HarrisWilliams

Healthcare Market Update & Vertical Perspectives

Q1 2023

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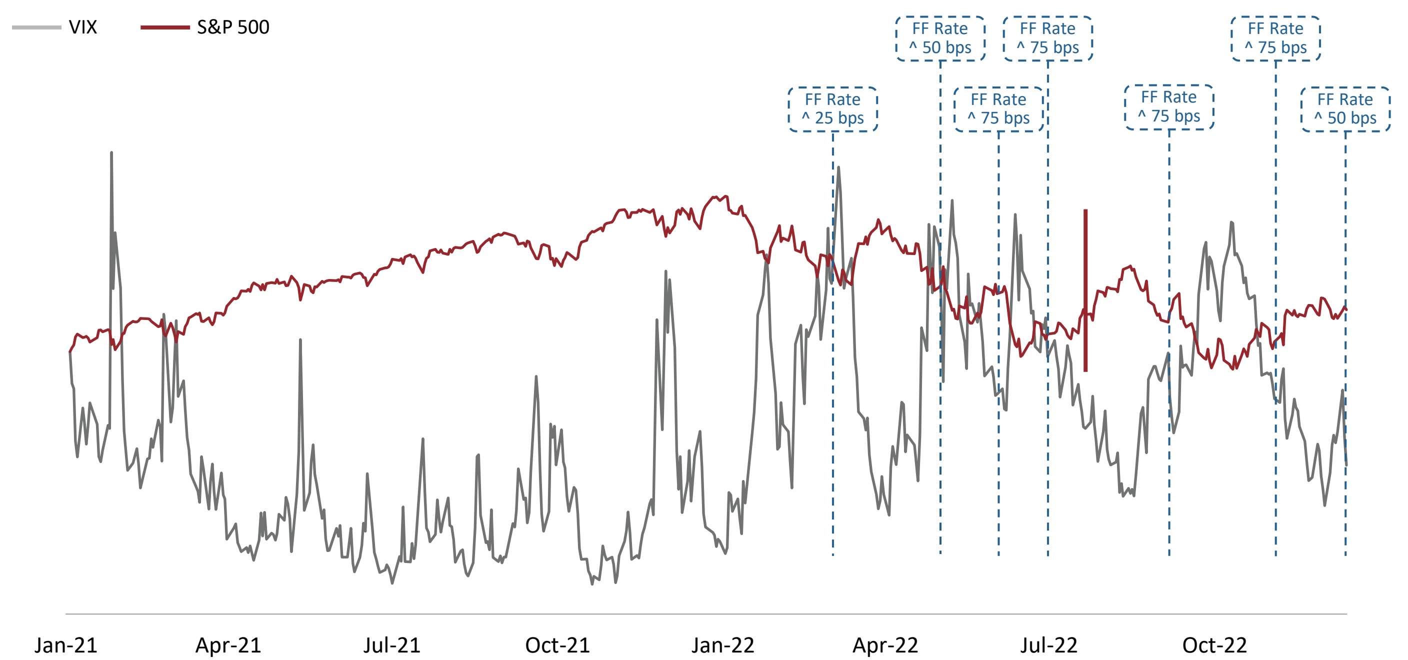
Capital Markets Experienced Rising Volatility Throughout 2022

Economic Backdrop

- Unprecedented monetary stimulus, supply chain constraints, and labor dynamics have resulted in inflation levels not seen over the last 40 years
- Ukraine / Russia conflict creating heightened geopolitical uncertainty
- The S&P 500 declined 19.4% in 2022, marking a retreat from the benchmark's prior three straight positive years
- The Fed raised interest rates by a total of 425 basis points in 2022, and uncertainty around future rate hikes has challenged financing markets
- High-yield bond markets, which typically follow equity trends, as well as the syndicated loan markets, remain choppy

Public Market Volatility



Notable Statistics

19.4%
2022 S&P 500 Decline

7.1%
US CPI-U YoY Change[1]

425 bps
2022 Increase in Fed Funds Rate[1]

0.4%
Consensus 2023 U.S. GDP Growth

1) As of December 2022

Investors Are Increasingly Selective as M&A Markets Begin to Moderate

Deal volume moderated in 2022, and investors are picking their spots in 2023.

The M&A Market Remains Active; Buyers Have Shifted Their Mindset Since Mid-2022

2H 2020 + 2021

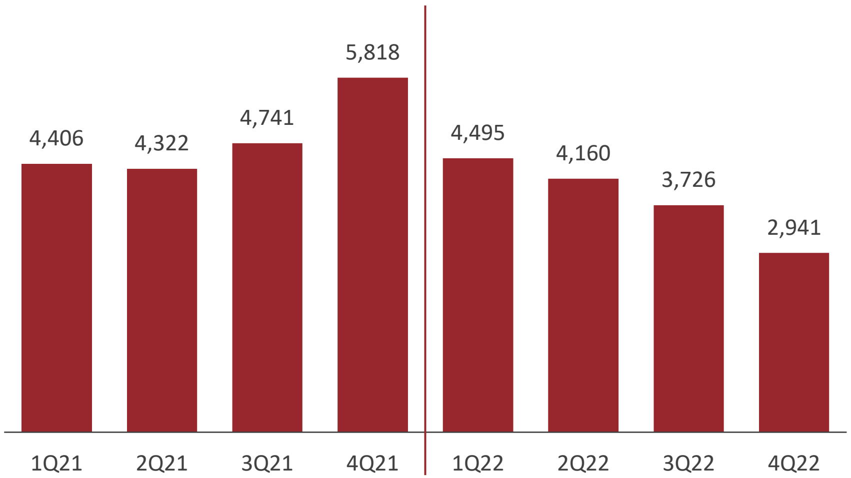
Frothy capital markets and SPAC / IPO craze + Record M&A volume and valuation levels + COVID normalization and priority on growth + Speed and structure in M&A processes → **Record Level Of Capital Deployment via M&A**

2022 + 1H 2023

Volatile public equity and credit markets + Moderating M&A volume and valuation disconnect + Priority on stability, sustainable growth, and cash-flow generation + Flexibility and "dealmaking" in M&A processes → **Heightened Focus on Quality, Market Leaders, and Recession Resilience**

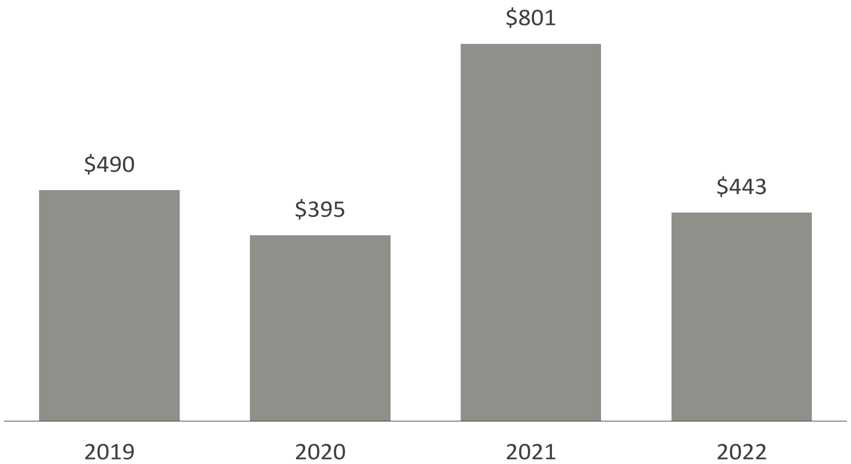
Moderations in M&A Volume[1]

# of Closed North American M&A Transactions by Quarter
Q1 2021 – Q4 2022



U.S. Leveraged Loan Volume[2]

($ in billions)

