



# healthcareREPORT

## INDUSTRY OVERVIEW

Today's trend in healthcare consumerism has generated a greater focus on value-based care. The line between payers and providers is blurring as many healthcare organizations position for vertical integration. Reportedly, some 50% of US health systems have applied, or intend to apply for an insurance license. Correspondingly, provider transactions have become increasingly strategic in nature. The spike in value-based contracting initiatives has intensified the need for improved IT, analytics (big data), and streamlined operations. Given the current pace of change in the industry, and especially as the vertical integration trends grow, further consolidation is inevitable.

Despite the rocky Exchange implementation in January 2014 (and corresponding market angst), this year's transaction totals have outpaced 2013 by 16%. The 269 transactions in Q2 foreshadow a strong 2014, as Q2 has been the low season for healthcare deals in each of the last three years. Capital investments are on pace to reach the \$100B mark – a 55% increase YoY and the greatest annual total since 2011 (\$74B excluding Zimmer's \$13B acquisition of Biomet). Regardless, if Medtronic's \$43B acquisition of Covidien closes this year, it will tip the scales and potentially surpass the \$136B total from 2012.

If you have any questions please contact us.

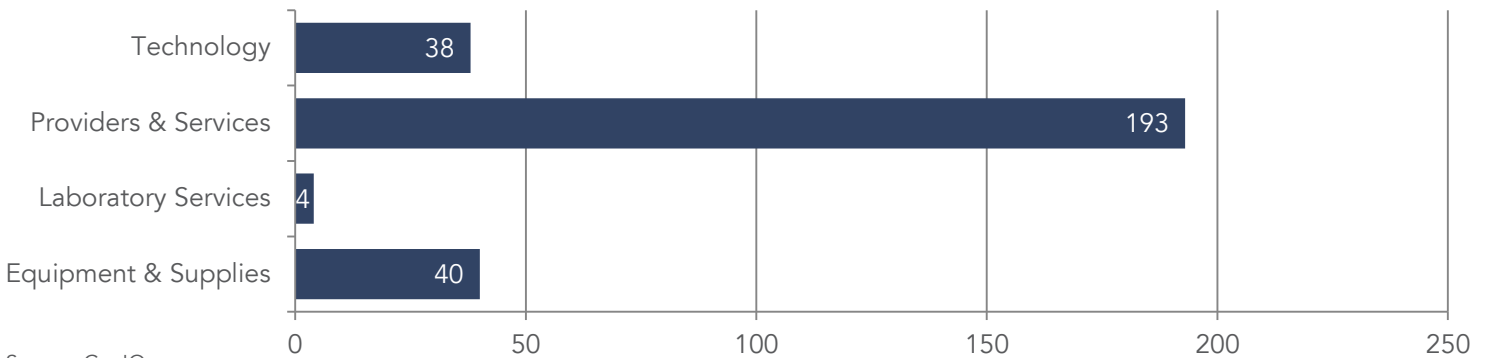
- Chris Bouck, Principal ([cbouck@sdrventures.com](mailto:cbouck@sdrventures.com))

- Aaron Linnebach, Vice President ([alinnebach@sdrventures.com](mailto:alinnebach@sdrventures.com))

## TRANSACTION HIGHLIGHTS

### TRANSACTIONS

#### # BY SEGMENT (Q2)

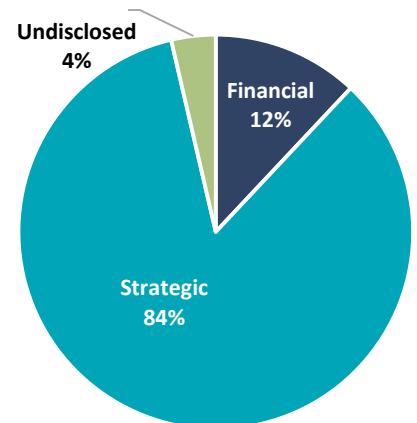


Source: CapIQ

### STRATEGIC VS. FINANCIAL TRANSACTIONS

#### HIGHLIGHTS

STRATEGIC ACQUISITIONS	5.7.14	Streamline Health, Inc. acquired majority stake in CentraMed, Inc. for \$5 million, plus an undisclosed 12 month earnout.
	5.12.14	The Advisory Board Company (NasdaqGS:ABCO) acquired HealthPost, Inc. from Next Wave Health, Inc. for \$26 million.
	6.23.14	Emdeon Inc. acquired Capario, Inc. for \$115 million cash; additional details were not disclosed.
FINANCIAL ACQUISITIONS	5.21.14	Clayton, Dubilier & Rice, Inc. acquired Healogics, Inc. for \$910 million; additional details were not disclosed.



