Gastroenterology Services on the Upswing

M&A Market Update | July 2021

Harris Williams

Gastroenterology Services Market: A Highly Attractive Investment Opportunity…

The gastroenterology services market is showing high levels of activity, with accelerating deal momentum across the country as consolidation trends continue to take hold of the market.

Attractive Industry Tailwinds	▪ Aging population, increasing prevalence (and awareness) of chronic conditions, and the American Cancer Society's proposed reduction in colorectal cancer screening age from 50 to 45
Stable Reimbursement Environment	▪ Professional and facility fees remain relatively similar to prior years, with some reimbursement rates increasing given further hospital price transparency as ambulatory surgery center (ASC) reimbursement rates come more in line with hospital-based outpatient department (HOPD) rates
Margin Optimization Capabilities	▪ Expansion of ancillary service offerings, including ASCs, in-office endoscopy suites, anesthesia, and pathology, drive top-line growth while scale and workflow optimization enhancements drive bottom-line margin expansion
Technological Advancements	▪ Advanced endoscopic technological innovations and other ancillary services improve efficiency metrics, patient satisfaction and outcomes, and quality measures
Highly Fragmented Market	▪ Despite recent consolidation trends, no single national player of scale, with several regional platforms, leaving room for 1,300+ unconsolidated practices

...with Significant Market Tailwinds, Setting it Apart from Other Consumer Healthcare Verticals

1. Aging Population, Including Increasing 65+ Cohort
2. Increasing Diagnoses / Prevalence of GI Diseases
3. Decrease in Recommended Colorectal Screening Age from 50 to 45
4. Continued Shift in Surgery Expansion to ASCs

Metric	GI*	Dental	Veterinary Services	Vision**	Physical Therapy	Urgent Care	Dermatology	Fertility
Market Size[1]	$43B	$138B	$42B	$67B	$34B	$28B	$20B	$8B
Industry CAGR[1]	~5%	~2%	~5%	~4%	~3%	~3%	4-5% (medical) ~20% (cosmetic)	~10%
"Inning" of Market Maturity (Scale 1 – 9)[2]	2	6	6	4	5	5	4	3
Competitive Landscape of Scaled Players[3]	◔	◕	◕	◑	◕	◕	◑	◑
Level of Consolidation[4]	~20%	~25%	~10%	~20%***	~25%	~45%	~15%	~13%

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* Excludes ancillary service revenues; **Represents Ophthalmology and Optometry markets; *** Consolidation in optometry is meaningfully higher than in ophthalmology; 1. IBIS World, CDC, Allied Market Research, Global Market Insights, HW internal estimates, U.S. Physical Therapy, McKinsey, BCG; 2. HW assessment; 3. US Census Bureau and HW assessment; 4. HW assessment based on publicly available data sources

Gastroenterology Services Market Snapshot

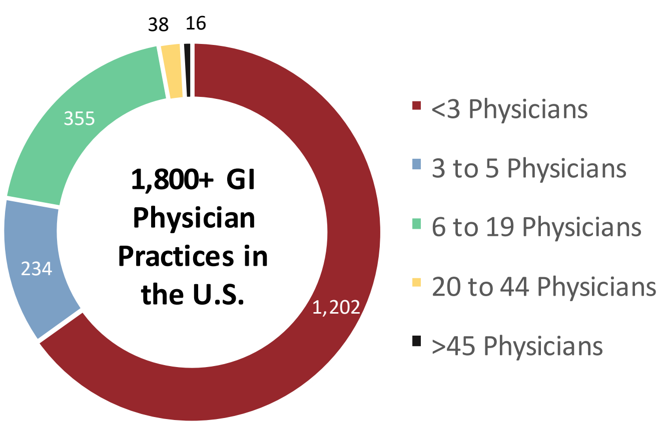
Harris Williams Assessment | 2nd Inning of Consolidation