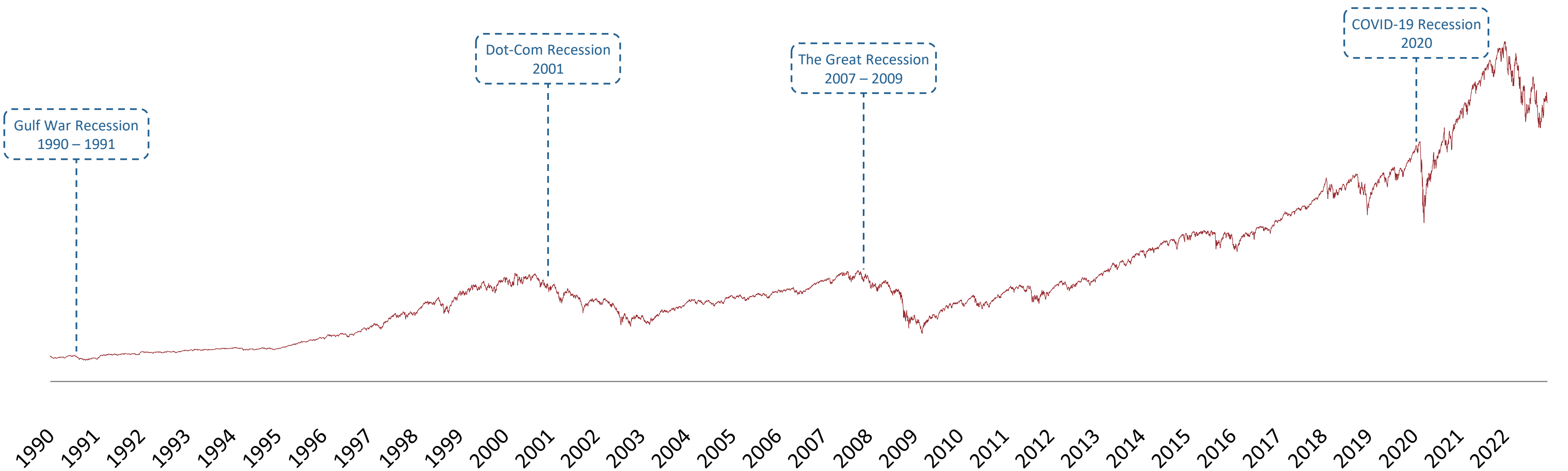


1) PitchBook data as of 12/31/2022 (latest data available); PitchBook middle-market deal size defined as $25M - $1.0B

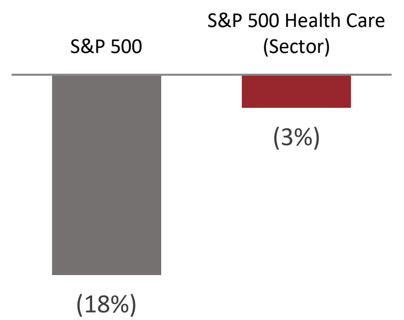
Healthcare Has Historically Been Resilient Through Economic Cycles…

Healthcare has historically been more resilient than other industries and has proven to be a growth driver of the economy, with healthcare as a percentage of U.S. GDP rising from 13% in 2000 to 20% in 2022.

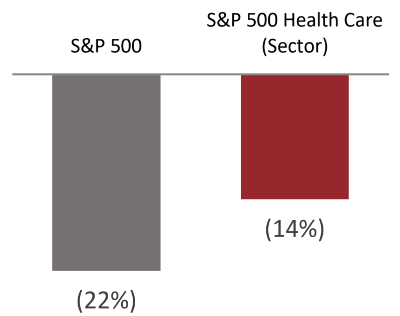
S&P 500: 1990 – 2022[(1)]



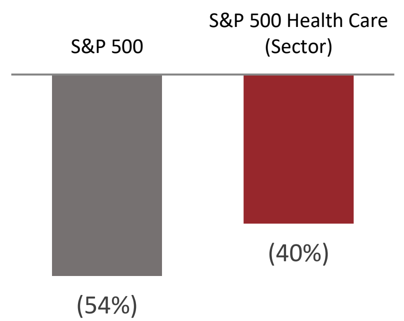
Gulf War Recession[(1)]



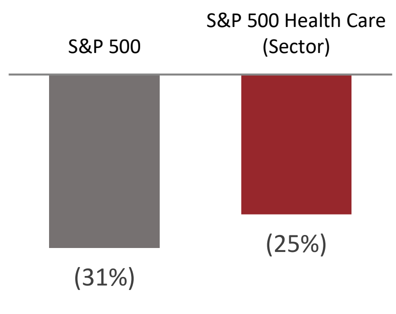
Dot-Com Recession[(1)]



The Great Recession[(1)]



COVID-19 Recession[(1)]



1) PitchBook

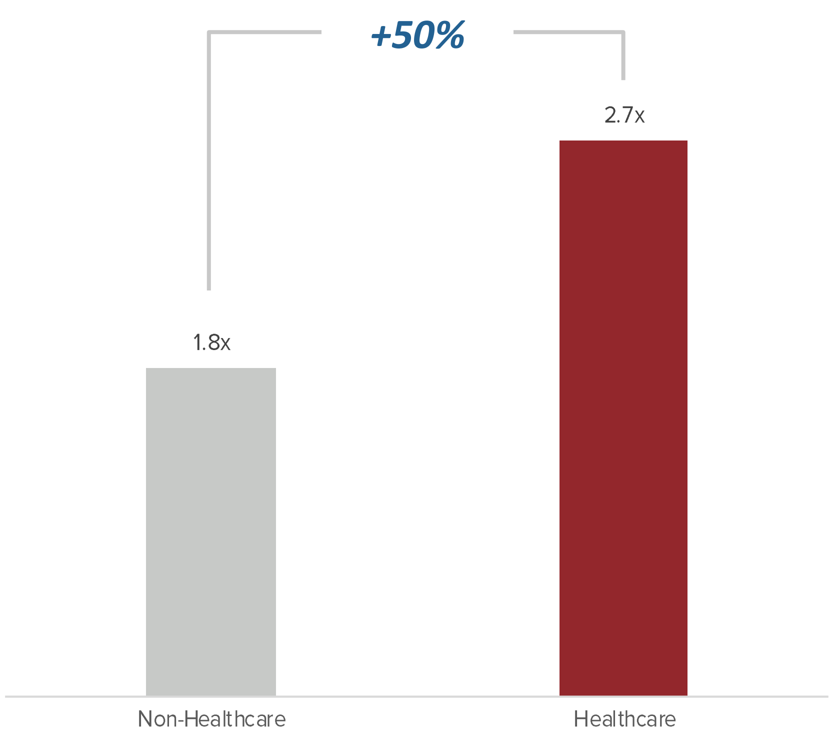
…And Presents Great Investment Opportunities During a Downturn

- Healthcare investments during the Great Recession returned a multiple on invested capital (MOIC) that was nearly a full turn higher than other industries
- Healthcare assets also led the way coming out of the Great Recession, outperforming other sectors by ~14% from 2009 to 2015

Performance of North American Private Equity-Owned Healthcare Investments Made During the Great Recession[1]

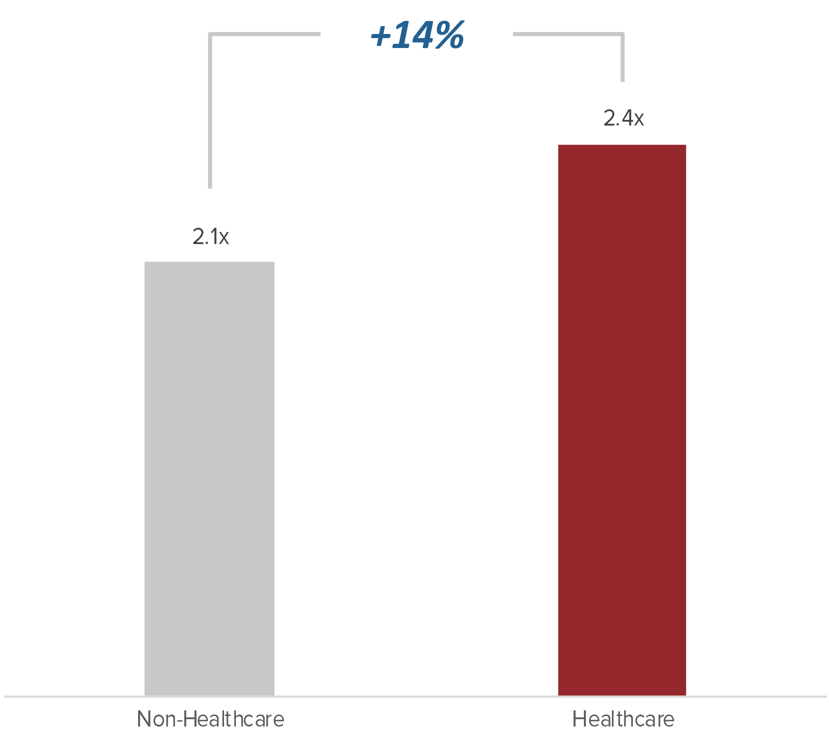
GREAT RECESSION (2006 – 2008)

