

# Healthcare

## 2012 Healthcare Update



## The 2012 Healthcare Environment by Steve Zielinski

Throughout the first half of 2012, constitutional challenges to the Affordable Care Act generated unprecedented uncertainties throughout the healthcare industry. These uncertainties were compounded by a slowing global economy that raised concerns and challenges for companies and investors alike.

Even so, **investors remain very interested in healthcare opportunities across various market subsectors.** In the wake of the global recession, healthcare utilization has been declining, with varying impacts across industry subsectors. Combine a baby boom generation heading into retirement (and its likely dramatic increase in consumption of healthcare services) with numerous, well-capitalized healthcare companies, and **the future for investment and M&A activity in healthcare businesses looks bright.**

All healthcare sectors face unprecedented fundamental strategic and structural changes in coming decade. These changes will create great opportunities for entrepreneurs to revolutionize healthcare delivery while disrupting established practitioners.

Sooner or later, healthcare reform will redefine how entitlements are managed and financed. Providers will face price and utilization pressures while investors scour private and commercial sectors for innovative solutions. **Companies that position themselves to benefit from reforms long-term will be, “Most Likely to Succeed.”**

Companies eventually will shift from fee-for-service to pay-for-performance models to increase quality while reducing costs. Accountable Care Organizations (ACO) will provide comprehensive care for patients. Companies will adopt electronic medical record systems, or face stiff reimbursement penalties.

The federal deficit, global recession, personal economic constraints and healthcare reform have reaffirmed that the **resources available to address Americans’ healthcare requirements are finite.** Fee-for-service arrangements continue to fall from favor as integrated service models replace silos. Gone will be the days where healthcare providers offer services independently with few questions asked. Significant changes in the reimbursement system are leaving providers and consumers uncertain as to what will or will not be covered. Patients in turn are becoming more educated regarding issues related to their care and its costs.

**Economic uncertainty fundamentally has changed the way patients perceive healthcare.** Saving money has become a singular focus as prospective patients demand, “Why should I pay for that?” and “What’s in it for me?” This is forcing doctors to use available data more effectively to communicate the efficacy of proposed healthcare offerings vis-à-vis their costs.

Most patients prefer an integrated healthcare approach driven by the convergence of payer, provider and delivery systems. While healthcare providers may not prefer this model, the patient-centric environment forces most to adapt as evidenced by the consolidation of payers, providers and physician groups, among others. Strategic alliances enable risk sharing and management across the continuum. While Accountable Care Organizations (ACO) were created in the Affordable Care Act, **integrated service models will be required to cover the spectrum of patient requirements to ensure high relative quality at low relative costs.**

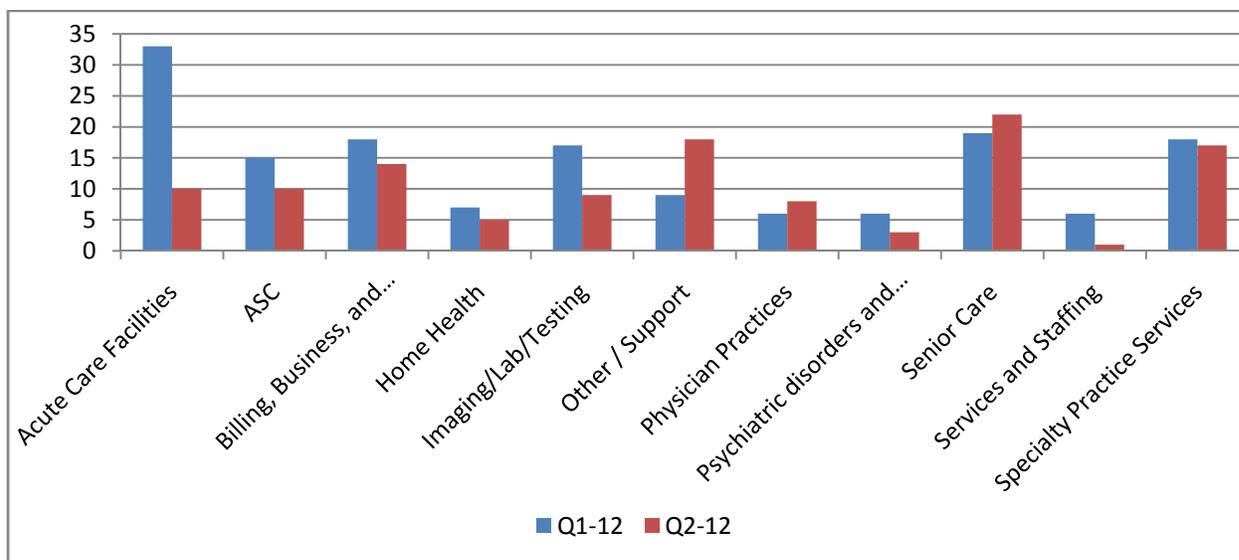
Trends toward integrated care, combined with uncertain regulatory reform and reimbursement coverage, have created tensions among all parties. Challenges include: who is responsible for what (given service crossovers)

and how revenues and profits should be shared. **Alliances and arrangements will re-engineer and transform America’s healthcare landscape over time.**