The information contained herein is based on sources we believe reliable but is not guaranteed by us and is not to be considered all inclusive. It is not to be construed as an offer or consultation of an offer to sell or buy any securities.



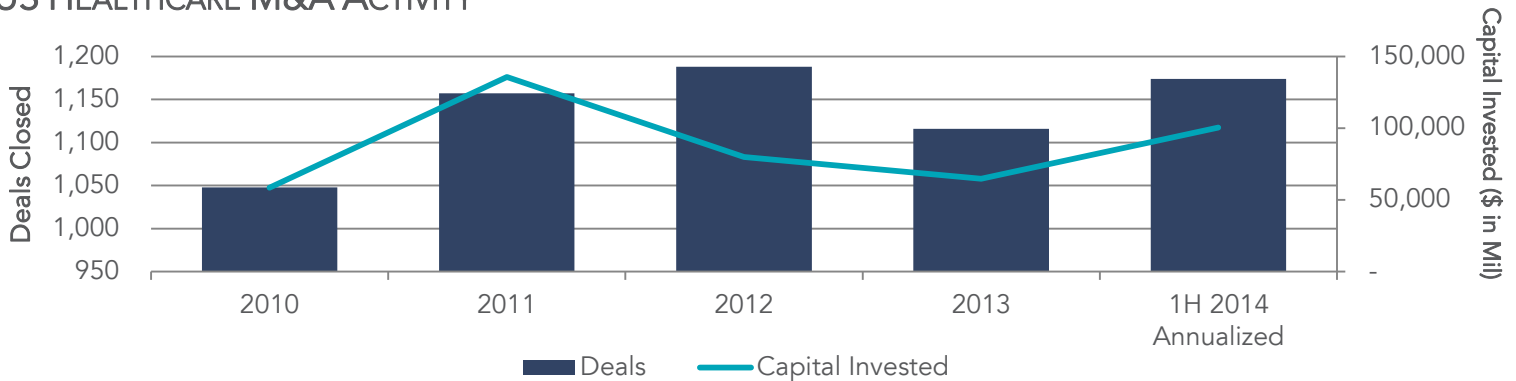
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## TRANSACTION ACTIVITY

Date	Target	Buyer	Transaction Comments
6.23.2014	Capario, Inc.	Emdeon Inc.	Emdeon Inc. entered into a definitive agreement to acquire Capario from Marlin Equity Partners, LLC for approximately \$120 million in cash, paid with a combination of available cash and funds under Emdeon's revolving senior credit facility.
5.12.2014	HealthPost, Inc.	The Advisory Board Company (NasdaqGS:ABCO)	The Advisory Board Company (NasdaqGS:ABCO) acquired HealthPost, Inc. from Next Wave Health, Inc. and others for approximately \$25 million, overlooking higher profile scheduling platforms such as Vitals and ZocDoc
5.7.2014	CentraMed, Inc.	Streamline Health, Inc.	Streamline Health, Inc. acquired majority stake in CentraMed, Inc. for \$5 million, plus an undisclosed 12 month earnout beginning 6 months after close. Streamline's run rate revenue is \$28.72 million with \$0.6 million EBITDA.
5.21.2014	Healogics, Inc.	Clayton, Dubilier & Rice, Inc.	Clayton, Dubilier & Rice, Inc. entered into an agreement to acquire Healogics, Inc. from Scale Venture Partners and Metalmark Capital LLC for approximately \$910 million, approx. 3.0x revenues of \$300 million.
5.29.2014	Sheridan Healthcare, Inc.	AmSurg Corp. (NasdaqGS:AMSG)	AmSurg Corp. (NasdaqGS:AMSG) entered into definitive agreement to acquire Sheridan Healthcare, Inc. from Hellman & Friedman LLC and others for \$2.4 billion (\$615 million cash and \$1.7 billion in stock); 2.5x revenue and 19.1x EBITDA.
4.1.2014	BioPharm Systems, Inc.	Perficient Inc. (NasdaqGS:PRFT)	Perficient Inc. (NasdaqGS:PRFT) acquired BioPharm Systems, Inc. for \$17.6 million in cash and stock (approximately \$11.4 million in cash and \$6.2 million worth of Perficient common stock). The transaction is expected to be accretive immediately.

