



healthcareREPORT

INDUSTRY OVERVIEW

The Healthcare Industry performed well this quarter as provisions within the Affordable Care Act (ACA) continue to take effect. The ACA has been a prevalent catalyst for recent hospital merger activity as it provides incentives and opportunities for healthcare providers to reduce costs. M&A activity in Q3 was at an industry high, leading many companies to realize these cost savings and increase revenues in Q4. An additional profit generating regulatory change has been the expansion of Medicaid in many states, leading to a significant number of Americans enrolling for coverage. Increased enrollment led to a dramatic increase in patient visits. Higher insurance enrollment decreased uncompensated care, leading to an estimated \$5.7 billion cost savings across the industry, further adding to increased realized revenues in the fourth quarter.

2014 was also banner year for biopharmaceutical companies. The FDA approved 41 new drugs, the largest total number of New Medical Entities (NMEs) approved by the FDA since 1996. This is a 50% increase in NMEs over 2013. These approvals launched up-and-coming healthcare companies into the spotlight as their products competed directly with older, more expensive drugs. The release of these medications, paired with more individuals seeking healthcare coverage, has proven to be incredibly profitable within the healthcare industry throughout 2014, and specifically in the fourth quarter.

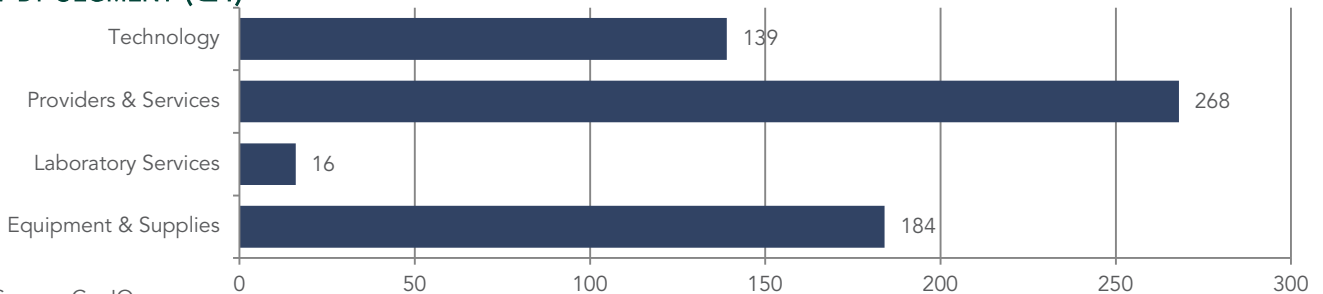
If you have any questions, please feel free to contact us.

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TRANSACTION HIGHLIGHTS

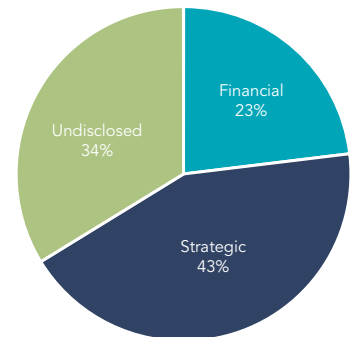
TRANSACTIONS # BY SEGMENT (Q4)



Source: CapIQ

STRATEGIC VS. FINANCIAL TRANSACTIONS HIGHLIGHTS

STRATEGIC TRANSACTIONS	11.24.14	HealthSouth Corporation (NYSE: HLS), entered into a definitive agreement to acquire privately held EHHI Holdings, Inc. , for approximately \$750 million.
	10.29.14	Acadia Healthcare Company Inc. (ACHC) said it will acquire closely held CRC Health Group Inc. for \$1.2 billion.
FINANCIAL TRANSACTIONS	11.7.14	Safanad and Formation Capital together with a group of investors, announced they have entered into a definitive share purchase agreement to buy substantially all of Extencare Inc. 's U.S. business for \$870 million.



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.



