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Healthcare & Life Sciences

Spotlight On:

Hospital and Health System Consolidation

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Insider

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Hospital and Health System Consolidation

Hospitals and health systems are navigating a "new normal" under the mandates of healthcare reform, as policy changes and market forces—notably declining reimbursement, escalating operating costs, and capital expenditure requirements—precipitate consolidation. Transaction activity remains high as providers expand strategic alliances to remain viable, advancing toward integrated delivery models that promote coordination of care in a value-based world.

Highlights

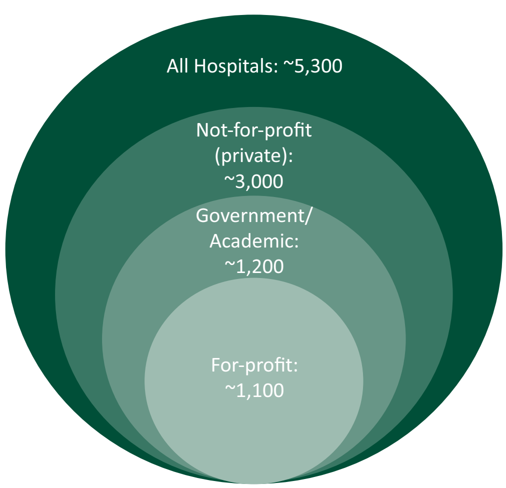
- Transaction activity involving hospital acquirers set a record in 2012 based on number of deals, surpassing the previous high in 2008, with the pace of mergers and acquisitions accelerating in line with the implementation of the Affordable Care Act.
- Acquisitions of physician medical groups reached a four-year high in 2011, more than twice the volume seen in 2009, with hospitals and integrated health systems representing the acquiring entity in 51 percent of the transactions.
- Ancillaries are increasingly acquisition targets as they can serve as the building blocks of integrated delivery networks.
- Beyond economies of scale, health systems are looking to transform care delivery through the introduction of new service and reimbursement models to capture the most value from strategic partnerships.
- Transactions are taking on a myriad of forms, from mergers and acquisitions to joint ventures, partnerships, and affiliation agreements, with growing regulatory scrutiny as health systems look to build size and scale.

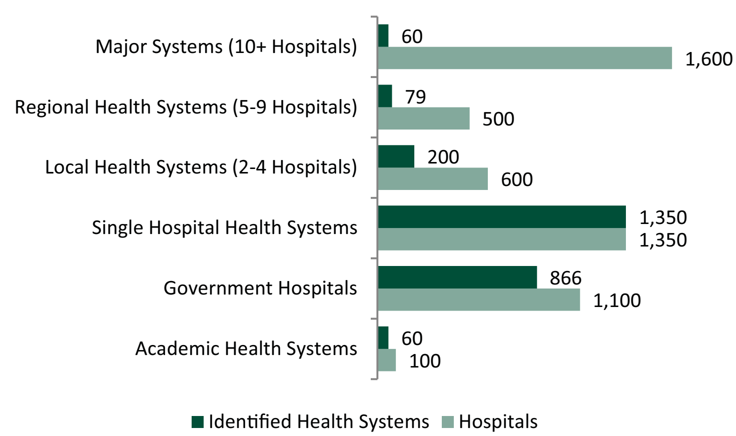
Factors Driving Consolidation

Reduced reimbursement. Reimbursement challenges are causing financial pressure for many entities that deal with governmental or commercial payors. Reimbursement is moving away from fee-for-service to condition-specific or bundled payments. Many entities are also experiencing stagnant reimbursement from commercial payors, and reductions in Medicare, Medicaid, and other state programs. In addition, in the advent of value-based healthcare, the focus has shifted to quality-based metrics for reimbursement with penalties for noncompliance. This massive change in reimbursement structure presents an opportunity for many providers to develop new service delivery models.

Volume challenges. Within the healthcare system, there is a growing trend towards treating patients in the lower cost outpatient setting, which is driving migration out of inpatient facilities. In addition, higher deductibles and copays have resulted in larger out-of-pocket responsibilities, pushing patients to delay or forego medical procedures. This creates fluctuations in volumes, not only for physician practices but also surgical facilities and large acute care hospitals. For many providers, outpatient volumes are not growing fast enough to offset inpatient declines.

The U.S. Health System





Source: Hospital and Other Health Care Service Company Valuations, November 2013, VMG Health From the American Hospital Directory and American Hospital Association

Shift to integrated healthcare delivery. Health systems are looking beyond acute care and evaluating strategic alliances that facilitate participation across the continuum of care, with surgery centers, physician groups, and imaging centers among a few of the sectors seeing increased transaction activity. Hospitals are looking to grow their number of locations in an effort to diversify to control costs and preserve margin.[1]

Access to capital. Infrastructure requirements to support integrated delivery networks or ACOs are substantial, as capital costs associated with the implementation of electronic health records, replacement of aging facilities, and investment in equipment are reaching all-time highs. Many capital constrained providers are seeking alliances with larger, better-capitalized players in order to remain competitive in the current market.

Scale advantages in managed care contracting. The consolidation of commercial insurers has created large payors wielding significant leverage in reimbursement negotiations. In response, health systems are continuing to grow in size and sophistication of services in order to increase bargaining power with payors.

Physician alignment. Physician alignment continues to gain traction and will be critical in controlling healthcare dollars. For hospitals, physician alignment is a means to integrate and improve quality of care while capturing market share through an expanded referral network. Physician groups are seeking alignment with health systems in the face of decreasing reimbursement, rising costs, high capital needs, and changing demographics as many physicians seek retirement or a better work-life balance.

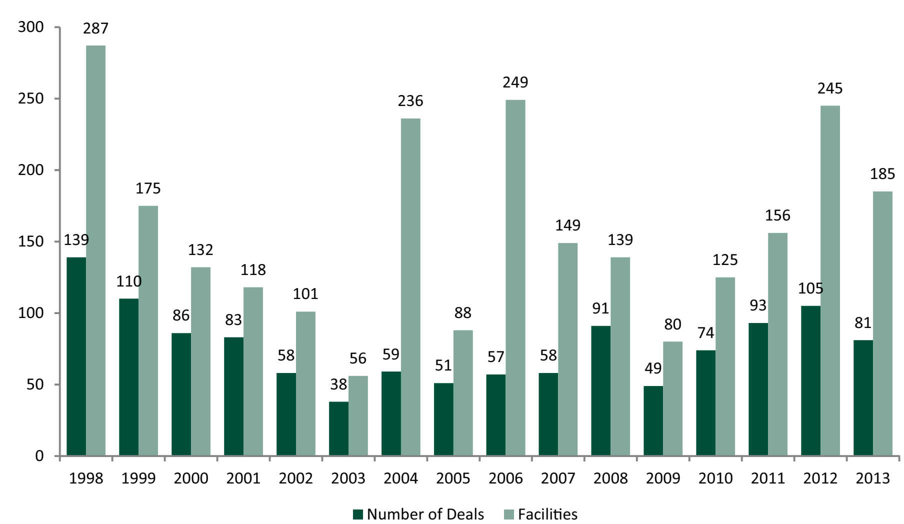
Select Provider Sectors Seeing Increased Consolidation Activity

Hospitals

Hospital mergers and acquisitions have been on the rise with 105 transactions in 2012—a four-year high—with an aggregate value of $2.3 billion. Despite lower volume in 2013 (81 transactions), total value increased more than six-fold to $14.3 billion, due to the announcement of several large, transformative acquisitions.

In 2013, we saw combinations of for-profit hospital operators Tenet Healthcare and Vanguard Health Systems in October and not-for-profits Trinity Health and Catholic Health East in May. So far in 2014, Community Health Systems and Health Management Associates combined in January. These transactions are indicative of the large-scale consolidations underway with hospital systems. Additionally, while mega-mergers grab headlines, the majority of transaction activity is occurring among regional and local hospital systems where consolidation is forecasted to accelerate.

Announced Hospital Mergers and Acquisitions, 1998-2013



Source: Irving Levin Associates, March Monthly; AHA Trendwatch ChartBook 2013.

Impact of Consolidations

Consolidation has resulted in fewer independent entities, with the number of independent hospitals declining by nearly 20 percent over the last decade. Of the roughly 5,000 hospitals in the U.S., nearly 2,000 comprise local (two to four hospitals) or single hospital health systems.[2] Consulting firm

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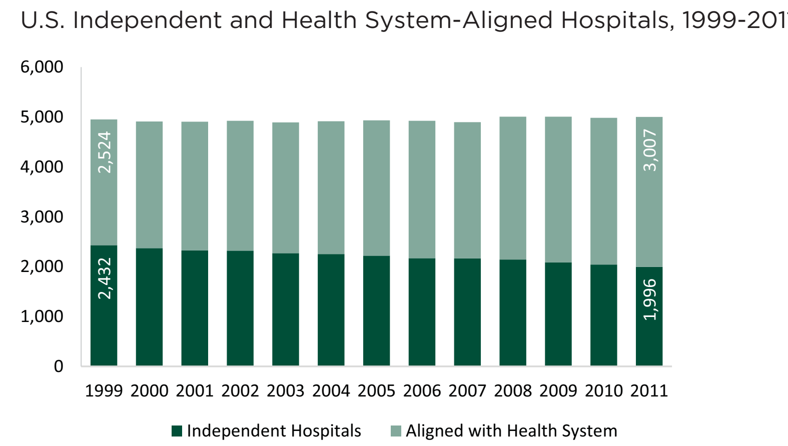
Booz & Company predicts that 1,000 of the nation's 5,000 hospitals could seek to merge in the next five to seven years.[3] Referring to hospital mergers, Gary Ahlquist, a senior partner at Booz said, "There isn't an independent hospital out there that is not thinking about this," adding, "At the top of the list is the question, who should I merge with?" "Today, the motivations for mergers are a lot broader," said Paul Ginsburg, the president of the Center for Studying Health System Change.[3]



