



Provider Services M&A and Valuation Update
Healthcare Industry
Q3 2024

FOUNDERS

ADVISORS

Introduction

From Thomas and Michael



Thomas Dixon



Michael White

Greetings,
On behalf of Founders Advisors' healthcare team, we are pleased to present our Q3 2024 *Provider Services M&A and Valuations* report.

PitchBook recently called a “turning point” in the healthcare services deal market, and based on acceleration of inbound opportunities for our team, we agree. Regardless as to how one grades the Fed, a more accommodating interest rate environment can only add fuel to the fire, which we believe was primarily set by convergence of buyer/seller expectations and pressure for institutions to deploy or return capital. (Newsflash – institutions would rather deploy!)

Perhaps the one grey cloud, hovering over the provider services transactional markets, is a regulatory one. Though federal and state rhetoric has spooked some in the market, we view the regulatory environment as manageable. Don't take our word for it though – access a recording of our recent interview with David Marks from Holland & Knight (See page 14.).

As always, track us down if you need insights into the market or advice on positioning your specific practice for exit.

Until Next Quarter,

Thomas Dixon
Managing Director

Michael White
Managing Director

Table of Contents

- I. M&A Activity
- II. Buyer Landscape
- III. Valuation Insights
- IV. Operational Benchmarks
- V. Voices from the Field
- VI. Founders Introduction

Considered / Included Public Companies

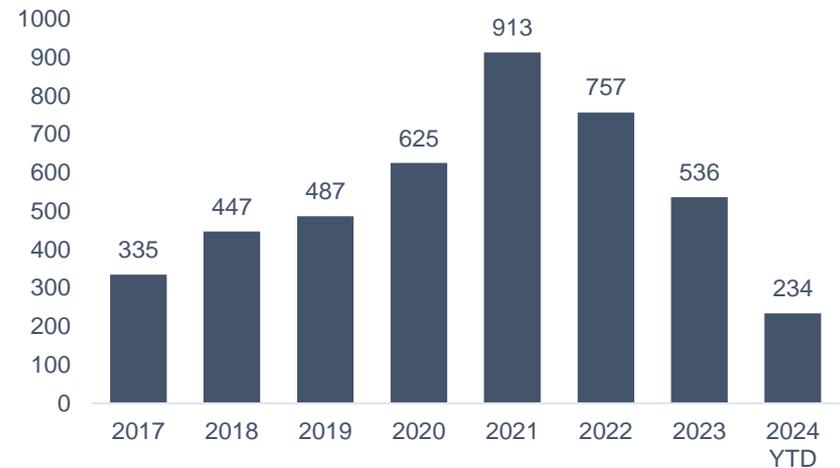


I. M&A Activity: Volume

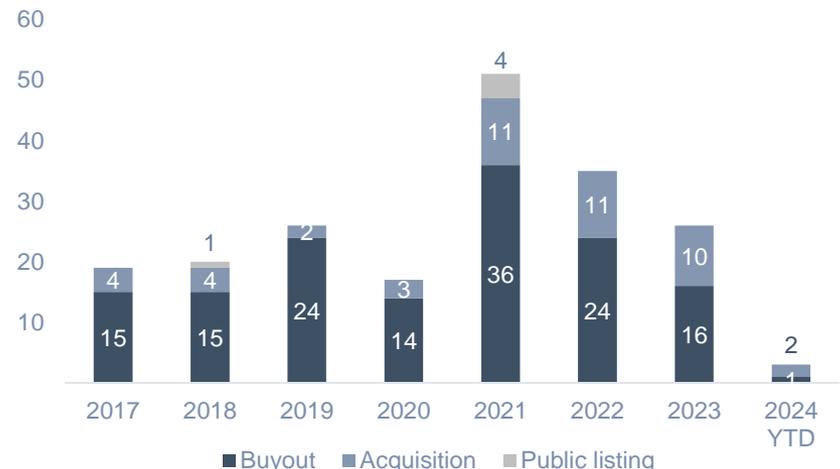
Commentary

- Though the data read YTD looks disappointing, shoots of green are emerging in the healthcare services deal market
 - Platform trades and continuation funds have created liquidity and inspired confidence among private investors
 - The courts have mitigated, though not eliminated, the regulatory specter (e.g., Chevron overturned, non-compete ban thrown out, dismissal of Welsh Carson from USAP lawsuit)
 - Inbound activity to Founders Advisors and, anecdotally, other investment banks has spiked
 - The Fed delivered a much-anticipated rate cut, followed by August inflation data that implies further cuts in the offing
 - Well capitalized, publicly traded strategics continue to report strong M&A pipelines
- Founders reiterates its posture of being long-to-medium-term bullish on provider services M&A:
 - The case for institutional capital to underwrite transformation remains strong – sub-scale physician practices lack the resources to adapt to the changing healthcare landscape
 - Secular tailwinds for healthcare investment remain unchanged – these include demographically-driven expansion of the sector, a delivery system in need of disruption/innovation and ample room for inorganic growth strategies in many specialties
 - Creativity and tactical adjustments in deal structuring and financing are and will continue to bridge the gaps for underwriting (financing and bid-ask-spreads)