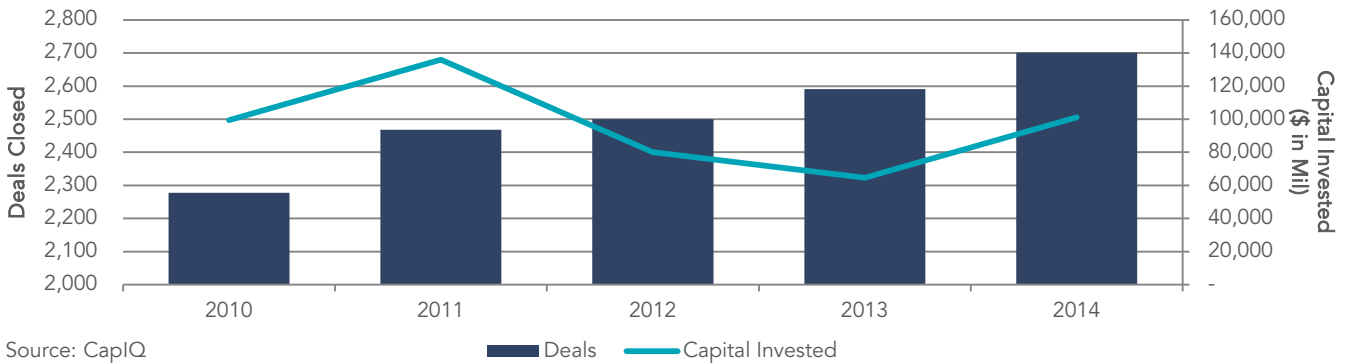
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TRANSACTION ACTIVITY

Date	Target	Buyers	Target Description	Transaction Comments
12/22/2014	Avantas, LLC	AMN Healthcare Services Inc. (NYSE:AHS)	Health Care Technology	Healthcare workforce and staffing company AMN Healthcare Services has acquired Avantas, a data analytics and predictive modeling software company. The purchase price includes an initial payment of \$16.5 million, with an earn-out potential of up to \$8.5 million based on future operating performance. The acquisition was funded out of cash on hand and borrowings for AMN.
12/15/2014	Recovery First, Inc.	American Addiction Centers, Inc.	Healthcare Providers and Services	American Addiction Centers (AAC) has entered into an agreement to acquire Recovery First, a Florida-based provider of substance abuse treatment and rehabilitation services, for \$13 million in cash.
8/4/2014	AdminiSource Communications, Inc.	Emdeon Inc.	Health Care Technology	Revenue cycle management company Emdeon has acquired AdminiSource Communications, a subsidiary of Alegeus Technologies that specializes in health care payment and communications, for \$35 million in cash.
11/17/2014	NicOx Inc.	Valeant Pharmaceuticals International, Inc. (TSX:VRX)	Healthcare Distributors	Valeant Pharmaceuticals International, Inc. acquired Nicox's US diagnostics subsidiary Nicox Inc. The transaction is worth up to \$20 million, including \$10 million upfront plus potential sales-based milestone payments of up to \$10 million.
11/3/2014	RedPath Integrated Pathology, Inc.	Interpace Diagnostics, LLC	Healthcare Services	PDI Inc, the parent company of Interpace Diagnostics, LLC., acquired all of the outstanding shares of RedPath. Terms of the deal include a \$12 million upfront payment, future milestone-based payments, future revenue-based payments, an \$11 million non-interest bearing four-year subordinated note to the shareholders of RedPath, and up to one million PDI shares issuable upon the successful introduction of the Barrett's esophagus test.