(Multiple on Invested Capital)



RECOVERY (2009 – 2015)

(Multiple on Invested Capital)



1) Bain & Company

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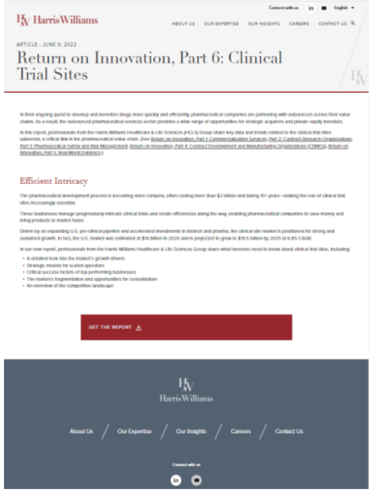
Healthcare: Resilience With Value Creation Potential

2023 M&A Outlook

- Buyers have capital to put to work, and high-quality companies are available at attractive values. Those investors who can see past the volatility and uncertainty in the headlines have the potential to pull ahead, and healthcare has long been viewed as a recession-resilient sector.
- Within the industry, companies with proven management teams will continue to be in especially high demand. Buyers want to see that leadership can manage the company through a downturn and come out ahead.
- Subsectors of particular interest include outsourced pharma services, providers and outsourced provider services, payors and payor services, medical products and devices, and healthcare IT.

See our full article.

Recent Insights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ARTICLE - JUNE 9, 2022

Return on Innovation, Part 6: Clinical Trial Sites

Efficient Intricacy

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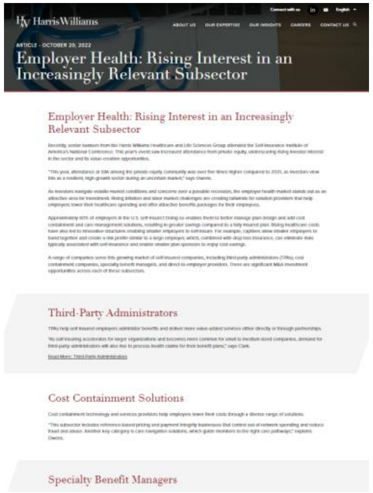
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ARTICLE - OCTOBER 20, 2022

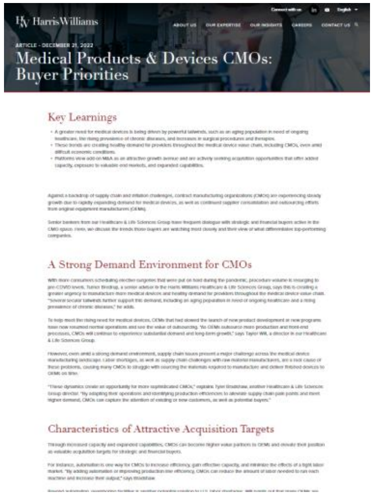
Employer Health: Rising Interest in an Increasingly Relevant Subsector

Employer Health: Rising Interest in an Increasingly Relevant Subsector

Third-Party Administrators

Cost Containment Solutions

Specialty Benefit Managers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ARTICLE - DECEMBER 21, 2022

Medical Products & Devices CMOs: Buyer Priorities

Key Learnings

A Strong Demand Environment for CMOs

Characteristics of Attractive Acquisition Targets


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ARTICLE - APRIL 20, 2022

Sector Spotlight: Healthcare IT/Healthcare Information Management Systems

Patient-facing solutions: The next best action

Dental

Trends We're Watching

+ Significant remaining fragmentation in the market presents a major opportunity for continued consolidation
+ Investors continue to look to add specialties to their general practice services, creating multispecialty, regionally dense platforms
+ Attractive resiliency as proven by a strong rebound after the Great Recession and COVID
- Payor negotiations have remained challenging for dental platforms, as payor rate increases have lagged behind labor / wage inflation and other input costs within these businesses
- Clinical staff retention has been difficult in the tight labor market and continues to be a focus for most dental businesses

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW – HIGH	Labor-heavy industry that has experienced difficulties within the current market
Exposure to Inflation	LOW – HIGH	Increases in wages, supplies, and other core expenses are felt strongly within the sector
Exposure to Consumer Spending	LOW – HIGH	Many dental services are necessary, regardless of consumer spending habits, while some services (i.e., cosmetic) are more discretionary in nature
Exposure to Capital (B2B) Spending	LOW – HIGH	Minimal exposure

Assessment of M&A Activity in 2023

LOW – HIGH

- There will be continued consolidation of midmarket players
  - Institutional logic and appetite for many 30-40 practice players that will combine with other similarly sized platforms in the near term
- Blending of international lines as U.S. groups continue to move north of the border and Canadian platforms seek lower multiples in the U.S.
- Specialty platforms continue to achieve premium multiples

Dermatology

Trends We're Watching

- \+ Stabile demand drivers given medical necessity and proven recession resiliency
  - \+ Sector grew through the Great Recession and will likely continue to receive more interest, on a relative basis, during this cycle
  - \+ Resilient, recurring cosmetic spend (e.g., Botox, fillers) expected to continue despite the current economic environment
- \+ Greater focus on the appearance of the skin in the post-COVID world has accelerated growth in cosmetic services
  - \+ More pricing opportunity within cosmetics helps offset inflationary pressures
- \+ Large number of organic levers to pull operationally within dermatology platforms; breadth of service offerings across medical and cosmetic dermatology allows practices to better absorb changes in utilization patterns driven by economic cycles
- \- Labor shortages and wage inflation, specifically among medical assistants and support staff, have been the largest challenges facing dermatology practices
- \- An inability to pass on price increases to patients, particularly for medical dermatology services, has caused margin pressure for some dermatology practices

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Shortage of medical assistants and support staff has led to wage inflation; technology implementation expected to limit exposure
Exposure to Inflation	LOW — HIGH	Limited exposure to inflation given variable compensation is the largest bucket of operating expenses
Exposure to Consumer Spending	LOW — HIGH	Medical necessity of many dermatological procedures limits exposure to consumer spending trends
Exposure to Capital (B2B) Spending	LOW — HIGH	Low exposure to capital spending given the relatively low fixed costs associated with clinics

Assessment of M&A Activity in 2023

LOW — HIGH

- Relative to 2022, add-on M&A activity will likely be as busy, if not busier, driven by large platforms continuing to execute on their acquisition growth strategies
- Potential for a number of small to medium-sized platforms to explore an exit in 2023
- Large platforms will likely see muted activity in 2023 given a significant number of large trades in 2022 and disruption in the credit markets

Fertility

Trends We're Watching

+ High degree of cash pay and greater ability to pass along price increases than virtually all other healthcare services sectors
+ International demand for U.S. fertility services is high, and with most travel restrictions now lifted post-COVID, patients will increasingly seek treatment in U.S.
- While legislative clarity is still forthcoming in some states, there is limited anticipated impact on the broader sector based on the Dobbs decision
- While scaled platforms are extremely well positioned to continue to recruit physicians and grow their businesses, it is becoming increasingly difficult to create new platforms given overall physician supply

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW ◆ HIGH	Very tight REI and embryologist market pre-COVID-19; dynamics remain similar post; recruiting often represents competitive advantage for platforms
Exposure to Inflation	LOW ◆ HIGH	Cash pay nature of the sector enables quality providers to pass along price increases to patients
Exposure to Consumer Spending	LOW ◆ HIGH	Life event importance of childbirth and biological clock meaningfully mitigate exposure
Exposure to Housing	LOW ◆ HIGH	Some patients will tap home equity to finance services; historic run-up in home prices over last decade may also mitigate impact of any consumer spending pressure

Assessment of M&A Activity in 2023

LOW ◆ HIGH

- The sector's strong and resilient performance, as well as insulation from inflation, expected to continue driving high investor interest
- Several new platforms of scale have emerged in sector over last two years

OB/GYN

Trends We're Watching

- \+ Platform providers seek ways to increase broad service offerings, including through MFM, imaging, oncology, behavioral, and digital health offerings
- \+ Highly stable demand given primary care nature of many visits
- \+ Continued focus on value-based models (e.g., maternity)
- \- The U.S. continues to experience modest birth rates consistent with many other developed nations
  - \- Offset by primary care nature of many services (i.e., many women see OB/GYN in lieu of primary care provider) as well as growing prevalence of underlying conditions driving higher-complexity pregnancies (e.g., obesity, advanced maternal age, etc.)