Provider Services Deal Count by Year



Provider Services Private Equity Exit Count*



I. M&A Activity: Volume by Specialty

First half 2024 deal volume was characterized by notably low activity in most specialties, excluding Mental Health (strong start), Infusion (strong start) and Urgent Care (resilience at low level)

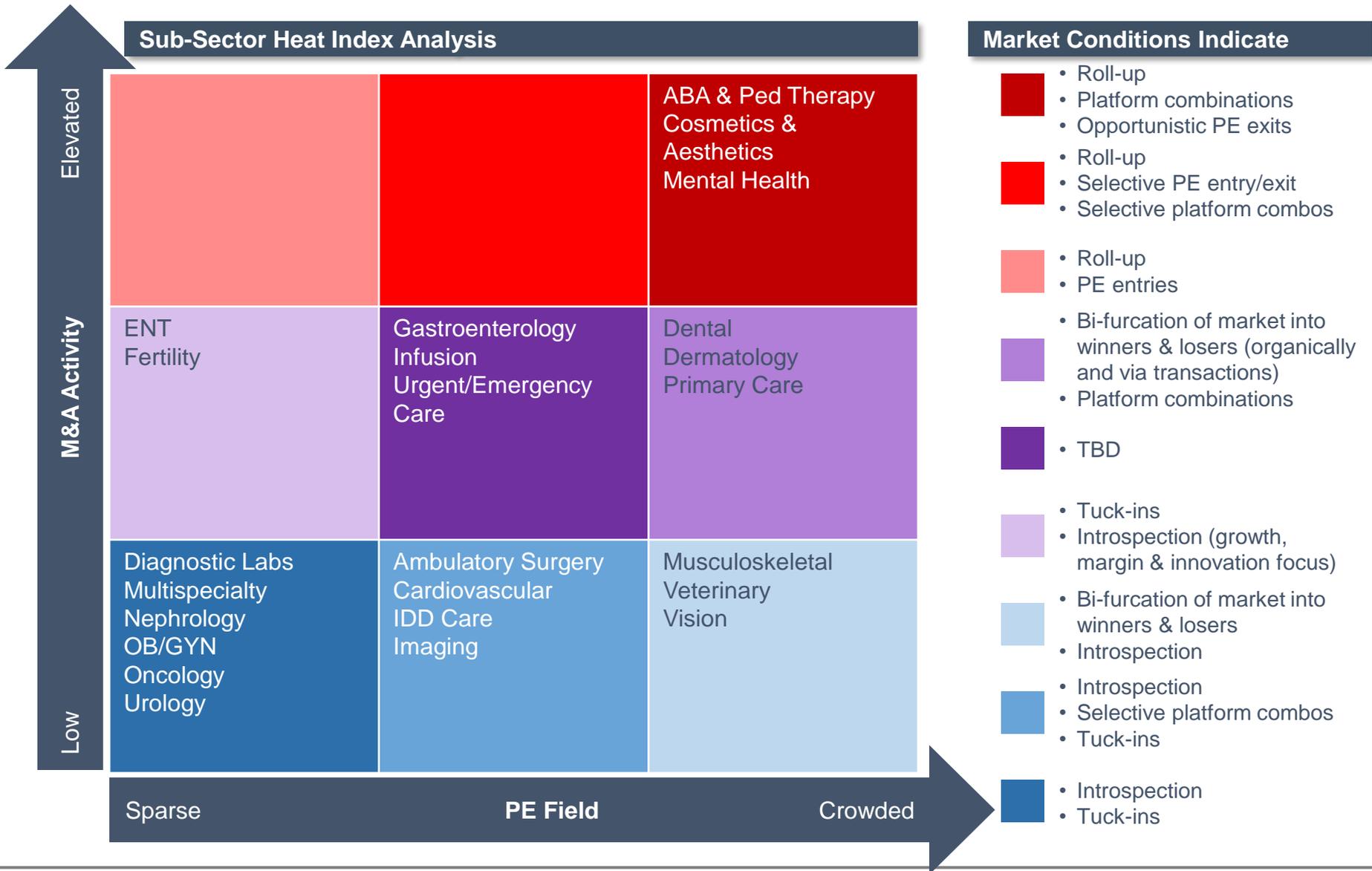
Specialty	2017	2018	2019	2020	2021	2022	2023	2024 1H	CAGR ¹
Applied Behavior Analysis	11	19	27	27	33	33	10	5	-1.6%
Ambulatory Surgical Centers	5	3	5	5	6	7	6	2	3.1%
Cardiovascular	2	1	1	1	5	12	19	4	45.5%
Dental	48	71	65	75	143	148	145	46	20.2%
Dermatology	56	63	43	34	44	59	62	14	1.7%
Diagnostic Laboratories	9	5	9	2	8	4	5	-	-9.3%
Ear, Nose & Throat	2	10	6	9	18	10	17	6	42.9%
Fertility	3	7	6	7	21	11	10	3	22.2%
Gastroenterology	6	6	22	17	32	23	11	4	10.6%
Developmental Disabilities care	9	6	13	7	12	3	11	2	3.4%
Imaging	5	5	7	9	18	8	10	3	12.2%
Infusion	1	3	4	7	6	10	5	4	30.8%
Mental Health	38	45	25	51	61	48	26	17	-6.1%
Multispecialty Clinics & Networks	7	-	3	3	4	5	5	1	-5.5%
Musculoskeletal	43	53	47	52	91	89	45	10	0.8%
Obstetrics & Gynecology	3	2	3	14	9	9	9	1	20.1%
Oncology	-	4	4	3	4	4	4	-	NM
Primary Care	7	16	16	17	19	13	24	6	22.8%
Urgent & Emergency Care	5	13	7	8	15	9	9	5	10.3%
Urology & Nephrology	3	5	2	7	12	17	12	2	26.0%
Veterinary	37	61	97	179	229	169	57	12	7.5%
Vision	35	49	75	91	123	66	34	9	-0.5%
Total	335	447	487	625	913	757	536	156	8.1%