OVERVIEW AND KEY TAKEAWAYS

- Healthy growth driven by an aging population, increasing prevalence of chronic conditions, broad insurance coverage, and technological advancements
- Early stage of consolidation, but is accelerating with private equity buyers leading the charge
- American Cancer Society advocating screening at 45 years of age (not 50), as colorectal cancer is the third most common internal cancer
- Non-discretionary nature has produced stabilization post-COVID, despite significant dip in March / April last year

U.S. GI PHYSICIAN PRACTICES[1]

Practices with main specialty of gastroenterology



GASTROENTEROLOGIST DYNAMICS

Compensation

Compensation in the gastroenterology field is at the higher end of the spectrum and will likely increase given the growing shortage of practicing gastroenterologists relative to the increasing demand for services

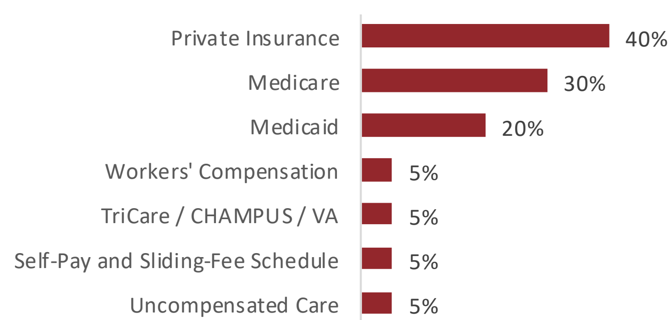
Recruitment

The U.S. GI physician shortage is expected to exceed 1,600 physicians in 2025, resulting from increased demand for screening and preventive medicine by an aging population[2]

Retention

Given barriers, including startup costs and required technological infrastructure, gastroenterologists are becoming more likely to join larger organizations to recognize benefits of scale

U.S. GASTRO PAYOR MIX: MEDIAN % BY COVERAGE[3]



STATISTICS

$43bn+
2018 Gastrointestinal Services Market Size[4]

60M – 70M
People Affected by Digestive Diseases[5]

4.3%
Projected Industry CAGR through 2021E[5]

14,700+
Active Gastroenterology Physicians[6]

68.8%
Colorectal Cancer Screening Rate[7]

$420k
Avg. Physician Compensation[8]

1. Definitive Healthcare.
2. Merritt Hawkins.
3. National Commission on Certification of Physician Assistants.
4. HW analysis based on public data. Excludes ancillary service revenues.
5. Becker's ASC and NIDDK.
6. Association of American Medical Colleges.
7. Centers for Disease Control and Prevention.
8. Medscape Compensation Report.

KEY: Circle fill represents attractiveness to investor / consolidator

Gastroenterology Through COVID-19

CHALLENGES IN 2020

- Providers experienced as much as a 90% decrease in volume as COVID transmission-related fears were exacerbated in GI
- Nearly all elective esophagogastroduodenoscopies, colonoscopies, endoscopies, surgeries, and procedures were delayed
- Some practices were forced to stay open to handle volume from non-elective procedures, which drove increased costs relative to revenue
- Practices with hospital relationships were generally closed, and non-elective procedures were handled in the hospital
- PE-backed platforms became particularly attractive alternatives to independent physicians during this time
- Heavy reliance on ASCs as a major profit center compounded the financial impact to practices given the higher fixed costs associated with ASC ownership