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW – HIGH	Primarily with respect to medical assistants and support staff, similar to other healthcare services sectors
Exposure to Inflation	LOW – HIGH	Similar to many other healthcare services sectors given high percentage of insurance pay
Exposure to Consumer Spending	LOW – HIGH	Very limited exposure to consumer spending due to primary care nature of appointments
Exposure to Capital (B2B) Spending	LOW – HIGH	Low exposure to capital spending given the relatively low fixed costs associated with sector

Assessment of M&A Activity in 2023

LOW – HIGH

- Multiple scaled platforms have traded within the past two to three years and are early in their hold periods, thus platform activity in 2023 is expected to be relatively muted
- The next group of platform OB/GYN companies is gaining scale and is more likely to transact in 2024 or beyond

Physical Therapy

Trends We're Watching

- \+ Largest platforms continue to grow and expand through aggressive de novo, tuck-in acquisitions, and the accelerating pace of combinations with other platforms
- \+ Emergence of the next wave of midsized platforms with ~150 clinics or more as well as numerous smaller, private equity-backed providers at early stages of their growth trajectory will provide actionable opportunities over the next several years
- \+ A number of platforms beginning to experiment / pursue growth in complementary service lines (e.g., pediatric/ABA, chiro, hospital partnership/JV, etc.)
- \- Availability of physical therapists and wage pressure have been experienced by many, but not all, providers of scale; labor management and recruitment provide meaningful point of differentiation for platforms

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Physical therapist labor pool tight before pandemic has grown more so since
Exposure to Inflation	LOW — HIGH	Primarily in form of labor rates
Exposure to Consumer Spending	LOW — HIGH	Low exposure to consumer spending given diverse payor mix and low percentage of self-pay
Exposure to Capital (B2B) Spending	LOW — HIGH	Low exposure to capital spending given the relatively low fixed costs associated with clinics

Assessment of M&A Activity in 2023

LOW — HIGH

- High level of platform transaction activity between 2H-20 and Q3-22, with a number of established platforms having recently transacted
- Next wave of midsized platforms beginning to mature and should drive transaction activity, likely weighted toward 2H-23
- Fundamentals of market remain highly attractive, with deep investor pool that likes the sector
- Impact of wage pressure may result in some businesses that otherwise would have come to market waiting until 2024

Veterinary Services

Trends We're Watching

- \+ The veterinary services sector has seen a considerable level of consolidation between 2018 and 2022, and momentum is expected to continue through 2023, with an emerging trend of "consolidation of the consolidators"
- \+ Sector continues to draw high levels of interest as tailwinds such as the humanization of pets and growing pet ownership rates continue to accelerate
- \+ DVM recruitment and retention represent areas of continued focus and investment
    - \+ In today's tight labor market, we've seen heightened focus on DVM development programs and initiatives to improve the mental health and well-being of DVMs
- \+ Increased focus on varied de novo growth strategies vs. traditional acquisition-driven growth
- \- Rising interest rate environment presents a challenge to roll-up strategy, and acquirers have become more circumspect about practice acquisitions, causing multiples to decline, though activity remains strong

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW HIGH	High exposure to labor markets; particularly difficult to hire and retain clinical staff
Exposure to Inflation	LOW HIGH	Moderate exposure to inflation, though inflation can be passed to customers through price increases
Exposure to Consumer Spending	LOW HIGH	Resilient consumer spending patterns mitigate potential downside from consumer spending exposure
Exposure to Capital (B2B) Spending	LOW HIGH	Overall, low exposure to capital spending, though specialty practices experience greater capital spending exposure

Assessment of M&A Activity in 2023

LOW HIGH

- Expected to remain one of the most active multisite sectors; M&A activity will likely be busier than 2022
- Continued M&A activity of small add-ons as practice owners are motivated to partner with larger platforms in the current economic environment
- Midsized platforms are expected to come to market as sponsors seek to realize investments and companies seek to access additional capital to fund de novo and acquisition-driven strategies

Vision

Trends We're Watching

- \+ Large number of PE-backed platforms beginning to reach typical hold periods likely to provide consistent transaction volume in sector over next several years
- \+ Emergence of multiple active and viable strategic acquirers for other PE-backed platforms (e.g., EyeCare Partners/Partners Group and Eye South/Olympus Partners)
- \+ Continued robust add-on activity of small physician-owned practices
- \+ Several potentially promising new retina drugs could provide tailwinds within retina subspecialty
- \- Like many other sectors, midlevel clinical labor supply remains relatively tight

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW HIGH	Large population of physicians; vision platforms compete with other specialties for midlevel clinicians
Exposure to Inflation	LOW HIGH	Physician comp largely variable and typically production based
Exposure to Consumer Spending	LOW HIGH	Consumer spending typically elective (e.g., premium IOLs, LASIK); expenditure levels small relative to quality of life considerations
Exposure to Capital (B2B) Spending	LOW HIGH	Low exposure to capital spending given the relatively low fixed costs associated with clinics

Assessment of M&A Activity in 2023

LOW HIGH

- Rapid proliferation of sponsor-backed platforms between 2017 and 2019 will likely lead to acceleration in activity as sponsors seek to realize investments
- High degree of physician compensation, which tends to be productivity-based and therefore variable, makes sector less sensitive to wage pressure than other retail health sectors on a relative basis

Gastroenterology

Trends We're Watching

- \+ Stable reimbursement environment, with professional and facility fees in line with prior years and some reimbursement rates increasing given further hospital price transparency as ambulatory surgery center (ASC) reimbursement rates move in line with hospital-based outpatient department (HOPD) rates
- \+ Highly fragmented market where significant consolidation opportunity remains, with 1,300+ unconsolidated practices across the country[1]
- \+ Margin optimization capabilities through the expansion of ancillary service offerings, including ASCs, in-office endoscopy suites, anesthesia, and pathology
- \+ Emergence of value-based care as a service model is increasingly prevalent in the gastroenterology sector
- \- Shortage of GI physicians expected to exceed 1,600 physicians by 2025, resulting from increased demand for screening and preventive medicine by an aging population[2]
- \- Many larger groups have transacted in the last several years, leaving mainly smaller players available as M&A targets for existing platforms

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	▪ Sector is largely dependent on physician and other clinical labor
Exposure to Inflation	LOW — HIGH	▪ Medium exposure to inflation
Exposure to Consumer Spending	LOW — HIGH	▪ Many GI services are necessary regardless of consumer sentiment
Exposure to Capital (B2B) Spending	LOW — HIGH	▪ Some heavier equipment is needed in gastroenterology versus other industries

Assessment of M&A Activity in 2023

LOW — HIGH

- 10 major platforms today, with three having previously traded from one private equity firm to another
  - Three to four platforms are likely to come to market in 2023
- Expectation that privately owned practices are likely to continue to roll up into existing practices

1) Definitive Healthcare
2) Merritt Hawkins

Orthopedics

Trends We're Watching

- \+ Recession-resistant sector due to medical necessity of services; many treatments require near-term or immediate care
- \+ Favorable payor mix with very limited cash pay; reimbursement rates for orthopedic procedures have remained stable
- \+ Businesses have demonstrated "platform value" through favorable payor contracting, offering of ancillary services, and ability to acquire in-market physicians at attractive prices
- \+ While value-based care models overall have low penetration in the sector, market leaders range from exploring to capitalizing on value-based care
    - \+ Value-based care models create opportunities for leading orthopedic practices to generate incremental revenue while improving patient outcomes and lowering cost for the system
- \- Inability to pass on cost inflation to patients can result in margin pressure

