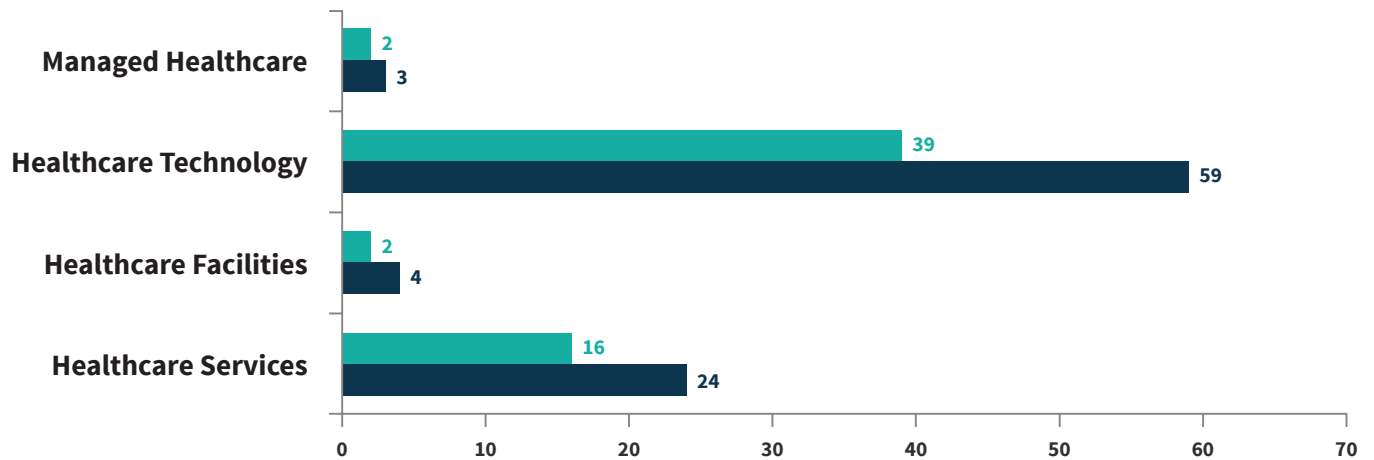
Announced Private Placements by Investment Value