I. M&A Activity: PE Platforms by Specialty

6 sub-sectors account for about 60% of the active PE platforms in provider services – Dental, Mental Health, Musculoskeletal, Dermatology, Veterinary and Vision



I. M&A Activity: Specialty Heat Map (H1 2024 Scoring)



I. M&A Activity: Recent Notable Transactions

Practice	Buyer	Announced/Close Date	# of Physicians	Locations	Deal Size
 ADVANCED DERMATOLOGY	 FOREFRONT DERMATOLOGY PARTNERS GROUP	9/16/2024	6	4	NM
 Dermatology Consultants	 FOREFRONT DERMATOLOGY PARTNERS GROUP	9/9/2024	3	3	NM
 GENETICS & IVF Institute	 AMULET CAPITAL PARTNERS LP	9/6/2024	NM	NM	NM
 allure MEDSPA	 NORTHRIM HORIZON	8/30/2024	NM	3	NM
 Ortho Rhode Island	 SPIRE ORTHOPEDIC PARTNERS	6/26/2024	37	7	NM
 absolute aesthetics REJUVENATION & LASER CENTER	 dermcare MANAGEMENT	6/18/2024	NM	NM	NM
 CARAVEL AUTISM HEALTH	 GTCR	6/11/2024	NM	50+	NM
 MC MedCenter Urgent Care • Family Medicine Powered by E PERCARE	 EXPERCARE SEVEN HILLS CAPITAL	4/12/2024	12	6	NM

II. Buyer Landscape

Example Multi-Sector PE Funds



- + Institutional knowledge across sectors to help scale and professionalize businesses
- + Upside opportunity at the next transaction, following 5-7 year hold period
- + Ability to apply learnings from other industries
- + Oftentimes, larger fund-size/more access to capital, compared to single sector funds
- Variable experience and interest in healthcare services

Example Healthcare-Focused PE Funds



- + Proven track record in healthcare, e.g., leading payor negotiations, recruiting providers and scaling practices via organic and inorganic growth initiatives
- + Upside opportunity at the next transaction, following 5-7 year hold period
- + Large networks in the healthcare arena, leading to abilities to help source executive team/board members, clients/tuck-in acquisition targets, channel partners, etc.
- Traditionally smaller fund sizes/less access to capital, compared to multi-sector PE funds