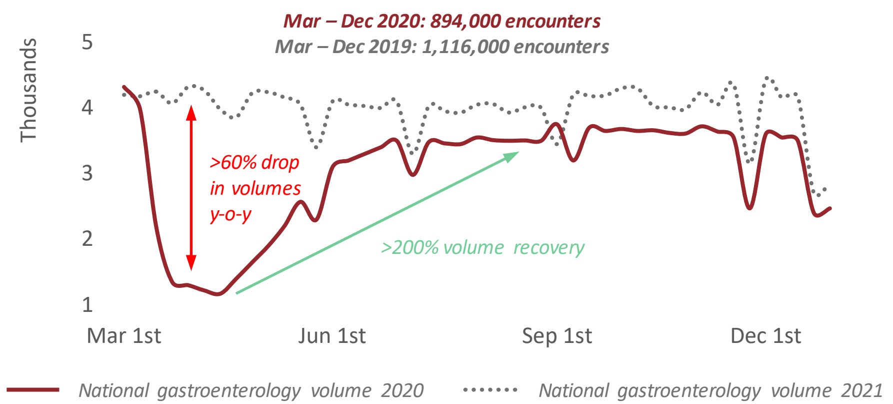
TACTICS EMPLOYED IN RESPONSE TO COVID CHALLENGES

- Practices furloughed employees where possible, and some independent physicians had to forgo a salary in order to provide compensation to other employees
- Providers have attempted to implement telehealth wherever possible, and some platforms have distributed telehealth guidelines to payors to achieve full reimbursement
- Given lower prevalence of private equity investment in the gastro space, a large number of independent practices took advantage of federal aid to help offset operating losses during the period of reduced volume
- As volumes rebounded, practices experienced operational shifts, including expanding hours to accommodate increased volume from deferred procedures, changing schedule blocks to minimize waiting room times, and offering temperature checks of patients upon entry

WHAT DOES THE POST-COVID LANDSCAPE LOOK LIKE?

Opportunities	Winning Attributes
Independent physician groups, as well as large provider groups that do not yet have PE investment, may be more interested in receiving long-term support from private equity or a larger platform	Platforms and sponsors that have a proven record of taking care of their workforce and communities during this crisis, and have proven, resilient operational chops, will be highly attractive post-COVID

REBOUNDING VOLUMES[1]



1. Strata Decision

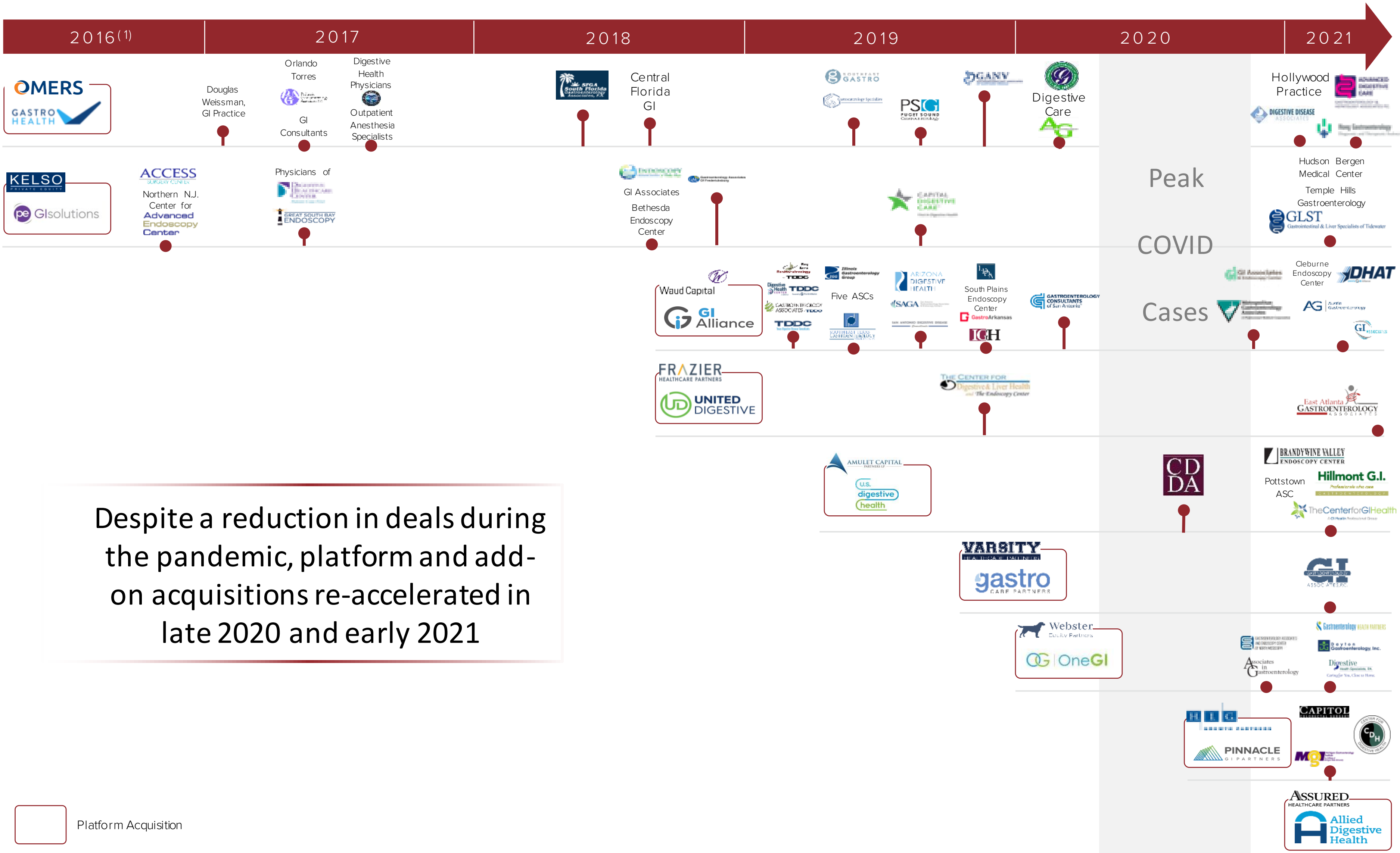
Gastroenterology Landscape: Platform Dynamics