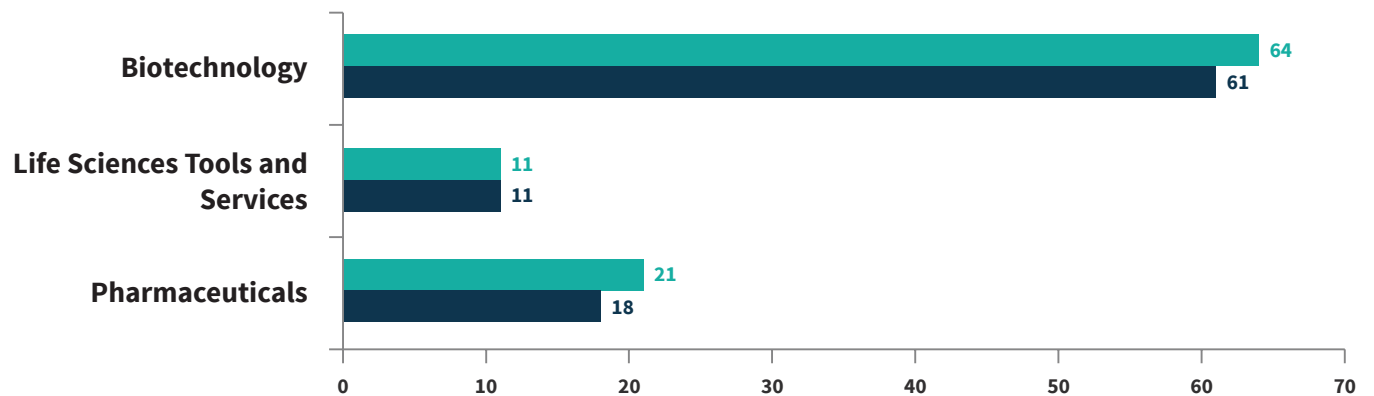
Q4'17 PRIVATE PLACEMENT STRATIFICATION CONTINUED

■ Q4 2017
 ■ Q3 2017

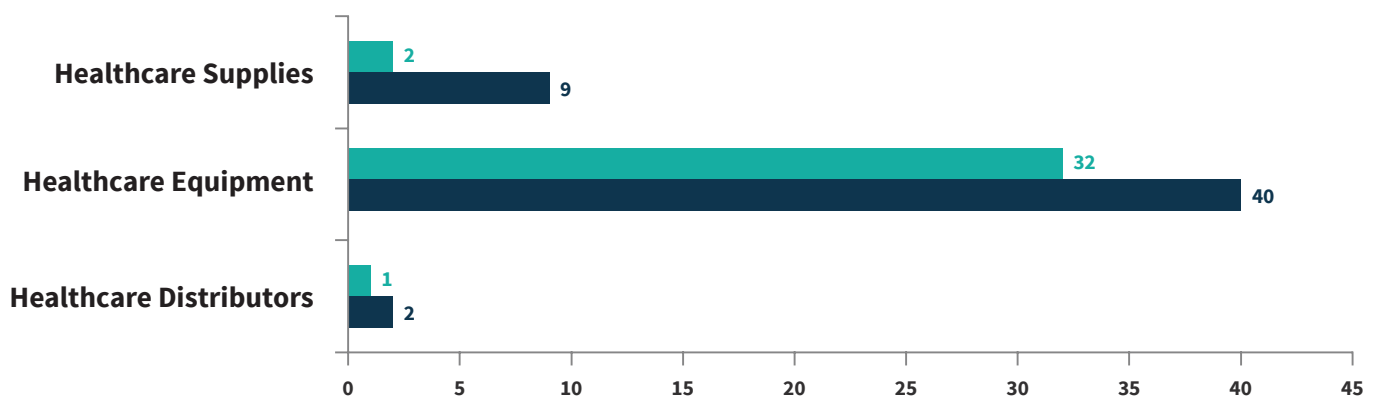
Healthcare Services, Facilities & Technology – 59 Closed Transactions



Life Sciences Technology & Services – 96 Closed Transactions



Healthcare Equipment and Distribution – 35 Closed Transactions



Source: S&P Capital IQ

Q4'17 PRIVATE PLACEMENT STRATIFICATION CONTINUED

(\$ in Millions)

Total Q4 Private Placement Activity	
Total Private Placements Reported in Q4	252
# of Private Placements Disclosing Investment Value	201
Average Value	\$37
Median Value	\$11
Total Value	\$8,243
Prior Quarter Total Private Placement Investment Value	\$5,470
% Change	50.7%

Q4 Private Placement Activity Closed ¹	
Total Private Placements Reported in Q4	190
# of Private Placements Disclosing Investment Value	153
Average Value	\$35
Median Value	\$10
Total Value	\$6,077
Prior Quarter Total Private Placement Investment Value	\$4,226
% Change	43.8%

Q4 Private Placement Activity Announced & Pending ²	
Total Private Placements Reported in Q4	62
# of Private Placements Disclosing Investment Value	48
Average Value	\$42
Median Value	\$19
Total Value	\$2,166
Prior Quarter Total Private Placement Investment Value	\$1,244
% Change	74.1%

(1) Transactions that closed during the quarter, regardless of when the transaction was announced

(2) Deal was announced but did not close during the quarter

Source: S&P Capital IQ

Q4'17

Noteworthy M&A Transactions

The background of the slide is a photograph of two men in business suits shaking hands in a modern office. They are standing in front of a large window that looks out onto a cityscape. The office has a white desk with a laptop on it. The overall color scheme is a muted blue-grey.

OCTOBER 2017

Key Themes



Dental service organizations (DSOs) continue to attract.

