Harris Williams

Healthcare Market Update & Vertical Perspectives

July 20th, 2023

HCPEA
HEALTHCARE PRIVATE EQUITY ASSOCIATION

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Harris Williams Update

With a global platform and recognition for consistently exceeding our client's expectations, Harris Williams is the preferred investment bank providing M&A and private capital advisory solutions for premier assets.

Leading Full-Service M&A Advisory Practice

- Sell-side M&A
- Buy-side M&A
- Capital raises
- Fairness opinions

9 Global Offices Across the U.S. and Europe

AMERICAS PRIVATE EQUITY INVESTMENT BANK OF THE YEAR
Harris Williams
BY M&A ATLAS AWARDS
2022

OUTSTANDING M&A INVESTMENT BANK • OF THE YEAR •
Harris Williams
BY GLOBAL M&A NETWORK
2021

vault
TOP INTERNSHIP
2023

Private Capital Advisory Solutions

- GP-led secondary solutions
- Strategic advisory
- Investor relations

8	**30+**	**83%**	**70%**
Industry groups with deep sector expertise	Year firm history	MDs promoted from within firm	Revenue from repeat clients

CORE PRINCIPLES

- One Firm
- Execution Excellence
- Trusted Relationships
- Professional Integrity

Harris Williams

Healthcare & Life Sciences

HW's Healthcare & Life Sciences (HCLS) group is the most active in the market, providing us with unparalleled, real-time insights.

Sector Coverage

PROVIDERS

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

OUTSOURCED PROVIDER SERVICES

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

LIFE SCIENCES TOOLS

PROVIDER, PHARMA, AND DEVICE DISTRIBUTION

PAYORS AND PAYOR SERVICES

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

PHARMACY

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

CLINICAL LAB SERVICES

MEDICAL PRODUCTS AND DEVICES

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

HCIT

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

OUTSOURCED PHARMA SERVICES

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

Access to Strategic Buyers

PHARMALEX
a portfolio company of
AUCTUS
has been acquired by
AmerisourceBergen

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

STAXS
a portfolio company of
Silverfleet
has been acquired by
HANIEL

CenterPointe BEHAVIORAL HEALTH SYSTEM
a portfolio company of
NAVIMED CAPITAL HEP
SIGULER GUFF
has been acquired by
ACADIA HEALTHCARE

HEART of HOSPICE
a portfolio company of
EP EVENING POST INDUSTRIES
has been acquired by
LHC GROUP

CCRM FERTILITY
a portfolio company of
TA ASSOCIATES
has established a strategic partnership with
UNIFIED WOMEN'S HEALTHCARE
a portfolio company of
ALTAS PARTNERS ARES

Deep Relationships with Private Equity

GREENE GROUP INDUSTRIES
has been acquired by
TINICUM

GRAHAM PARTNERS
has acquired
Rhythmlink
a portfolio company of
NEW HERITAGE CAPITAL

INTERMED THE INTERMED GROUP
a portfolio company of
GRANITE BRIDGE PARTNERS
has been acquired by
Cressey & Company
HEP

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

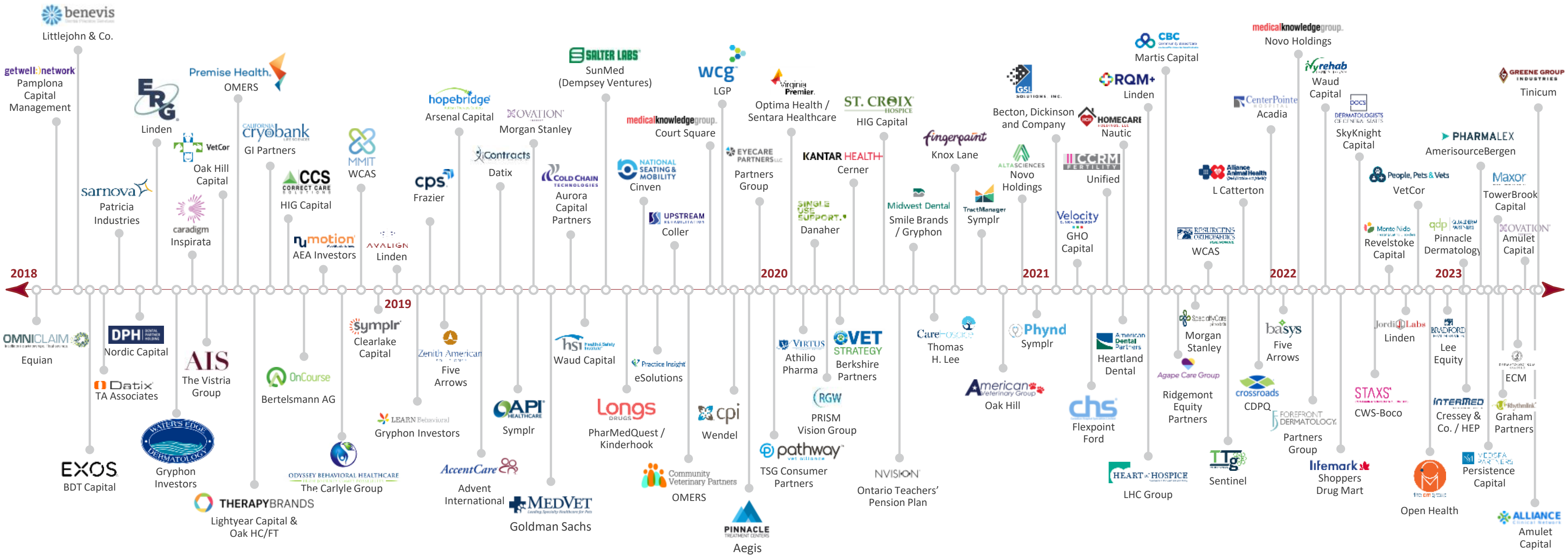
Monte Nido & Affiliates Treating Eating Disorders
a portfolio company of
LEVINE LEICHTMAN CAPITAL PARTNERS
has been acquired by
REVELSTOKE CAPITAL PARTNERS