Source: CapIQ

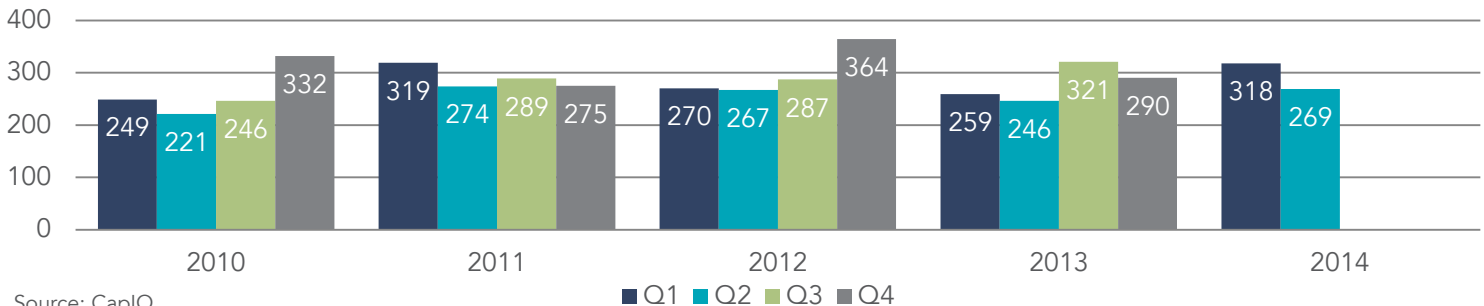
## US HEALTHCARE M&A ACTIVITY



Source: CapIQ

## HEALTHCARE TRANSACTIONS

### # OF TRANSACTIONS BY QUARTER



Source: CapIQ

\*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the industry.



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## PUBLIC BASKET

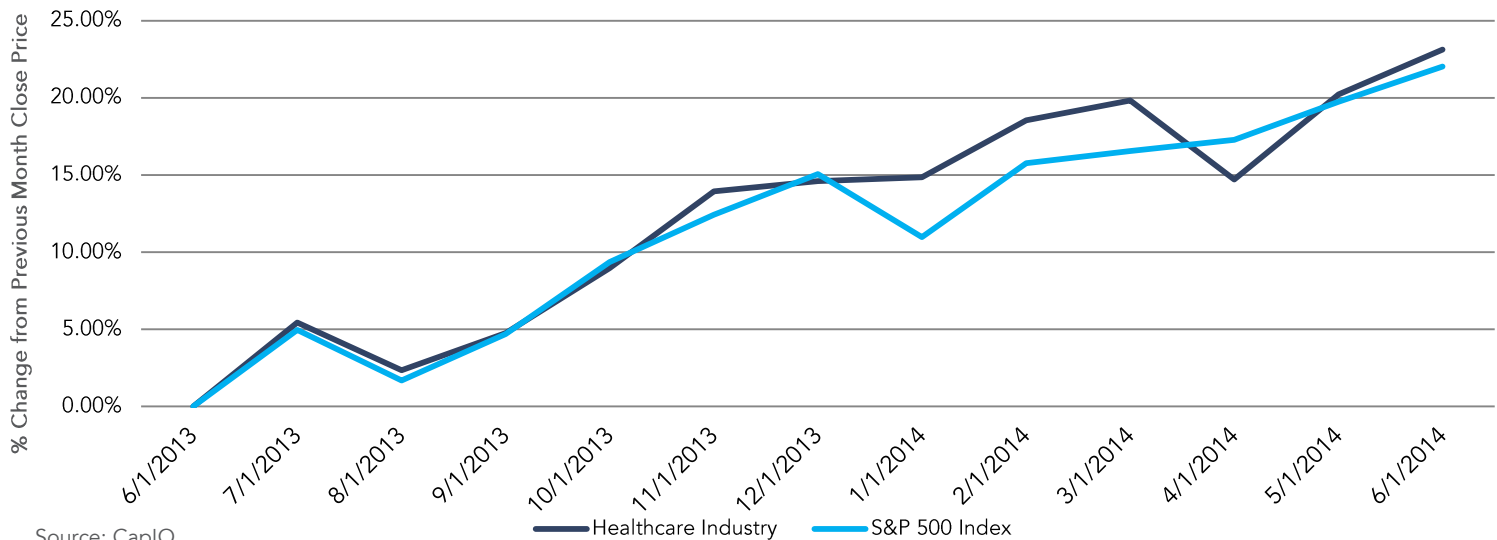
The healthcare sector outperformed the broader market in Q2, rebounding from its April lows. Slow growth and pricing pressures are leading some companies to seek new opportunities. Medtronic Inc. (NYSE: MDT), for example, announced a deal to acquire Covidien (NYSE: COV) for \$43 billion, and its stock price was rewarded with an 8% jump. Investors are expecting more deals in the medical device space in the remainder of 2014. Additionally, Pfizer (NYSE: PFE) offered \$100 billion for AstraZeneca (NYSE: AZN), and Ventas (NYSE: VTR) acquired American Realty Capital Healthcare Trust, Inc. (NASDAQ: HCT) for \$2.6 billion. The level of activity isn't slowing, and blockbuster deals have become more frequent. The healthcare sector can continue its strong performance for the remainder of 2014 if it demonstrates that headwinds can be overcome by creativity and innovation – which could mean a spending spree if the current trend continues.