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW – HIGH	Labor shortage and wage pressure move count for nonphysician employees
Exposure to Inflation	LOW – HIGH	Limited exposure to inflation given variable compensation is the largest bucket of operating expenses
Exposure to Consumer Spending	LOW – HIGH	Limited exposure to consumer spending due to medical necessity of services
Exposure to Capital (B2B) Spending	LOW – HIGH	Capex generally required for growth of ASCs or other ancillaries

Assessment of M&A Activity in 2023

LOW – HIGH

- Approaching the first wave of secondary platform trades; roughly 15 PE-backed platforms have scaled and performed well, with three to five of these platforms planning to go to market in 2023
- Strong momentum for add-on investments in the highly fragmented industry

Urology

Trends We're Watching

- + Significant demand tailwinds, given the growing 65+ U.S. population and a high urological disease incidence rate, including prostate cancer, urinary incontinence, and BPH
- + Scaling platforms can unlock significant value creation opportunities, including greater economies of scale, better access to ancillary services, and more efficiently navigating the reimbursement and regulatory landscape, in excess of what smaller practices can realize
  - + Complex reimbursement environment and high barriers to entry provide significant opportunity for scaled platforms and drive urologists to join larger organizations
- + Highly fragmented landscape with limited national platforms
- - Similar to supply/demand trends in other specialties, demand for urologists is expected to outpace provider supply
- - Urologists, in terms of physician age, are above average, with 50% over the age of 55[1]

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Sector is largely dependent on physician and other clinical labor, with a large concentration of physicians in urban areas
Exposure to Inflation	LOW — HIGH	Medium exposure to inflation
Exposure to Consumer Spending	LOW — HIGH	Many urological services are necessary regardless of consumer sentiment
Exposure to Capital (B2B) Spending	LOW — HIGH	Some heavier equipment is needed in urology versus other specialties

Assessment of M&A Activity in 2023

LOW — HIGH

- Urology remains in the early stages of consolidation, with only five scaled platforms today
- Untapped growth potential from ancillary service opportunity at many smaller practices
- Opportunity to drive transformative platform growth through multispecialty models, combining urology services with complementary services

1) American Urological Association: 2021 | The State of the Urology Workforce and Practice in the United States

Behavioral Health

Trends We're Watching

+ Persistent supply-demand imbalance for services, growing demand from adolescent and young adult patient populations most adversely affected by COVID crisis
    + School systems are becoming an increasingly important care setting for the provision of behavioral and mental health care
+ Destigmatization of mental and behavioral health issues driving more patients to seek treatment
    + Greater awareness; public figures' openness about suffering from mental health issues
    + Acceptance of mental and behavioral health as a medical issue
    + Increased support from governmental and commercial insurance funding sources
+ COVID increased the attention paid to behavioral health, while also creating significant demand for behavioral health services due to the population's isolation and feelings of fear and insecurity
+ Innovative care delivery models and technologies expected to continue to drive the sector forward
    + Shift to multidisciplinary services
    + Integration of primary and behavioral health care; value-based care alternative treatment and payment models
    + Reduction of regulatory barriers to dispensing MAT; rise in technology-enabled home-based MAT and SUD treatment; normalizing of psychedelic-assisted therapy
- Labor markets continue to be a headwind as the sector struggles to recruit and retain line therapists and other non-M.D. clinical staff

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW – HIGH	High exposure to labor markets as providers compete for scarce resources, resulting in increased recruiting and retention costs
Exposure to Inflation	LOW – HIGH	Providers have been able to negotiate some reimbursement rate increases to stem the margin compression incurred largely due to rising wage rates
Exposure to Consumer Spending	LOW – HIGH	Sector is largely commercial and government payor reimbursed and has shown resiliency in past downturns
Exposure to Capital (B2B) Spending	LOW – HIGH	Moderate exposure to capital spending for majority of models; main capital expense relates to de novo growth, particularly with inpatient / residential subsector

Assessment of M&A Activity in 2023

LOW – HIGH

- Incredibly active sector, which has maintained momentum through COVID-19 and is expected to remain active in 2023 driven by strong but unfortunate tailwinds
- Investors will favor in-network providers able to demonstrate leading clinical outcomes
- Compelling market opportunity for novel treatment modalities (e.g., psychedelic-assisted therapy) and settings (e.g., home-based and school)

HCIT

Trends We're Watching

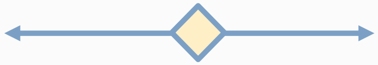
+ Employers, health systems, and payors are increasingly focused on cost containment technology solutions
    + As labor markets have tightened, cost containment solutions are becoming increasingly relevant as employers seek to manage medical costs to manage narrow networks, reference-based pricing, and other reimbursement structures
    + Health systems seek operational and administrative tools that monitor costs purchasing, labor management, and asset utilization, among others
+ Life sciences technology continues to see activity as clinical trial volumes continue to increase based on pharma and biotech funding, as well as smaller trials supporting a need for innovative solutions that can rapidly scale
+ Specialty EMR and practice management solutions continue to attract investors across specialty clinics, while larger "traditional" outpatient specialties that have achieved meaningful scale and profitability look to expand into core markets and adjacencies
+ Expansion of investor interest from pure software solutions into tech-enabled solutions, such as cost containment, quality of care, and care utilization
    + The addition of a services element accompanying software increases stickiness and expands addressable market opportunity

\- As investors prioritize profitability, HCIT companies must demonstrate a strong, proven economic model, rather than only a "growth at all costs" mentality, in order to attract investor interest

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW  HIGH	Capital-efficient businesses do not require a large employee base to grow
Exposure to Inflation	LOW  HIGH	Best-in-class software companies have built-in annual price escalators, which provide a hedge against inflation
Exposure to Consumer Spending	LOW  HIGH	Enterprise applications have little to no consumer spending
Exposure to Capital (B2B) Spending	LOW  HIGH	Little to no exposure to capital spending, since most enterprise software applications are paid through Opex

Assessment of M&A Activity in 2023

LOW  HIGH

- Relative to prior years, M&A activity was depressed in 2022, as quality companies were pulled forward to 2021 and limited supply in 2022
- While 2022 activity was more focused on revenue cycle services and payor / employer software, 2023 will see more provider-facing solutions and life sciences tech solutions
- Proven software companies have held their multiples, and with debt composing a relatively small part of the capital stack / not representing a risk in the current credit environment, M&A activity should be moderately strong

Home Health & Hospice

Trends We're Watching

- \+ Family caregiving model (a.k.a. consumer-directed home care) is gaining traction as an attractive way to provide nonmedical home care
  - \+ Model drastically expands the labor force and reduces caregiver turnover, leading to continuity of patient care and improved quality
  - \+ Introduction of advanced technology solutions into the field enables caregivers to deliver improved care of scale
- \+ Payors offering more attractive Medicare Advantage contracts and structures
  - \+ Highlighted by recent partnerships between Amedisys / Aetna and CenterWell / Humana, Medicare Advantage partnerships are gaining traction
- \- Labor force challenges have begun to normalize; however, they will continue to be top of mind for operators in 2023; many home health and hospice platforms have made permanent cost structure changes to assuage wage pressures

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW HIGH	Significant labor market pressure in spring / summer 2022, which has begun to normalize
Exposure to Inflation	LOW HIGH	Exposure directly related to the labor market and gas / mileage
Exposure to Consumer Spending	LOW HIGH	While private duty nursing is cash pay, the majority of the broader sector is not exposed to consumer spending
Exposure to Capital (B2B) Spending	LOW HIGH	Low exposure to capital spending given the relatively low fixed costs associated with sector

Assessment of M&A Activity in 2023

LOW HIGH

- M&A activity is expected to rebound meaningfully from 2022, while not likely to reach the highs in 2021 again as some providers continue to battle a tough, yet improving, labor market that may constrain organic growth

Medical Products and Devices

Trends We're Watching

+ Manufacturers and service providers continue to consolidate key suppliers to ensure on-time deliveries, production of high-quality products, and reduction of down time of hospital equipment

+ The drive for innovation remains constant, as both startup and established players develop next-gen products and devices to improve patient care and reduce costs to patients and providers, resulting in higher-value products with attractive margins

