HEALTH CARE DEALS IN THE WAKE OF THE AFFORDABLE CARE ACT

HOW PRIVATE EQUITY IS BENEFITING

PRIVATE EQUITY FIRMS AND INVESTORS ARE WASTING NO TIME SEEKING WAYS TO PROFIT FROM THIS BURGEONING MARKET.
The Patient Protection and Affordable Care Act of 2010 (ACA) has led to a transformation in the healthcare industry. As of April 1, 2014, more than 7 million previously uninsured Americans have signed up for healthcare through the ACA. Private equity firms and investors are wasting no time seeking ways to profit from this burgeoning market. In fact, private equity spending on healthcare has continued to increase since 2012, according to Pitchbook Data. If spending keeps pace with first quarter 2014, the healthcare industry is set to see a record of almost $175 billion of private equity capital poured into it.

“This is the most comprehensive shift in the healthcare delivery model since Medicare was adopted in the 1960s. It’s no surprise that investors want to take part in this rebirth,” says Joseph Ibrahim, Principal with The Riverside Company.

While healthcare in general is seeing increased interest from dealmakers, particular subsectors are benefiting more than others.

IT TECHNOLOGY
One of the many changes brought on by the ACA is a greater need for transparency. Reduced reimbursement rates paid by Medicare and Medicaid means consumers are responsible for paying higher deductibles and co-pays. As a result, consumers are going to greater lengths to spend their money strategically and they need more insight into which insurance plans best fulfill their particular needs. This shift isn’t lost on private equity firms, which are eagerly investing in technology that helps consumers make transparent decisions and take advantage of the fact that they now have purchasing power over their insurance.

The increased push for transparency has already had a positive impact on the value of some private equity-backed companies. Venture firm Venrock saw shares of its portfolio company Castlight Health jump 150% to a total of $3 billion after the ACA was enacted. Castlight allows consumers to directly compare costs of medical procedures at locations in their neighborhood. In May 2012, Venrock took part in a Series D round of funding for the company, which raised $100 million—one of the largest venture rounds for a healthcare IT company on record. In total the company took in more that $180 million in venture funding prior to its IPO.

### Private Equity Deals in Healthcare Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Deals</th>
<th>Capital Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>934</td>
<td>$108B</td>
</tr>
<tr>
<td>2013</td>
<td>1090</td>
<td>$123B</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>202</td>
<td>$43B</td>
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Source: Pitchbook Data
“WITH BABY BOOMERS REACHING RETIREMENT AGE...
THE NUMBER OF PEOPLE REQUIRING HEALTHCARE SERVICES IS SET TO INCREASE RAPIDLY...”

United States health insurance premiums increased by an average of 8% between 2000 and 2009, while average household income rose by only 2.1% according to Castlight.

To combat this increase, many employers are asking employees to pay a larger portion of their health care costs. Without the proper tools, employees are forced to make decisions based on limited information and little understanding of options, ultimately resulting in lower quality, higher costs and a decline in overall satisfaction. Founded in 2008, Castlight Health established the health care transparency market to directly address this need.

Venrock is not alone in noticing the need for an increased role for technology in healthcare. “Private equity firms have recognized an increase in consumer engagement; supported by [consumers] shopping for healthcare services and taking more responsibility in healthcare costs. In turn, private equity firms are investing in technologies that help consumers better manage their money,” says Robert Natt, Executive Chairman of Alegeus Technologies, a provider of benefit administration and payment processing technology in the consumer directed healthcare market. New York-based private equity firm Lightyear Capital acquired Alegeus in August 2012 and has been growing the company ever since.

MANAGED LONG-TERM CARE
The healthcare industry worldwide faces a number of complex changes to its business model. Prominent issues include an aging population, a shift in both disease patterns and treatments, and high costs associated with care. These trends mean that fee-for-service volume-based care will be less viable in the future.

Managed long term care streamlines the delivery of services to patients who are chronically ill or disabled. It is favored by insurance companies because these programs keep individuals out of emergency rooms and hospitals, and encourages treatment that can be delivered at home or at specialty care locations, which reduces costs. Managed long term care programs have already reduced the average hospital stay to 5.4 days, a 2 day decrease, over the past decade, according to Modern Health.

In response to this trend, in January 2014 New York-based Warburg Pincus invested in ComplexCare Solutions. ComplexCare provides in-home health risk assessments and care management services through a network of qualified interdisciplinary care teams. Since its founding in 2010, ComplexCare has developed into a fast-growing health services company in the $1 billion addressable market for outsourced risk assessment and care management services. With increasing demand from Medicare Advantage, Managed Long-Term Care, and Managed Medicaid, the market for these outsourced services is expected to double over the next five years.

“ComplexCare Solutions presented a strong investment opportunity because of our rapid growth and the major tail winds in our segment,” says Randall Klein, President of ComplexCare Solutions.

