



Specialty Healthcare M&A Update – Q3 2023



Specialty Healthcare M&A Update

Q3 2023

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Trevor Hulett

Managing Director
thulett@rlhulett.com

Ryan Hartman

Senior Analyst
rhartman@rlhulett.com

Charlie Meier

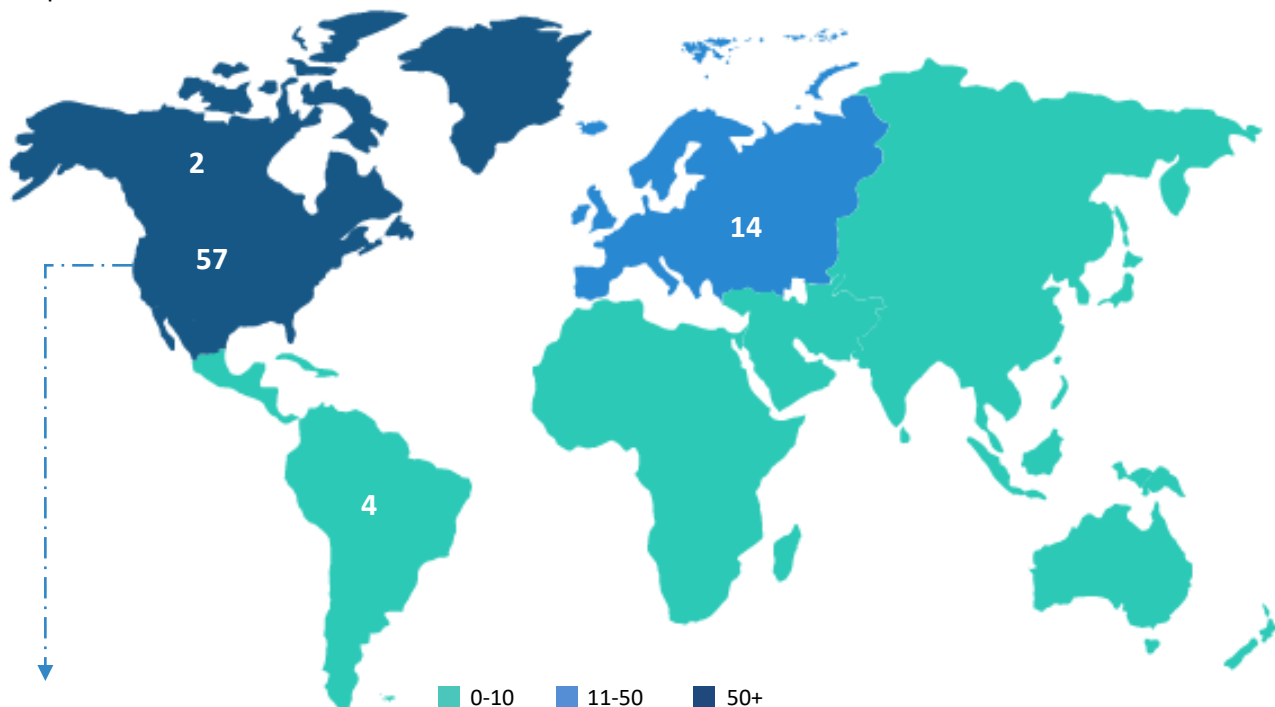
Analyst
cmeier@rlhulett.com

REPORT HIGHLIGHTS

- In Q3, the S&P Health Care Services Select Industry Index decreased 10.3% and was outperformed by the S&P 500, which decreased 3.8% over the same period.
- The median EV/EBITDA multiple for reported private equity deals decreased to 5.7x in YTD 2023 from 16.7x in 2022, but increased for strategic deals to 18.2x from 12.7x in 2020 (the last year with reported multiples).
- M&A deal volume in the Specialty Healthcare sector decreased 24.5% to 77 completed transactions in Q3 compared to 102 deals in Q2, and decreased 48.0% from 148 deals in Q3 of the prior year.
- As a % of total capital invested in M&A transactions in YTD 2023, PE participation decreased to 62.1%, down slightly from 64.7% in the prior year.
- North America was the most active region in Q3 with 59 deals. Most notably in the North American market was the \$550.0 million investment into Smile Doctors from AlInvest Partners, Linden Capital Partners and Thomas H. Lee Partners in July 2023.

Global Deal Analytics

Of the 77 deals in Q3, North America was the most active market with 59 deals closed. Europe was the second most active region with 14. One of the more notable deals in Europe during Q3 was Geschäftsführer's \$13.1 million acquisition of FreeVis, a German-based operator of an ophthalmology clinic, in August 2023. All other regions combined for a total of 4 completed transactions.



Canada: 2

United States Regions: 57

Mid Atlantic: 12

Southeast: 12

South: 11

Mountain: 6

Great Lakes: 6

Other: 10

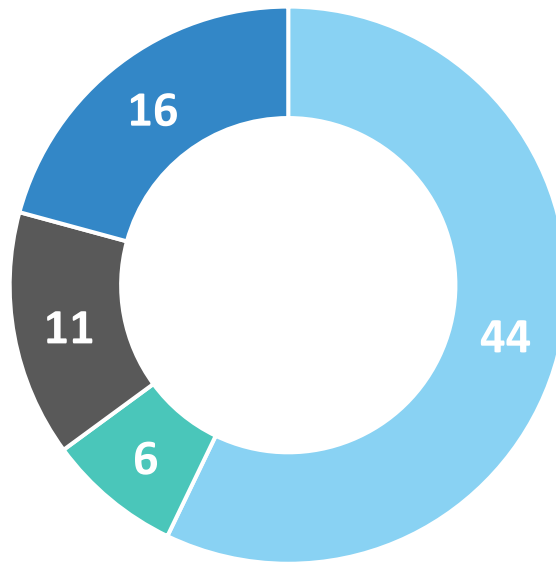
In the U.S. market, the Mid Atlantic and Southeast regions were the most active in Q3 with 12 closed deals each. The South had 11 transactions and was followed by the Mountain and Great Lakes regions, which each saw 6 completed deals. All other regions combined for a total of 10 completed transactions.

Outside of the U.S. in the North American market, 2 transactions closed in Canada in Q3.

Global Deal Analytics

Of the 77 Specialty Healthcare deals in Q3, 44 were in the Dentistry & Orthodontics subsector, making it the most active subsector in the industry from an M&A volume standpoint. Otolaryngology & Ophthalmology had 16 deals and was followed by Behavioral Health with 11 closed transactions. Orthopedics was the least active subsector with 6 completed transactions.