+ Medical products and devices companies have a variety of attractive organic and M&A growth levers they can pull on, such as product portfolio expansion, geographic expansion, addition of new and complimentary manufacturing or service capabilities, and new/existing customer growth

- Medical products and devices companies expect continued labor and supply chain challenges, which may impact a company's ability to meet demand

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW ↔ HIGH	Medical products and devices manufacturers are moderately exposed to labor markets
Exposure to Inflation	LOW ↔ HIGH	Material inputs and labor cost inflation were largely passed on to end customers through product or service price increases
Exposure to Consumer Spending	LOW ↔ HIGH	Limited, if any, exposure to consumer spending outside of HME categories
Exposure to Supply Chain	LOW ↔ HIGH	The medical products and devices supply chain supply chain is global, thus freight and material costs are affected by global economic environment

Assessment of M&A Activity in 2023

LOW ↔ HIGH

- Corporates focused on smaller add-ons in 2023, and strong demand from investors likely to increase activity for OEM platforms
- The CMO pipeline remains robust, and there is corresponding interest among investors
- Significant transaction volume over last 24 months in outsourced medical device services likely to continue into 2023

Outsourced Provider Services

Trends We're Watching

- \+ Highly favorable long-term trends support robust demand for outsourced provider services, amplified in the travel nursing and contingent labor sectors
  - \+ Rising incidence of chronic diseases coupled with rapidly aging population (number of adults 65 and older increasing at 3.2% per year)[1]
  - \+ Contingent labor utilization increasing as a result of permanent staff not meeting hospital staffing needs and growing clinician interest and awareness of travel nursing as an appealing career path
- \+ The continued shift in work preferences, with a bend toward flexibility and higher compensation potential, particularly among younger providers, has led to a great number of healthcare employees seeking flexible work models and a greater acceptance within the healthcare industry for using contingent labor
- \- "Normalized" travel nurse bill rates in excess of $110/hr. driven by persistent clinician shortages in the face of rapidly rising demand over the foreseeable future
  - \- Nurse retirement at inflection point (avg. age is 52; 19% of nurses are 65+); burnout and vaccination mandates driving more nurses away from the bedside[1]
  - \- Nurses have worked 24+ months at higher wages and have a low propensity to accept materially lower wages in the future

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Most outsourced provider services firms have a high "people" element; demand for labor coupled with low market unemployment rates will place a premium on effective recruiting and retention strategies; however, due to severe shortages in some sectors, such as nursing, demand for outsourced services is expected to remain in a recessionary environment today
Exposure to Inflation	LOW — HIGH	Moderate exposure to inflation; majority of firms in this sector are "price makers" that are not subject to fixed government / commercial payor reimbursement rates and can pass on some level of higher costs to customers
Exposure to Consumer Spending	LOW — HIGH	Limited exposure to consumer spending due to the nondiscretionary nature of healthcare services being provided, coupled with significant growth in consumer HSA balances since the 2008/2009 recession

Assessment of M&A Activity in 2023

LOW — HIGH

- While the outsourced provider services sector saw a limited amount of M&A activity in 2021/2022, several market and regulatory factors kept a lot of investors on the sidelines
- Looking ahead, we anticipate more M&A activity in the outsourced provider services sector as financial and operating performance continues to normalize and investors become more confident in underwriting sustainable post-COVID performance

1) U.S. Bureau of Labor Statistics, U.S. Census Bureau, NSI Nursing Solutions Inc., Journal of Nursing Regulation

Payors & Payor Services

Trends We're Watching

+ Increasing demand for specialty benefit management as employers and health plans seek solutions to address accelerating spend across kidney care, surgery, DME, behavioral health, fertility, and other high-spend categories, creating opportunities for best-in-class solution providers addressing these needs
+ Continued growth among independent third-party administrators to help an increasing number of employers who are self-insuring recognize the benefits of network design, care management, and cost containment
+ Accelerating demand for cost containment solutions to help payors and employers manage healthcare costs that are expected to increase in 2023 as rates for providers increase to compensate for inflation
+ Further penetration of value-based care in the commercial employer sector as the gap is narrowed with penetration in government-reimbursed healthcare
- Uncertainty around how the implementation of new regulations (most notably the price transparency and no surprise billing regulations) will play out
    + New regulations have driven significant growth for cost containment platforms that help plan sponsors navigate the complex legislation, identify and measure the appropriate qualified payment amount (QPA), and comply with requirements to avoid penalties

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Exposure to labor markets varies by business model
Exposure to Inflation	LOW — HIGH	Low exposure to inflation; inflation offers opportunity to drive more cost savings
Exposure to Consumer Spending	LOW — HIGH	No exposure to consumer spending since consumers do not participate in the sector
Exposure to Capital (B2B) Spending	LOW — HIGH	Low exposure to capital spending given the relatively low fixed costs associated with the sector

Assessment of M&A Activity in 2023

LOW — HIGH

- Overall M&A activity within sector expected to maintain momentum, as businesses are expected to be insulated from recessionary headwinds
- TPA activity expected to slow in 2023 given the number of transactions closed between 2020 and 2022; however, deals are still expected to get done
- Investors will favor cost containment solutions, specialty benefit management, and direct-to-employer models

Pharma Services

Trends We're Watching

- \+ The trend of outsourcing by biopharmaceutical companies will continue in 2023
  - \+ R&D costs have risen and the challenges of commercializing products have increased, which is driving outsourcing by biopharmaceutical manufacturers
  - \+ Small pharma and biotech are increasingly leading novel compounds through commercialization, driving a new wave of customers for outsourced pharma services and tech providers; these smaller companies are even more likely to outsource than large pharma
- \- The biotech funding cycle will likely be the greatest question in 2023
  - \- More likely to impact businesses in early phase R&D, as opposed to late-stage or commercialization platforms, which will be minimally affected
  - \- Longer term, little concern on the funding cycle, as small pharma and biotech will continue to drive innovation and attract capital to fund research and development activities

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW HIGH	Talent acquisition, as opposed to margin compression from rising labor costs, is the most difficult issue within pharma services for management teams
Exposure to Inflation	LOW HIGH	Pharma services is insulated from inflation relative to other sectors
Exposure to Consumer Spending	LOW HIGH	No exposure
Exposure to Biotech Funding Cycle	LOW HIGH	The greatest risk to the sector is exposure to the biotech funding cycle, but that risk is specific to subsectors and not a longer-term concern for HW

Assessment of M&A Activity in 2023

LOW HIGH

- Tremendous deal activity seen over the last several years, which is expected to continue in 2023, driven by relative attractiveness of the sector, with a strong organic growth profile and opportunities to consolidate fragmented subsectors
- Insulated from macroeconomic pressures, such as inflation, wages, and supply chain, which positions the sector well for M&A activity in 2023 and beyond

Pharmacy

Trends We're Watching

+ Pharmacy models that have unique differentiation or add more value to the healthcare ecosystem than pure play pharmacy models are in favor with investors and include:
  + Value-added outsourced service providers to health systems, such as outpatient specialty pharmacy management, that create a new revenue stream for the health system and allows it to retain chronic patients
  + In-home and ambulatory infusion centers that are taking advantage of payors' desire to push patients into lower-cost environments
  + Businesses that are moving closer to pharma manufacturers, such as rare-disease-exclusive distribution pharmacies that are providing white-glove patient service
+ Increased prevalence of home-based care, which was heightened as a result of COVID, has driven demand for home-based pharmacy services, whether that relates to e-commerce, technology to drive adherence, or alternative site of care
- Payors are putting additional pressure on reimbursement rates for specialty drugs
- PBM continues to be a challenging subsector due to concerns around the sustainability of profits from rebates and their value-add in the healthcare system

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW HIGH	Home infusion is affected by labor markets, while other pharmacy areas are moderately exposed to labor markets
Exposure to Inflation	LOW HIGH	No exposure
Exposure to Consumer Spending	LOW HIGH	No exposure
Exposure to Capital (B2B) Spending	LOW HIGH	No exposure