Company Name	Symbol	State	Market Cap (\$ in Mil)	Stock Price (Date)	Stock Price Change		Price/ LMT EPS	Price Book	Price/ Sales	Price/ EBITDA
					Monthly	YTD				
Tenet Healthcare Corp.	NYSE:THC	TX	\$ 4,584	\$ 46.9	(0.1%)	11.4%	35.2x	6.3x	1.3x	11.0x
PharMerica Corporation	NYSE:PMC	KY	\$ 857	\$ 28.6	5.3%	33.0%	19.8x	1.8x	0.6x	9.3x
Analogic Corporation	NasdaqGS:ALOG	MA	\$ 968	\$ 78.2	14.5%	(11.7%)	36.7x	1.9x	1.6x	13.3x
AtriCure, Inc.	NasdaqGM:ATRC	OH	\$ 504	\$ 18.4	11.3%	(1.6%)	NM	3.8x	4.9x	NM
Edwards Lifesciences Corp.	NYSE:EW	CA	\$ 9,056	\$ 85.8	5.7%	30.5%	36.1x	6.7x	4.3x	17.7x
Mindray Medical International Limited	NYSE:MR	\$-	\$ 3,684	\$ 31.5	1.5%	(13.4%)	26.0x	2.6x	2.5x	12.5x
Medtronic, Inc.	NYSE:MDT	MN	\$ 63,517	\$ 63.8	4.5%	11.1%	22.2x	3.3x	3.6x	11.0x
Zimmer Holdings, Inc.	NYSE:ZMH	IN	\$ 17,430	\$ 103.9	(0.5%)	11.4%	22.5x	2.8x	3.8x	10.4x
MedAssets, Inc.	NasdaqGS:MDAS	GA	\$ 1,393	\$ 22.8	(2.5%)	15.2%	42.9x	2.9x	3.2x	10.7x
Cynosure, Inc.	NasdaqGS:CYNO	MA	\$ 474	\$ 21.3	(2.4%)	(20.2%)	23.1x	1.4x	1.5x	8.8x
Cesca Therapeutics Inc.	NasdaqCM:KOOL	CA	\$ 56	\$ 1.4	(18.7%)	36.3%	NM	1.1x	3.0x	NM
Wright Medical Group Inc.	NasdaqGS:WMGI	TN	\$ 1,551	\$ 31.4	3.3%	2.2%	NM	3.1x	5.8x	NM
Cerus Corporation	NasdaqGM:CERS	CA	\$ 301	\$ 4.2	(1.0%)	(35.7%)	NM	6.7x	6.8x	NM
DaVita HealthCare Partners Inc.	NYSE:DVA	CO	\$ 15,491	\$ 72.3	2.5%	14.1%	20.0x	3.3x	2.0x	9.8x
Magellan Health, Inc.	NasdaqGS:MGLN	CT	\$ 1,674	\$ 62.2	2.2%	3.9%	13.9x	1.5x	0.4x	5.9x
WellCare Health Plans, Inc.	NYSE:WCG	FL	\$ 3,275	\$ 74.7	(3.6%)	6.0%	17.1x	2.1x	0.2x	6.3x
<b>Average</b>			<b>\$ 7,801</b>	<b>\$ 46.7</b>	<b>1.4%</b>	<b>5.8%</b>	<b>26.3x</b>	<b>3.2x</b>	<b>2.8x</b>	<b>10.6x</b>