Source: Center for Healthcare Economics and Policy
From AHA TrendWatch Chartbook 2013, Table 2.1: Number of Community Hospitals, 1991–2011

Mergers and acquisitions, particularly those involving hospitals and hospital acquisitions of physician practices, are drawing heightened scrutiny from the Federal Trade Commission, state, and local regulatory bodies as consolidation has greatly increased the size of many health systems. Opponents of these combinations argue that larger systems can leverage their scale to exert greater negotiating power, enabling them to secure higher rates from commercial insurers which could drive up the cost of care. A national study released this January by FTI Consulting's Center for Healthcare Economics and Policy, which was funded by the Federation of American Hospitals, found no quantified relationship between changes in market concentration and observed hospital price increases, contradicting other recent studies which found that mergers drive up costs. The research study concluded that consolidation can lead to better coordinated care and enhance delivery points of care to patients. Mergers can also reduce operating costs or improve outcomes through economies of scale, realignment, or expansion of services.[4]

Consolidation affords a number of benefits, including:

- Shores up struggling hospitals, particularly community hospitals which, if closed, could lead to reduced access to care. By aligning with a large system, small community hospitals are able to remain open, continue care, and invest in infrastructure and service lines.
- Allows hospitals to continue medically necessary but less profitable service lines.
- Smaller providers, once acquired, have the capital and information systems to focus on the shift from fee-for-service payment models towards focusing on providing better quality of care.

Entities that elect to remain independent may push towards services not affected by reimbursement (e.g. concierge medicine), patients paying out-of-pocket medical coverage, or out-of-network reimbursement plays.

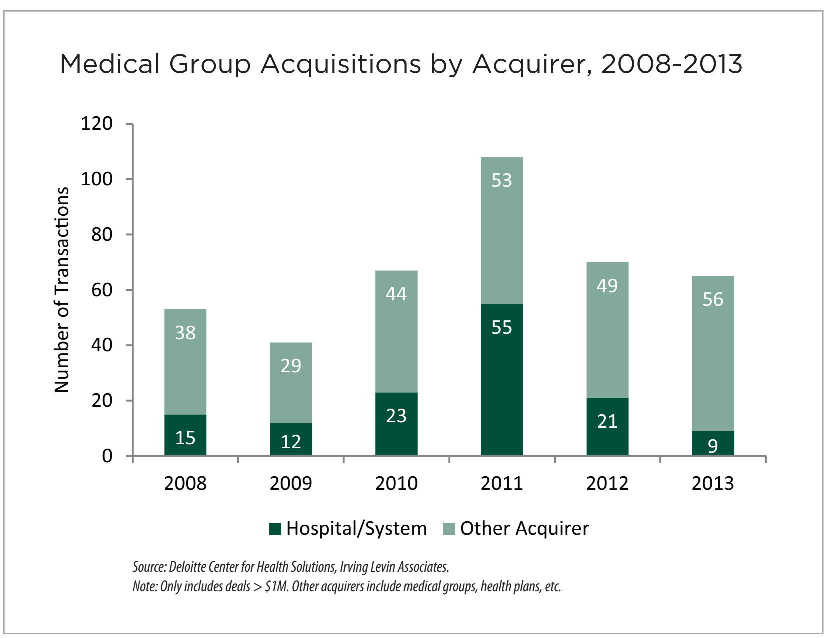
Physician Groups

Physician groups saw deal volume peak in 2011 at 108 announced acquisitions—a more than two-fold increase from 41 in 2009. Hospitals and health systems were the acquirers in more than half of the transactions. Recent trends suggest a still healthy but slowing pace of acquisition activity, with 65 announced deals in 2013.

We expect consolidation of physicians into larger organizations to continue. Findings from a Deloitte survey revealed that 66 percent of physicians surveyed believe physicians and hospitals will become more integrated over the next three years.[5] A 2013 survey completed by Jackson Healthcare revealed 52 percent of physicians surveyed sold their practices in 2013 to hospitals—illustrating that hospitals are the most likely buyers. Sixty percent of the acquisitions completed in 2013 were initiated by the sellers. Primary acquisition objectives cited by hospitals surveyed were to build their primary care networks, develop admissions and referral strategies, and solidify their positions in competitive markets.[6]

Health systems are looking to grow service lines, using physician groups as a means to drive hospital admissions and build centers of excellence in specialties such as oncology, cardiology, and orthopedics. Ultimately, transactions are aimed at better care coordination, with stronger physician alignment and positioning systems to better meet the demands of payors, particularly as more health plans move to narrow networks.[7] Findings from a *New England Journal of Medicine* study revealed that hospitals are ramping up physician employment to build integrated networks. Between 2000 and 2011, hospital employment of primary care physicians increased from roughly 20 percent to 59 percent, while employment of specialists increased from less than 5 percent to 42 percent.[8]

In September 2013, Chicago-based Northwestern Memorial HealthCare acquired physician group Northwestern Medical Faculty Foundation (NMFF), in a move that "...positions Northwestern Memorial for expected market changes, including national healthcare reform, by providing the platform for improving the patient experience through improved quality across care settings and enhanced care coordination," according to a statement in its most recent financial report. NMFF is now the second largest physician group in the Chicago area with 900 physicians, many of whom are specialists. The $349 million purchase price is reported to be one of the largest sums ever paid for a U.S. medical practice.[9]



Northwestern Memorial reported consolidated revenue of $1.2 billion for the six months ended February 28, 2014, a 42 percent increase from the same period a year ago, with the improvement directly resulting from the newly integrated physician group. In March, Northwestern Memorial signed a non-binding letter of intent for a potential affiliation with Cadence Health, a two-hospital system based in Winfield, Illinois.[10]

"[Consolidation is] part of a sustained national trend as health systems look to drive volume and revenues to the system," Dr. Phillip Polakoff, the chief medical executive in FTI Consulting's health solutions practice, told *Modern Healthcare*. Polakoff also indicated that transacting with a hospital is viewed as a way for physicians to buffer themselves against declining outpatient revenues.[7]

Speaking to the advantages of physician practice acquisitions, Dr. Marlon Priest, executive vice president and chief medical officer of Bon Secours Health System, told *Modern Healthcare*, "We think that to do population health, especially in chronic disease, you have to have an integrated system." The Maryland-based, 13-hospital system grew from 467 employed physicians in August 2009 to more than 760 physicians and advanced practice clinicians in 2013. Employed physicians are "part of the overall effort to provide a service to the community," said Priest. "I don't think you can do that if you don't have an integrated model of care."[7]

Physician acquisitions are defensive, said Dr. Alan Kaplan, chief executive officer of UnityPoint Clinic, the physician arm of UnityPoint Health, a 12-hospital, Iowa-based system, to *Modern Healthcare*. "You have to bring them in—and then you have to bring them in as efficiently as you can. It's really a strategic asset that requires investment."[7]

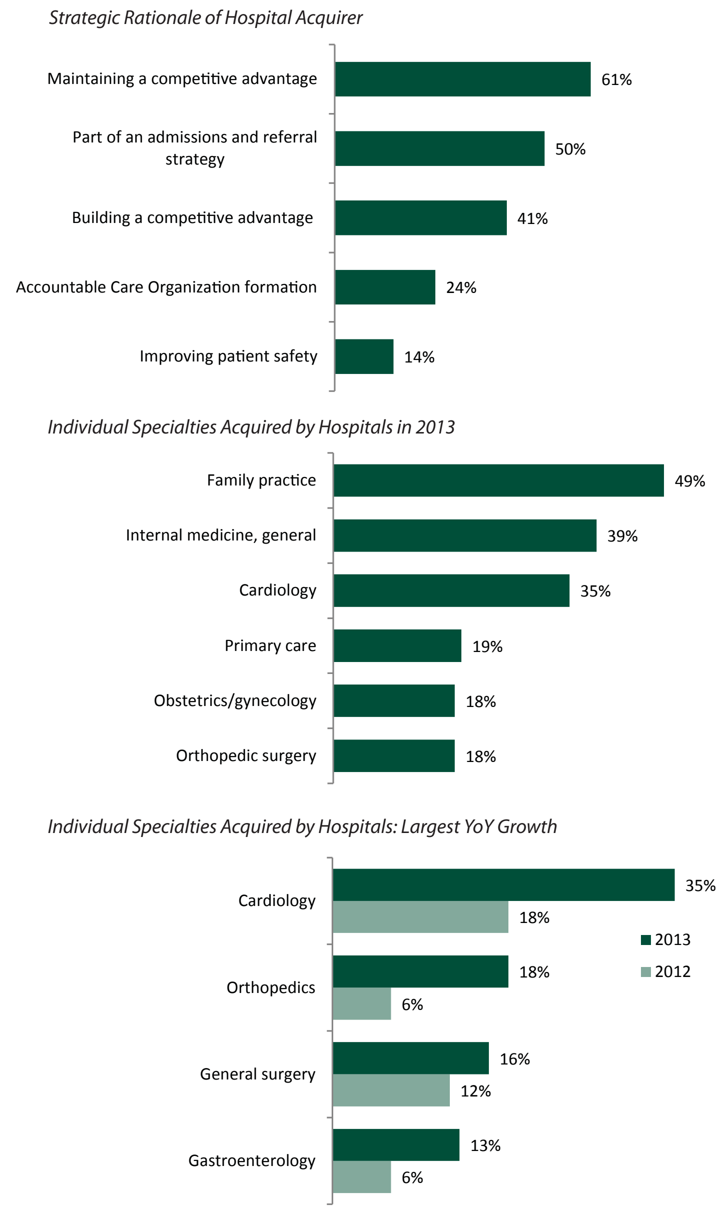
"Economics of physician alignment in the new era have changed," David Cooke, chief financial officer at LSU Medical Center told *Healthcare Finance News*, "with the focus of health systems moving away from increasing patient volumes to decreasing patient admissions and length of stay and avoiding re-admits."[11]

Ambulatory Surgery Centers

Ambulatory surgery centers (ASCs) are increasingly joining integrated provider networks and care systems, such as hospitals, health systems, and large multispecialty groups. By aligning with other healthcare providers, ASCs can increase their referral network, bringing in new patients and improving their operational stability. In a 2014 ASC Valuation Survey by Healthcare Appraisers, 46 percent of respondents reported they sold a controlling ASC interest to a hospital or health system.