Assessment of M&A Activity in 2023

LOW HIGH

- Pharmacy continues to be an attractive sector, with strong momentum after an active 2022 for add-on investments in the highly fragmented market
- Continued consolidation of the larger players/payors (United Health, CVS, Walgreens, etc.), who are highly interested in acquiring specialty pharmacies
- M&A activity is expected to vary between subsectors, with infusion and health system outsourcing remaining the most active

Primary Care

Trends We're Watching

+ New Medicare payment models (e.g., ACO REACH) enabling value-based primary care for seniors
    + In 2022, CMS converted the existing Global & Professional Direct Contracting Model to ACO REACH, which will officially go live January 1, 2023
+ Increased consumerization of healthcare, with patients seeking choice to find affordability and convenience
    + Patient choice is increasingly important, as patients want affordability and greater convenience, e.g. access to clinics in attractive locations, online/virtual scheduling, telehealth/ability to message physician, app-based connectivity, etc.
- Conversion of primary care and other healthcare services for seniors
    - Increasing trend of integrating and coordinating services for high-risk, high-cost seniors, with Medicare Advantage plans and PACE programs providing broader ancillary services and increasing partnership between in-home primary care, palliative, and hospice providers

Economic Considerations

Economic Risk	Magnitude of Risk	Commentary
Exposure to Labor Markets	LOW — HIGH	Exposure to labor markets as providers compete for clinical resources
Exposure to Inflation	LOW — HIGH	Moderate exposure to inflation reflected in rising compensation expenses
Exposure to Consumer Spending	LOW — HIGH	Limited exposure for Medicare Advantage; commercial and concierge services are more exposed to consumer spending
Exposure to Capital (B2B) Spending	LOW — HIGH	Minimal exposure to capital spending for majority of models, main capital expense relates to clinic build-out

Assessment of M&A Activity in 2023

LOW — HIGH

- While public valuations for value-based primary platforms have subsided from the highs of 2021, capital continues to flow into the sector to enable innovative care models, and we expect this to continue in 2022 across both venture investments and large-scale M&A

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HW Harris Williams / GLOBAL M&A ADVISOR

Harris Williams is a global investment bank specializing in M&A advisory services. Clients worldwide rely on us to help unlock value in their business and turn ambitious goals into reality. We approach every engagement with boundless collaboration, pooling expertise and relationships across industries and geographies to uncover the unique story of each company.

Deep Industry Experience


Aerospace, Defense & Government Services


Business Services


Consumer


Energy, Power & Infrastructure


Healthcare & Life Sciences


Industrials


Technology


Transportation & Logistics

70% Revenue from repeat clients

83% Managing directors promoted from within the firm

30+ Year history

Harris Williams

Healthcare & Life Sciences

PROVIDERS

- Behavioral
- Cardiology
- Chiropractic
- Dental
- Dermatology
- ENT
- Gastroenterology
- Home Health & Hospice
- MedSpa Services
- Multispecialty
- Nephrology
- Oncology
- Orthopedics
- Other Providers
- Physical Therapy
- Podiatry
- Primary Care
- Radiology
- Surgery Centers
- Urgent Care
- Urology
- Vet Products & Services
- Vision
- Women's Health

OUTSOURCED PROVIDER SERVICES

- Clinical Provider Services
- Provider Business Services
- Revenue Cycle Management

LIFE SCIENCES TOOLS

PROVIDER, PHARMA, AND DEVICE DISTRIBUTION

PAYORS AND PAYOR SERVICES

- Cost Containment & Member Engagement
- Direct-to-Payor Services
- Health Plans & Network Services
- Pharmacy Benefit Managers
- Specialty Benefit Managers
- Third-Party Administrators

PHARMACY

- Compounding Pharmacy
- Infusion Services
- Institutional Pharmacy
- Outsourced Pharmacy Management
- Specialty Pharmacy
- 340B

CLINICAL LAB SERVICES

MEDICAL PRODUCTS AND DEVICES

- Cardio
- Contract Manufacturing
- Dental & Orthodontics
- Eyecare
- HME/DME/Mobility
- Medical & Surgical Equipment
- Orthopedics & Spine
- Patient Diagnostics & Monitoring
- Outsourced Medical Device Services
- Specialty Distribution

HCIT

- Data Management
- Employer
- Inpatient - Admin and Operational
- Inpatient - Clinical
- LTC and Home Health
- Outpatient
- Payer
- Pharma IT
- RCM Services
- RCM Software

OUTSOURCED PHARMA SERVICES

- Commercialization Services
- Contract Development & Manufacturing
- Contract Research Organizations
- Safety and Regulatory Affairs

Access to Strategic Buyers

PHARMALEX a portfolio company of AUCTUS has been acquired by AmerisourceBergen

lifemark HEALTH GROUP a portfolio company of Audax Group has been acquired by Loblaw Companies Limited on behalf of its wholly owned subsidiary SHOPPERS DRUG MART

STAXS a portfolio company of Silverfleet has been acquired by HANIEL

CenterPointe a portfolio company of NaviMed Capital, HEP, Segler Guff has been acquired by ACADIA

HEART of HOSPICE a portfolio company of EP Evening Post Industries has been acquired by LHC Group

CCRM Fertility a portfolio company of TA Associates has established a strategic partnership with UNIFIED Women's Healthcare a portfolio company of Altas Partners, Ares

Deep Relationships with Private Equity

People, Pets & Vets a portfolio company of Cressey & Company has been acquired by VetCor a portfolio company of Harvest Partners, Cressey & Company

Monte Nido & Affiliates a portfolio company of Levine Leichtman Capital Partners has been acquired by Revelstoke Capital Partners

Dermatologists of Central States (DOCS) a portfolio company of Sheridan Capital Partners has been acquired by Skyknight

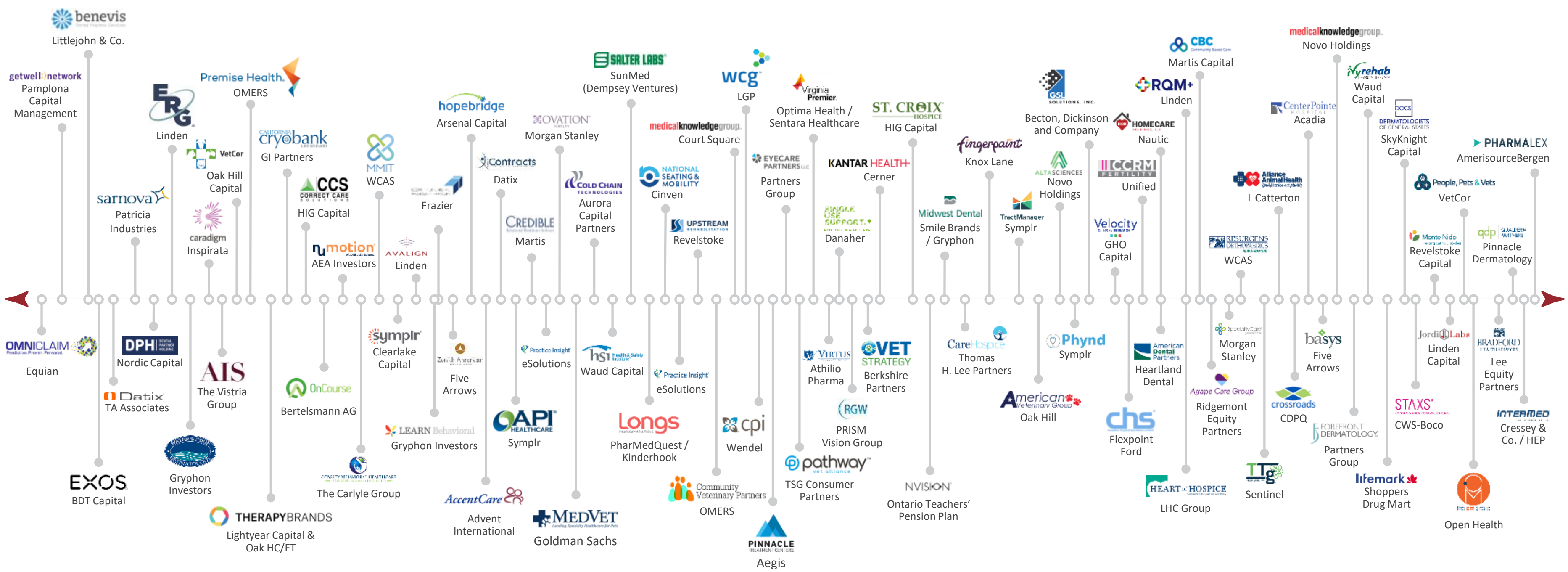
Forefront Dermatology a portfolio company of OMERS has been acquired by Partners Group

medicalknowledgegroup a portfolio company of Court Square has been acquired by novo holdings

Resurgens Orthopaedics has partnered with WCAS

Unmatched Healthcare Experience

The proof is in the results – HW has built the market's leading healthcare M&A practice and has exceptional momentum that accrues to the benefit of our clients.