During the past year, the largest portion of transactions reaching due diligence involved the services subsector’s providers/caregivers/physicians, where M&A activity doubled vs. prior year activity. Ongoing **consolidation reflects an imperative to: aggregate resources, leverage economies of scale, diversify risk, and prepare for greater practice integration and complexity.**

The challenges and uncertainties relating to healthcare compliance and reform will not be resolved overnight. However, **businesses that successfully achieve the convergence of compliance and reform by emphasizing lower cost and high quality care will prove likely winners in the end.**

### Healthcare Services Sector 2012 Mid-Year M&A Transaction Volume



**Acute Care Facilities** – Includes full-service hospitals, inpatient and long-term care facilities.

**ASC – Ambulatory Surgical Centers** – Outpatient and same day surgery centers.

**Billing, Business and Payor Support Services** – Includes medical office support, patient records, and insurance carrier and HMO information processing.

**Home Health** – Home healthcare services, private duty and hospice.

**Imaging/Lab/Testing** – Imaging, diagnostics and health monitoring services.

**Other / Support** – Includes infusion, weight-management, blood banks, pharmacy-related and transportation services.

**Physician Practices** – Primary care physicians and mutli-specialty practice groups.

**Psychiatric Disorders and Drug Treatment** – Behavioral health and treatment centers and technologies.

**Senior Care** – Nursing homes, intermediate, rehabilitation and long-term care living centers.

**Services and Staffing** – Facility staffing, executive search and human resource consulting services.

**Specialty Practice Services** – Includes anesthesia, dental, oncology and cardiovascular practices.

## Medical Device M&A Trends by Michael LaMancuso

The highly-diverse US Medical Device industry is comprised of as many as 100 industry subsectors, including manufacturers of such electromedical and electrotherapeutic apparatus as magnetic resonance imaging equipment, medical ultrasound equipment, pacemakers, hearing aids, electrocardiographs and electromedical endoscopic equipment.

The US Medical Device industry also manufactures irradiation apparatus and tubes for medical diagnostic, medical therapeutic, industrial, research and scientific evaluation applications, among others. These subsectors comprise seven major medical device industry segments that collectively posted 16.3% average annual growth from 2006-2011.

While a more modest 6.4% average annual growth rate is projected for the US Medical Device industry through 2016, a more critical question remains: Should medical device companies buy or build their growth?

In a CFO.com study of the relationship between total shareholder return (dividends and share-price appreciation) and capital deployment practices of the 30 largest US medical-device companies over the last 10 years, it is clear that those firms that grew through R&D investments delivered higher shareholder returns than those that “bought” growth through acquisitions. By building cash balances, less acquisitive companies maintained lower debt levels and increased their strategic flexibility, which bodes well in creating value in the medical device industry.

While, such companies as DENTSPLY and Zoll Medical successfully have pursued growth through acquisition, most medical device company managements would be wise to emphasize internal R&D augmented by selective acquisitions.

## Select 2QTR 2012 M&A Transactions

**Trinity Health Corporation (Novi, MI) acquired Mercy Hospital & Medical Center (Chicago, IL) on 6/21/12.**

Trinity Health, the US’ 10th largest health system, operates in 10 states nationwide as a specialty care hospital focusing on women’s health, pregnancy and pediatrics, diabetes, ear, nose and throat, orthopedics, gastroenterology, and more. Trinity Health plans to invest \$150 million in Mercy Hospital. **Acute Care. Financial terms not disclosed.**

**The Ensign Group, Inc. (NasdaqGS:ENSG) (Mission Viejo, CA) acquired Zion's Way Home Health and Hospice (St. George, UT) on 6/1/12.** Zion's Way provides home health, hospice and integrative healing in Southern Utah and Northern Arizona, including nursing care, skilled physical assessment, medication management, diabetic care, tube feedings and post-operative care among many other services. Zion’s Way also provides a broad array of home health services, medical social worker services, patient and family emotional support and hospice services. **Home Health Care. Financial terms not disclosed.**