Deals by Subsector

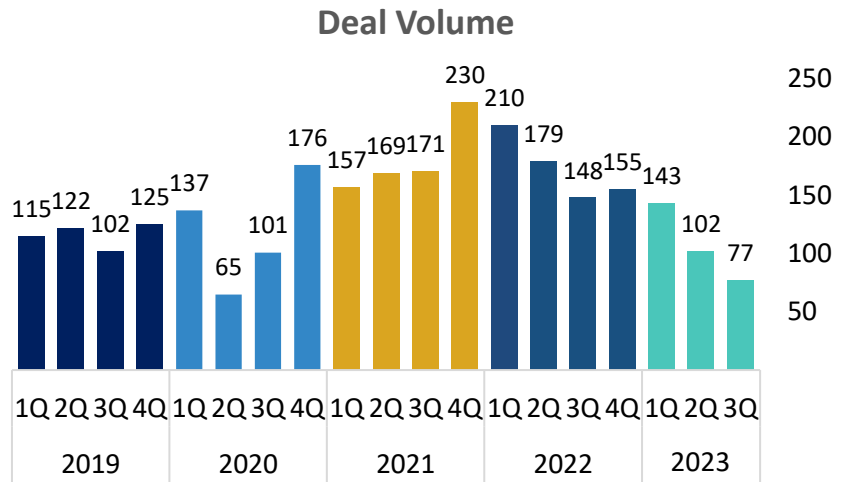


- Dentistry & Orthodontics
- Orthopedics
- Behavioral Health
- Otolaryngology & Ophthalmology

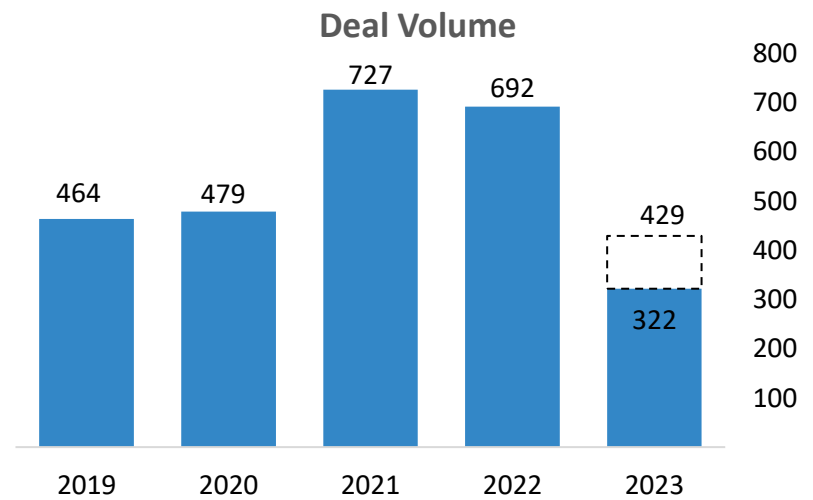


Global Deal Analytics

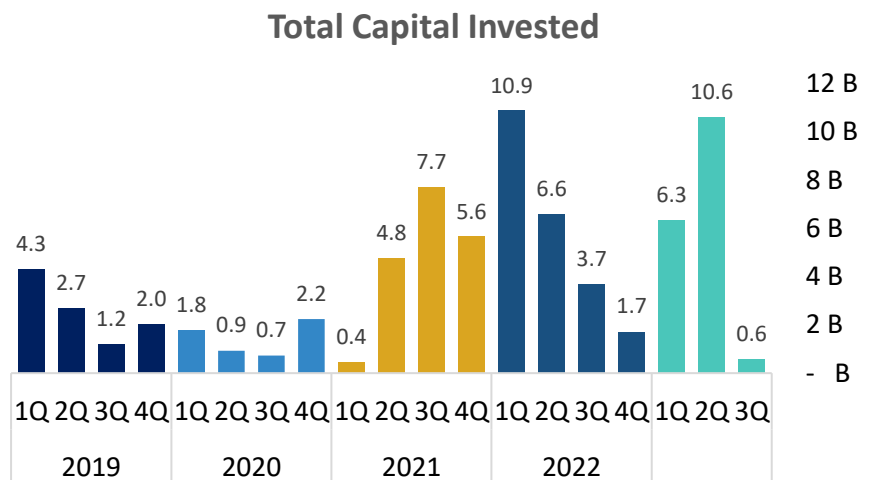
Deal volume in the Specialty Healthcare sector decreased 24.5% in Q3 to 77 deals from 102 deals in Q2, and decreased 48.0% from 148 deals in Q3 of the prior year. Q3 represents a continuation of declining deal volume seen since the post-covid peak of 230 deals in Q4 2021 and marks the second lowest level of deal volume seen over the past 5 years.



Based on YTD 2023 transaction data, M&A deal volume is projected to see a 38.0% decline to 429 deals in 2023 from 692 in the prior year. We attribute this decline to more challenging market conditions from a dealmaking perspective, including increased interest rates/cost of capital. These adverse conditions are expected to persist due to the Fed’s decision to maintain elevated interest rates through 1H 2024.



Following the trend in quarterly deal volume, total capital invested in M&A deals in the sector decreased 94.3% in Q3 to \$600.0M from \$10.6B in Q2, and decreased 83.8% from \$3.7B in Q3 of the prior year. The significant decrease from Q2 was primarily due to an unusual spike in Q2 driven by CVS Health’s \$9.7B acquisition of the Chicago-based network of primary care centers, Oak Street Health, in May 2023.



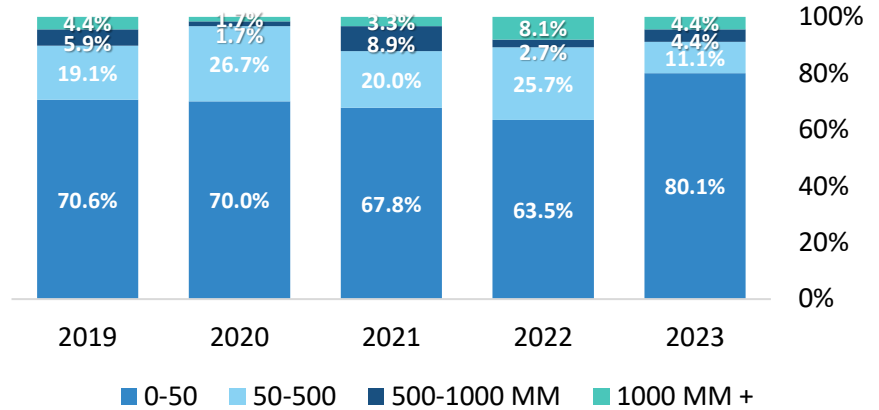
Global Deal Analytics

YTD through Q3, we saw a shift in mix toward smaller deals with the lower middle tranche of the market (\$0-\$50MM) increasing to 80.1% of deal volume from 63.5% in 2022. The upper middle (\$500-\$1000MM) tranche ticked up slightly to 4.4% from 2.7% in 2022 while the middle (\$50-\$500MM) and large cap (\$1000MM+) tranches both saw declines from 25.7% and 8.1% to 11.1% and 4.4%, respectively.