Private equity firms are also betting that most Americans would prefer to reside in their homes as they age rather than in traditional in-patient environments. As a result, private equity capital is also flowing into hospice and home healthcare services.

<table>
<thead>
<tr>
<th>Hospice and homecare investments from 1/2013 to 3/30/2014</th>
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<tbody>
<tr>
<td><strong>Company Name</strong></td>
</tr>
<tr>
<td>Addus Homecare (Home Health Division)</td>
</tr>
<tr>
<td>New Trident Holdcorp</td>
</tr>
<tr>
<td>Gemino Healthcare Finance</td>
</tr>
</tbody>
</table>

Source: Pitchbook Data

With baby boomers reaching retirement age and in need of more medical care, the number of people requiring healthcare services is set to increase rapidly over the next decade. The home healthcare field will benefit from these demographics,” says Victor Wahba, Partner-in-Charge of WeiserMazars’ New York Practice.

The U.S. Department of Labor anticipates that the 78 million baby boomers born between 1946 and 1964 will have a significant impact on healthcare demand in the upcoming years. To avoid costly nursing home expenses, many will likely opt for home healthcare, creating more than 1 million new home healthcare positions over the next 10 years.
“THERE’S NO DOUBT THAT COMPANIES THAT KEEP PEOPLE IN A COMFORTABLE HOME SETTING WILL REMAIN ON PRIVATE EQUITY FIRMS’ RADAR.”

Private equity firms are already taking advantage of this shift. At the end of 2013, Clearview Capital continued to build on its portfolio of hospice centers in the U.S., acquiring St. Croix Hospice, a chain of hospices in Minnesota and Western Wisconsin. Earlier in 2013, Sentinel Capital Partners acquired Hospice Advantage Inc. and are seeking add-on acquisitions. TPG Capital and Summit Partners have also recently invested in the sector.

“There’s no doubt that companies that keep people in a comfortable home setting will remain on private equity firms’ radar,” says Steven Kops, financial advisory services Partner at WeiserMazars. “As you can see from the activity, large and small private equity firms are interested in the sector and we expect that to continue.”

AMBULATORY SURGERY CENTERS

Ambulatory Surgery Centers (ASCs) are often a good alternative to in-hospital surgical procedures. As a result of ASCs’ significant aggregate cost savings to commercial and private payers, government programs such as Medicare and the healthcare exchanges, private equity firms are betting consumers will increasingly seek treatment in these centers. As healthcare reform continues to take shape, private equity-backed portfolio companies are engaging in M&A activity as a means to gain share and grow in the ASC market.

For example, Crestview Partners LP portfolio company Symbion Inc., a surgical facility operator, owns and operates more than 49 surgical facilities and manages seven additional facilities in 24 states as a result of add-on acquisitions made recently. New York-based Crestview acquired the company in 2007 for $637 million. According to reports, Crestview is now looking to sell the company for more than $800 million. Symbion had around $80 million in 2013 EBITDA and could get more than 10 times that in a sale, according to a Reuters report. Its earnings have grown by around 10 percent annually during Crestview’s ownership.

More M&A activity is expected in 2014. Arcapita’s portfolio company Meridian Surgical Partners and Welsh Carson Anderson & Stowe’s GetWellNetwork are both expected to be acquisitive in 2014.

“Ambulatory surgery centers are a true cost saver for Medicare and can be for private payers too. Movement of surgical procedures from hospital outpatient departments to ASCs reduces aggregate program spending because Medicare pays Hospital Outpatient Departments substantially more than ASCs for the same services (78 percent more in 2013),” according to Beckers Hospital Review.

One needs to look no further for evidence of interest in ASCs than the successful initial public offering of Surgical Care Affiliates this past fall. SCA’s share price rose nearly 30 percent post-IPO.

URGENT CARE CENTERS

The rapid growth of urgent care centers is shown by their continuing to pop up on street corners in neighborhoods across the country. Make no mistake: private equity firms are helping fund this expansion. Growth of urgent care centers over the last four years has topped 21% annually, with approximately 10,000 centers currently established across the country. Expansion is expected to continue over the next five years as revenue for urgent care centers hits $18 billion, with a projected increase of 50% in total number of urgent care centers.
According to Steven Kops, financial advisory services Partner at WeiserMazars, “Urgent care centers are quickly replacing primary care physicians and emergency rooms. Their extended hours, brief wait times and high quality of care are drawing ever larger numbers of consumers. This is a trend that is expected to continue and private equity firms are smart to get involved while there is still substantial upside.”

Dozens of private equity firms have already put capital to work in urgent care centers across America. According to the Urgent Care Association of America, almost 40% of clinics surveyed by the Association expect to expand their facilities or open new clinics in 2014, up from just 18% in 2010.