Consolidation within the gastroenterology vertical remains in its infancy with limited but growing interest from institutional capital.

- All but two platforms have fewer than 100 clinics in their portfolio, but several scaling independent practices represent attractive platform opportunities
- GI Alliance is the largest platform of scale with 150+ clinics and 420+ physicians

	Mega Platforms (>200 Clinics)	**Medium Platforms (100 – 200 Clinics)**	**Growing Platforms (<100 Clinics)**
	▪ No established platforms of this scale ▪ Opportunity for first mover advantage with the economies of scale that come from a national footprint	▪ Single platform with 100+ clinics that is an established leader in the space ▪ As smaller platforms consolidate and scale, some private-equity-backed platforms will achieve scale of 100+ clinics ▪ Medium platforms will have revenue diversification, including robust ancillary service offerings	▪ Most platforms within this space fall within this category ▪ Generally focused locally or regionally ▪ Institutional capital beginning to make inroads to create platforms of scale ▪ Investment in infrastructure and management required
Sponsor-Backed	**None**	GI Alliance / Waud Capital Gastro Health / OMERS	GIsolutions / KELSO U.S. digestive health / AMULET CAPITAL UNITED DIGESTIVE / FRAZIER HEALTHCARE PARTNERS OneGI / Webster Equity Partners gastro CARE PARTNERS / VARSITY HEALTHCARE PARTNERS PINNACLE GI PARTNERS / H.I.G. GROWTH PARTNERS Allied Digestive Health / ASSURED HEALTHCARE PARTNERS
No Sponsor	**None**	**None**	BORLAND GROOVER Gastroenterology of the Rockies EVGHA inSite MNGI UNITED GASTROENTEROLOGISTS

Gastroenterology Landscape: How Did We Get Here?