Hospitals continue to be active acquirers of ASCs, primarily due to their desire to grow market share, capitalize on reimbursement arbitrage, and secure partnerships with community physicians. Multi-specialty centers are more commonly targeted due to their diversification and scale advantages. Nonetheless, single specialties such as ENT, general surgery, orthopedics, pain management, and spine are demanding high transaction prices due to favorable reimbursement and higher profit margins as cases shift to the outpatient environment.[12]

Physician Practice Acquisitions



Source: 2013 Trend Watch: Physician Practice Acquisition, Jackson Healthcare

Ancillary Services

Health systems are looking to increase their footprint in the outpatient market through the acquisition of ancillary services. Diagnostic imaging and urgent care are among the sectors seeing increased investment.

Increasing reimbursement pressure and high recurring capital equipment costs are influencing imaging centers to seek partnership opportunities, with smaller, single-modality centers facing the most headwinds in the current environment. In response to participation in bundled payment initiatives, hospitals are increasingly pursuing joint venture partnerships to capitalize on lower imaging costs in the outpatient setting.

Ancillary providers are looking at constructing non-conventional delivery systems aimed at controlling costs and focusing on quality. They are looking to build out these delivery care systems through the acquisition of physician practices. AMSURG announced this May it was acquiring outsourced physician services provider Sheridan Healthcare, a transformational play that will allow the company to enter an adjacent market and integrate anesthesia into its portfolio of ASCs. Sheridan also provides outsourced pediatric, emergency medicine, and radiology services. The transaction would represent an exit for Hellman & Friedman, which acquired Sheridan in 2007.[13]

Urgent Care Centers

Urgent care centers are filling a consumer need for convenience while satisfying the demands of payors looking for high quality, cost-effective medical care with better outcomes. "Delivering care with minimal wait time is the new obsession," said Tom Charland, founder of Merchant Medicine, in an interview with *Chicago Medicine*.[14] Urgent care facilities offer the potential benefits of improved access and cost containment by controlling spending growth with reduced visits to high-cost hospital emergency rooms.

Strong industry fundamentals have led to exponential growth, with the number of urgent care centers topping 9,000 in 2012 and generating an estimated $13 billion in revenue. More than 12,000 centers are forecasted by 2019, with industry revenues projected to surpass $21 billion.[15] Estimates from the Urgent Care Association of America forecast 8 to 10 percent growth in new centers annually.[16]

Multistate urgent care operators like Concentra (Humana), US Healthworks, American Family Care, and MedExpress are expanding, while regional hospital systems are participating in the upside through acquisitions and de novo expansion. Large hospital urgent care operators include Aurora HealthCare, the nation's largest hospital-operated urgent care provider, Intermountain Healthcare, and Carolinas HealthCare, among others. "The urgent care market is both growing and consolidating," said Charland. "We are seeing 'mom and pop' urgent care centers being gobbled up by larger players—both private equity backed entities as well as large hospital systems."[14] Early entrants through large acquisitions were Humana with its Concentra buy in 2010 and Dignity Health's acquisition of U.S. Healthworks in 2012. Other notable investments include Physicians Immediate Care, which received development capital from LLR Partners and Wellpoint in 2012 and American Family Care's purchase of Doctors Express, also in 2012.

In May, Tenet Healthcare announced the launch of MedPost Urgent Care, a national brand of urgent care centers which currently consists of 23 centers across eight states, part of its 190 outpatient facilities. The for-profit system stated plans to double the number of centers by year-end. Commenting on the expansion, senior vice president of outpatient services Kyle Burtnett said in a company press release, "The move to grow our urgent care business, along with our entire portfolio of outpatient facilities, is part of Tenet's broader corporate strategy to offer more services to patients and to expand into faster-growing, less capital intensive, higher-margin businesses."[17]

Urgent care centers offer expanded services with the same convenience as retail clinics like those found in CVS and Walgreens.[14] Tenet's MedPost centers are staffed by primary care, internal medicine, and emergency medicine physicians, as well as nurse practitioners and other health professionals, and also offer imaging and lab capabilities.[17]

According to national survey data from the Urgent Care Association of America, in 2012, 35 percent of urgent care centers were owned by physicians or physician groups, 30 percent by corporations, and 25 percent by hospitals. Another 7 percent were owned by non-physician individuals or franchisors. Hospital respondents in the survey viewed urgent care centers as a way to retain current patients and gain new ones by providing additional, more convenient access. Urgent care is "viewed as a funnel into our integrated health system," said a San Francisco health system executive in the survey, adding, "It's a way to get a referral to one of our affiliated providers. It's a gateway."[18] "Hospitals are looking at different business models," said Julie Hamos, director of the Illinois Department of Healthcare and Family Services (IDHFS), in an interview with *Forbes*. She further indicated that the IDHFS runs the state's Medicaid program and is encouraging hospitals to think differently in their strategies toward outpatient care. "Hospitals are thinking outside their brick walls and moving into their community."[16]

Urgent care is expected to grow in importance with a growing elderly population and increased demand for healthcare services, a shortage of primary care providers resulting in greater overflow to alternate care settings, an increase in insured patients under the Affordable Care Act, and continued development of ACOs.

M&A activity involving urgent care centers is expected to remain strong in 2014. Deals will be smaller, according to Geoffrey Cockrell, co-chair of the private equity group at law firm McGuireWoods, "since 80 percent of the urgent care companies have three or fewer locations."[19] "Smaller operators will not be able to cover the ebbs and flows of future patient demand as overhead costs get higher and revenue streams slimmer," commented Ted Bucknam, President of Concentra, in an industry roundtable conducted by law firm McGuireWoods. He continued, “Thus, the key survival decision for urgent care operators wanting to stay in business past 2019 will be which larger organization they will choose to affiliate or partner with.”[20] “Expect vigorous acquisition activity from all types of buyers to continue this year and into the next,” said Michael Weaver, senior director of development for Tenet Healthcare. “I would expect more of a fever pitch from hospital systems getting into the fray to acquire multiple locations. It all becomes a hub and spoke type strategy.”[19]

Resources

[1] Helen Adamopoulos, *5 Key For-Profit Hospital Consolidation Trends*, October 22, 2013, Becker's Hospital Review

[2] *Hospital and Other Health Care Service Company Valuations*, November 2013, VMG Health

[3] Julie Creswell and Reed Abelson, *New Laws and Rising Costs Create a Surge of Supersizing Hospitals*, August 12, 2013, The New York Times

[4] Margaret E. Guerin-Calvert, Jen A. Maki, PhD, *Hospital Realignment: Mergers Offer Significant Patient and Community Benefits*, January 23, 2014, Center for Healthcare and Economics Policy, FTI Consulting

[5] *2013 Survey of U.S. Physicians*, Deloitte Center for Health Solutions.

[6] *2013 Trend Watch: Physician Practice Acquisition, Which Physicians are Selling Their Practice & Why*, Jackson Healthcare

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[9] Molly Gamble, *Northwestern Memorial to Pay Nearly $350M for 900-Physician Group*, November 5, 2013, Becker's Hospital Review

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[14] Bruce Japsen, *Urgent Care Explodes in Chicago*, February 2013, Chicago Medicine

[15] Sarah Turk, *Urgent Care Centers in the US*, March 2014, IBISWorld

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[18] Tracy Yee, Amanda E. Lechner, and Ellyn R. Boukus, The Surge in Urgent Care Centers: Emergency Department Alternative or Costly Convenience? July 2013, Center for Studying Health System Change

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[20] Geoffrey Cockrell, John C. Saran, Barton C. Walker, *2019 and Beyond: Perspectives of 15 Urgent Care Leaders*, March 20, 2014, McGuireWoods and Urgent Care Association of America

Health First employs over 7,800 people and is Central Florida's only fully integrated health system. The private, not-for-profit system consists of four hospitals, numerous outpatient and wellness services centers, and the area's only trauma and heart centers.

Recently, Health First has been particularly active in expanding its physician base, exemplified by its acquisition of MIMA, the area's largest multi-specialty physician group, which was used as a platform to launch Health First Medical Group.

Mr. Felkner shares his insights on consolidation trends and the changing competitive landscape for hospitals and health systems.

Q&A with Joseph Felkner, CFO of Health First

BGL: What are the key factors driving consolidation?