Earlier this year, we published an [Industry Perspective](#) on the resurgence of practice management companies and their applicability to the dental industry. We continue to track a high volume of M&A activity in this sector, largely driven by a fragmented dental provider landscape and the attractive business model dentistry offers for practice management.



Healthcare staffing firms pursue inorganic growth.

Healthcare staffing represents a ~\$15B market and continues to be supported by a number of industry tailwinds. Hospitals and provider organizations look to staffing firms to bolster staff in support of a growing patient population, address clinician shortages and seasonal needs, improve flexibility and reduce fixed costs. The healthcare staffing landscape is also fragmented and we continue to see firms executing on inorganic growth strategies to gain market share and diversify service offerings.



Evolving strategies across the PBM landscape.

In our last [blog](#), we examined a number of disruptive moves that were made in the PBM sector in October. Check out our blog for a review of some of the transformational moves.

Noteworthy M&A and Private Placement Transactions *(Global Change)*

- **MB2 Dental Solutions**, a Carrollton, Texas-based DSO, received an investment from **Sentinel Capital Partners**. MB2 has 87 affiliated practices in Alaska, Louisiana, New Mexico, Oklahoma, Tennessee and Texas and, with the investment, plans to expand further within existing and new geographies. Later in the month, MB2 announced its acquisition of **Taos Dental Group**, a doctor-owned dental practice in New Mexico, further expanding MB2's presence in the state. The financial terms of these deals were not disclosed.
- **Smile Doctors**, a Georgetown, Texas-based orthodontic dental support organization was recapitalized by **Linden Capital**. The investment will allow Smile Doctors to further expand its brand, culture, patient experience and clinical excellence to more communities across the U.S. Both the management team and the company's former investor, **Sheridan Capital Partners**, are rolling over equity in the transaction. The financial terms of this deal were not disclosed.
- **Webster Capital** acquired Charlotte, North Carolina-based **Cirrus Medical Staffing**, a provider of travel nurse and travel allied healthcare professionals. Cirrus' employee staffing and recruitment services, offered through assistance such as interview coaching, resume preparation and 24/7 on-call phone support, enables registered nurses and rehabilitation therapy professionals to get into travel

and contract positions with healthcare facilities throughout the nation. The financial terms of this deal were not disclosed.

- **American Health Staffing Group** (AHS), an Edmond, Oklahoma-based provider of temporary healthcare staffing services and a portfolio company of **BelHealth Investment Partners**, announced that it has acquired **Advance Med**, a Frisco, Texas-based provider of travel staffing solutions to hospitals nationwide. Having acquired **Expedient Medstaff** in August 2017, this transaction represents AHS's second acquisition this year and clear indication the company is executing on an inorganic growth strategy. The financial terms of these deals were not disclosed.
- **GrapeTree Medical Staffing**, an Iowa-based healthcare staffing agency, has been recapitalized by **New MainStream Capital**. As part of the transaction, New MainStream Capital has committed 'substantial capital' to support the future growth of GrapeTree, including via strategic acquisitions. GrapeTree provides New Mainstream Capital with a platform for building a large provider of CNA and RN staffing to long-term care facilities. The financial terms of this deal were not disclosed.
- **Express Scripts** announced the signing of a definitive agreement to acquire **eviCore**, a provider of evidence-based medical benefit management services, for \$3.6 billion. The acquisition will allow Express Scripts to expand into medical benefit management services and accelerate its shift to patient benefit management.
- In addition to the M&A activity within the PBM sector discussed in our last [blog](#), **Comvest Partners** made an undisclosed investment in **Citizens Rx**, an Oak Park, Illinois-based provider of pharmacy benefit management services. The company previously received an undisclosed equity investment from Capricorn Healthcare in August of this year. The investments will be used to support the company's growth initiatives.

NOVEMBER 2017

Key Themes



Home health and hospice as attractive care settings.

We continue to see low cost, high quality care delivery settings as an investment focus for consolidation. The volume of M&A activity in these areas is being driven by strong demographic trends, stable reimbursement, and a spike in coordinated care and population management initiatives.



Member engagement solutions are a growing focus.