Source: CapIQ

## HEALTHCARE INDUSTRY VS. S&P 500

RUNNING 12 MONTHS



Source: CapIQ



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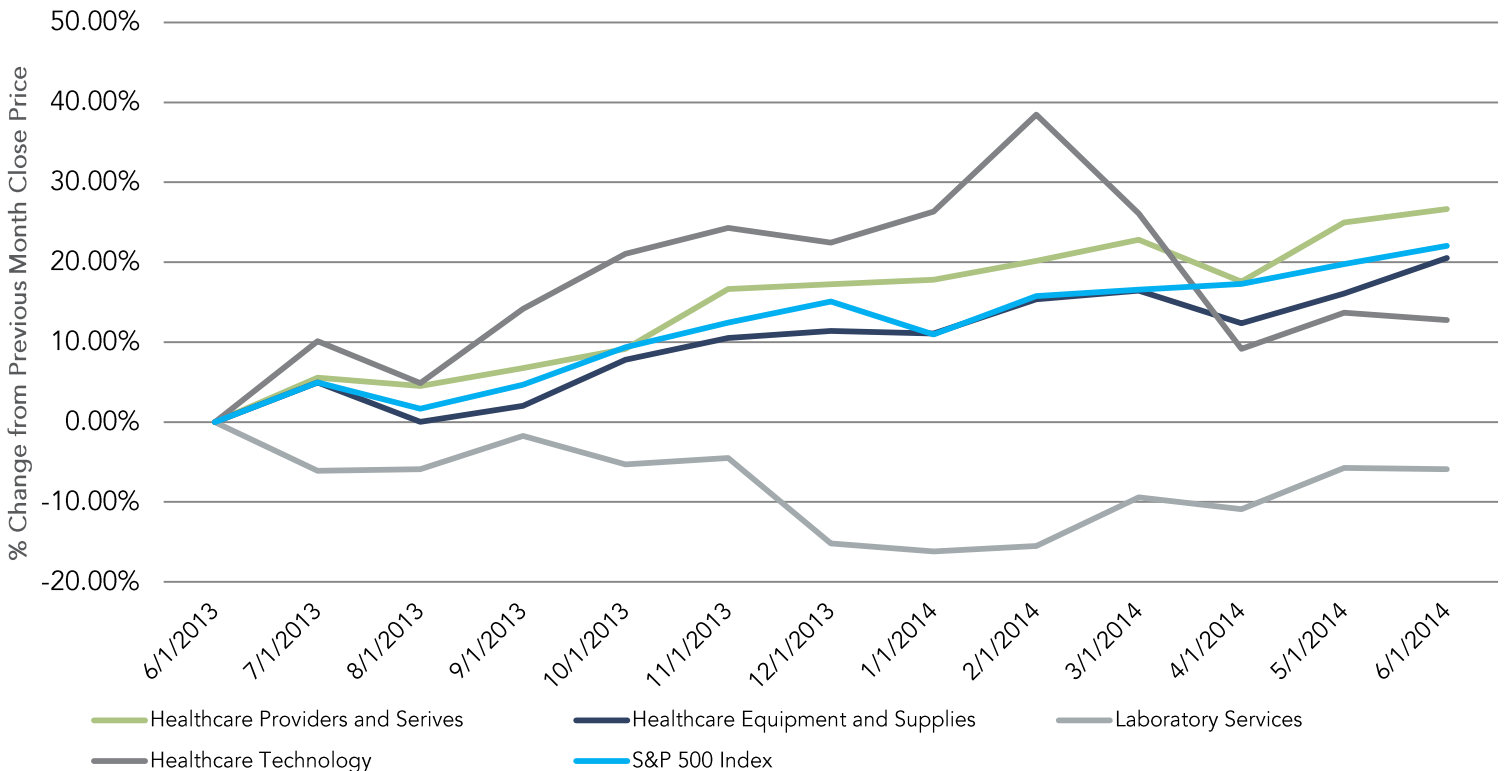
## INDUSTRY SEGMENTS

The Laboratory Services sector continues to climb from its Q1 lows, but continues to face headwinds. Laboratory Corporation of America Holdings (NYSE:LH) – perhaps the most well-known name the industry – missed top-line estimates by \$40 million in Q1. While the severe weather is partly to blame, the continued economic uncertainty, Medicare payment reductions and weak utilization environment continue to take their toll. Healthcare Technology stocks have experienced some volatility in 2014 – adversely affected by the general price compression in the tech sector during April, but are still up 13% year over year. Alternatively, the Providers & Services and Equipment & Sales segments have tracked the S&P 500, up 8% YTD and 20%+ year over year. The continued implementation of the Affordable Care Act hasn't materially affected stock prices these segments, and aren't likely to for the foreseeable future.