Felkner: Revenue pressures are negatively impacting financial performance which ultimately drives the decision to consolidate. Reimbursement differences, depending on what region of the country or what region of a state you are located, may also have an impact. There certainly is a shift from volume to value, although it is a gradual shift. The ability to produce high quality results is getting measured and ultimately, we will be paid based upon some level of performance within quality and customer satisfaction metrics.

With revenue pressure as acute as it is right now, it has really raised the bar on cost containment. Scale is obviously one way to realize cost efficiencies in certain areas, support areas in particular.

IT / EMR requirements under meaningful use measures are driving providers to look for consolidation opportunities. Smaller players, and physicians in particular, lacking the financial means to invest in the technology needed to become compliant, will be a big driver in consolidation.

Older facilities, particularly if they are in markets where they compete with deep pocket systems or competitors that have more up-to-date facilities, are going to face more pressure to consolidate. It depends on the strength of the organization and their balance sheet.

Merging or consolidating with a larger and more advanced system may facilitate improvement in clinical utilization through sharing of best practices.

Large for-profit systems have their own dynamics and are going to respond to the public market considerations which could potentially impact consolidation in any specific market.

BGL: There seems to be a general trend that all services connected to a hospital system are being integrated. Are there any sectors that you see as not being viable for consolidation?

Felkner: I don't think that you have to control every point of access along the care continuum. Some of the smaller niche services, such as DME and certain wellness activities, could always be purchased as commodities. One of the provider areas that potentially could fall outside of that continuum is post-acute services. The post-acute space can be a bit challenging in which to operate, and some of that is driven by state regulation. I have seen hospital systems, in particular, perform fairly well when they enter into some form of partnership arrangement with a post-acute provider as opposed to having control and ownership. Certainly, if you can't find reasonably priced, high quality services along the continuum, then the make versus buy decision has to be made.

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BGL: What sectors are seeing increased activity?

Felkner: Physician services is still fairly active, which is being driven by the need to firm up referral bases, particularly on the primary care side in preparation for prepayment and capitation models of the future. In terms of specialties, primary care physicians are probably near the top of the list in terms of the importance of building a medical group.

Ancillary centers, whether it is surgery or imaging, will be targets for continued consolidation, particularly as reimbursements get cut and entities are excluded from payor networks. When you look at health systems that are based around hospitals more than any other service, the ancillaries are core businesses. I think staying close to our core business makes sense.

BGL: How will independent entities be positioned in the consolidation?

Felkner: I would never say that every independent facility or provider ultimately is going to have to be consolidated. There are a number of factors that would drive that. In addition, there are some providers that are fiercely independent and will find ways to survive. Conceptually, the smaller you are the harder it will be to survive just given all of these pressures on reimbursement, IT, and other bureaucracy that impacts financial performance. The more broadly you are dispersed geographically, provided you don't lose scale in that dispersion, the better the chances you have to survive over the long-term.

BGL: What impact is the push toward accountable care organizations (ACOs) having on consolidation, if any?

Felkner: I believe ACOs are a temporary mechanism used by the government and now by private payors to wring savings out of the system. The ACO model at the federal level has had mixed results at best. There has not been much, if any, financial benefit to the early adopters, which has led a number of them to drop out of the program. I think it is a short-term strategy to get to a different payment system, not necessarily pure capitation but certainly payment mechanisms that are more at risk. There is the ability for a provider to perform under these payment methodologies and benefit in a more effective way than currently possible under the ACO model. ACOs are not a viable long-term model in my opinion.

BGL: Are there other side effects as a result of consolidation that you are seeing in particular in your market?

Felkner: Any time you complete an acquisition there is integration risk. I would put that at the top of the list. It becomes very challenging on the personnel side—creating a structure, picking the right team, and handling change management to minimize disruption and morale issues.

Cultural differences have to be overcome when you put two or more groups together. Molding entities together in a way that ultimately creates a new

Q&A with Joseph Felkner, CFO of Health First

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culture, a third culture, is challenging and takes time. And people need to recognize that it takes time. In the meantime, you need to continue to be productive and perform well financially. Never underestimate the challenge of integrating different cultures.

Physician integration is probably the most challenging just given the nature of the industry. In many cases, physicians have been independent for years and are now subject to the rules of a large organization. For many, it is a difficult adjustment to make.

BGL: As consolidations continue, is there a greater need for non-acute treatment centers such as urgent care centers or freestanding emergency departments?

Felkner: The hospital and the hospital ED is probably the most expensive treatment setting so there will be a continuing effort to redirect the less acute patients into lower cost treatment settings. Urgent care centers certainly fall into that category of a less expensive setting. I think you will see continued growth in that sector.

"There will be a continuing effort to redirect the less acute patients into lower cost treatment settings. Urgent care centers certainly fall into that category of a less expensive setting. I think you will see continued growth in that sector."

Freestanding EDs potentially could be a less expensive treatment setting than a hospital-based ED. Ultimately, it would depend on what the cost structure of that free standing ED looks like. I think there probably is some future for them as well.

BGL: Is there a certain scale needed to operate urgent care centers?

Felkner: If you have one high-volume urgent care center, you can do just fine. If you have 10 centers that have good volumes and you are able to gain some scale efficiencies, for example by spreading IT costs across multiple sites, it can also be a viable model. It depends on the structure that you put in place and the way you are able to operate them. It has to be in the right location and have the volumes, or it is a nonstarter.

BGL: Are providers pursuing growth through acquisition or de novo expansion?

Felkner: We are looking more at de novo expansion in our market, although if there was an acquisition opportunity, we certainly would consider it. It is typically easier to build upon an existing center than it is to start something de novo. It comes back to acquisition price and if you can make it work under certain economic metrics. It becomes a make vs. buy decision.

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BGL: How much of a potential issue do you see in entities that are out of network?

Felkner: It is a balancing act. You have to look at the overall book of business and know what it means to you from a financial perspective. If it is a strategy going forward to be out of network and you are out of network with numerous payors, I think there is a lot of risk in that. As reimbursement is squeezed, it is probably going to become more important to be in network as long as you can achieve reasonable terms.

It will be interesting to see what happens to academic medical centers across the country. They need more reimbursement to cover their high cost structure. Are payors over the long term going to be willing to continue to reimburse them if they are able to channel volume to less expensive providers within the network? It is a phenomenon that over time is going to be interesting to see unfold.

BGL: There are a number of health providers which are opting out of governmental payor programs. Do you see these entities being viable in the long term?

Felkner: It is potentially viable, but it depends on the market and the program. When you opt out of government programs, you are already leaving 50 to 60 percent of the potential patients outside your door. You need a market that is going to be willing to either pay out of pocket or contract with you on a private commercial basis. It comes down to service, price, quality, and having a readily available market. If those components are in place, it should be a formula for potential success.

BGL: There is a view that the industry is undergoing a "reconsolidation" following the wave of activity that took place in the late 1990's. How is this consolidation different?

Felkner: Through the Affordable Care Act, the government is becoming even more intrusive in the way healthcare is delivered. Regulation is only going to become more stringent. This consolidation may be different in that there is better fiscal discipline than there was maybe 10 or 20 years ago, but there is still room for improvement. Also, there may be less flexibility in the deal terms being negotiated today.

BGL: When do you anticipate a reversal of the consolidation trend?

Felkner: We are in for long-term downward reimbursement pressures. This shift from volume to value is going to continue to put pressure on revenues. I don't see any reversal of the consolidation trend in the short term or the intermediate term. Longer term, I think it could depend on economics and whether people have the financial wherewithal to continue to consolidate.

Case Study in Value Creation

Indiana Hand to Shoulder Center

— acquired by —

IU HEALTH

BROWN GIBBONS LANG & COMPANY

Center Overview

Located in Indianapolis, Indiana Hand to Shoulder Center (IHSC) is the surgical facility component of Hand Surgery Associates of Indiana, Inc., a 10-physician group. Founded in 1971, IHSC has developed into a well-respected center of excellence specializing in injuries of the hand, wrist, elbow, and shoulder. With eight locations throughout central Indiana, it is the country's largest free-standing facility of its kind.

Transaction Overview

Indiana University Health (IU Health) acquired 100 percent of the operating assets of IHSC. Offer consideration was in the form of cash as well as class A shares in Competing Surgery Center, an operating subsidiary of IU Health. Physician-owned real estate was excluded from the deal, however IU Health entered into a long-term lease of the IHSC facility. Consummation of the transaction resulted in a diminished partnership between IHSC and the local acute care hospital. In conjunction with the transaction, IU Health entered into a professional services agreement and initiated a call coverage agreement with IHSC physicians.

BGL's Role in Value Creation

- BGL was the exclusive financial advisor to the selling shareholders and performed an evaluation of offer from IU Health.
- BGL presented the valuation of a minority stake in Competing Surgery Center, as well as forfeited annuity streams in the form of ER call agreements, professional fees, rental agreements, and medical directorship agreements with the competing local hospital.
- BGL provided deal analytics and assisted in the ongoing negotiations in order to assist the physicians in the evaluation of the economic impact of the transaction.

Case Study in Value Creation

Health First

— acquired —

MIMA

dedicated to your health

Brown Gibbons Lang & Company

Practice Overview

Formed in 1969, Melbourne Internal Medicine Associates (MIMA) is a multi-specialty physician practice. MIMA offers 16 physician offices, ancillary services, and walk-in clinic locations throughout Central and South Brevard County, Florida. The practice is comprised of 137 physicians in 31 specialties supported by approximately 700 employees.