Source: CapIQ

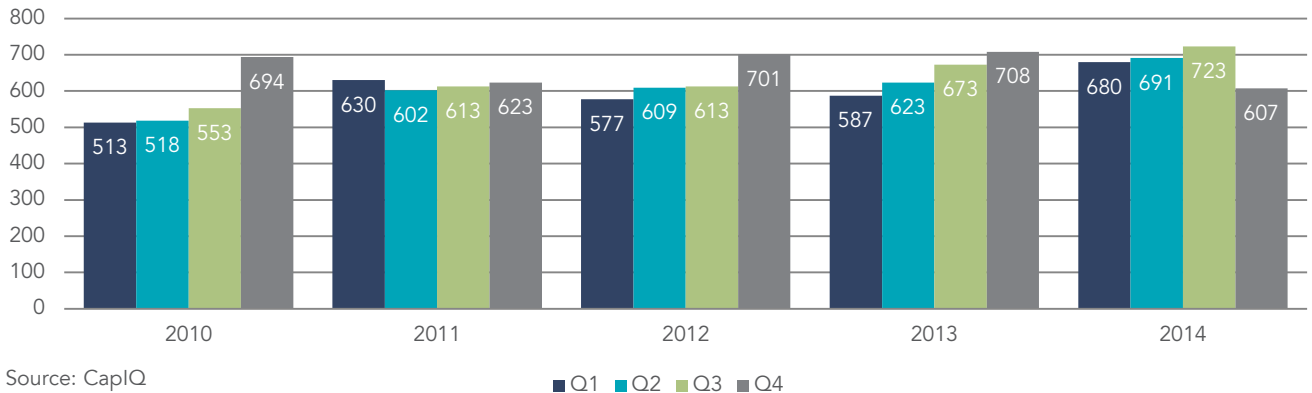
US HEALTHCARE M&A ACTIVITY



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 industry has continued to outpace the S&P throughout Q4 2014. The industry averaged a 21.4% return for the year compared to 11.4% for the S&P. The industry had several companies that did incredibly well over the last 12 months and especially towards year end. Edwards Lifesciences Corp (NYSE:EW), a manufacturer of medical divides, saw a 97% increase over 2014 due to its decision to "sell off non-core businesses, and invest into the R&D of high margin products" according to a press release. Medtronic, Inc. (NYSE:MDT) another player in the manufacturing of heart valves, saw a 25% increase. Revenue for both of these companies grew by 22.5% in Q4 leading to gross margins of an estimated 75%. Their growth is attributable to the uptake in American healthcare coverage.

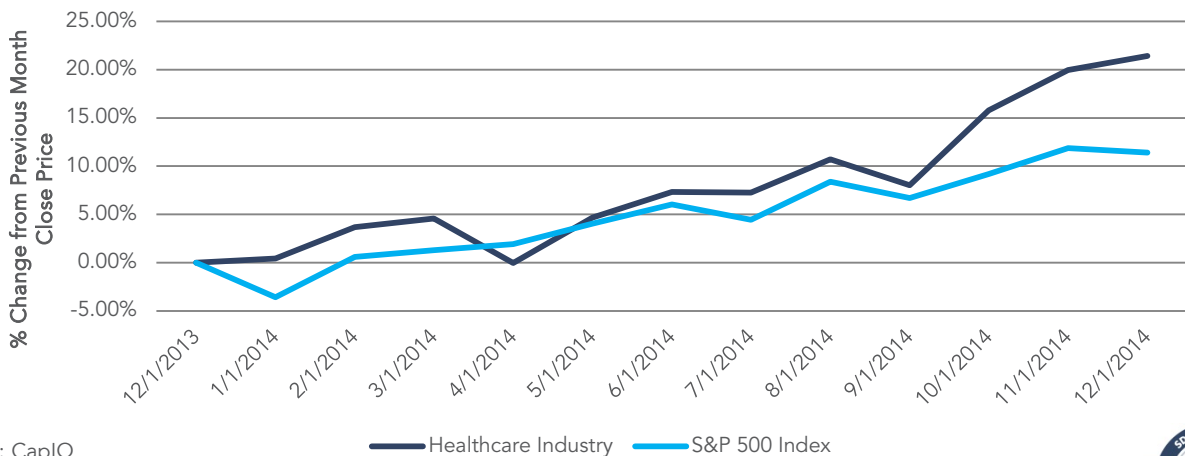
While many firms in the industry saw a year end with positive growth, there were still a few that struggled heading into 2015. Many manufacturers of healthcare technology including Mindray Medical International Limited (NYSE:MR), had a hard time coping with new tax regulations that affect manufacturing and exporting at Chinese locations. This change caused Mindray to see a 15% decline over the first three quarters and a final decline of 10% in Q4.