Despite a reduction in deals during the pandemic, platform and add-on acquisitions re-accelerated in late 2020 and early 2021

Platform Acquisition

1. Company acquisition data from Mergermarket, Becker's Healthcare, Capital IQ, and HW proprietary information
2. Acquisitions are meant to be illustrative and are not exhaustive

Gastroenterology Platform Profiles

Gastro Health / OMERS

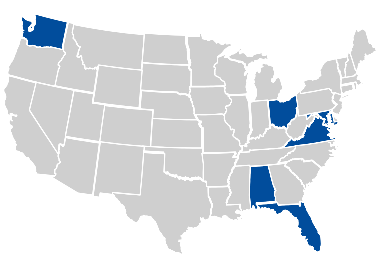
Company Description:

- Provider of medical services intended for the treatment of gastrointestinal disorders, nutrition, and digestive health
- The Company's services include gastrointestinal disorders treatment, fast-track colonoscopy, colorectal surgery, hepatology, pathology, and other such treatment

Key Statistics[1]:

Vintage:	May 2021
Headquarters:	Miami, FL
# of Locations:	150+
# of Providers:	350+
# of Acquisitions:	19+

Geographic Coverage:



Company Locations

pe GIsolutions / KELSO Private Equity

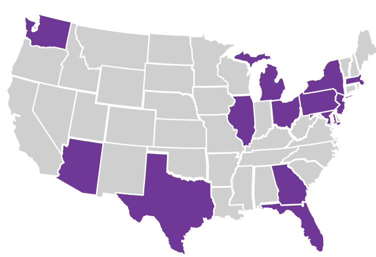
Company Description:

- Provider of ambulatory endoscopy services
- The Company specializes in the development and management of freestanding, single-specialty endoscopic ambulatory surgery centers in partnership with practicing physicians and hospitals

Key Statistics[1]:

Vintage:	August 2016
Headquarters:	Jamison, PA
# of Locations:	60+
# of Providers:	600+
# of Acquisitions:	15+

Geographic Coverage:



Company Locations

GI Alliance / Waud Capital

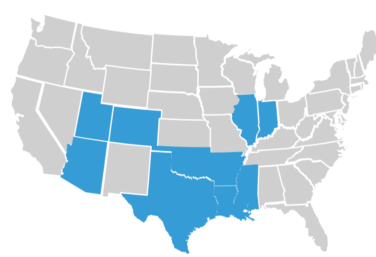
Company Description:

- Provider of healthcare services intended for patients with digestive problems
- The Company's offerings include care for patients with concerns involving the esophagus, stomach, small bowel, colon, rectum, gallbladder, pancreas, and liver

Key Statistics[1]:

Vintage:	November 2018
Headquarters:	Dallas, TX
# of Locations:	240+
# of Providers:	1000+
# of Acquisitions:	20+

Geographic Coverage:



Company Locations

United Digestive / Frazier Healthcare Partners

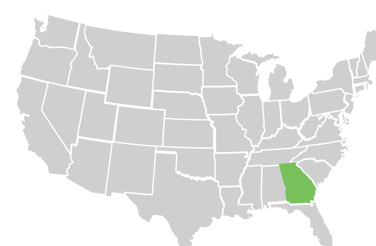
Company Description:

- Provider of gastroenterology services in Georgia and throughout the southeast
- The Company offers a strong operational infrastructure for gastrointestinal practices, including regulatory assistance, managed care resources, and a full-service back-office

Key Statistics[1]:

Vintage:	December 2018
Headquarters:	Atlanta, GA
# of Locations:	65+
# of Providers:	140+
# of Acquisitions:	1

Geographic Coverage:



Company Locations

1. Company data from publicly available sources, as of June 1, 2021

Gastroenterology Platform Profiles (cont'd)

U.S. Digestive Health / Amulet Capital Partners LP

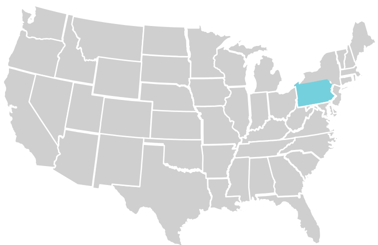
Company Description:

- Collective of gastroenterology across Pennsylvania
- The affiliates offer digestive and colorectal health treatment procedures for colon polyps, diverticulosis, IBS, GERD, and other routine or more complex diagnoses

Key Statistics[1]:

Vintage:	June 2019
Headquarters:	Exton, PA
# of Locations:	25+
# of Providers:	120+
# of Acquisitions:	5

Geographic Coverage:



Company Locations

Gastro Care Partners / Varsity Healthcare Partners

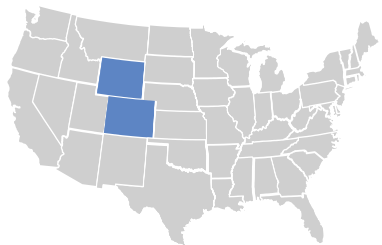
Company Description:

- Largest provider of gastroenterology services and ancillary patient diagnostic and remedial treatment services in Colorado and Wyoming
- The group treats common gastrointestinal disorders and provides ancillary services, including anesthesia, pain management, clinical research, and pathology

Key Statistics[1]:

Vintage:	December 2019
Headquarters:	Colorado Springs, CO
# of Locations:	20+
# of Providers:	50+
# of Acquisitions:	1

Geographic Coverage:



Company Locations

OneGI / Webster Equity Partners

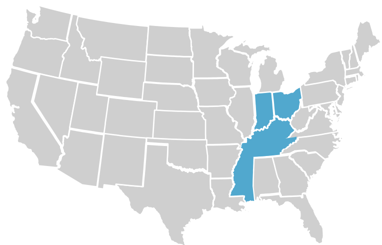
Company Description:

- Provider of gastrointestinal disorder and nutritional problem treatment options
- The Company's services include capsule endoscopy, esophageal pH testing, fibroscan, single-balloon enteroscopy, and many other treatments

Key Statistics[1]:

Vintage:	April 2020
Headquarters:	Germantown, TN
# of Locations:	15+
# of Providers:	100+
# of Acquisitions:	5

Geographic Coverage:



Company Locations

Pinnacle GI Partners / H.I.G. Growth Partners

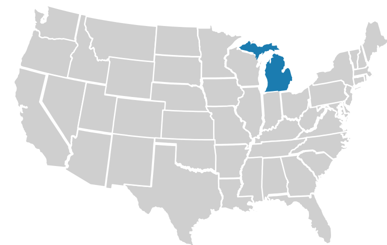
Company Description:

- Provider of diagnostic endoscopic procedures with locations across Michigan
- Pinnacle GI services includes ultrasounds, liver disease studies, reflux diagnosis, and other management and motility studies

Key Statistics[1]:

Vintage:	December 2020
Headquarters:	Rochester Hills, MI
# of Locations:	10+
# of Providers:	35+
# of Acquisitions:	3

Geographic Coverage:



Company Locations

1. Company data from publicly available sources, as of June 1, 2021

Gastroenterology Platform Profiles (cont'd)

Allied Digestive Health / Assured Healthcare Partners

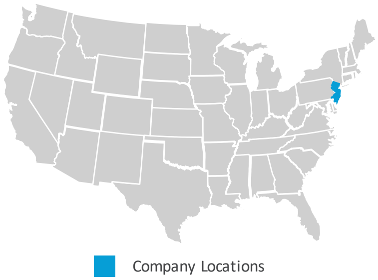
Company Description:

- Provider of gastroenterology services across New Jersey
- The Company offers services across gastroenterology, pathology, anesthesiology, nurse practitioner, and physician assistant services

Key Statistics[1]:

Vintage:	January 2021
Headquarters:	West Long Beach, NJ
# of Locations:	25+
# of Providers:	100+
# of Acquisitions:	N/A

Geographic Coverage:



1. Company data from publicly available sources, as of June 1, 2021

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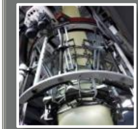

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