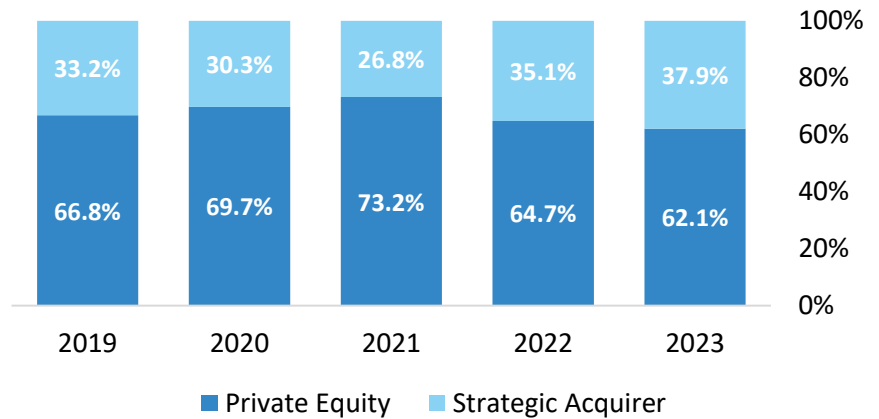
As a % of total deal volume, PE buyers trended higher in 2023 relative to strategic buyers and represented 62.1% of deal volume in the sector, down slightly from 64.7% in 2022. YTD 2023 marks the lowest percentage of PE deal volume over the last 5 years and is illustrative of challenging market dynamics with increasing costs of capital and tightening liquidity from lenders.

PE's share of total capital invested in M&A deals decreased in YTD 2023 to 5.1%, down from 32.2% in the prior year and represents the lowest level in five years. Given financing challenges in the current credit markets, strategic buyers with strong balance sheets have an advantage over PE buyers and can be more nimble with a lower cost of capital, allowing them to get more aggressive and outcompete PE buyers on deals.

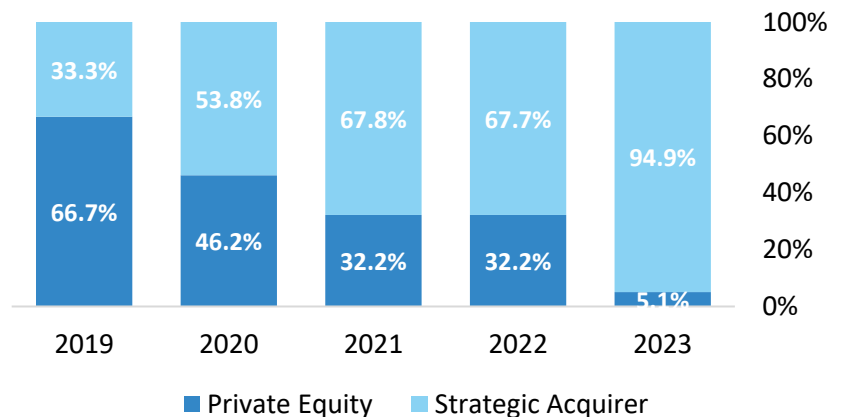
Deal Volume by Deal Size



Deal Volume by Acquirer

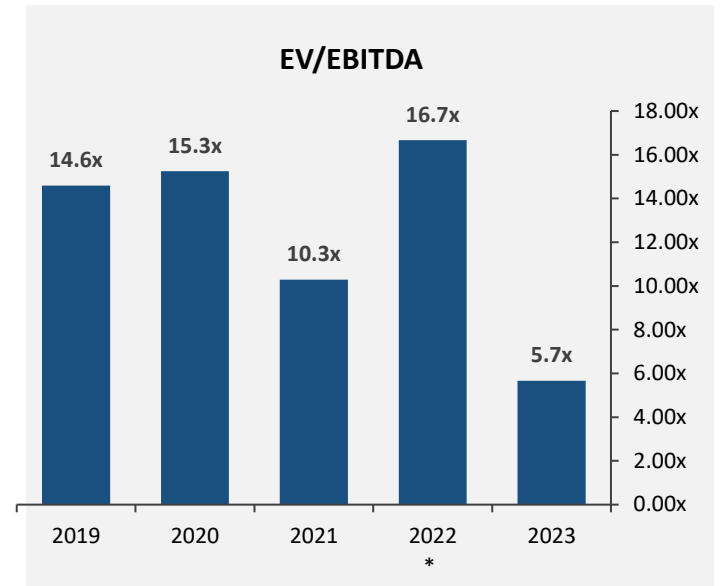
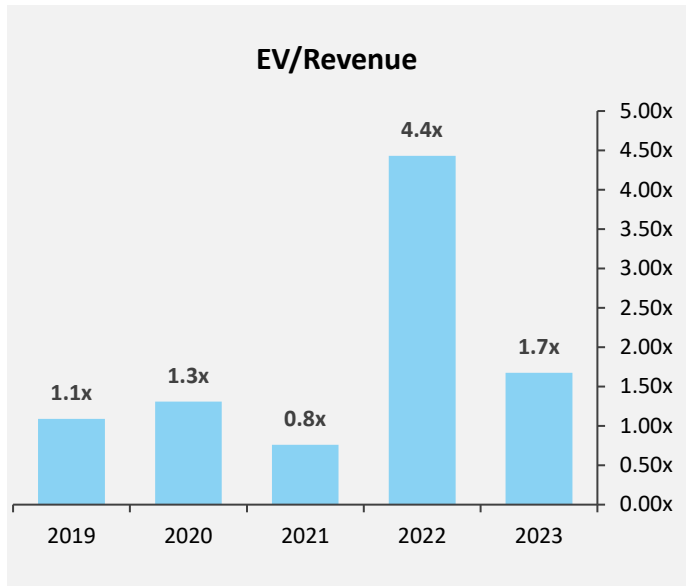


Total Capital Invested by Acquirer

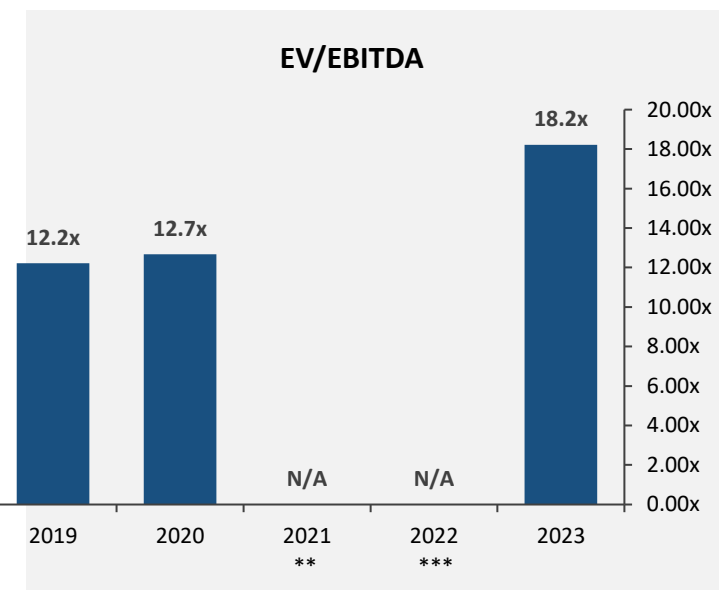
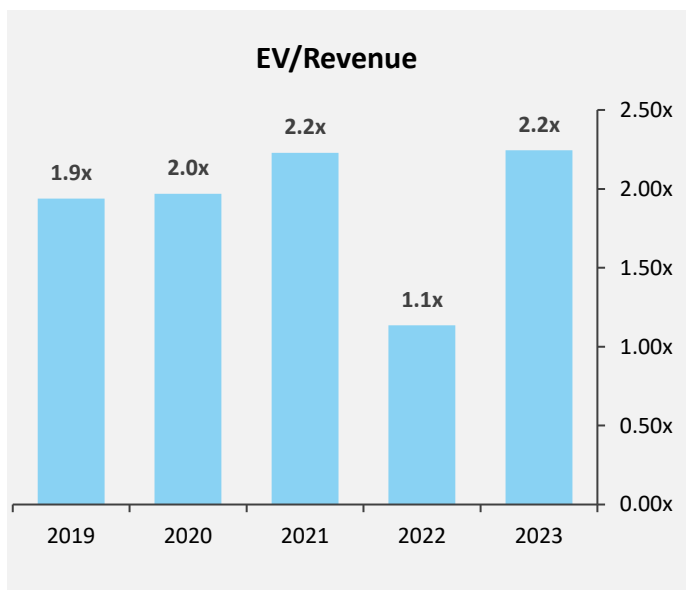