Company Name	Symbol	State	Market Cap (\$ in Mil)	Stock Price			Price/ LMT EPS	Price Book	TEV/ Sales	TEV/ EBITDA
				Price	Monthly	YTD				
Analogic Corporation	NasdaqGS:ALOG	MA	\$ 1,047	\$ 84.6	16.2%	(4.5%)	38.2x	2.1x	1.8x	14.0x
AtriCure, Inc.	NasdaqGM:ATRC	OH	\$ 548	\$ 20.0	6.6%	6.9%	NM	4.1x	4.9x	NM
Cerus Corporation	NasdaqGM:CERS	CA	\$ 488	\$ 6.2	37.7%	(3.3%)	NM	10.3x	12.5x	NM
Cesca Therapeutics Inc.	NasdaqCM:KOOL	CA	\$ 41	\$ 1.0	(5.6%)	0.0%	NM	0.9x	1.9x	NM
Cynosure, Inc.	NasdaqGS:CYNO	MA	\$ 594	\$ 27.4	(0.5%)	2.9%	17.8x	1.8x	1.9x	7.2x
DaVita HealthCare Partners Inc.	NYSE:DVA	CO	\$ 16,277	\$ 75.7	(1.0%)	19.5%	21.1x	3.3x	1.9x	9.9x
Edwards Lifesciences Corp.	NYSE:EW	CA	\$ 13,626	\$ 127.4	(1.8%)	93.7%	50.5x	6.7x	5.7x	24.2x
Zimmer Holdings, Inc.	NYSE:ZMH	IN	\$ 19,208	\$ 113.4	1.0%	21.7%	23.2x	2.9x	4.1x	10.9x
Magellan Health, Inc.	NasdaqGS:MGLN	CT	\$ 1,638	\$ 60.0	(1.9%)	0.2%	18.7x	1.5x	0.4x	7.8x
MedAssets, Inc.	NasdaqGS:MDAS	GA	\$ 1,190	\$ 19.8	2.2%	(0.4%)	32.7x	2.4x	3.0x	10.1x
Medtronic, Inc.	NYSE:MDT	MN	\$ 71,068	\$ 72.2	(2.3%)	25.8%	24.5x	3.7x	4.1x	12.5x
Mindray Medical International Limited	NYSE:MR	N/A	\$ 3,087	\$ 26.4	(12.2%)	(27.4%)	22.7x	2.0x	1.9x	10.1x
PharMerica Corporation	NYSE:PMC	KY	\$ 678	\$ 20.7	(5.0%)	(3.7%)	14.6x	1.3x	0.6x	8.9x
Tenet Healthcare Corp.	NYSE:THC	TX	\$ 4,980	\$ 50.7	5.5%	20.3%	64.2x	6.8x	1.1x	9.6x
WellCare Health Plans, Inc.	NYSE:WCG	FL	\$ 3,603	\$ 82.1	11.3%	16.5%	28.7x	2.3x	0.2x	10.9x
Wright Medical Group Inc.	NasdaqGS:WMGI	TN	\$ 1,327	\$ 26.9	(8.3%)	(12.5%)	NM	3.5x	4.8x	NM
Average			\$ 8,712	\$ 50.9	2.6%	9.7%	29.7x	3.5x	3.2x	11.3x