Example Strategic Buyers

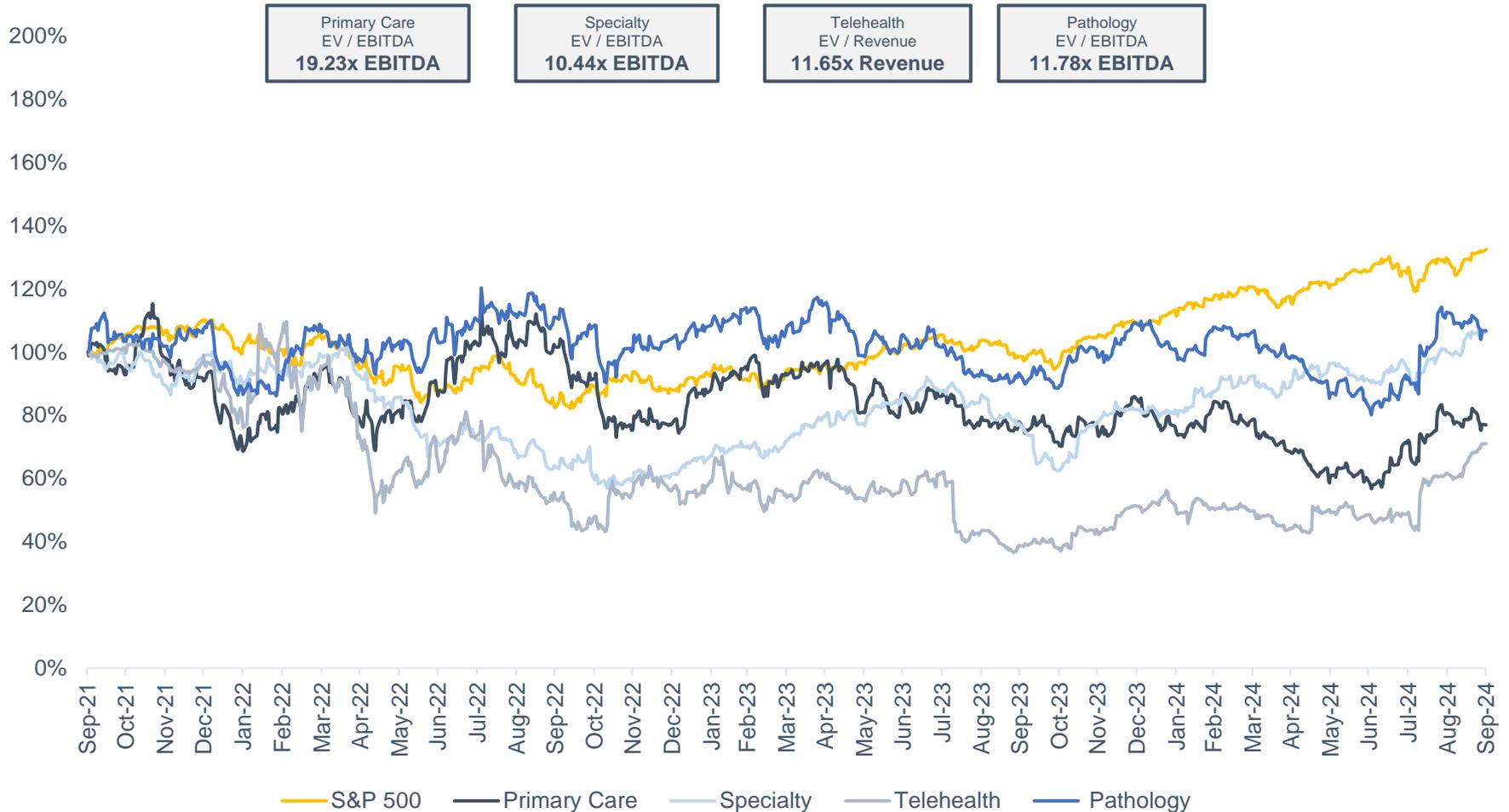


- + Aggressive valuations when there is a strategic fit
- + Potential for all-cash transactions without roll-over equity
- + Ability to rapidly deliver synergy and create operating leverage
- Limited or no opportunity for a “second-bite”
- Less autonomy and control given to sellers, post-close

III. Valuation Insights: Public Market Performance

The S&P 500 had a strong Q3, up ~6%. Provider services sub-sectors had a bounce back quarter, when compared to the Index, and all finished above 15% growth for the quarter, with pathology up 27% since the end of Q2