Transaction Overview

Health First, a four-hospital system in central Florida, sought to strategically align with MIMA to create a unified, financially robust physician enterprise to address the expanding health needs of patients. BGL utilized its extensive valuation and advisory experience and understanding of physician enterprises to provide Health First with guidance relative to valuation and financial considerations.

BGL's Role in Value Creation

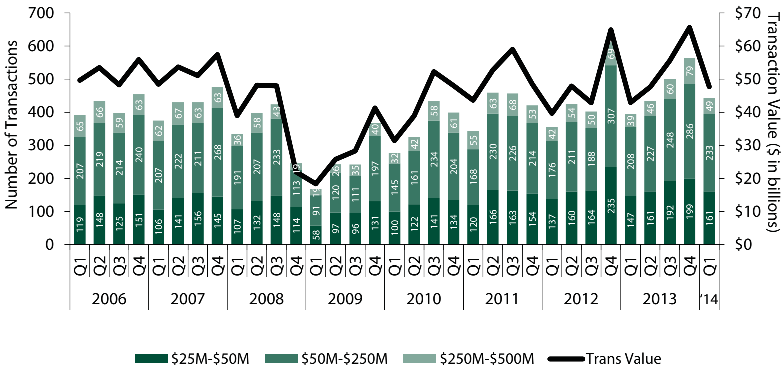
- BGL acted as an exclusive financial advisor for Health First in the transaction, advising on the financial and strategic implications of the transaction and opining on the value of each of MIMA's equity investments.
- BGL issued a Revenue Ruling 59-60 compliant fair market valuation opinion.
- BGL performed a detailed analysis of MIMA's operations, including analyzing its various services lines, locations, physician complement, reimbursement, and payor mix.

Mergers & Acquisitions

Overall M&A Activity 2006 - Current

Mergers & Acquisitions Activity

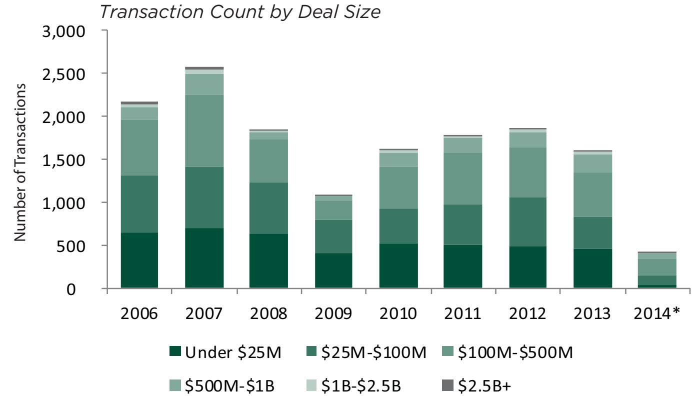
Middle Market M&A Activity



Based on announced deals, where the primary location of the target is in the United States. Middle market enterprise values between $25 million and $500 million. *SOURCE: S&P Capital IQ.*

Private Equity Transaction Activity

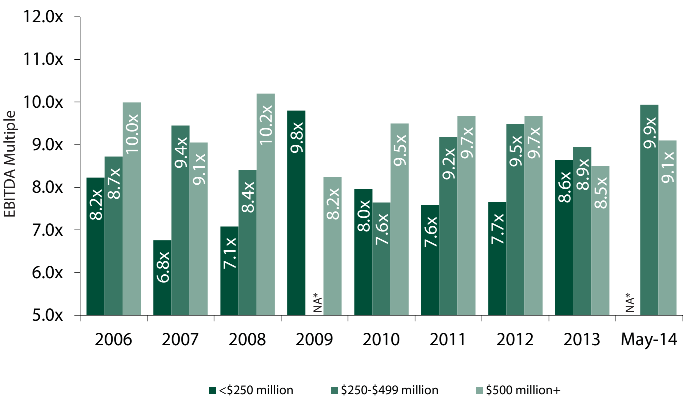
Transaction Count by Deal Size



Buyout activity only
**1Q14 Transaction Activity* *SOURCE: PitchBook.*

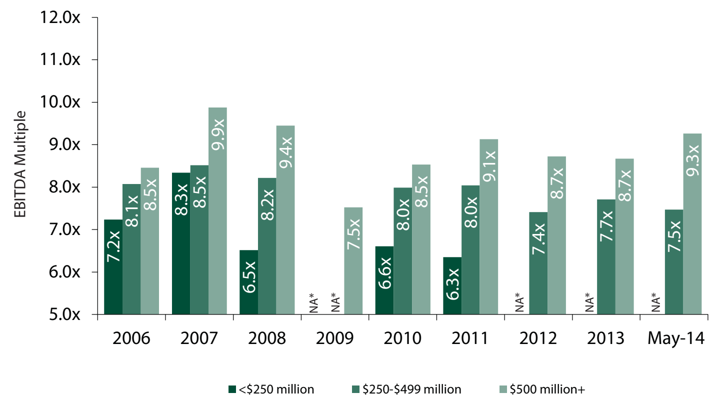
Trends in Valuation

Transactions with Strategic Buyers



**NA: Data not reported due to limited number of observations for period.* *SOURCE: Standard & Poors LCD.*

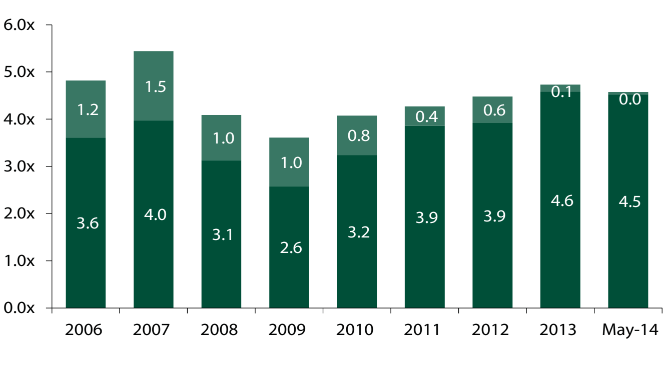
Transactions with Financial Buyers



**NA: Data not reported due to limited number of observations for period.* *SOURCE: Standard & Poors LCD.*

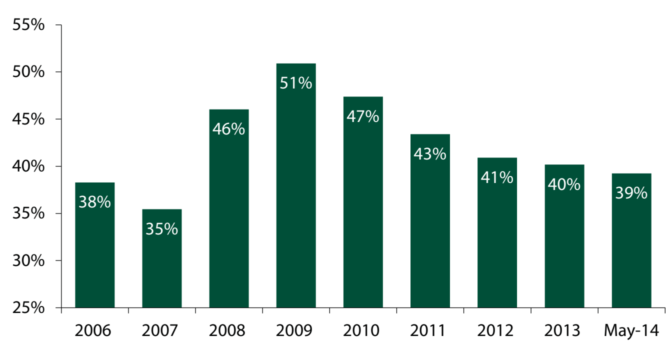
Acquisition Financing Trends

Leverage



Middle market enterprise values between $25 million and $500 million. *SOURCE: Standard & Poors LCD.*

Equity Contribution



Middle market enterprise values between $25 million and $500 million. *SOURCE: Standard & Poors LCD.*

Healthcare M&A Activity

NOTABLE ACTIVITY IN PROVIDERS

In May 2014, **AMSURG Corporation** (NASDAQ:AMSG) and **Sheridan Healthcare**, a portfolio company of **Hellman & Friedman, LLC**, announced that their respective boards of directors unanimously approved a definitive agreement under which AMSURG will acquire Sheridan Healthcare in a cash and stock transaction valued at approximately $2.35 billion. The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close in the third quarter of 2014. AMSURG and Sheridan expect the combination to create a unique business model that will better meet critical needs for physicians, health systems, communities, and payors. Sheridan Healthcare, a leading national provider of multi-specialty outsourced physician services to hospitals, ambulatory surgery centers (ASCs), and other healthcare facilities, is the country's number one provider of anesthesiology services and the number two provider of children's services, with strong operations in radiology and emergency medicine services as well. The combined company will have a total addressable market of approximately $70 billion and will encompass more than 4,600 physician relationships across 38 states.
Transaction Multiples: Not disclosed.

NOTABLE ACTIVITY IN LIFE SCIENCES & MEDICAL PRODUCTS

In May 2014, **Bayer AG** (DB:BAYN) agreed to acquire the **Merck Consumer Care Business** from **Merck & Co.** (NYSE:MRK) for $14.2 billion in cash. The acquisition will give Bayer the global number two position in non-prescription (over-the-counter, OTC) products following recently announced consolidations in this highly attractive and growing healthcare industry segment, and will significantly enhance Bayer's business across multiple therapeutic categories and geographies. Merck & Co., Inc.'s Consumer Care Business includes leading brands such as Claritin™, Coppertone™, and Dr. Scholl's™. In a related transaction, Bayer has entered into a global co-development and co-commercialization agreement with Merck & Co., Inc. in the field of soluble guanylate cyclase (sGC) modulators, for which Merck & Co., Inc. will make an up-front payment to Bayer of $1.0 billion, with substantial additional sales milestone payments.
Transaction Multiples: ~21.0x Pro Forma 2013 EBITDA

In May 2014, **Abbott Laboratories** (NYSE:ABT) announced a definitive agreement to acquire Latin American pharmaceutical company **CFR Pharmaceuticals S.A.** (SNSE:CFR). The acquisition will more than double Abbott's Latin American branded generics pharmaceutical presence and further expand Abbott's presence in fast-growing markets. This acquisition immediately establishes Abbott among the top 10 pharmaceutical companies in Latin America, further broadening Abbott's geographic presence across the region. Under the terms of the agreement, Abbott will acquire the holding company that indirectly owns approximately 73 percent of CFR Pharmaceuticals and will conduct a public cash tender offer for all of the outstanding shares of CFR. Assuming all publicly-held shares are tendered, the total purchase price would be approximately $2.9 billion, plus the assumption of net debt of approximately $430 million. Abbott expects the acquisition to add approximately $900 million to its sales in the first full year (2015), with expected double-digit sales growth over the next several years.
Transaction Multiples: ~4.3x Revenue, ~27.6x EBITDA