Source: CapIQ

HEALTHCARE INDUSTRY VS. S&P 500

RUNNING 12 MONTHS



Source: CapIQ



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INDUSTRY SEGMENTS

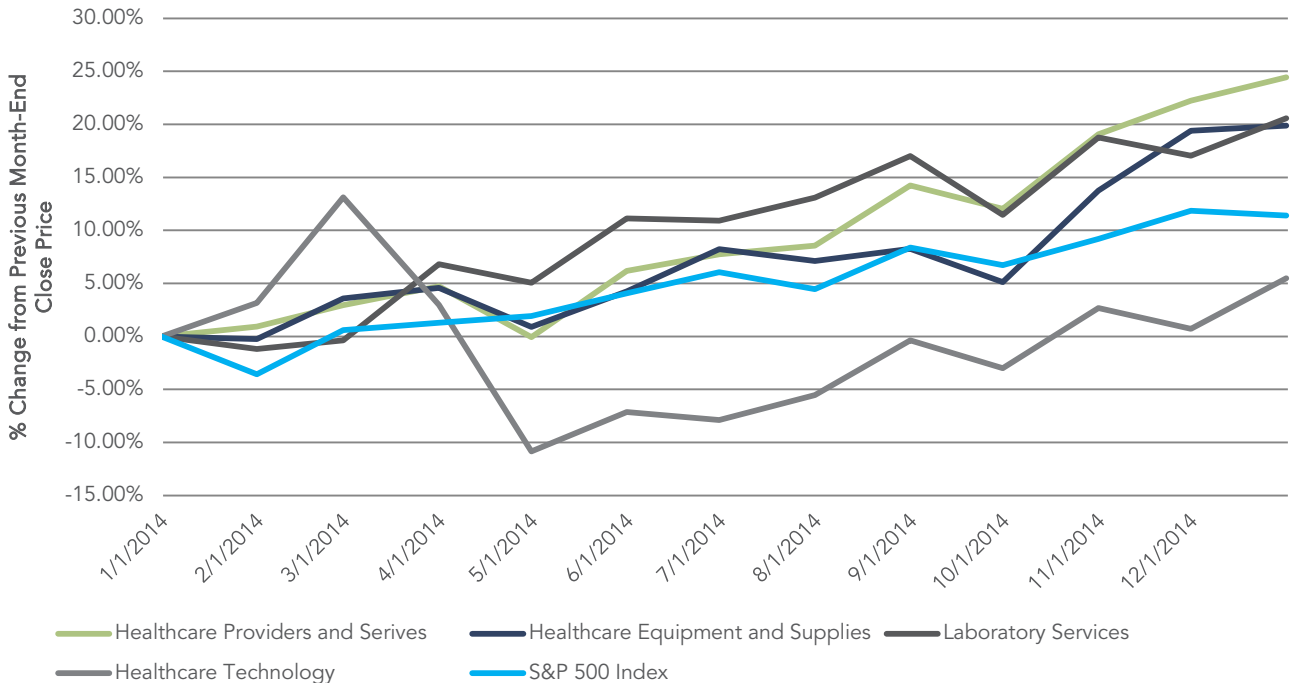
For 2014, Healthcare Providers and Services, Healthcare Equipment and Supplies, and Laboratory Services outperformed the S&P by an average of 10%. Healthcare Technology however has continued to lag behind since Q2, but has slowly made its way back into positive annual growth over Q4. Healthcare Equipment and Supplies, which had closely followed the S&P for most of the year, had a strong Q4 and finished the year 8.5% higher than the S&P. Providers & Services and Equipment & Supplies represented 44.2% and 30.3%, respectively, of the M&A /private placement activity for Q4, comparable to 43.4% and 31.4% from the previous quarter.

Healthcare Providers & Services saw a 24.4% growth over the last year, due to the amount of people that are now enrolled for health coverage. Laboratory Services also saw a significant increase in its growth as the FDA approved many products put forth by pharmaceutical research companies.

Segment Averages	Market Cap (\$ in Mil)	Stock Price Change			Price/ LTM EPS	Price/ Book	TEV/ Sales	TEV/ EBITDA
		Month	YTD	LTM				
Healthcare Providers and Services	\$ 6,872.77	1.8%	24.4%	24.4%	41.42x	4.09x	5.17x	25.89x
Healthcare Equipment and Supplies	\$ 4,377.30	0.4%	19.9%	19.9%	45.70x	4.56x	9.42x	22.06x
Laboratory Services	\$ 3,436.23	3.0%	20.6%	20.6%	20.53x	2.45x	1.53x	7.36x
Healthcare Technology	\$ 2,115.45	4.7%	5.5%	5.5%	54.22x	4.80x	4.18x	34.65x
Industry Average	\$ 5,069.87	1.2%	21.4%	21.4%	42.09x	4.16x	6.07x	20.06x
S&P 500 Average	\$ 37,820.65	(0.4%)	11.4%	11.4%	27.95x	4.98x	3.24x	11.76x