Segment Averages	Market Cap (\$ in Mil)	Stock Price Change			Price/ LTM EPS	Price/ Book	Price/ Sales	TEV/ EBITDA
		Month	YTD	LTM				
<b>Healthcare Providers &amp; Services</b>	\$ 6,127.32	1.3%	8.0%	26.6%	40.45x	4.61x	4.48x	22.84x
<b>Healthcare Equipment and Supplies</b>	\$ 3,831.26	3.8%	8.2%	20.5%	45.23x	4.11x	6.09x	19.57x
<b>Laboratory Services</b>	\$ 3,160.88	(0.2%)	10.9%	(5.9%)	28.98x	2.57x	1.76x	7.89x
<b>Healthcare Technology</b>	\$ 1,847.26	(0.8%)	(7.9%)	12.8%	42.24x	4.34x	4.83x	53.26x
Industry Average	\$ 4,487.39	2.4%	7.5%	23.1%	41.48x	3.86x	4.26x	18.90x
S&P 500 Average	\$ 35,500.04	1.9%	6.1%	22.0%	27.84x	4.77x	3.13x	11.62x

Source: CapIQ

## HEALTHCARE SEGMENTS VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ



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## INDUSTRY GEOGRAPHY

### COMPANIES BY REGION

HEALTHCARE COMPANIES BY REGION AS OF JUNE 30, 2014



Source: CapIQ

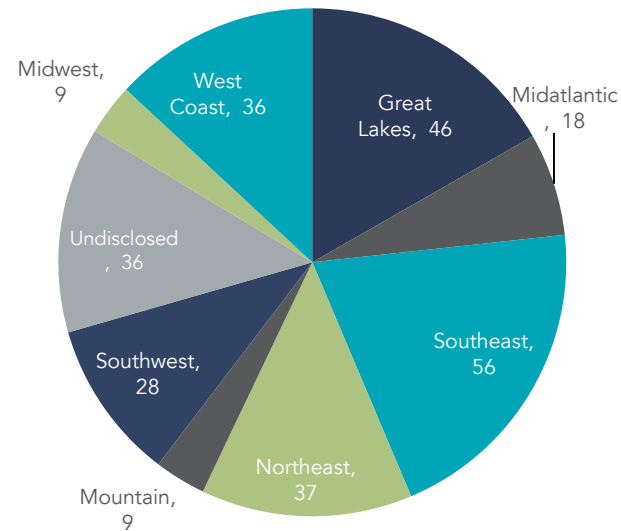
### COMPANIES BY SIZE

State	Not Disclosed	\$ 0 - 5 Revenue	\$ 5 - 10 Revenue	\$ 10 - 25 Revenue	\$ 25 - 50 Revenue	\$ 50 - 100 Revenue	\$ 100+ Revenue
AZ	350	13	20	28	1	1	6
CO	380	4	13	33	1	3	9
KS	263	1	7	23	1	3	2
ND	71	0	0	8	0	0	2
NE	183	3	7	17	0	1	11
NM	95	2	4	10	0	0	1
OK	270	3	11	19	0	2	11
SD	72	2	4	4	0	1	0
TX	146	8	2	11	2	3	6
UT	181	11	10	11	2	1	4
WY	38	0	0	1	0	0	0