Health plans continue to recognize the importance of engaging members, and have an increased appetite for technology platforms that deliver customized communications enabling better care coordination to ultimately improve outcomes. Companies with the proven ability to enhance member awareness are becoming increasingly valuable to health plans and investors alike.



Autism service providers are favorites in behavioral health.

Behavioral health assets have remained attractive to investors, with autism service providers drawing particular interest. With favorable tailwinds and improving reimbursement amongst a fragmented and scalable business model, these providers stand out in the behavioral investment landscape.

Noteworthy M&A and Private Placement Transactions

- **LHC Group** and **Almost Family**, leading nationwide providers of home health services, announced a merger of equals. The merger will create a nationwide network of providers with over 750 locations, enabling greater service and continuity across the continuum of care. The transaction is expected to prove immediately accretive with an estimated \$25M in identified synergies. The well-capitalized combined entity will be positioned to lead the transition to value-based reimbursement.
- **Webster Capital** announced its acquisition of **Bristol Hospice**, a multi-regional provider of hospice and palliative care services. Bristol Hospice is headquartered in Salt Lake City, Utah and has 11 locations across seven states. The acquisition allows Bristol to focus on its high quality care delivery while addressing the growing need for hospice services.
- **Revel Health**, a data-driven health engagement company, announced it has secured a growth equity investment from **TT Capital Partners** (TT Capital Partners is part of the TripleTree platform). The investment will accelerate Revel's expansion into new target markets and advance its innovation and technology development efforts. Revel is known for its unique ability to engage health insurance members in their own healthcare, enabling the healthcare system to support the individual, deliver better health outcomes, and reduce unnecessary costs.



NOVEMBER 2017 CONTINUED

- **Baird Capital** acquired an interest in **Hopebridge**, an Indianapolis-based provider of outpatient therapy to children and adolescents with developmental and behavioral difficulties. Hopebridge provides Applied Behavior Analysis, occupational therapy, physical therapy, and speech therapy to children on the autism spectrum. Hopebridge currently operates 15 clinics in Indiana, Ohio, and Kentucky.

DECEMBER 2017

Key Themes



Large constituents are continuing to vertically integrate.

CVS' announced combination with Aetna, as well as Optum's acquisition of DaVita Medical Group, highlight continued vertical integration in the healthcare marketplace. Within healthcare, vertical integration should remove the frictions of an unintegrated system by optimizing payments between payers and providers, creating more seamless care transitions, and improving care coordination throughout the healthcare system, a concept we recently discussed. The shift to value-based care has only expedited this trend as reimbursements have become more closely tied to quality improvement and cost reduction.



The home model is advancing.

Health plans are focusing on in-home visits as a means of ensuring that members receive preventive services and chronic care management, all while capturing a more informed population risk profile. There remains a significant opportunity to improve outcomes by delivering care in the low-cost, patient-preferred home setting.



Price transparency solutions are in high demand.

Today's healthcare consumer is demanding more information around price than ever before. The rise of mobile-enabled internet access, as well as increasing out-of-pocket cost, leaves consumers no choice but to ensure that they are optimizing price prior to receiving care. M&A activity around innovative price transparency solutions is flourishing, and we expect this trend to continue.

Noteworthy M&A and Private Placement Transactions

- **CVS Health** announced the acquisition of **Aetna** for about **\$69B** in a deal that would combine the nation's largest pharmacy chain with one of the largest health insurers in the US. If completed, the transaction would be one of the largest acquisitions of the year, creating an industry giant with over \$240B in annual sales. The deal is expected to close in the second half of 2018, subject to approval by shareholders of both companies as well as regulators.
- **Optum**, the health services arm of **UnitedHealth Group**, announced the acquisition of **DaVita Medical Group**, one of the nation's leading independent medical groups, for approximately **\$4.9B** in cash. DaVita Medical Group will join with Optum's physician-led primary, specialty, in-home, urgent and surgery-care delivery services division, OptumCare. The combination will improve care quality, cost and patient satisfaction through integrated ambulatory care delivery systems enabled by information technology and supportive clinical services. The transaction is expected to close in 2018 and is subject to regulatory approval and other customary closing conditions.
- **Humana**, along with **TPG Capital** and **Welsh, Carson, Anderson & Stowe**, announced the acquisition of **Kindred Healthcare** for approximately **\$4.1B** in cash. Immediately following the acquisition of Kindred, the home health, hospice and community care businesses