Source: CapIQ

HEALTHCARE SEGMENTS VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ

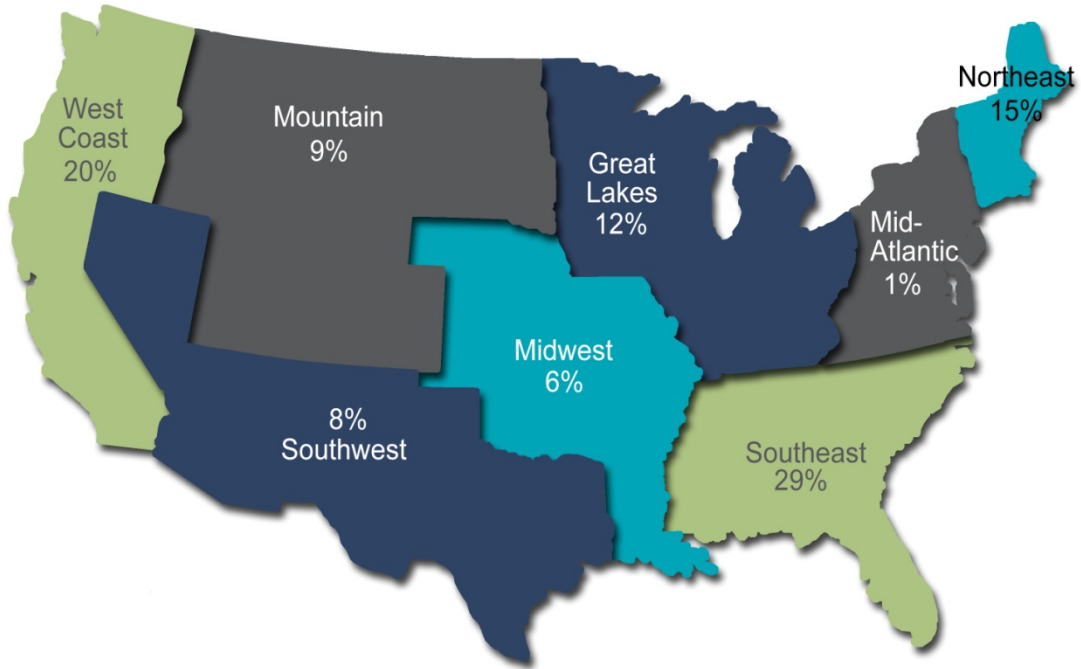


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INDUSTRY GEOGRAPHY

COMPANIES BY REGION

HEALTHCARE COMPANIES BY REGION AS OF DECEMBER 31, 2014



Source: CapIQ

COMPANIES BY SIZE

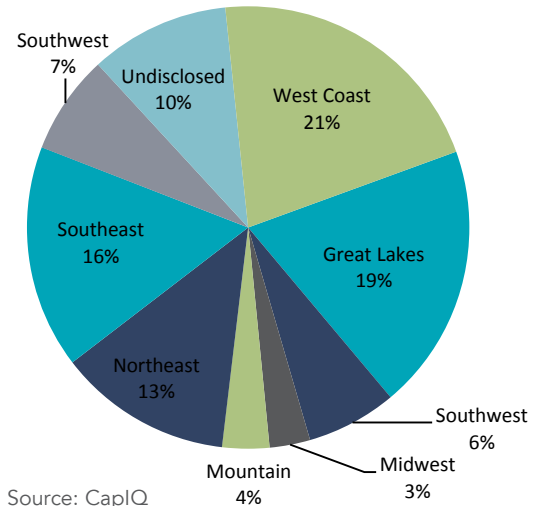
State	Undisclosed	\$ 0 - 5 Revenue	\$5 - 10 Revenue	\$10 - 25 Revenue	\$25 - 50 Revenue	\$50 - 100 Revenue	\$100+ Revenue
AZ	361	3	2	2	1	0	80
CO	367	3	2	4	0	2	67
KS	278	0	0	0	0	3	33
ND	79	0	0	0	0	0	9
NE	206	1	0	0	0	1	28
NM	91	1	0	0	0	0	18
OK	287	1	0	0	0	0	37
SD	70	0	0	0	0	1	14
TX	1498	28	2	5	4	3	283
UT	187	10	3	1	2	1	43
WY	42	0	0	0	0	0	3