\*Revenue in millions

Source: CapIQ

### TRANSACTIONS BY REGION



Source: CapIQ

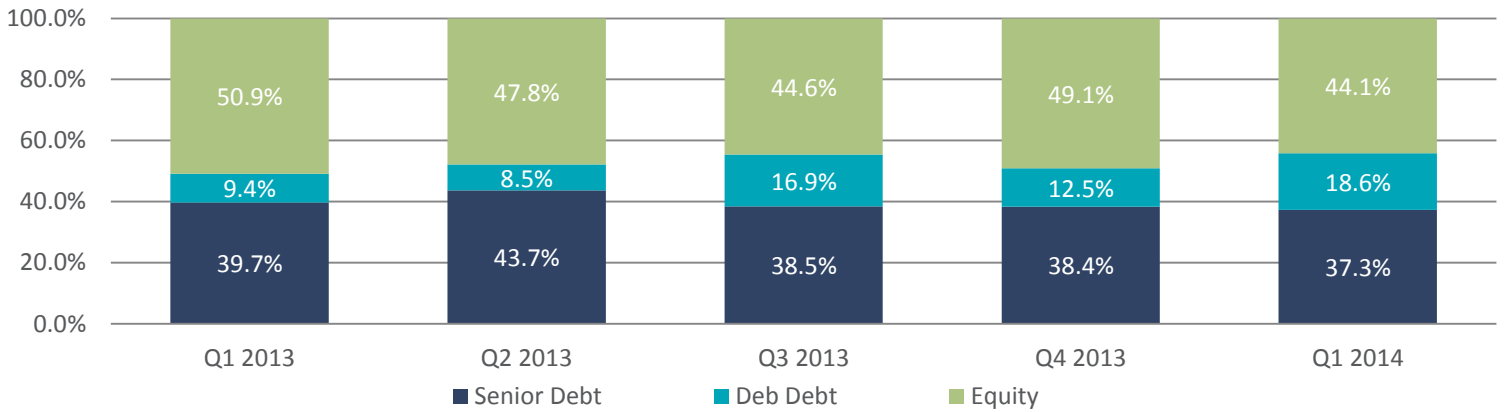
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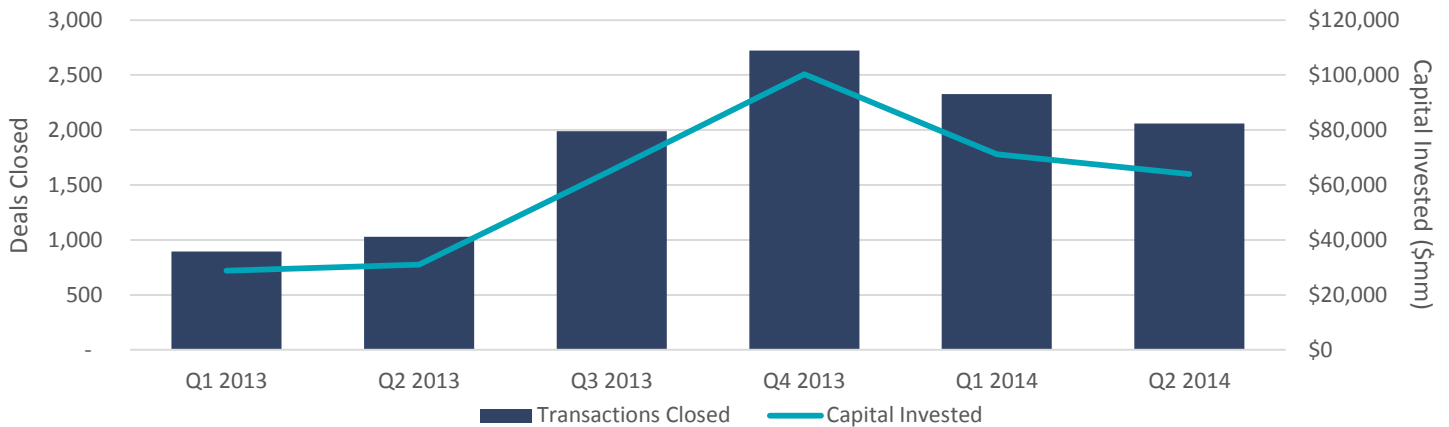
## M&A MARKET ACTIVITY – OVERALL LOWER MIDDLE MARKET