In May 2014, **Galderma Laboratories, L.P.** announced that **Nestlé S.A.** (SW:NESN), one of Galderma's shareholders, has entered into an agreement with **Valeant Pharmaceuticals International, Inc.** (TSX:VRX), through which Galderma will become the distributor of several key products in aesthetic dermatology. Galderma will gain full rights to commercialize Restylane, Perlane, Emervel, Sculptra, and Dysport for use in aesthetic dermatology in the U.S. and Canada. Restylane, Perlane and Emervel are manufactured by Galderma and sold by its subsidiaries globally, except in the U.S. and Canada, where Valeant holds the distribution rights under terms of a pre-existing agreement with Medicis. Sculptra is owned by Valeant and through this transaction, Galderma will commercialize it in the U.S. and Canada and select other markets around the world. Dysport (branded Azzalure in Europe) is marketed by Galderma and Valeant holds the distribution rights under an agreement with Ipsen. In February 2014, Nestlé announced that it had entered into an agreement with L'Oreal S.A. under which it will acquire the remaining 50 percent of Galderma owned by L'Oréal. Nestlé expects to complete its acquisition of Galderma in July 2014 and would expect to operate the acquired assets through Galderma.
Transaction Multiples: Not Disclosed

SOURCES: S&P Capital IQ, Levin Associates, Equity Research, and Company Filings.

In May 2014, **Valeant Pharmaceuticals International, Inc.** (TSX:VRX) revised its proposal to acquire **Allergan, Inc.** (NYSE:AGN). This revision increases the per-share cash consideration by $10.00 to $58.30 while keeping the stock consideration at 0.83 shares of VRX for each share of AGN for a total transaction value of $59.3 billion and an implied enterprise value of $55.7 billion. The proposal also includes a contingent value right (CVR) for Allergan's DARPin, an age-related macular degeneration drug in development, of up to $25.00 per share. As part of a transaction, Valeant would commit to invest up to $400 million in the development of DARPin and retain current Allergan employees responsible for development. The potential CVR value represents 40 percent of DARPin's net sales after recoupment of the development investment. Allergan is an international pharmaceutical company that specializes in ophthalmology, dermatology, neuroscience, cosmetics, and other specialties.
Transaction Multiples: ~8.6x Revenue, ~26.2x EBITDA

In April 2014, **GlaxoSmithKline plc** (LSE:GSK) announced a major three-part, multi-condition transaction with **Novartis AG** (SWX:NOVN) involving its **Consumer Healthcare, Vaccines, and Oncology businesses**. With the transaction, GSK shareholders will receive a £4 billion capital return funded by net cash transaction proceeds that is expected to be completed via a B share scheme. The transaction is expected to be accretive to core EPS from the first year, reflecting the execution of the intended B share scheme, and thereafter with growing contribution from 2017 as projected cost savings and new growth opportunities are delivered. The transaction is expected to close during the first half of 2015, subject to approvals. The three key components of the transaction are as follows:
GSK and Novartis will create a new leading Consumer Healthcare business with 2013 pro forma revenues of £6.5 billion. GSK will have majority control with an equity interest of 63.5 percent.

GSK will acquire Novartis' global Vaccines business (excluding influenza vaccines) for an initial cash consideration of $5.25 billion, with subsequent potential milestone payments of up to $1.8 billion and ongoing royalties.

GSK will divest its marketed Oncology portfolio, related R&D activities, and rights to its AKT inhibitor and also grant commercialization of partner rights for future oncology products to Novartis for an aggregate cash consideration of $16 billion (of which up to $1.5 billion depends on the results of the COMBI-d trial).
Transaction Multiples: Not Disclosed

In April 2014, **Mallinckrodt** (NYSE:MNK) agreed to acquire **Questcor Pharmaceuticals** (NasdaqGS:QCOR) for $5.6 billion. Under the terms of the transaction, Questcor shareholders will receive $30.00 per share in cash and 0.897 Mallinckrodt shares for each share of Questcor common stock they own, for a total approximate consideration of $86.10 per Questcor share. Subject to customary closing conditions, the transaction is currently expected to be completed in the third calendar quarter of 2014. With the transaction, Mallinckrodt is expected to be an increasingly diversified, high-growth specialty pharmaceuticals company with significantly increased scale, revenues, profitability, and cash flow, creating a strong platform to deliver sustainable growth and substantial value for shareholders of both companies.

Mallinckrodt expects the transaction to be immediately accretive to its fiscal year 2014 adjusted diluted earnings per share, and significantly accretive to its fiscal year 2015 adjusted diluted earnings per share. Mallinckrodt intends to provide investors with guidance for the combined company at a future point following the completion of the transaction. Mallinckrodt is a global specialty pharmaceutical and medical imaging business that develops, manufactures, markets and distributes specialty pharmaceutical products and medical imaging agents. The company's core strengths include the acquisition and management of highly regulated raw materials, deep regulatory expertise and specialized chemistry, formulation, and manufacturing capabilities. The company's Specialty Pharmaceuticals segment includes branded and specialty generic drugs and active pharmaceutical ingredients, and the Global Medical Imaging segment includes contrast media and nuclear imaging agents.
Transaction Multiples: ~5.4x Revenue, ~9.3x EBITDA

In April 2014, **Forest Laboratories, Inc.** announced that it will acquire **Furiex Pharmaceuticals** for $1.1 billion in cash. This deal positions Forest as a leader in gastroenterology (GI) pharmaceuticals. The deal will also include up to a $30.00 per share CVR for Furiex shareholders based on the status of Eluxadoline, Furiex's lead product, as a controlled

SOURCES: S&P Capital IQ, Levin Associates, Equity Research, and Company Filings.

drug following approval. Forest Laboratories (NYSE: FRX) is a leading, fully integrated, specialty pharmaceutical company largely focused on the United States market. Forest markets a portfolio of branded drug products and develops new medicines to treat patients suffering from diseases principally in five therapeutic areas: central nervous system, cardiovascular, gastrointestinal, respiratory, and anti-infective. Forest's strategy of acquiring product rights for development and commercialization through licensing, collaborative partnerships, and targeted mergers and acquisitions allows Forest to take advantage of attractive late-stage development and commercial opportunities, thereby managing the risks inherent in drug development.
Transaction Multiple: ~40.3x Revenue

In April 2014, **Zimmer Holdings, Inc.** (NYSE:ZMH) announced the acquisition of **LVB Acquisition, Inc.**, the parent company of **Biomet**, in a deal valued at $13.35 billion. The transaction has been approved by each party's board of directors, is subject to customary closing conditions and regulatory approvals, and is expected to close in the first quarter of 2015. The merger of Zimmer and Biomet will position the combined company as a leader in the $45 billion musculoskeletal industry and is aligned with Zimmer's strategic framework, which focuses on growth, operational excellence, and prudent capital allocation. The combined company is expected to deliver attractive growth by offering a more comprehensive and scalable portfolio of solutions with enhanced cross-selling opportunities. In addition, the combined company is expected to advance innovation to benefit healthcare stakeholders, and stockholders are expected to benefit from a more diversified and predictable revenue mix consistent with the comprehensive portfolio. Founded in 1927 and headquartered in Warsaw, Indiana, Zimmer designs, develops, manufactures, and markets orthopaedic, reconstructive, spinal, and trauma devices; dental implants; and related surgical products. Zimmer has operations in more than 25 countries around the world and sells products in more than 100 countries. Zimmer's 2013 sales were approximately $4.6 billion.
Transaction Multiples: Not disclosed.

In March 2014, **Johnson & Johnson** (NYSE:JNJ) announced the acceptance of a binding offer from **The Carlyle Group** (NASDAQ:CG) to acquire **Ortho-Clinical Diagnostics**, **Inc.** from JNJ. The transaction value agreed upon was $4.15 billion. Ortho-Clinical Diagnostics, Inc. delivers high-quality in vitro diagnostic products that give healthcare professionals around the world the knowledge they need to make better treatment decisions sooner. The company serves the global transfusion medicine community with donor screening and blood typing products to help ensure every patient receives blood that is safe, the right type, and the right unit. Ortho-Clinical Diagnostics also brings sophisticated information management, testing technologies, and automation and interpretation tools to clinical laboratories worldwide to help them run more efficiently and improve patient care. The Carlyle Group is a global alternative asset manager with $185 billion of assets under management across 122 funds and 81 fund of funds vehicles.
Transaction Multiples: Not disclosed.