* Revenue in millions

Source: CapIQ

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TRANSACTIONS BY REGION



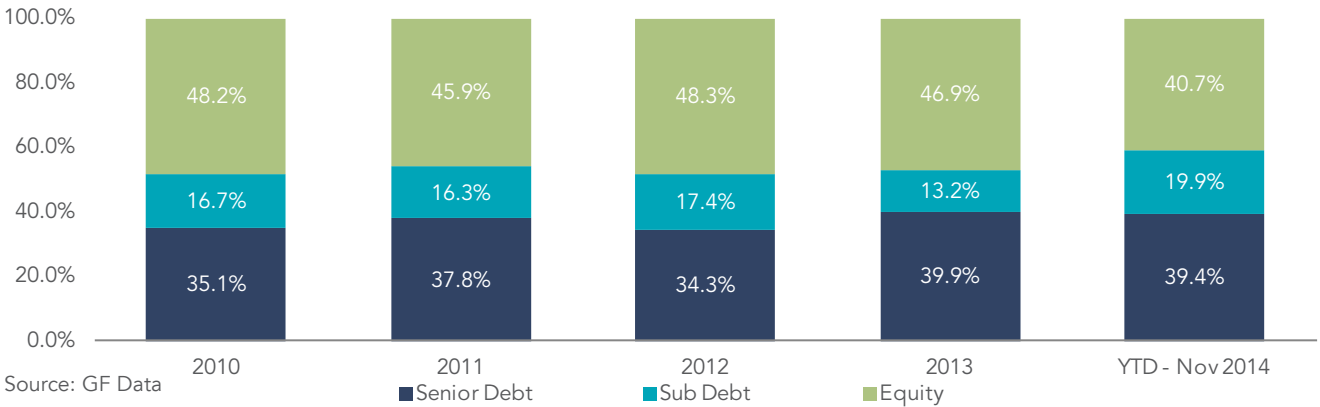
Source: CapIQ



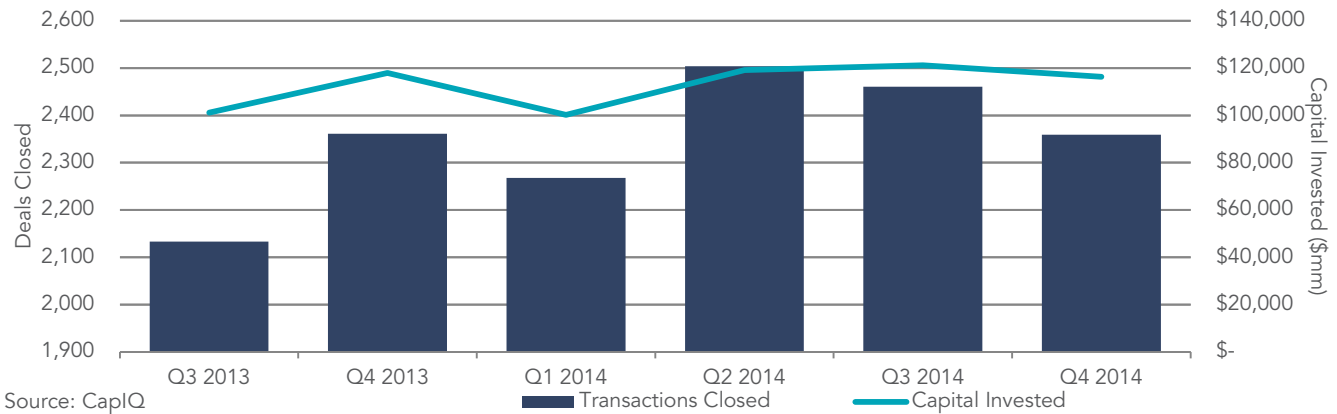
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M&A MARKET ACTIVITY, OVERALL LOWER MIDDLE MARKET