### CAPITAL STACK



Source: GF Data

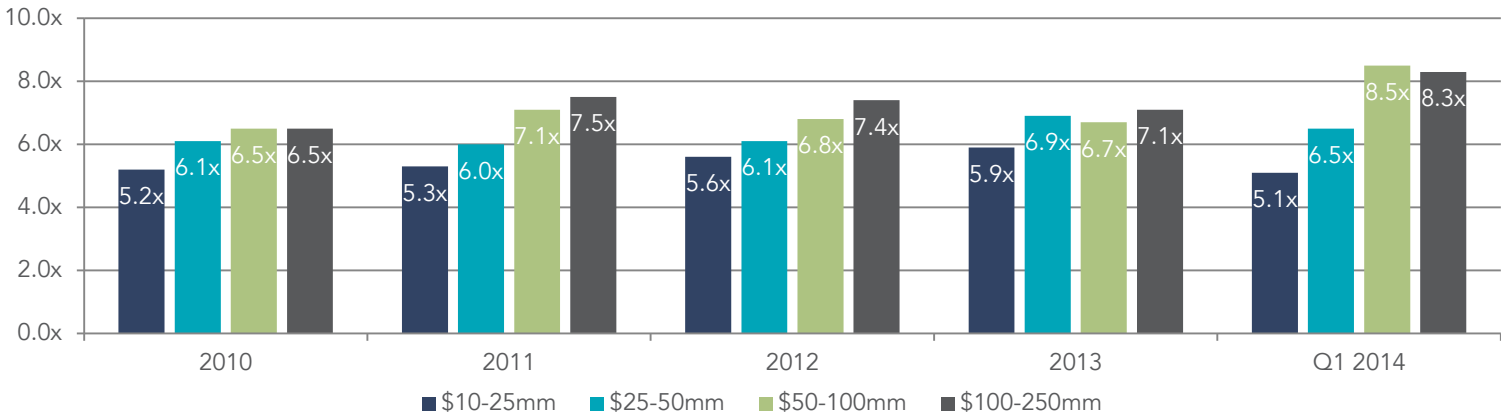
### US MIDDLE MARKET M&A ACTIVITY



Source: CapIQ

### TRANSACTION MULTIPLES

#### EBITDA MULTIPLES BY TRANSACTION SIZE



Source: GF Data

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## ABOUT SDR VENTURES

SDR Ventures is a boutique investment bank serving privately held business owners of companies with values up to \$300 million. Operating beyond the confines of a traditional investment bank, SDR's approach of Thinking Like Owners<sup>SM</sup> helps business owners maximize value in their business. SDR offers transaction advisory, capital formation, strategic advisory and performance exchange services.



**Chris Bouck**  
Principal – Healthcare Team  
p: 720.221.9220  
e: cbouck@sdrventures.com



**Aaron Linnebach**  
Vice President - Healthcare Team  
p: 720.221.9220  
e: alinnebach@sdrventures.com

## SERVICES

### TRANSACTION ADVISORY

#### Buy Side

Running a proven process effective at generating responses, identifying "off-the-radar" opportunities, negotiating and closing accretive acquisitions.

#### Sell Side

Our process is designed to identify the "right" buyer and maximize shareholder value for our clients.

### CAPITAL FORMATION

#### Private Capital Placement

An effective and efficient process negotiating favorable debt and equity with the right capital partner for our clients.

## RECENT TRANSACTIONS

<p>JULY 2014</p>  <p>Has been acquired by</p> <p>REVELSTOKE CAPITAL PARTNERS LLC</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>JULY 2014</p>  <p>Has been acquired by</p>  <p>FRONTENAC COMPANY</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>APRIL 2014</p>  <p>Has been acquired by</p> <p>Barkwood, Inc.</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MARCH 2014</p> <p>PAN Capital Holdings LLC</p> <p>Commercial real estate loan provided by</p>  <p>Hexagon</p> <p>SDR Ventures CAPITAL FORMATION</p>	<p>NOVEMBER 2013</p>  <p>Has acquired</p> <p>A Business Unit of a Public Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>OCTOBER 2013</p>  <p>Debt Financing provided by</p>  <p>CoBiz Structured Finance CoBiz Financial</p> <p>SDR Ventures CAPITAL FORMATION</p>
<p>SEPTEMBER 2013</p>  <p>SDR Ventures CAPITAL FORMATION</p>	<p>SEPTEMBER 2013</p>  <p>Has acquired</p>  <p>Zeus &amp; Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>NOVEMBER 2012</p>  <p>Western Paper Distributors</p> <p>Has acquired</p>  <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>JUNE 2012</p>  <p>AtLast Fulfillment</p> <p>Has been acquired by</p>  <p>newgistics SHIPPING HAS A NEW HOME</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MAY 2012</p> <p>Cohio Ventures LLC</p> <p>Has acquired</p>  <p>Mountain Tech Manufacturing, Inc.</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>MARCH 2012</p>  <p>Capital provided by</p>  <p>Mutual of Omaha Bank</p> <p>SDR Ventures CAPITAL FORMATION</p>

## CONTACT US

**Address**  
5613 DTC Parkway, Suite 820 | Greenwood Village, CO 80111

**Website**  
www.sdrventures.com

**Phone**  
720.221.9220