In March 2014, **Sterigenics International, LLC**, a portfolio company of **GTCR LLC**, announced that it has entered into a definitive agreement to acquire **Nordion Inc.** (NYSE:NDZ). Upon completion of the transaction, the shareholders of Nordion will receive $11.75 per share in cash. The purchase price represents a premium of approximately 12 percent to the closing price of $10.48 per share on the NYSE on March 27, 2014 and a premium of approximately 24 percent over the 90-day volume weighted average price of $9.47 per share on the NYSE. As a standalone business within Sterigenics, Nordion operations will remain in Canada, with headquarters in Ottawa, and the company will continue to operate under the Nordion name. Nordion is a leading provider of medical isotopes and sterilization technologies that are used on a daily basis by pharmaceutical and biotechnology companies, medical device manufacturers, hospitals, clinics, and research laboratories. Sterigenics, headquartered in Deerfield, Illinois, operates out of 39 facilities in 11 countries across the Americas, Europe and Asia and provides outsourced contract sterilization services to the medical device, pharmaceutical, food safety and high performance/specialty materials industries.
Transaction Multiples: ~1.9x Revenue, ~7.0x EBITDA

In February 2014, **AstraZeneca AB** completed a deal to acquire **Bristol-Myers Squibb's** (NYSE:BMY) **remaining interest in Global Diabetes Alliance**. Global Diabetes Alliance engages in research, development, and commercialization of investigational drugs for Type 2 diabetes. Its products include Onglyza, Kombiglyze XR and Komboglyze, dapagliflozin,

SOURCES: S&P Capital IQ, Levin Associates, Equity Research, and Company Filings.

Byetta, Bydureon, Symlin, and metreleptin. The asset is located in West Chester, Ohio and Mount Vernon, Indiana. AstraZeneca is a global, innovation-driven biopharmaceutical business that focuses on the discovery, development, and commercialization of prescription medicines, primarily for the treatment of cardiovascular, metabolic, respiratory, inflammation, autoimmune, oncology, infection, and neuroscience diseases. AstraZeneca operates in over 100 countries and its innovative medicines are used by millions of patients worldwide. The deal was valued at $4.3 billion with a $2.7 billion upfront payment and the remainder subject to various milestone achievements and other contingencies.
Transaction Multiples: Not disclosed.

NOTABLE ACTIVITY IN OUTSOURCED SERVICES/ INFORMATICS

In May 2014, **Summit Partners** acquired **ABILITY Network, Inc.** in a recapitalization transaction valued at $550 million financed with cash and debt. ABILITY Network has been a national leader for over a decade in providing innovative, web-based workflow solutions that simplify clinical and administrative tasks for acute and post-acute healthcare providers. Over 40,000 providers use the myABILITY platform daily to help them manage their administrative and clinical processes. The investment represents one of Summit Partners' largest healthcare transactions to date. Summit Partners provides growth equity to exceptional entrepreneurs and management teams, including investments in companies in the technology, healthcare, and other growth sectors.
Transaction Multiples: Not disclosed.

In May 2014, **ICON Public Limited Company** (NASDAQ:ICLR) completed the acquisition of **Aptiv Solutions, Inc.** for approximately $143.5 million in cash. Aptiv Solutions is a recognized leader in the design and execution of adaptive clinical trials for pharmaceutical and biotech customers. The company also has in-depth experience in the management of medical device trials and its Japanese subsidiary, Niphix, is a full-service, oncology-focused CRO serving both Japanese and international customers. CON plc is a global provider of outsourced development services to the pharmaceutical, biotechnology, and medical device industries. The company specializes in the strategic development, management, and analysis of programs that support clinical development, from compound selection to Phase I-IV clinical studies.
Transaction Multiples: Not Disclosed

SOURCES: S&P Capital IQ, Levin Associates, Equity Research, and Company Filings.

In May 2014, **Healogics, Inc.** announced an agreement under which **Clayton, Dubilier & Rice, Inc.** will acquire **Healogics Holding Corp.**, the largest advanced wound care services provider in the U.S., from **Metalmark Capital** and **Scale Venture Partners**. The transaction is valued at $910 million. Headquartered in Jacksonville, Florida with approximately $300 million in sales and more than 2,000 employees, Healogics operates nearly 600 hospital outpatient Wound Care Centers®, or roughly one-third of all hospital outpatient wound care centers in the U.S., and treated over 215,000 patients in 2013. In addition, the company operates Sechrist Industries, the leading global manufacturer of hyperbaric oxygen therapy chambers ("HBOTCs") used in advanced wound care. *Inc.* magazine recently named Healogics, Inc. on its exclusive ranking of the nation's fastest-growing private companies and was recognized on *Modern Healthcare*'s list of 'Healthcare's Hottest' companies for 2013.
Transaction Multiple: ~3.0x Revenue

In March 2014, **Charles River Laboratories Interventional, Inc.** (NYSE:CRL) acquired the **CRO Services Division** of **Galapagos NV** (Euronext:GLPG), which includes both Argenta and BioFocus. The purchase price was approximately $179 million based on current exchange rates. In addition to the initial purchase price, the transaction includes future performance payments of up to approximately $7 million based on current exchange rates. These businesses are global leaders in integrated drug discovery services, with a predominant focus on in vitro capabilities. The acquisition will position Charles River as a full service, early-stage contract research organization (CRO), with integrated in vitro and in vivo capabilities from target discovery through preclinical development. Charles River provides essential products and services to help pharmaceutical and biotechnology companies, government agencies, and leading academic institutions around the globe accelerate their research and drug development efforts.
Transaction Multiples: ~2.1x Revenue, ~12.0x EBITDA

NOTABLE ACTIVITY IN PAYORS

In April 2014, **Magellan Health, Inc.** (NASDAQ:MGLN) completed the acquisition of **CDMI, LLC**, a privately-held company that provides a range of clinical consulting programs and negotiates and administers drug rebates for managed care organizations (MCO) and other customers. CDMI works with over 30 health plans and in 2013 had net revenues of approximately $43 million, primarily derived from rebate management. This acquisition will enable Magellan to offer proven, best-in-class clinical programs and outreach services to help manage chronic conditions, such as asthma and diabetes, as well as provide offerings that address drug compliance and adherence. This suite of clinical programs can greatly enhance a health plan's medical management and help ensure delivery of the highest quality services to their members. In addition, this acquisition will enhance Magellan Rx Management's existing clinical specialty drug and medical management support capabilities, bringing additional customers, relationships, and scale to this business. Furthermore, this acquisition will create opportunities for Magellan Rx Management to cross-sell its PBM capabilities into CDMI's existing customer base and the MCO market. Headquartered in Avon, Connecticut, Magellan is a healthcare management company that focuses on fast-growing, complex, and high-cost areas of healthcare, with an emphasis on special population management.

Transaction Multiple: ~8.8x Revenue

NOTABLE ACTIVITY IN HEALTHCARE REAL ESTATE

In June 2014, **Ventas, Inc.** (NYSE:VTR) announced that it will acquire **American Realty Capital Healthcare Trust, Inc.** (ARC Healthcare, NASDAQGS:HCT). The deal is valued at $2.6 billion and will give ARC Healthcare shareholders the option to receive 0.1688 shares of Ventas Common Stock or $11.33 in cash per share of HCT. The transaction is expected to close in the fourth quarter of 2014, subject to the approval of ARC Healthcare shareholders and satisfaction of customary closing conditions.

Ventas also announced that it will acquire **29 independent living seniors housing communities** located in Canada from **Holiday Retirement** in a separate transaction for CAD 980 million (approximately USD $900 million) in cash. The transaction is expected to close in the third quarter of 2014. The transactions are expected to be immediately accretive to Ventas's 2015 normalized Funds from Operations by at least $0.10 per share and have an expected unlevered yield of approximately six percent. Ventas, Inc., an S&P 500 company, is a leading real estate investment trust. Its diverse portfolio of nearly 1,500 assets in 47 states (including the District of Columbia), two Canadian provinces, and the United Kingdom consists of senior housing communities, medical office buildings, skilled nursing facilities, hospitals, and other properties.

Transaction Multiples, Ventas & ARC Healthcare: ~14.7x Revenue, ~31.0x EBITDA

Transaction Multiples, Ventas & 29 Senior Housing Communities: Not Disclosed

In March 2014, **NorthStar Realty Finance Corp.** (NYSE:NRF) agreed to acquire a **$1.05 billion portfolio of senior housing and skilled nursing facilities** from private investment partnerships **Formation Capital, LLC** and **Safanad Limited**. The portfolio, comprised of 43 primarily private-pay senior housing facilities and 37 skilled nursing facilities, would give NorthStar a healthcare real estate portfolio of over 160 properties totaling $1.6 billion in value. New York City-based NorthStar is acquiring the portfolio in a joint venture with Formation, a firm focused on senior care real estate and services and post-acute healthcare. NorthStar and its affiliates will contribute about 92 percent of the $430 million of equity to purchase the portfolio, and the venture will assume in-place financing for the remainder.

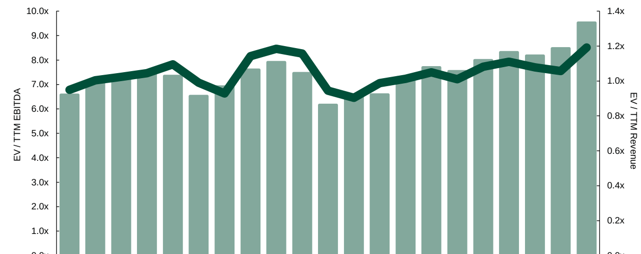
Transaction Multiples: Not Disclosed

SOURCES: S&P Capital IQ, Levin Associates, Equity Research, and Company Filings.