Valuation Multiples

Private Equity Multiples



Strategic Multiples



* One Private Equity EV/EBITDA multiple was removed in 2022 for being an outlier.
 ** No reported Strategic EV/EBITDA multiples were available in 2021.
 *** After removing outliers, there were no reported EV/EBITDA multiples in 2022.

Largest Deals (Disclosed)

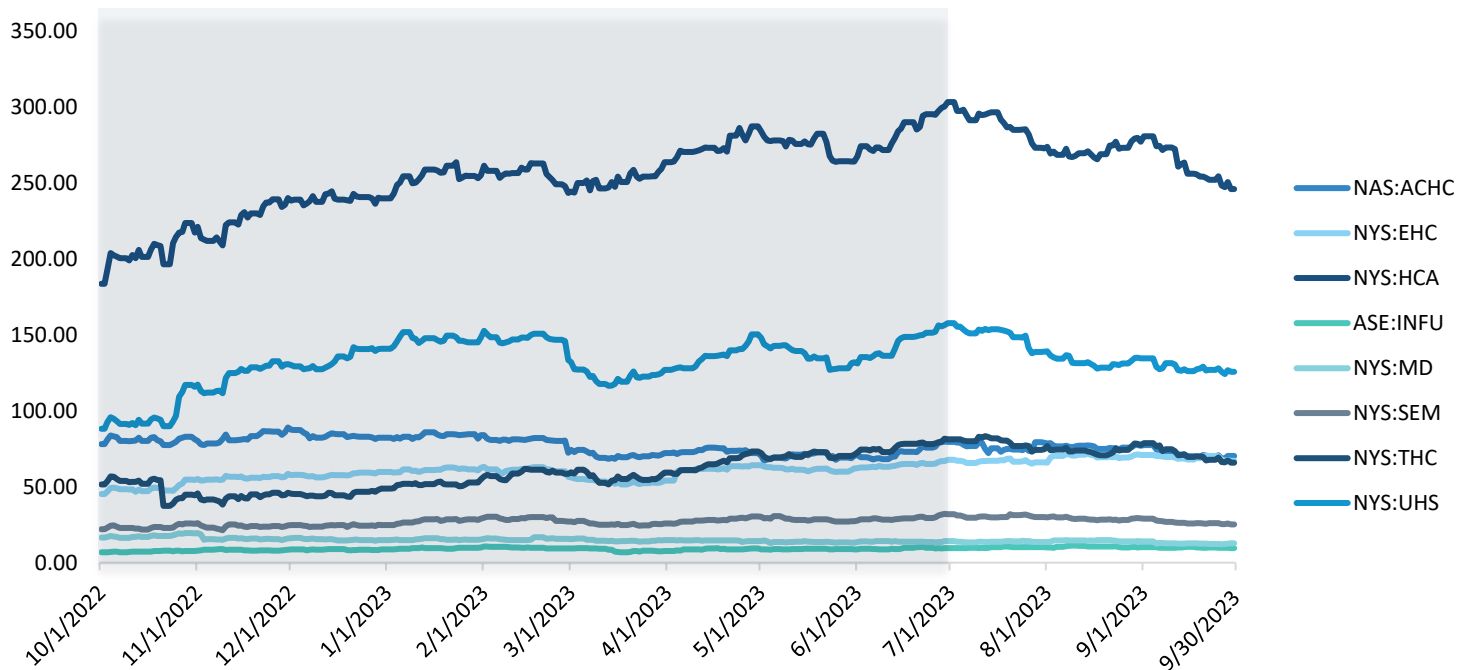
Deal Date	Company Name	Investor	Deal Type	Deal Size (\$mm)	EV		Target Business Description
					Revenue	EBITDA	
29-Sep-2023	North Florida Center for Otolaryngology	Audax Private Equity, Elevate ENT Partners	Buyout/LBO				Operator of an Otolaryngology medical practice based in Saint Augustine, Florida.
28-Sep-2023	Ophthalmologic Network Organisation	DECALIA Capital, Vivalto Partners	Buyout/LBO				Operator of a network of ophthalmology centers and clinics intended to serve the Swiss and French markets.
21-Sep-2023	Lightwave	Lindsay Goldberg	PE Growth/Expansion	1.1			Provider of non-clinical management assistance services intended for dental organizations.
21-Sep-2023	European Dental Group	Oakley Capital	Buyout/LBO	1,614.6	2.23x	22.26x*	Operator of a network of oral care organizations and professionals focused on contributing to patients' general health and well-being.
20-Sep-2023	Delaware Valley Dermatology Group	GarMark Partners, Regal Healthcare Capital Partners, The Dermatology Specialists	Buyout/LBO				Provider of dermatologic care services intended to serve patients of all ages.
20-Sep-2023	Envision Health Partners	New Day Healthcare	Merger/Acquisition				Provider of healthcare and wellness services catering to senior and old aged people.
18-Sep-2023	Hospital De Olhos De Sergipe	XP Vista Asset Management	Buyout/LBO				Operator of an eye hospital based in to offers ophthalmologic treatments.
18-Sep-2023	Insight Vision Group	Unifeye Vision Partners, Waud Capital Partners	Buyout/LBO				Provider of ophthalmological care services based in Westlake Village, California.
31-Aug-2023	Valeo Pharma (TSE: VPH)	Investissement Québec	PIPE	2.9	0.07x		Operator of a specialty pharmaceutical company
29-Aug-2023	San Antonio ENT	Audax Private Equity, Elevate ENT Partners	Buyout/LBO				Operator of ENT practices intended to serve patients with medical and surgical disorders.
18-Aug-2023	FreeVis	Geschäftsführer	Merger/Acquisition	13.1			Operator of an ophthalmology clinic based in Mannheim, Germany.
01-Aug-2023	Talacker Augen Zentrum Zürich	Groupe Bruxelles Lambert, Sanoptis	Buyout/LBO				Operator of an ophthalmological group practice focused on issues that are congenital, age-related, and post-accidental.
19-Jul-2023	Smile Doctors	AlpInvest Partners, Linden Capital Partners and Thomas H. Lee Partners.	PE Growth/Expansion	550.0			Operator of a dental support organization (DSO) intended to provide all-inclusive orthodontic treatments to patients.
19-Jul-2023	Blackburn Family Orthodontics	Smile Doctors	Merger/Acquisition				Operator of orthodontic services intended to create confident smiles that inspire the best in their patients each other and the communities they serve.
19-Jul-2023	Smiles of Ohio	Smile Doctors	Merger/Acquisition				Provider of orthodontic care services intended to serve patients of all age groups.
19-Jul-2023	Smith Smiles Orthodontics	Smile Doctors	Merger/Acquisition				Operator of orthodontic services intended to take care of patients in and around Canton and Marietta, Georgia.
19-Jul-2023	Weaver Orthodontics	Smile Doctors	Merger/Acquisition				Operator of the orthodontic clinic located in Arkansas.
19-Jul-2023	Weissman Orthodontics	Smile Doctors	Merger/Acquisition				operator of an orthodontic clinic located in Alabama.
10-Jul-2023	GPS Dental	Undisclosed Investors	PE Growth/Expansion	1.6			Operator of a dental service organization intended for dentists across the United States.
Mean				363.9	1.15x	22.26x	
Median				8.0	1.15x	22.26x	
High				1,614.6	2.23x	22.26x	
Low				1.1	0.07x	22.26x	