will be separated from Kindred and operated as a standalone company owned 40 percent by Humana, with the remaining 60 percent owned by TPG and WCAS. Humana will have a right to buy the remaining ownership interest in Kindred at Home over time through a put/call arrangement. Kindred's LTAC hospitals, IRFs and contract rehabilitation service businesses will be operated as a separate specialty hospital company owned by TPG and WCAS. The transaction is expected to close during the summer of 2018 and is subject to regulatory approval and other customary closing conditions.

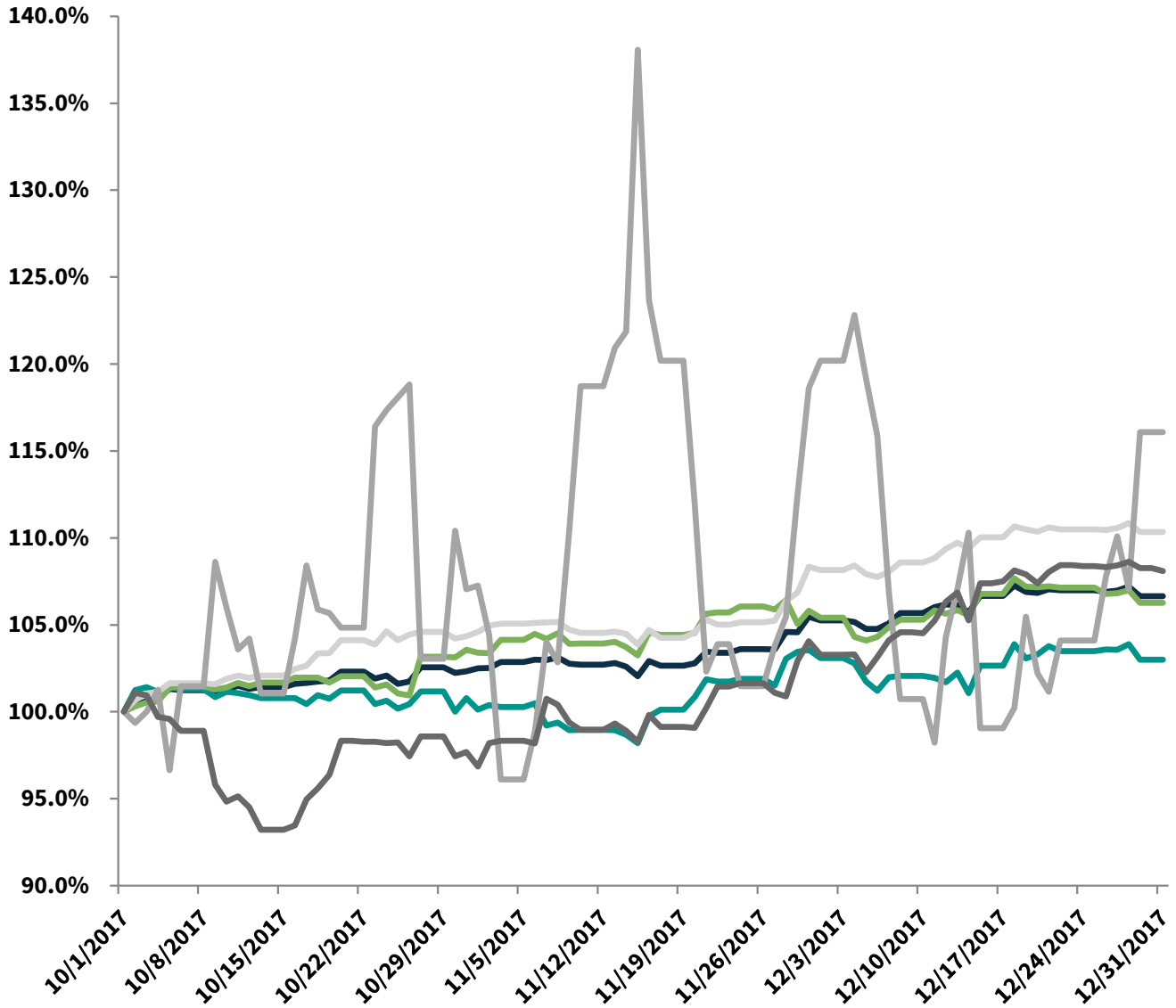
- **Advance Health** and **CenseoHealth**, technology-enabled payer service providers, announced an investment and recapitalization from **New Mountain Capital**, who will acquire a majority ownership interest in both Advance Health and Censeo. The combined company, through a deep network of physicians and nurse practitioners, will provide technology-enabled in-home health assessments nationwide. Financial terms of the transaction were not disclosed.
- **Cigna** has acquired health technology & engagement company **Brighter** for an undisclosed sum. Brighter offers a website that helps users find and compare care providers. The service allows users to compare out-of-pocket expenses based on the user's health plan, view provider profiles that include background and credentials, see reviews from other patients, and schedule appointments online. In addition, administrators can use Brighter's backend capability for administrative tasks, which include sending surveys to patients, keeping patients' calendars updated, and reminding patients about follow-up appointments.