Provider Services Public Company Market Cap vs. S&P 500

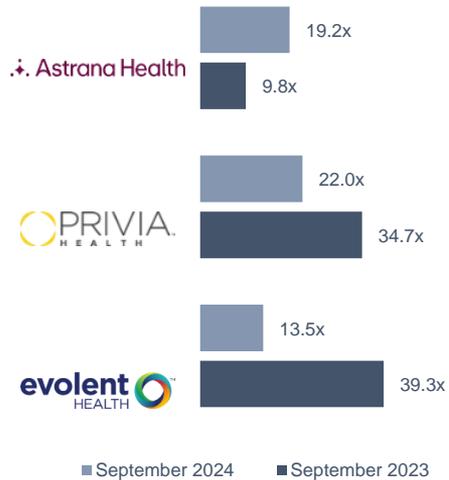


III. Valuation Insights: Public & Private Multiples

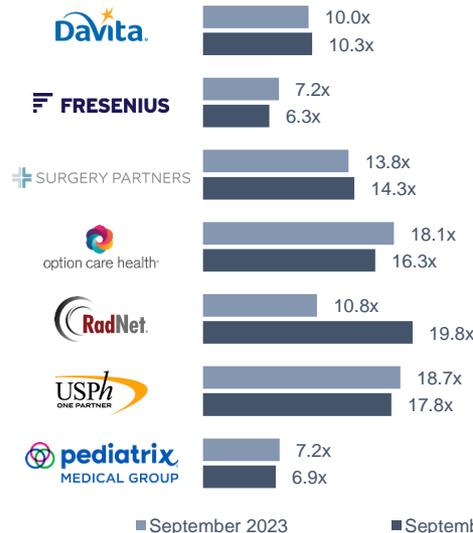
EV / LTM EBITDA Multiple

EV / LTM Revenue Multiple

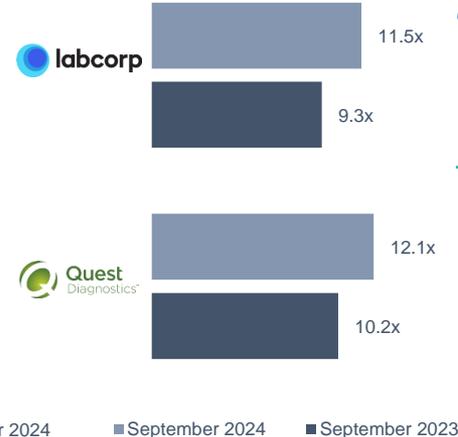
Primary/Value-based¹



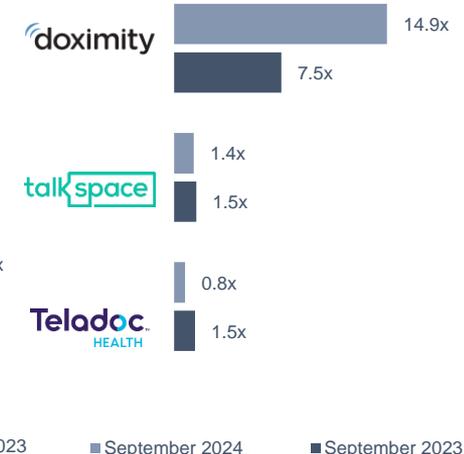
Specialty²



Pathology



Telehealth

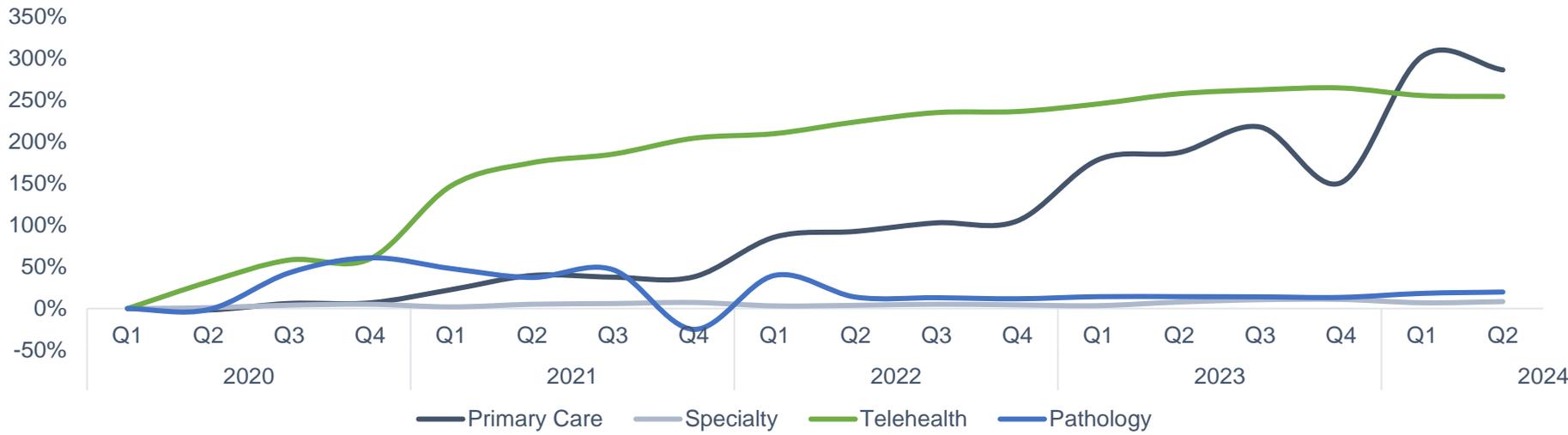


Private Markets Commentary

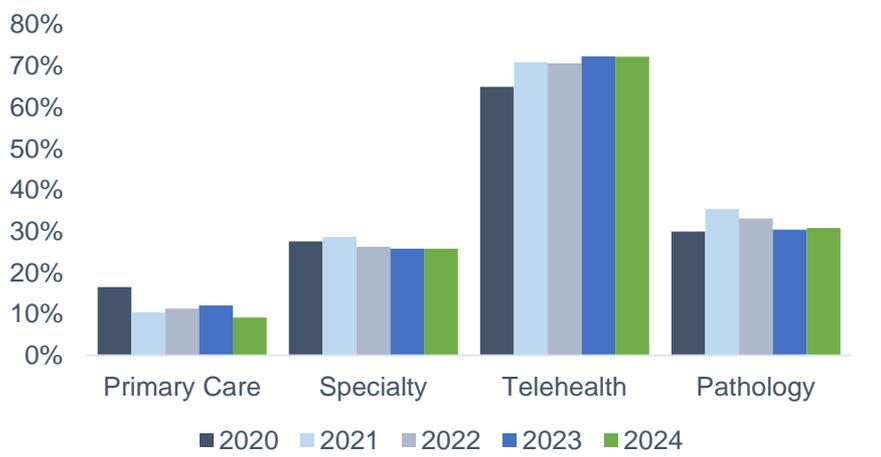
- The provider/physician services buyer pool is bifurcating into winners and losers
 - The winners have domain expertise in healthcare, a commitment to adapting to increased complexity, one or more strong platforms and a willingness and ability (balance sheet) to continue investing in provider services