* EV/EBITDA multiple was calculated using an estimated 10% EBITDA margin.

Deal	Deal Synopsis	Driver
   	<p>Smile Doctors (“SD”), a Texas-based dental support organization (“DSO”), received \$550.0 million of growth capital from AlInvest Partners, Linden Capital Partners and Thomas H. Lee Partners (the “Investors”) in July 2023. The Investors' strategy is to scale the DSO by acquiring other practices such as Blackburn Family Orthodontics, Smiles of Ohio, Smith Smiles Orthodontics, Weaver Orthodontics, and Weissman Orthodontics.</p>	<p>PE Growth/ Expansion</p>
 	<p>North Florida Center for Otolaryngology (“NFCO”), a Florida-based Otolaryngology medical practice, was acquired by Elevate ENT Partners, via its financial sponsor Audax Group, through an LBO in September 2023 for an undisclosed amount. NFCO represents Elevate ENT Partners' 8th acquisition since Audax acquired the business in 2019.</p>	<p>LBO</p>
 	<p>Insight Vision Group, a California-based Provider of ophthalmological care services, was acquired by Unifeye Vision Partners, via its financial sponsor Waud Capital Partners, through an LBO for an undisclosed amount in September 2023. The acquisition establishes Unifeye Vision Partners' West Coast footprint.</p>	<p>LBO</p>
 <p>Undisclosed Investors</p>	<p>GPS Dental, an Arkansas-based DSO, received \$1.6 million of development capital from Undisclosed Investors in July 2023. Previously, the company received an undisclosed amount of development capital from Main Post Partners and APG Partners in December 2021.</p>	<p>PE Growth/ Expansion</p>