Industry Valuations

Public Company Relative Valuation Trends

Providers

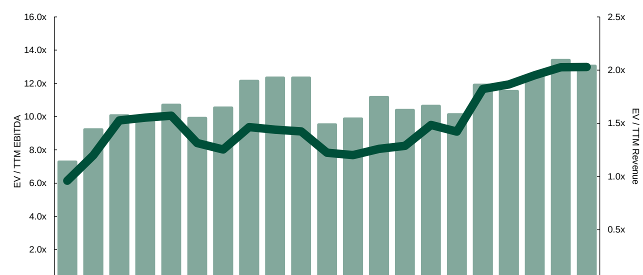


	09 Q1	09 Q2	09 Q3	09 Q4	10 Q1	10 Q2	10 Q3	10 Q4	11 Q1	11 Q2	11 Q3	11 Q4	12 Q1	12 Q2	12 Q3	12 Q4	13 Q1	13 Q2	13 Q3	13 Q4	14 Q1
EV/EBITDA	6.6x	7.1x	7.3x	7.4x	7.3x	6.5x	6.9x	7.6x	7.9x	7.5x	6.2x	6.5x	6.6x	7.3x	7.7x	7.5x	8.0x	8.3x	8.2x	8.5x	9.5x
EV/Revenue	0.9x	1.0x	1.0x	1.0x	1.1x	1.0x	0.9x	1.1x	1.2x	1.2x	0.9x	0.9x	1.0x	1.0x	1.0x	1.0x	1.1x	1.1x	1.1x	1.1x	1.2x

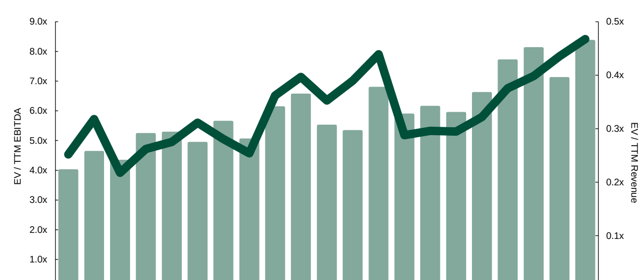
Medical & Life Science Products

	09 Q1	09 Q2	09 Q3	09 Q4	10 Q1	10 Q2	10 Q3	10 Q4	11 Q1	11 Q2	11 Q3	11 Q4	12 Q1	12 Q2	12 Q3	12 Q4	13 Q1	13 Q2	13 Q3	13 Q4	14 Q1
EV/EBITDA	7.5x	8.6x	9.6x	10.0x	9.8x	8.3x	8.7x	9.2x	9.4x	9.6x	8.1x	8.2x	9.1x	8.9x	9.6x	9.5x	10.8x	10.7x	11.9x	12.3x	12.9x
EV/Revenue	1.9x	2.0x	2.3x	2.4x	2.5x	2.1x	2.2x	2.4x	2.5x	2.6x	2.2x	2.2x	2.3x	2.3x	2.3x	2.3x	2.6x	2.6x	2.7x	2.9x	3.1x

Outsourced Services & Informatics



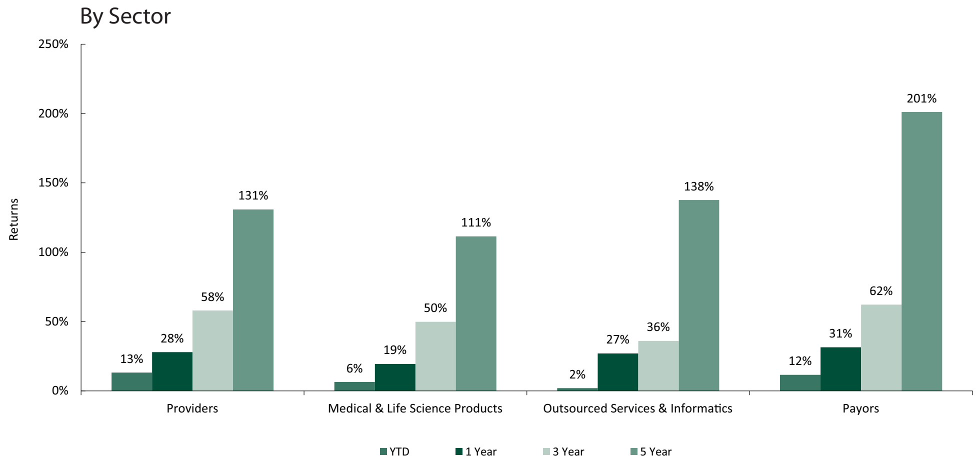
	09 Q1	09 Q2	09 Q3	09 Q4	10 Q1	10 Q2	10 Q3	10 Q4	11 Q1	11 Q2	11 Q3	11 Q4	12 Q1	12 Q2	12 Q3	12 Q4	13 Q1	13 Q2	13 Q3	13 Q4	14 Q1
EV/EBITDA	7.3x	9.2x	10.1x	10.0x	10.7x	9.9x	10.5x	12.1x	12.3x	12.3x	9.5x	9.9x	11.2x	10.4x	10.6x	10.1x	11.9x	11.5x	12.4x	13.4x	13.0x
EV/Revenue	1.0x	1.2x	1.5x	1.6x	1.6x	1.3x	1.3x	1.5x	1.4x	1.4x	1.2x	1.2x	1.3x	1.3x	1.5x	1.4x	1.8x	1.9x	2.0x	2.0x	2.0x

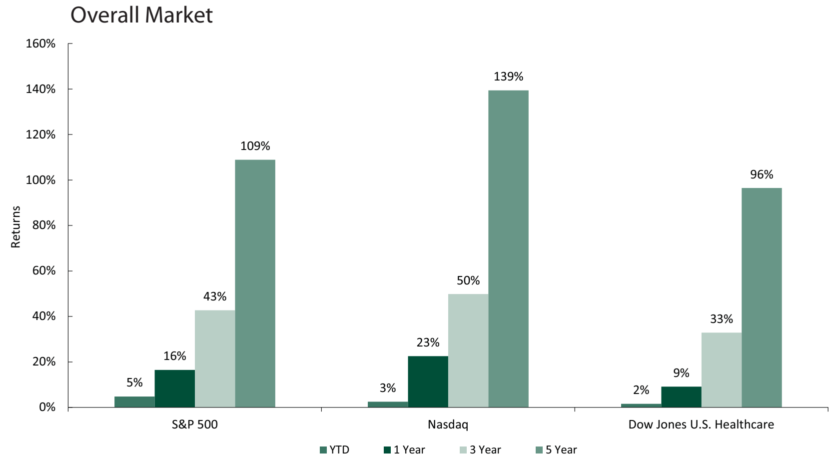


	09 Q1	09 Q2	09 Q3	09 Q4	10 Q1	10 Q2	10 Q3	10 Q4	11 Q1	11 Q2	11 Q3	11 Q4	12 Q1	12 Q2	12 Q3	12 Q4	13 Q1	13 Q2	13 Q3	13 Q4	14 Q1
EV/EBITDA	4.0x	4.6x	4.3x	5.2x	5.3x	4.9x	5.6x	5.0x	6.1x	6.5x	5.5x	5.3x	6.8x	5.9x	6.1x	5.9x	6.6x	7.7x	8.1x	7.1x	8.3x
EV/Revenue	0.3x	0.3x	0.2x	0.3x	0.3x	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x	0.4x	0.4x	0.3x	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x	0.5x

Industry Valuations

Sector Performance





Source: S&P Capital IQ.
As of 5/29/2014.

Global Healthcare & Life Sciences

Focus Areas

DIAGNOSTICS & RESEARCH TOOLS
- Instruments and Devices
- Point-of-Care Diagnostics
- Controls, Reagents, & Consumables
- Lab Equipment & Supplies
- Life Science Tools

MEDICAL PRODUCTS
- General Devices & Equipment
- Implantable Devices
- Surgical Tools
- Disposables
- Medical Supplies

OUTSOURCING & INFORMATICS
- Functional Outsourcing
- Clinical Solutions & Outsourcing
- Payor Services
- Pharmaceutical Services
- Distribution
- Staffing
- Wellness

HOSPITALS & HEALTH SYSTEMS
- For-Profit & Not-for-Profit Health Systems
- Academic Medical Centers
- Specialty Hospitals
- Rural Health Providers

POST-ACUTE CARE
- Long-Term Care Hospitals
- Rehabilitation Providers
- Senior Living
- Home Health & Hospice

OUTPATIENT SERVICES
- Ambulatory Surgery Centers
- Diagnostic Imaging Centers
- Laboratory Services
- Other Ancillary Service Providers
- Primary Care & Specialty Medical Groups

Who We Are

Leading Independent Firm

- Independent investment banking advisory firm focused on the middle market since 1989
- Senior bankers with significant experience and tenure; partners average over 20 years of experience
- Offices in Chicago and Cleveland
- Founding member and U.S. partner of Global M&A Partners, Ltd., the world's leading partnership of investment banking firms focusing on middle market transactions
- Deep industry experience across core sectors of focus, including: Healthcare & Life Sciences, Consumer Products & Retail Services, Energy & Environmental Services, Industrials, Metals & Metals Processing, Plastics & Packaging, and Real Estate

Representative Transactions

NFDA North Florida Dermatology Associates PA — acquired by — Advanced Dermatology and Cosmetic Surgery — a portfolio company of — Audax Group
Brown Gibbons Lang & Company

Christus Hospital St. Elizabeth & St. Mary — acquired — Beaumont Bone & Joint Institute
Brown Gibbons Lang & Company

Lehigh Valley Health Network — acquired — Westfield Hospital
Brown Gibbons Lang & Company

KBP Kentucky BioProcessing — a division of — Owensboro Health — acquired by — RAI Reynolds American
Brown Gibbons Lang & Company

University Healthcare Alliance — acquired — Associated Internal Medicine Group Inc.; Southbay Oncology Hematology Partners; Cardiovascular Consultants Medical Group, Inc.
Brown Gibbons Lang & Company

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