 - In Founders' experience, a handful of winners have emerged in virtually every provider services sub-sector, making the market for a seller pool that seems to be returning to the negotiating table
 - The losers generally mis-managed balance sheets or lack a commitment to and domain expertise in healthcare
- Bottom line from the above – our clients and other high quality provider assets are enjoying competitive auctions (driving healthy multiples) and optionality when they go to market

IV. Operational Benchmarks

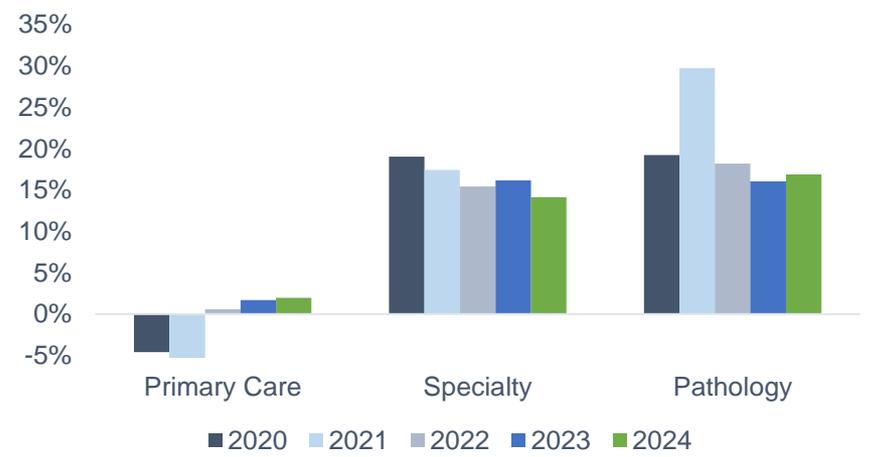
Public Company Revenue Trend by Sector



Public Gross Margin Trend (Q2 YoY Comparison)



Public EBITDA Margin Trend (Q2 YoY Comparison)