One of the first in a recent wave of investment was 2010’s purchase of MedExpress, the country’s third largest urgent care chain, by venture capital firm Sequoia Capital and private equity firm General Atlantic. In the same year, health insurer Humana Inc. bought the largest U.S. walk-in chain, Concentra, which operated 330 clinics, for $805 million. LLR Partners and health insurer WellPoint Inc. also invested last summer in 12th-ranked Physicians Immediate Care, a chain of 20 urgent care clinics based in Chicago, for an undisclosed sum.

This sector remains highly active. In 2013, NextCare Holdings, Inc., backed by Enhanced Capital Partners, acquired eleven PrimaCare Medical Centers in Texas.

Urgent care centers are experiencing organic growth as well. CareWell Urgent Care opened eight Urgent Care Centers in 2013, while MD Now Urgent Care recently expanded and opened a dozen new centers in South Florida.

“Private equity is embracing urgent care centers as an attractive area for investment because urgent care increases patient access, improves patient satisfaction, delivers care in a lower cost setting and improves patient outcomes. Healthcare Systems are also interested in urgent care to expand their brands and gain new patients,” says Joseph Ibrahim, Principal with The Riverside Company.

**PAIN MANAGEMENT**

Over one third of Americans suffer from acute and chronic pain, visit pain management clinics, physical therapists, acupuncturists, or take over-the-counter pain products and prescription drugs. Private equity firms are extremely interested in pain management solutions. In December 2010, Chicago Growth Partners acquired Advanced Pain Management Holdings, one of the largest pain management groups in the United States with approximately 180,000 patient encounters in 2012. In 2013, Chicago Growth was able to recapitalize the company.

Many private equity firms are moving into the pain management sector. In June 2013, Prospira PainCare, a portfolio company of Pulse Equity Partners, acquired The Pain Management Center, which serves southern New Jersey and the Philadelphia metropolitan area. Prospira PainCare was formed through a collaboration of three separate private equity groups that acquired pain centers throughout the United States, including Neuro Pain Consultants in Michigan.

Venture firms are active in the space as well. In January 2012, ConforMIS Inc. raised $89 million in a Series E round with principal investors including AGC Equity Partners, Axel Johnson, Inc. and government investment funds from Asia and the UAE. ConforMIS is a manufacturer of devices for the treatment of early, moderate and late stage osteoarthritis of the knee.

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**Pain Management**

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<tr>
<th>Company Name</th>
<th>Deal Date</th>
<th>Deal Size</th>
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<td>Prospira PainCare Holdings</td>
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<td>Pulse Equity Partners</td>
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<td>Invacare Supply Group</td>
<td>1/13</td>
<td>$150MM</td>
<td>AssuraMed, Clayton Dubilier &amp; Rice, Goldman Sachs Alternative Investments &amp; Manager Selection Group</td>
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<tr>
<td>Interventional Management Services</td>
<td>12/13</td>
<td>$89.5MM</td>
<td>ICV Partners</td>
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*Source: Pitchbook Data*
CONCLUSION

Winston Churchill said: “To improve is to change; to be perfect is to change often.” Certainly the purpose of the ACA is to change the face of the American health care system. Though, to date, the outcomes have been far from perfect, private equity companies have benefited from this imperfection. Private equity’s heavy investment in organizations that reduce costs by keeping individuals out of the hospital either directly (homecare, hospice care, ambulatory surgical centers) or indirectly, facilities that increase access to care (urgent care clinics), or programs that help promote a higher quality of care demonstrates the breadth of the ACA’s impact.

Looking to the future, it’s especially important for private equity firms to be aware that the ACA has yet to reach the final stage of implementation and may never reach its intended completion. Consequently, firms should invest with caution, knowing that the health care landscape could change just as drastically as it did under the ACA. What is certain is that as healthcare legislation changes, private equity trends will mirror it.

About the Author

Ira N. Gottlieb has spent over 30 years in health care consulting with a specialty in the Managed Care Market Segment on both the payer and provider side of health care delivery. Over the years Ira has provided professional, effective managed care consultative services to national, regional and local insurers and payer health care plans. His client portfolio includes hospitals, hospital systems, multi-specialty groups, physician practices, IPAs, ACOs, COOPs, Exchanges, third party administrators, ancillary service providers and private equity groups. Many of Ira’s client relationships extend over 20 years. Prior to joining WeiserMazars, Mr. Gottlieb was the founder and Chief Executive Officer of Creative Health Concepts (CHC), which he established as a market leader in the healthcare industry.

If you have any questions, please feel free to contact Ira Gottlieb at Ira.Gottlieb@WeiserMazars.com or 212.375.6591.

The WeiserMazars LLP Health Care Group assists Private Equity groups with developing solutions and implementing changes to their portfolio of health care investments. We offer market and distribution strategies, creative reimbursements for products and services, and assist investors in understanding the business and its drivers, identifying and assessing the key financial risks impacting the proposed investment, analyzing the quality of assets and cash flows, and the financial effects of the existing and prospective tax structures.
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