**Cannabis Science, Inc. (OTCBB:CBIS) (Colorado Springs, CO) acquired Trimcare (Las Vegas, NV) on 5/18/12.** Trimcare provides weight loss/management programs, including physician consultation and evaluation, cosmetic procedures, DNA diet and smoking cessation services, among others. It sells weight loss meal plans, snacks and protein supplements and operates an online store. Incorporated in 2009, it is based in Las Vegas, NV. **Other Healthcare Services. Financial terms not disclosed.**

**Children's Hospital Medical Center of Akron (Akron, OH) acquired Portage Pediatrics (Ravenna, OH) from Robinson Memorial Hospital (Ravenna, OH) on 5/1/12.** Portage Pediatrics' Ravenna and Streetsboro, OH practices will continue operating in their current locations as Akron Children's Hospital Pediatrics Ravenna and Akron Children's Hospital Pediatrics Streetsboro. **Physician Services. Financial terms not disclosed.**

**CHT Partners, LP (Holly Springs, NC) acquired a 55% stake in seven senior housing communities from Sunrise Senior Living Investments, Inc. (McLean, VA) on 4/27/12.** Sunrise Senior Living will continue managing the facilities – including 129 independent living units, 374 assisted living units and 184 memory-care units in Santa Monica, CA; Washington, DC; Baton Rouge and Metairie, LA; Gilbert, AZ; Louisville, KY and Lombard, IL – under new agreements. **Senior Care Services. CHT Partners paid \$56.8 million for its stake in seven Sunrise Senior Living communities.**

**Bench International Search, Inc. (Beverly Hills, CA) acquired TRIOS Search Partners (Manhattan Beach, CA) on 4/1/12.** TRIOS offers executive search and human resources consulting services in biotech, pharma and healthcare industries. It was founded in 2009. **Healthcare Staffing and Services Sector. Financial terms not disclosed.**

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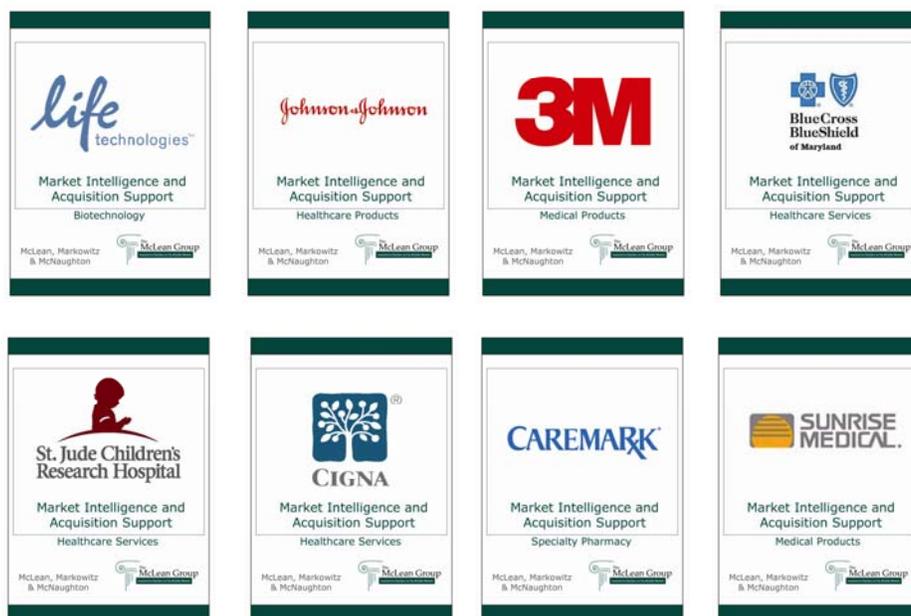
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## THE MCLEAN GROUP HEALTHCARE SERVICES PRACTICE

The McLean Group’s Healthcare team supports middle market healthcare companies by leveraging exceptional expertise in mergers and acquisitions and capital formation services. From identifying suitable acquisition targets to augment organic growth or build strategic capabilities, to providing advice on how to maximize the value owners realize when selling their businesses, to raising capital from private institutional sources to scale up operations, our Healthcare practice is committed to helping clients achieve their specific goals.

Our Healthcare team focuses on various industry sectors, including: healthcare information technology, medical devices, and biotechnology, among others.

### Select Healthcare Engagements



## THE MCLEAN GROUP OVERVIEW

The McLean Group is an investment bank providing mergers and acquisitions (M&A), capital formation, business valuation and strategic consulting services to middle market businesses. Headquartered in the Washington, DC metropolitan region, the firm has a presence in more than 30 cities in the US, serving domestic and international clients with a broad resume of successfully consummated financial transactions. Our research staff leverages state-of-the-art, proprietary corporate information and transaction data, providing our clients with unmatched information on which to make transaction decisions.