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HW Healthcare Segment Contacts

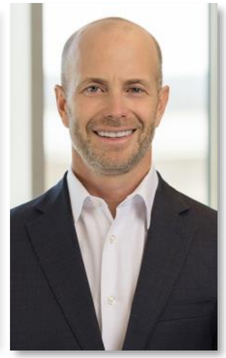
Cheairs Porter

Managing Director, Co-Head of HCLS

Richmond

DEAL EXPERIENCE

- Behavioral
- Consumer Healthcare
- HCIT
- Med Products & Devices
- Outsourced Provider Services
- Outsourced Pharma Services
- Payor Services
- Pharmacy
- Physical Therapy
- Physician Practice Mgmt.



Geoff Smith

Managing Director, Co-Head of HCLS

Richmond

DEAL EXPERIENCE

- Clinical Provider Services
- Contract Manufacturing
- Dental
- Dermatology
- MedSpa Services
- Outsourced Pharma Services
- Vet Products & Services

James Clark

Managing Director

Richmond

PRIMARY COVERAGE

- HCIT
- Health Plans & Network Services
- Home Health & Hospice
- Orthopedics
- Primary Care

OTHER DEAL EXPERIENCE

- Consumer Healthcare
- Physician Practice Mgmt.
- Contract Manufacturing

Andy Dixon

Managing Director

San Francisco

PRIMARY COVERAGE

- Physical Therapy
- Vision
- Women's Health & Fertility

OTHER DEAL EXPERIENCE

- Consumer Healthcare
- Med Products & Devices
- Physician Practice Mgmt.

Dr. Julian Feneley

Managing Director

London

PRIMARY COVERAGE

- HCIT
- Med Products & Devices
- Providers

OTHER DEAL EXPERIENCE

- Life Sciences Tools
- Outsourced Pharma Services
- Pharmacy

Paul Hepper

Managing Director

Richmond

PRIMARY COVERAGE

- Clinical Lab Services
- Outsourced Pharma Services

OTHER DEAL EXPERIENCE

- Med Products & Devices
- Physician Practice Mgmt.

HW Healthcare Segment Contacts (cont.)

Whit Knier
Managing Director
Richmond

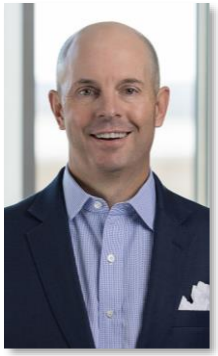
PRIMARY COVERAGE
- Behavioral
- Clinical Provider Services
- Vet Products & Services

OTHER DEAL EXPERIENCE
- Consumer Healthcare
- Contract Manufacturing
- Payor Services

Dan Linsalata
Managing Director
Boston

PRIMARY COVERAGE
- HCIT
- Pharma IT

OTHER DEAL EXPERIENCE
- Payor Services
- Population Heath Management
- Outsourced Pharma Services



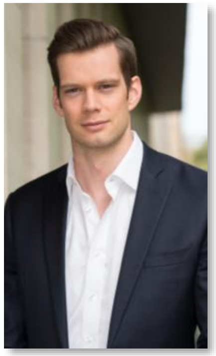
Turner Bredrup
Managing Director, Senior Advisor
Richmond

DEAL EXPERIENCE
- Consumer Healthcare
- HCIT
- Home Health & Hospice
- Med Products & Devices
- Outsourced Provider Services
- Outsourced Pharma Services
- Payor Services
- Pharmacy
- Physical Therapy
- Vision

Tyler Bradshaw
Director
Richmond

PRIMARY COVERAGE
- HCIT
- Med Products & Devices

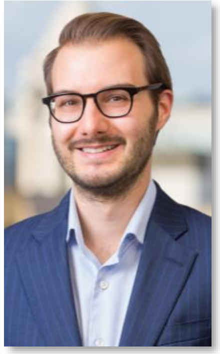
OTHER DEAL EXPERIENCE
- Pharmacy
- Outsourced Pharma Services
- Providers



Stephan Doering
Director
Frankfurt

PRIMARY COVERAGE
- Med Products & Devices
- Outsourced Pharma Services

OTHER DEAL EXPERIENCE
- HCIT
- Multisite Healthcare Services



Andrey Dvorkin
Director
London

PRIMARY COVERAGE
- Outsourced Pharma Services
- HCIT

OTHER DEAL EXPERIENCE
- MedTech
- Providers
- Therapeutics

HW Healthcare Segment Contacts (cont.)

Nick Owens
Director

Richmond

PRIMARY COVERAGE
- Payor Technology & Services
- Employer Health Services
- Outsourced Pharma Services

OTHER DEAL EXPERIENCE
- Primary Care
- Home Health & Hospice
- Physician Services

Nathan Robertson
Director

Richmond

PRIMARY COVERAGE
- Dental
- Gastroenterology
- Urology

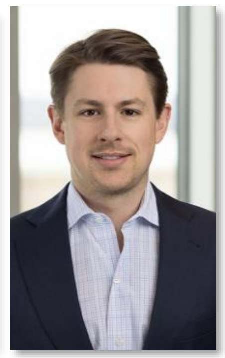
OTHER DEAL EXPERIENCE
- Mobility / DME
- Other Consumer Healthcare
- Behavioral

Taylor Will
Director

Richmond

PRIMARY COVERAGE
- Med Products & Devices

OTHER DEAL EXPERIENCE
- Consumer Healthcare
- Behavioral
- Home Health & Hospice



Charles Busch
Vice President

Richmond

PRIMARY COVERAGE
- Dermatology
- Orthopedics

OTHER DEAL EXPERIENCE
- Other Consumer Healthcare
- Outsourced Provider Services

Brian Jones
Vice President

Richmond

PRIMARY COVERAGE
- Outsourced Provider Services

OTHER DEAL EXPERIENCE
- HCIT
- Med Products & Devices
- Payor Services

Michael Mahoney
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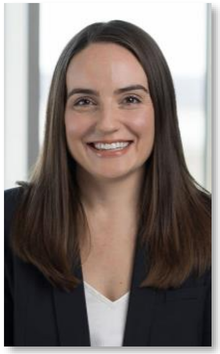
San Francisco

PRIMARY COVERAGE
- Home Health & Hospice
- Primary Care

OTHER DEAL EXPERIENCE
- Med Products & Devices
- Multisite Healthcare Services
- Physician Services

HW Healthcare Segment Contacts (cont.)



Cameron Thomas

Vice President

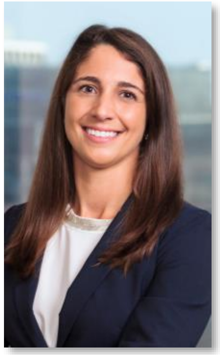
Richmond

PRIMARY COVERAGE

- Pharmacy

OTHER DEAL EXPERIENCE

- Behavioral
- Consumer Healthcare
- Med Products & Devices



Phoebe Willis

Vice President

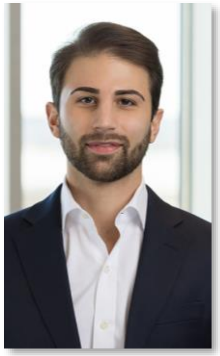
Richmond

PRIMARY COVERAGE

- Consumer Healthcare

OTHER DEAL EXPERIENCE

- Behavioral
- Life Sciences & Tools
- Med Products & Devices



Kevin Ferguson

Business Development Manager

Richmond

PRIMARY COVERAGE

- Outsourced Pharma Services

Dillard Watt

Business Development Manager

Richmond

PRIMARY COVERAGE

- Med Products & Devices

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