DOCS DERMATOLOGISTS OF CENTRAL STATES
a portfolio company of
SHERIDAN CAPITAL PARTNERS
has been acquired by
SKYKNIGHT

Unmatched Healthcare Experience

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

70+ Dedicated HCLS Professionals with a Proven Track Record of Results



2018

getwellnetwork
Pamplona Capital Management

benevis
Littlejohn & Co.

OMNICLAIM
Equian

EXOS
BDT Capital

Datix
TA Associates

sarnova
Patricia Industries

DPH
Nordic Capital

ERG
Linden

WATER'S EDGE DERMATOLOGY
Gryphon Investors

caradigm
Inspirata

AIS
The Vistria Group

VetCor
Oak Hill Capital

Premise Health.
OMERS

THERAPYBRANDS
Lightyear Capital & Oak HC/FT

California cryobank
GI Partners

CCS
HIG Capital

OnCourse
Bertelsmann AG

motion
AEA Investors

ODYSSEY BEHAVIORAL HEALTHCARE
The Carlyle Group

MMIT
WCAS

2019

symplr
Clearlake Capital

AVALIGN
Linden

LEARN Behavioral
Gryphon Investors

cps
Frazier

Zenith American
Five Arrows

hopebridge
Arsenal Capital

AccentCare
Advent International

iContracts
Datix

API HEALTHCARE
Symplr

NOVATION
Morgan Stanley

MEDVET
Goldman Sachs

COLD CHAIN TECHNOLOGIES
Aurora Capital Partners

hsi
Waud Capital

SALTER LABS
SunMed (Dempsey Ventures)