V. Voices from the Field: Earnings Call Themes (1/2)

Theme	Drivers	Voices from the Field
 <p>Site of Service Optimization is Still a Thing</p>	<ul style="list-style-type: none"> • Motivation of payors, employers and consumers to drive cost savings • Large SOS TAM vs. [gradual] pace of case migration • Continued technological advancement → expanding universe of addressable procedures/services 	<p><i>“ . . . if a drug is being administered in an HOPD or in an acute care setting, we can articulate that the net cost to the payer is considerably lower And so, that gives us confidence that . . . we'll continue to be able to generate decent margins because of that value proposition.”</i></p> <p>- MIKE SHAPIRO, CFO, OPTION CARE HEALTH</p> <p><i>“There's not a lot of news right now about stuff coming off of the inpatient-only list . . . we have so much room on the stuff they've added over the last few years. . . . We talk a lot about our \$150 billion TAM, \$110 billion of that stuff is still going to move out of the traditional acute care setting, and a lot of that has to do with technology changes and higher acuity procedures every year.”</i></p> <p>- ERIC EVANS, CEO, SURGERY PARTNERS</p>
 <p>The Judiciary Might be a Tailwind</p>	<ul style="list-style-type: none"> • Dismissal of Welsh Carson from FTC lawsuit against US Anesthesia Partners (May 2024) • Recent overturning of Chevron doctrine (June 2024) • District court striking down FTC ban on non-competes (August 2024) 	<p><i>“I'm not a legal expert by any means. But as you know, . . . Congress is the one that sets the operating parameters for various departments . . . like the FDA. We believe what Congress authorized the FDA to do is to regulate medical devices. And Congress also authorized the CLIA Act of 1988 that talked about the regulation of clinical laboratories. So, we believe it's very clear what Congress intended. Obviously, others don't see it that way. But we do believe that, yes, what has come out of the Supreme Court recently is favorable, and it clearly dictates what should occur within the four walls of regulatory bodies.”</i></p> <p>- JIM DAVIS, CEO, QUEST DIAGNOSTICS</p>

V. Voices from the Field: Earnings Call Themes (2/2)

Theme	Drivers	Voices from the Field
 <p>The Market is Sorting PPM Winners and Losers</p>	<ul style="list-style-type: none"> Increased cost of debt and cost inflation → stress on flawed business models [Sometimes splashy] healthcare investing by parties lacking domain expertise 	<p><i>“So I think you can throw money in acquiring doctors’ practices or signing them up. But ultimately, the business model and the performance matters. . . . we are seeing a lot of rationalization over the past couple of years.”</i></p> <p>- PARTH MEHROTRA, CEO, PRIVIA HEALTH</p>
 <p>As Always, Innovation Drives Opportunity</p>	<ul style="list-style-type: none"> Wildfire that is GLP-1 Wildfire that is AI Secular/systemic tailwinds favoring R&D in US healthcare (e.g., expanding market/aging population, favorable intellectual property framework, disproportionate share of global life sciences industry) Bounce-back of biotech/biopharma funding 	<p><i>“The largest drivers of chronic care enrollment growth versus the prior year period were our diabetes prevention and weight management programs, followed by hypertension.”</i></p> <p>- MALA MURTHY, CFO, TELADOC HEALTH</p> <p><i>“. . . 20% of our revenues are from tests we introduced in the past year. In Advanced Diagnostics, several key clinical areas drove double-digit revenue growth. . . . This growth was particularly strong in brain health, women’s health . . . and advanced cardio metabolic health.”</i></p> <p>- JIM DAVIS, CEO, QUEST DIAGNOSTICS</p> <p><i>“We also expect the growing demand for advanced imaging to continue well into the future. This is being driven by technology advances in equipment, contrast materials, radioactive pharmaceuticals, post-processing software and artificial intelligence, all of which drive new applications for utilizing diagnostic imaging, particularly in the population health and screening tools. Prostate, Alzheimer’s, coronary cardiac angiography, lung cancer screening . . . will be opportunities”</i></p> <p>- DR. HOWARD BERGER, CEO, RADNET</p>

V. Voices from the Field: *Founders Forum*

From the *Founders Forum* webinar, “Healthcare Institutional Capital on the Hotseat”



DAVID MARKS,
PARTNER & HEALTHCARE
PE CO-CHAIR,
HOLLAND & KNIGHT

On the likelihood of the FTC non-compete ban being reinstated
“The shift in the Chevron Doctrine is powerful because that means that there’s increasing scrutiny of agency decisions. The likelihood of [the FTC] winning if it goes to the Supreme Court, I think most folks would tell you, is pretty low.”