Public Comps

Stock Price

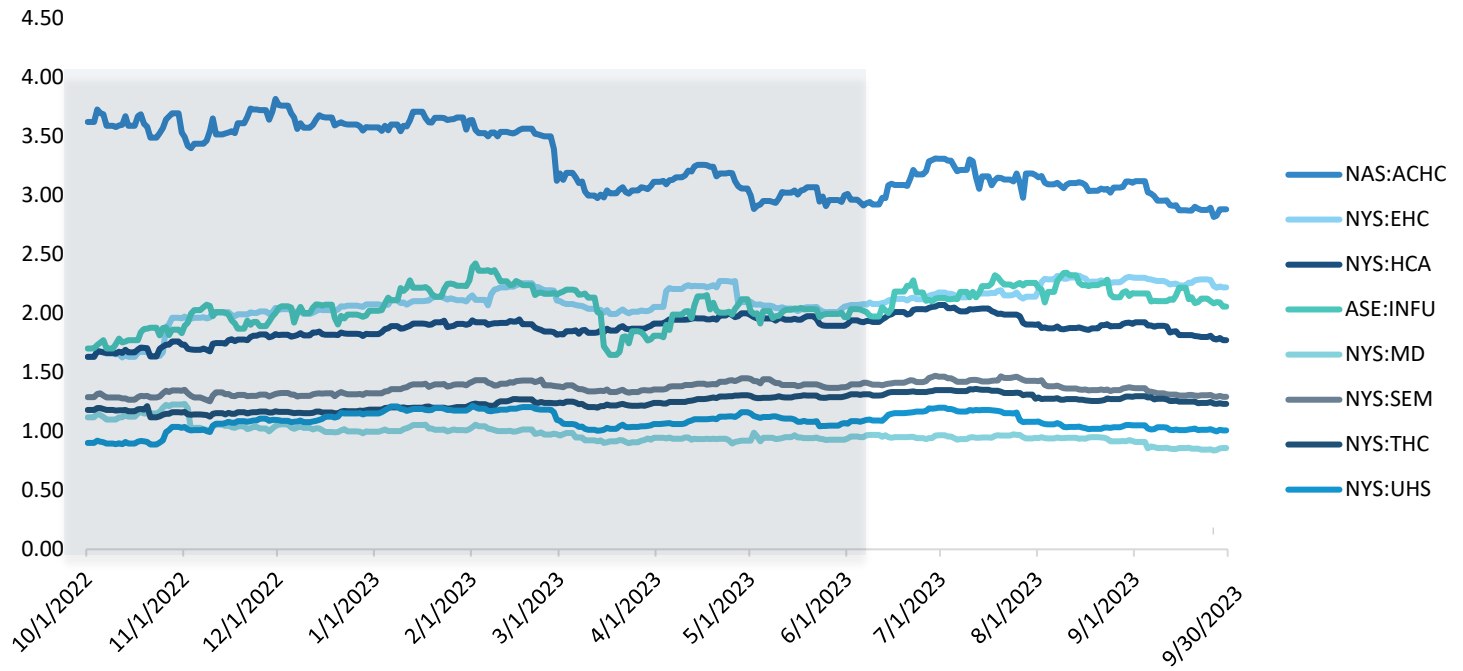


Financial & Valuation

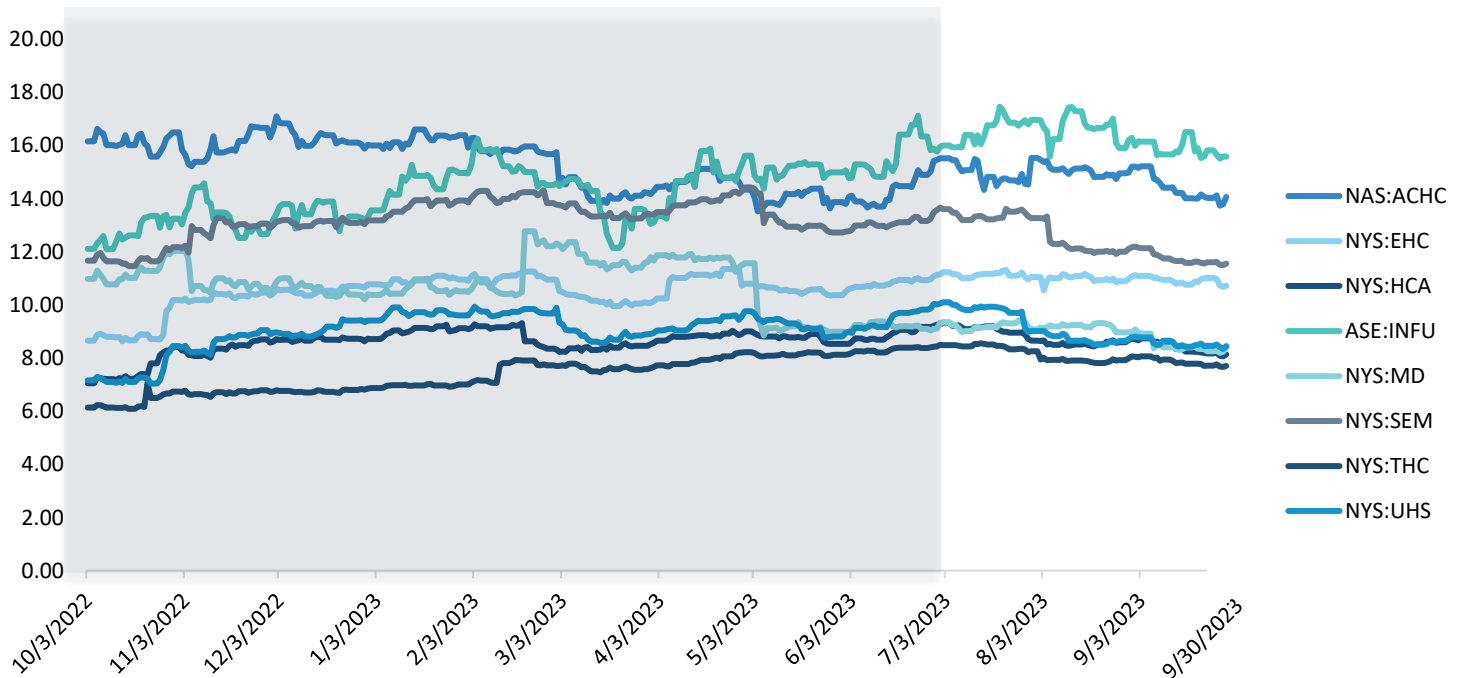
\$MM	Company	Ticker	Stock Price	Market Cap	EV/Revenue			EV/EBITDA		
					21A	22A	23F	21A	22A	23F
	Acadia Healthcare	NAS:ACHC	70	6,481	4.0x	3.6x	3.2x	18.2x	16.2x	13.9x
	Encompass Health	NYS:EHC	67	6,731	2.1x	2.0x	2.0x	9.5x	10.5x	10.4x
	HCA Management Services	NYS:HCA	246	66,904	2.0x	1.8x	1.7x	8.5x	8.7x	8.8x
	Infusystem Holdings	ASE:INFU	10	203	3.8x	1.9x	1.7x	23.2x	12.8x	8.5x
	Pediatrix Medical Group	NYS:MD	13	1,067	1.6x	1.0x	1.0x	14.6x	10.3x	7.4x
	Select Medical Holdings	NYS:SEM	25	3,213	1.4x	1.3x	1.2x	8.2x	13.1x	10.0x
	Tenet Healthcare	NYS:THC	66	6,690	1.2x	1.2x	1.1x	6.1x	6.7x	6.6x
	Universal Health Services	NYS:UHS	126	8,723	1.2x	1.1x	1.1x	7.2x	9.2x	8.5x
	Mean				2.2x	1.7x	1.6x	11.9x	10.9x	9.3x
	Median				1.8x	1.6x	1.5x	9.0x	10.4x	8.7x