Q4'17

Public Market Performance

Q4'17 MARKET INDICES

Broader Market and Healthcare Indices | October 2017 – December 2017

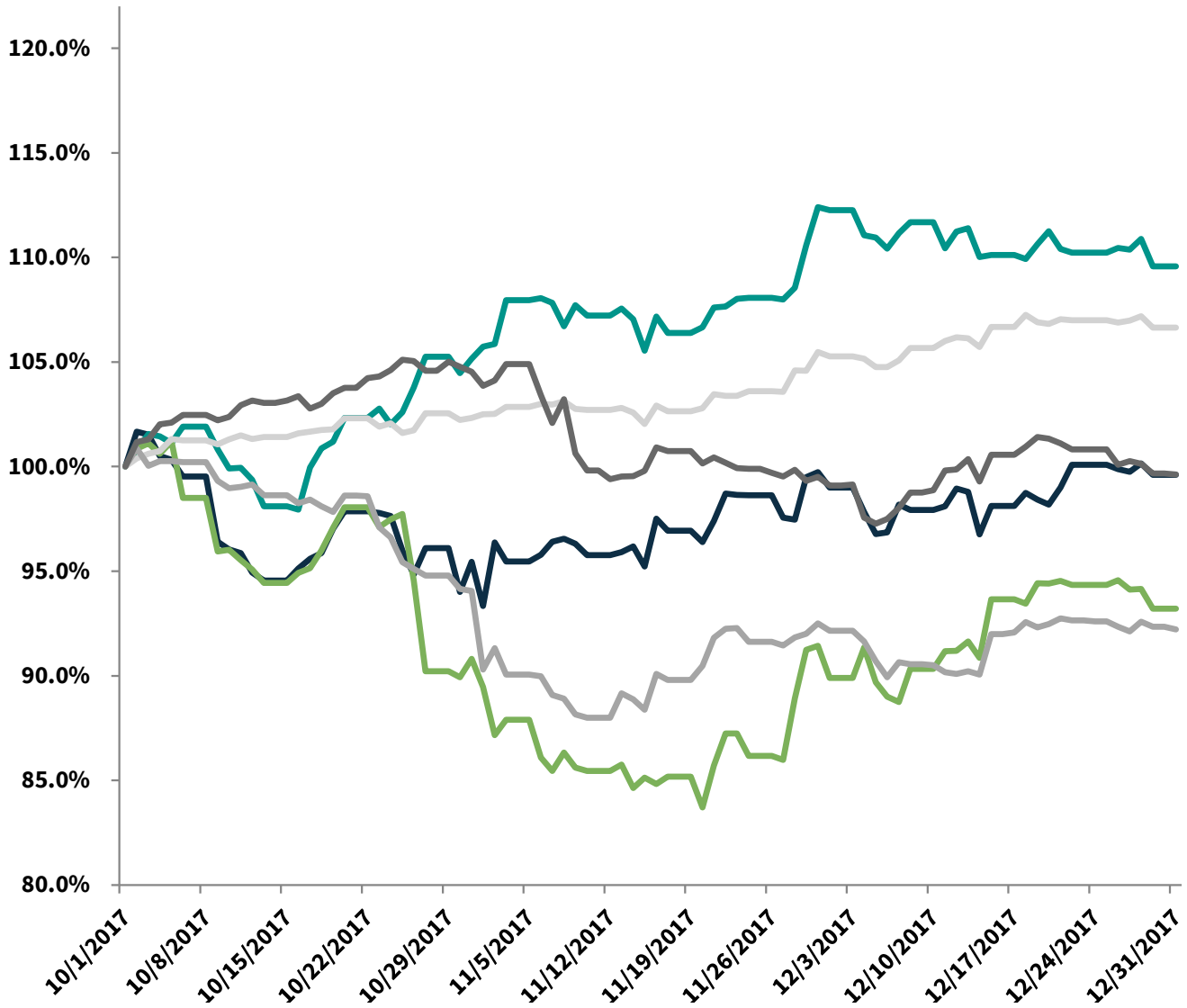


- S&P 500 Index
- Russell 2000 Index
- NASDAQ Composite Index
- Dow Jones Industrial Average
- CBOE Volatility S&P 500 Index
- TripleTree Healthcare Technology & Services Index

Source: S&P Capital IQ

Q4'17 HEALTHCARE INDICES

Healthcare Indices | October 2017 - December 2017



- Healthcare Delivery
- Health Insurance & Managed Care
- Healthcare Distribution
- S&P 500 Index
- Healthcare Information Technology & Services
- Healthcare Pharma-Life Sciences Services

Source: S&P Capital IQ



HEALTHCARE MERCHANT BANKING

TRIPLE-TREE.COM

THIS PUBLICATION MAY BE COPIED, REPRODUCED OR TRANSMITTED, IN WHOLE OR IN PART, PROVIDED TRIPLETREE HOLDINGS, LLC IS ATTRIBUTED AS THE AUTHOR AND THE FOLLOWING NOTICE APPEARS ADJACENT TO SUCH INFORMATION: COPYRIGHT © 2018 TRIPLETREE HOLDINGS, LLC. THE INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM SOURCES BELIEVED TO BE RELIABLE, BUT THE ACCURACY AND COMPLETENESS OF THE INFORMATION, AND THAT OF THE OPINIONS THEREIN, ARE NOT GUARANTEED. ALL PRODUCT NAMES, LOGOS AND BRANDS ARE PROPERTY OF THEIR RESPECTIVE OWNERS. ALL COMPANY, PRODUCT AND SERVICE NAMES USED IN THIS PUBLICATION ARE FOR IDENTIFICATION PURPOSES ONLY. USE OF THESE NAMES, LOGOS AND BRANDS DOES NOT IMPLY ENDORSEMENT. AS AN INDEPENDENT FIRM, TRIPLETREE, LLC MAY PERFORM OR SEEK TO PERFORM INVESTMENT BANKING SERVICES AND TTCP MANAGEMENT SERVICES, LLC MAY PERFORM OR SEEK TO PERFORM PRINCIPAL INVESTING SERVICES FOR THE COMPANIES REFERENCED IN THIS DOCUMENT.

 triple-tree.com/strategic-insights

 [@tripletreellc](https://twitter.com/tripletreellc)

 [tripletreellc](https://facebook.com/tripletreellc)

 [TripleTree](https://linkedin.com/company/tripletree)