On whether institutional investment in PPM is dead
“There are a lot of folks out there who are reporting and writing the headlines, who are just trying to . . . fit the facts to a pre-determined narrative. The truth is, what you are seeing right now are . . . healthy companies doing really well, bad companies doing bad. So, no PPM is not dead – we’re seeing real interest, not just from [sellers].”

Access the full recording [HERE](#), using password **\$V4c4YBz**

From the *Founders Forum* webinar, “A Business Owner’s Guide to Generating Wealth”



MICHAEL STANLEY,
WEALTH ADVISOR,
KEEL POINT

On how business owners should think through when to sell
“Timing the market is just not always a great strategy . . . There’s always another piece of data or another thought that could sway you one way or the other. So, I think having a really solid base of why you want to [sell] and when it’s time to do it and then just executing . . . I’ve seen that path be successful over and over again.”

Access the full recording [HERE](#), using password **r\$hVG^0***

Save the Date – Upcoming Webinars

- Oct: “AI in Healthcare – Voices from the Frontlines”
 - Executive panel discussion
 - Oct. 18, 2024 at 11:30 AM CDT
 - [REGISTRATION LINK](#)
- Nov/Dec: “From Healthcare Neophyte to Exit – The Stratasan Story”
 - Founder interview
 - Date TBD

VI. Founders Introduction: Firm Overview

Founders is a mergers, acquisitions, and strategic advisory services firm that has served middle-market companies for two decades. When we were founded, we focused on serving companies in the southeastern U.S. but have transitioned to a national footprint through our five industry groups. Today, Founders employs over 50 professionals and has offices in Birmingham, AL (headquarters), Dallas, TX, and Nashville, TN.

OUR WHEELHOUSE

The majority of our clients are founder-owned and operated companies across five industry groups that collaborate together. We listen to our clients and take the time to truly understand each client's unique situation and desired outcomes. Founders has been a trusted advisor to hundreds of middle market business owners, supporting their growth through tailored financing structures and ownership transition transactions.

CAPABILITIES & FIRM HIGHLIGHTS



**Sell-Side
Advisory**



**Capital
Raises**



**Targeted
Buyside**



**Spin-Offs /
Divestitures**



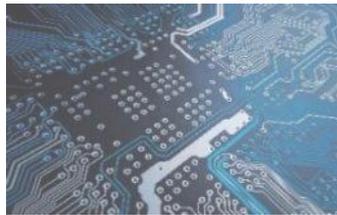
**Industry
Expertise**

INDUSTRIES

Healthcare



Technology



Consumer



Industrials



Business Services



FIRM VALUES

ORDER

Maintain focus on doing the right things at the right time

SERVICE

Go the extra mile for our clients, co-workers & community

GROWTH

Reflect, evaluate, and plan for improvement

EXCELLENCE

All we do, we do well

HEALTH

Be and stay healthy, personally, and as a team

COMMUNITY

Be team-focused; we're better together

VI. Founders Introduction: Dedicated Healthcare Team

Founders Healthcare Team



Michael White
Managing Director

- 7+ years leading Founders' healthcare practice
- Prior Wall Street and bulge bracket investment banking experience
- Former CFO, Carbylan Therapeutics
- University of Chicago MBA



Thomas Dixon
Managing Director

- Development Officer experience at 4 PE-backed healthcare platforms
- Former C-Suite executive at Ideal Image MedSpa
- Former principal at top-5 healthcare consulting firm
- University of Minnesota MBA



Courtney Jones
Associate

- Past investment banking experience at Harris Williams
- Previous Associate at New Capital Partners
- BS in Accounting from Washington and Lee University



Braxton Eubanks
Analyst

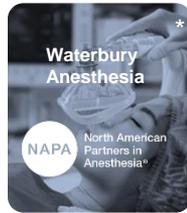
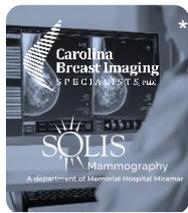
- 1+ years in investment banking at Founders
- MS in Finance from Southern Methodist University



Wells Watts
Analyst

- Joined Founders' most recent analyst class
- Auburn University BS in Finance

Select Founders Healthcare Transactions



FOUNDERS

ADVISORS

BIRMINGHAM | DALLAS | NASHVILLE

2400 Fifth Avenue South, Suite 100 · Birmingham, AL 35233 · 205.949.2043

In order to provide securities-related services discussed herein, certain principals of Founders are licensed with Founders M&A Advisory, LLC, member [FINRA](#) & [SIPC](#). Founders M&A Advisory is a wholly owned subsidiary of Founders Advisors. Neither Founders M&A Advisory nor Founders Advisors provide investment advice.