Public Comps

EV/Revenue



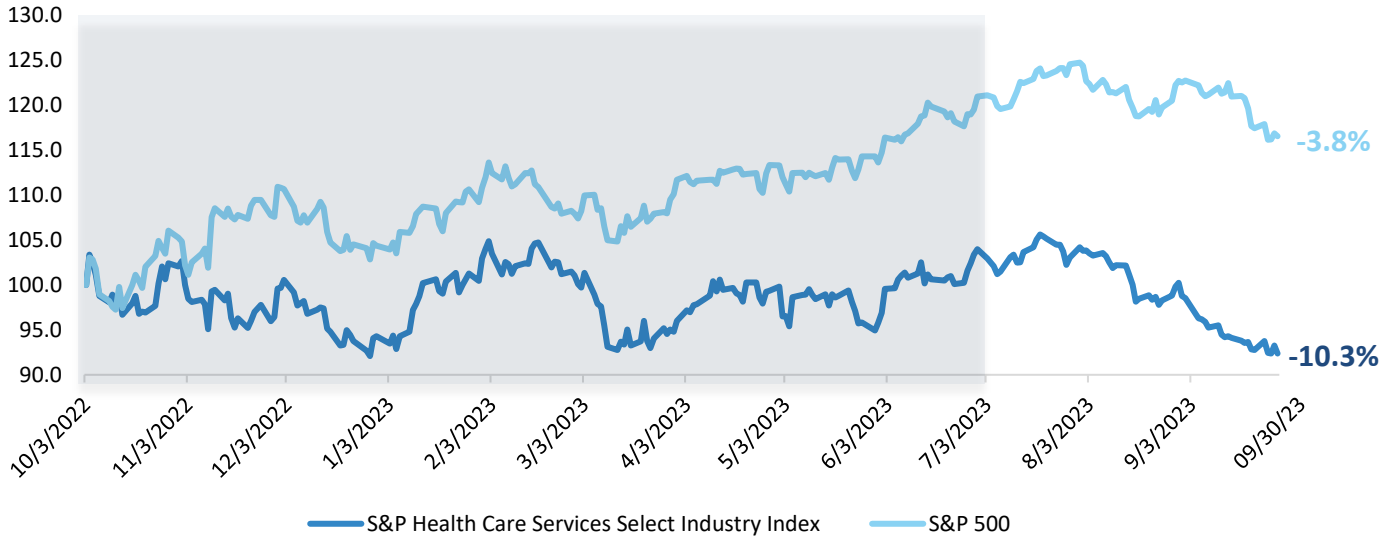
EV/EBITDA



Public Markets

Index Performance

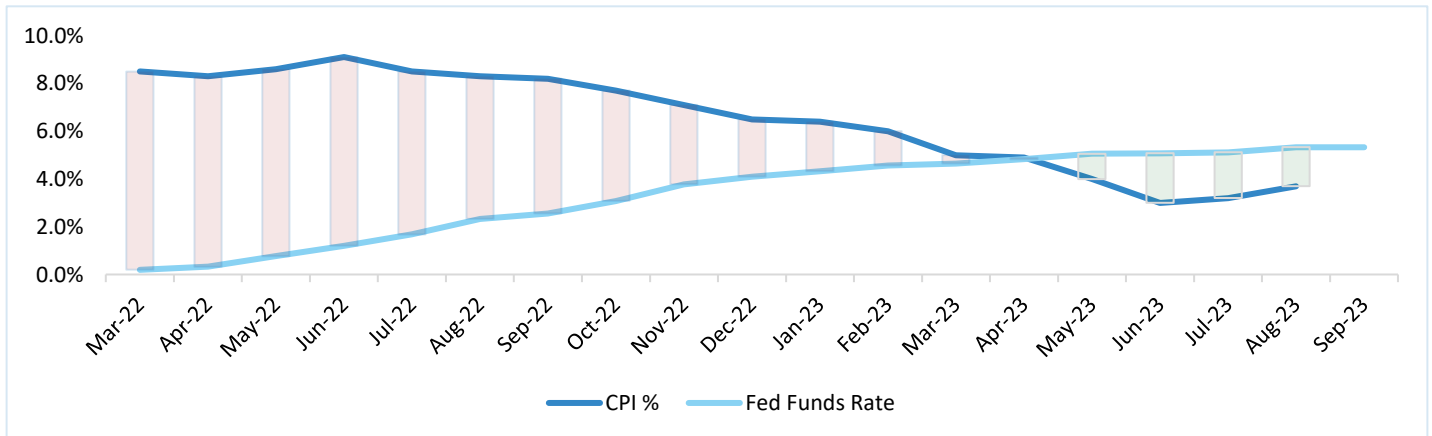
In Q3, the S&P Health Care Services Select Industry Index decreased 10.3% and was outperformed by the S&P 500, which decreased 3.8% over the same period.



Key External Drivers

The Specialty Healthcare industry’s main services include Dentistry, Otolaryngology, Ophthalmology, and Dermatology, and are considered to be essential for the health and wellness of patients. This allows operators in the industry to fair well relative to the overall market, despite a decrease in consumer spending.

September 2023, the Federal Reserve decided to keep the Federal Funds Rate stable at 5.3%, signaling a reversal in the trend of the Fed’s increasing rate hikes that we saw from March 2022 to August 2023. The Fed’s recent decision was likely a result of the CPI decreasing from a peak of 9.1% in June 2022 to 3.7% in August 2023. However, the CPI remains above the Fed’s 2% target and indicates we will see another rate hike in 2023, followed by a long pause at 5.4% in 1H 2024 due to concerns that inflation might not fall fast enough. The job market and the economy have remained robust despite these rate hikes as the Fed seeks to guide the economy towards a "soft landing" in an attempt to reduce inflation without causing a recession. An elevated Federal Funds Rate will lower consumer spending and result in lower revenues for the Healthcare sector.



Source: IBISWorld, S&P Global

Industry Trends

Dentistry

Shifting Valuation methodology for Dental Practices

Recently, larger dental practices valued at over \$1.5 million have shifted to EBITDA multiples (4.0x-7.0x) instead of a percentage of annual revenue. This change, along with increased demand from Dental Service Organizations DSOs, has widened the gap between large, well-equipped practices and smaller, less profitable ones. Urban/suburban practices are now more marketable, while rural practices face declining marketability despite higher profitability and lower living costs.



Otolaryngology

ENT Practices Attract Private Equity

Private equity firms, armed with \$2.0-\$4.0 trillion, are targeting the ear, nose, and throat (“ENT”) field in healthcare. This consolidation trend, driven by efficiency needs amid bureaucratic tasks, benefits from economies of scale leads and leads to cost reductions. ENT practices are relatively new to private equity and are gaining traction due to the increasing prevalence of hearing issues in the U.S.



Ophthalmology

Forecasted Revenue Growth in the Ophthalmic Drugs Market

The global ophthalmic drugs market, valued at \$30.1 billion in 2023, is projected to grow at a CAGR of 6.3% from 2024 to 2034. This growth is fueled by the increasing prevalence of eye-related conditions, including over 2.2 billion individuals globally facing near-sightedness or farsightedness



Dermatology

Consortium Sales are Increasing Value for Dermatology Practices

The dermatology sector is experiencing a rise in consortium sales, where multiple practices agree to sell together. This unique strategy is boosting value for practice owners by attracting higher valuations and increased buyer competition. Despite its complexity, this approach offers more capital options which attract various types of investors including strategic buyers, private equity groups, and family offices.



Our Service Offerings



Sell-Side Advisory: Sell your business

Sell your business for the highest price and the best terms. At R.L. Hulett, communicating the value of your business to targeted buyers and finding the best fit for your team is our forte. We strive to maintain your company's culture and heritage even as you transition out of your business.



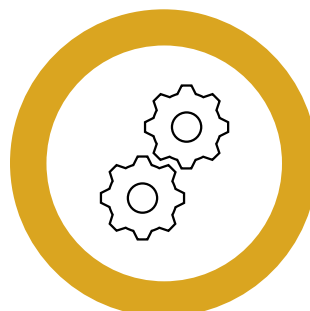
Buy-Side Advisory: Buy a business

Searching for acquisition targets can be a challenging and time-consuming task when trying to run your own business at the same time. Navigating the risks and pitfalls in negotiating valuation and deal structure can also be a daunting task for many business owners. Let our team help you minimize your risk and reduce time wasting efforts with our decades of experience in advising in both buy and sell-side M&A transactions. We utilize industry-leading M&A databases to scout for opportunities and pre-screen for "real" actionable targets so you can stay focused on what matters.



Capital Raise: Gain financial support

With nearly 40 years of experience in middle-market M&A advisory, we know how to package up your deal and put you in front of the right kind of investors who have the capital and the industry expertise you need to grow your business. Our team will develop a go-to-market strategy and advise on deal structure, valuation, due diligence and transition issues. Whether you are seeking capital for growth or trying to buy out other shareholders, we have the tools, expertise, and experience to execute a strategic process and find the optimal outcome to meet your objectives.
















Restructuring: reorganization of your business

In today's uncertain economic times, more and more companies are finding themselves in unfamiliar, and unwanted, positions. Many business owners are hoping recovery is just around the corner; however, proactive measures are often required to maximize the remaining value of the business. Our team can aid banking institutions with workout situations by implementing internal controls over cash management and performing on-going cash flow modeling for their clients. We can also help business owners avoid having trouble making payments on their debts and avoid the cumbersome and low-value asset liquidation process.

Selected Transactions

Over the years, R.L. Hulett has completed hundreds of transactions in a wide variety of industries. Below are several relevant transactions in the Healthcare sector. Please note that this list is not comprehensive.