CAPITAL STACK - \$10-25 MILLION TEV

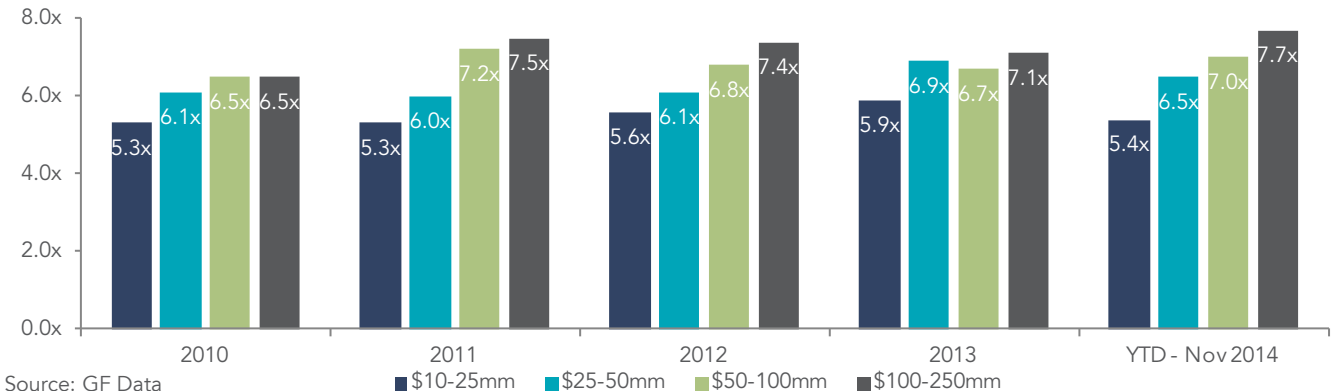


US MIDDLE MARKET M&A ACTIVITY



TRANSACTION MULTIPLES

EBITDA MULTIPLES BY TRANSACTION SIZE



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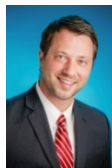
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ABOUT SDR VENTURES

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 OwnersSM helps business owners maximize value in their business. SDR offers transaction advisory, capital formation, strategic advisory and performance exchange services.



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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.

PRIVATE CAPITAL FORMATION

Capital Placement

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

Recapitalization

Whether recapitalizing a majority or minority of your company, we tailor our process to each client’s specific needs to generate multiple options and favorable terms.

RECENT TRANSACTIONS

DECEMBER 2014

Deal financing provided by
GUARANTY BANK AND TRUST COMPANY

SDR Ventures CAPITAL FORMATION

OCTOBER 2014

Has been acquired by
Polymet

SDR Ventures SELL SIDE TRANSACTION

AUGUST 2014

Has been acquired by
Private Investor Group

SDR Ventures SELL SIDE TRANSACTION

JULY 2014

Has completed a equity recapitalization with
REVELSTOKE CAPITAL PARTNERS, LLC

SDR Ventures CAPITAL FORMATION

JULY 2014

Has been acquired by
FRONTENAC COMPANY

SDR Ventures SELL SIDE TRANSACTION

APRIL 2014

Has been acquired by
Barkwood, Inc.

SDR Ventures SELL SIDE TRANSACTION

MARCH 2014

Commercial real estate loan provided by
Hexagon

SDR Ventures CAPITAL FORMATION

NOVEMBER 2013

Has acquired
A Business Unit of a Public Company

SDR Ventures BUY SIDE TRANSACTION

OCTOBER 2013

Deal financing provided by
ColBiz Structured Finance
ColBiz Financial

SDR Ventures CAPITAL FORMATION

SEPTEMBER 2013

SDR Ventures CAPITAL FORMATION

SEPTEMBER 2013

Has acquired
Zeus & Company

SDR Ventures BUY SIDE TRANSACTION

NOVEMBER 2012

Has acquired
Western Paper Distributors

SDR Ventures BUY SIDE TRANSACTION

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