 <p>Has sold substantially all of its assets to</p> <p>Bain Capital Ventures</p> 	 <p>Has been acquired by</p>  	<p>All-Staff Nursing, Inc.</p> <p>Has sold its assets to</p> <p>Cooperative Attendant Services</p> 
 <p>Has sold substantially all of its assets to</p>  	 <p>has been acquired by</p> <p>MONTIEL ENTERPRISES</p> 	 <p>has been acquired by</p> <p>Gateway Dental Laboratory</p> 

Our Team



R. Trevor Hulett, CPA
Managing Director
(314) 721-0607 x112
thulett@rlhulett.com

Mr. Hulett has led M&A transactions in a variety of industries including manufacturing/industrial, software development/IT, business services and value-added distribution for over 15 years. Prior to joining the firm, he held senior level accounting and financial management positions in both public accounting and large corporations. Mr. Hulett began his career as a Certified Public Accountant with MPP&W, a St. Louis-based public accounting firm specializing in middle market companies. He then held various management positions in internal audit and corporate accounting with a Fortune 1000 industrial manufacturing company and also spent nine years with Enterprise Rent-A-Car Company as a department manager in the Corporate Accounting group. Mr. Hulett holds his Series 62, 63 and 79 securities registration. Mr. Hulett earned a Bachelor's Degree in Accounting from the University of Missouri, Columbia.



Robert L. Hulett
Chairman Emeritus
(314) 721-0607 x134
rlhulett@rlhulett.com

Mr. Hulett founded the firm in 1981 and has negotiated and completed more than 200 transactions throughout his career. He began his career as a Certified Public Accountant and practiced with Peat, Marwick, Mitchell & Co. in St. Louis as an Audit Manager and in New York as the Director of Training for Private Business. Mr. Hulett has also served as Chief Executive & Board Member for various middle market companies. As an educator, he was an adjunct professor at New York University and a tenured faculty member at Lindenwood University in St. Louis. He conducted training sessions for middle market CPA firms throughout the country for more than ten years. Mr. Hulett earned his BS/BA Cum Laude in Accounting from the University of Missouri-Columbia, and an MBA from Lindenwood University.

Our Team



Ron Litton
Director
(816) 810-0799
rlitton@rlhulett.com

Mr. Litton has been advising business owners in mergers and acquisitions since 2013. His primary industry focus areas have included industrials, paper and packaging, distribution, energy, promotional products and direct to consumer e-commerce. Prior to 2013, Mr. Litton held a variety of C-level roles with several companies in the paper and packaging industry including Unisource, Maverick Paper, Universal Graphics and Sabin Robbins. He has bought and sold a number of businesses, advised in the sale of family/founder owned businesses, and advised in start-ups and turnaround situations for banks, owners, and private equity firms. He enjoys working with owners that want to sell or transition out of their businesses. Ron covers the Kansas City and surrounding markets for the firm. He graduated from Central Missouri State University with a BS in Graphic Arts Technology and Management.



David T. Vass
Director
(314) 721-0607 x115
dvass@rlhulett.com

Mr. Vass has over 30 years of business management experience including more than 10 years as President of a highly successful consumer products manufacturing company with revenues exceeding \$25 million. During this time, he not only reversed a declining sales and earnings trend, but increased both sales and operating income over 100%. In addition, he has spent over 20 years at the executive level of Vice President of Sales and Business Development. Mr. Vass also has experience in a number of other industry niches including consumer products, commercial furniture and fixtures and metal recycling. He holds a Bachelor's Degree in Economics from DePauw University and an MBA from the University of Michigan.

Our Team



Ryan Hartman
Senior Analyst
(314) 721-8027
rhartman@rlhulett.com

Ryan provides analytical support for senior-level deal managers and, as a senior analyst, supervises the preparation of confidential memorandums, financial models and industry research reports. Ryan graduated with a Bachelor of Science degree in Finance from The Freeman School of Business, Tulane University. Prior to joining the firm, Ryan worked as an equity analyst for Burkenroad reports, an equity research program that produces widely circulated financial reports on small- to medium-sized companies. During his time at Tulane University, Ryan was elected as Vice President of Administration for Tulane's community government, took extensive courses in Investment Banking M&A transactions, and volunteered as a data analyst for American Red Cross.



Charlie Meier
Analyst
(314) 721-8027
cmeier@rlhulett.com

Charlie provides transaction support for senior-level deal managers including financial modeling, valuations, industry research, offering memorandums and a variety of presentations. He graduated with a Bachelor of Science in Business Administration Degree with a major in finance and banking from the Trulaske College of Business, University of Missouri. Prior to joining the firm, Charlie worked as an investment analyst for the University of Missouri's Investment Fund Management Program. During his time at the University of Missouri, Charlie was elected as Recruitment Chairman for the Phi Delta Theta Fraternity and took extensive courses in Banking.



Lynda Hulett
Marketing
(314) 721-0607 x 104
lhulett@rlhulett.com

Lynda Hulett leads the firm's marketing, administrative and communication efforts. She maintains the firm's proprietary CRM database, manages outbound firm communications and provides administrative support to senior deal managers. Prior to joining R.L. Hulett, Lynda spent the previous ten years in various marketing and administrative functions. Most recently, she worked as a client liaison providing administrative support for a CPA firm. Prior to that, she was employed by Moneta Group, a financial services advisory firm, where she provided marketing and administrative support to the client managers. Lynda graduated from the University of Missouri – Columbia, receiving her business degree with an emphasis in Marketing.

About R.L. Hulett

R.L. Hulett is a middle-market investment bank based in St. Louis, Missouri, providing M&A and financial advisory services to middle-market companies. Since its founding in 1981, the firm has advised in over 275 transactions in a variety of industries including industrials, food & beverage, packaging, business services, transportation & logistics, healthcare and software/tech-enabled services. The firm has an experienced team of M&A advisors consisting of former business owners, seasoned corporate executives, professional service firm partners, CPAs and MBAs. Our ability to deliver customized solutions to meet or exceed our clients' expectations is what sets us apart from our competitors.

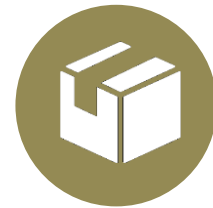
Industry Sectors Covered:



Specialty Healthcare



Transportation & Logistics



Packaging



Industrials



Tech-enabled Services



Food & Beverage

Disclaimer

The data in this document has been derived from PitchBook Data and has been compiled by R.L. Hulett. This document is strictly for illustrative purposes only. The data presented in this document is not comprehensive and should not be used for benchmarking, valuation, or for any other decision making. R.L. Hulett accepts no responsibility for loss or damage caused by dependence on the information in this document.



Trusted Advisors.

Tenacious Advocates.

R.L. Hulett

8000 Maryland Avenue, Suite 650

St. Louis, Missouri 63105

Email: thulett@rlhulett.com

Phone: 314.721.0607

Fax: 314.721.2783