Longs DRUGS
PharMedQuest / Kinderhook

NATIONAL SEATING & MOBILITY
Cinven

Practice Insight
eSolutions

medicalknowledgegroup
Court Square

UPSTREAM REHABILITATION
Coller

Community Veterinary Partners
OMERS

wcg
LGP

cpi
Wendel

PINNACLE TREATMENT CENTERS
Aegis

EYECARE PARTNERS
Partners Group

2020

pathway
TSG Consumer Partners

Virginia Premier
Optima Health / Sentara Healthcare

VIRTUS
Athilio Pharma

SINGLE USE SUPPORT
Danaher

RGW
PRISM Vision Group

VET STRATEGY
Berkshire Partners

KANTAR HEALTH
Cerner

ST. CROIX HOSPICE
HIG Capital

NVISION
Ontario Teachers' Pension Plan

Midwest Dental
Smile Brands / Gryphon

CareHospice
Thomas H. Lee

fingerpaint
Knox Lane

TractManager
Symplr

American Veterinary Group
Oak Hill

GSL SOLUTIONS INC.
Becton, Dickinson and Company

ALTASCIENCES
Novo Holdings

2021

Phynd
Symplr

CCRM FERTILITY
Unified

Velocity
GHO Capital

chs
Flexpoint Ford

HOMECARE
Nautic

American Dental Partners
Heartland Dental

RQM+
Linden

HEART to HOSPICE
LHC Group

CBC
Martis Capital

SpecialtyCare
Morgan Stanley

Agape Care Group
Ridgemont Equity Partners

RESURGENS ORTHOPAEDICS
WCAS

TTg
Sentinel

Alliance Animal Health
L Catterton

crossroads
CDPQ

CenterPointe
Acadia

2022

basys
Five Arrows

medicalknowledgegroup
Novo Holdings

FOREFRONT DERMATOLOGY
Partners Group

Vrehab
Waud Capital

lifemark
Shoppers Drug Mart

DOCS DERMATOLOGISTS
SkyKnight Capital

Monte Nido
Revelstoke Capital

STAXS
CWS-Boco

JordiLabs
Linden

People, Pets & Vets
VetCor

the cm group
Open Health

qdp
Pinnacle Dermatology

2023

BRADFORD
Lee Equity

INTERMED
Cressey & Co. / HEP

PHARMALEX
AmerisourceBergen

MEDSPA PARTNERS
Persistence Capital

Maxor
TowerBrook Capital

Rhythmlink
Graham Partners

NOVATION
Amulet Capital

ECM

ALLIANCE Clinical Network
Amulet Capital

GREENE GROUP INDUSTRIES
Tinicum

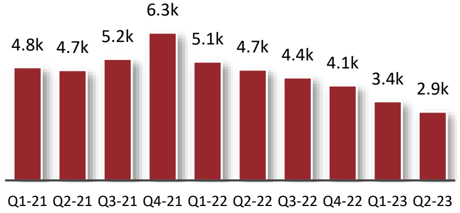
Market Dynamics Are Driving a Flight to Quality

While M&A volume has slowed over the last three quarters, the market remains open, and investors continue to be aggressive for the highest quality assets.

1

M&A VOLUME HAS MODERATED

CLOSED N. AMERICAN M&A TRANSACTIONS BY QUARTER[1]

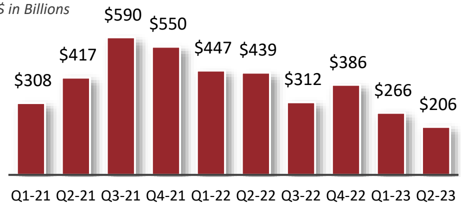


2

M&A CAPITAL INVESTED HAS MODERATED

CAPITAL INVESTED IN N. AMERICAN M&A TRANSACTIONS BY QUARTER[1]

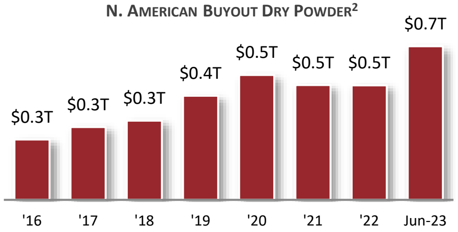
$ in Billions



3

PRIVATE CAPITAL INVESTORS HAVE GROWN CAUTIOUS BUT STILL MUST DEPLOY CAPITAL

N. AMERICAN BUYOUT DRY POWDER[2]

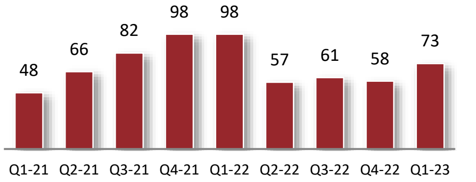


4

EARLY SIGNS OF LENDERS RETURNING TO THE MARKET

N. AMERICAN NEW LBO PRIVATE CREDIT LOANS[3]

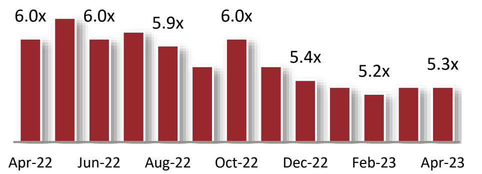
Number of LBOs Financed in Private Credit Markets



5

HIGHER INTEREST RATES HAVE INCREASED FOCUS ON FCC AND REDUCED LEVERAGE

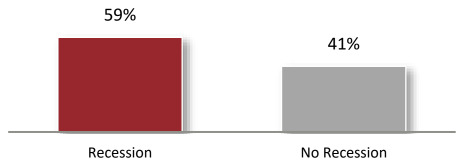
AVG. LEVERAGE OF UNITRANCHE PRIVATE CREDIT LBO[3]



6

NEAR-TERM MACRO TRENDS ARE UNCERTAIN

CONSENSUS ESTIMATES OF THE PROBABILITY OF RECESSION IN 2023 IS APPROXIMATELY 60%[4]



GENERAL MARKET TAKEAWAYS:

- **Investors adjusting to the new normal for leverage, cost of capital, and valuations**
- **Continued interest from both strategic and financial investors for "A quality" assets**
- **Companies in recession-resilient sectors with a demonstrated ability to manage through recent inflationary pressure continue to attract strong interest**

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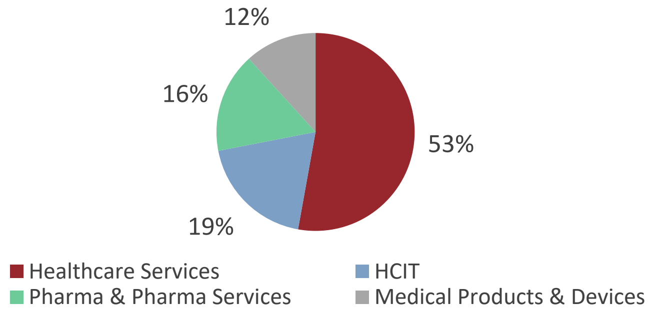
1) CapIQ
2) DLD Private Data
3) LCD
4) National Association for Business Economics

Healthcare M&A Market Update

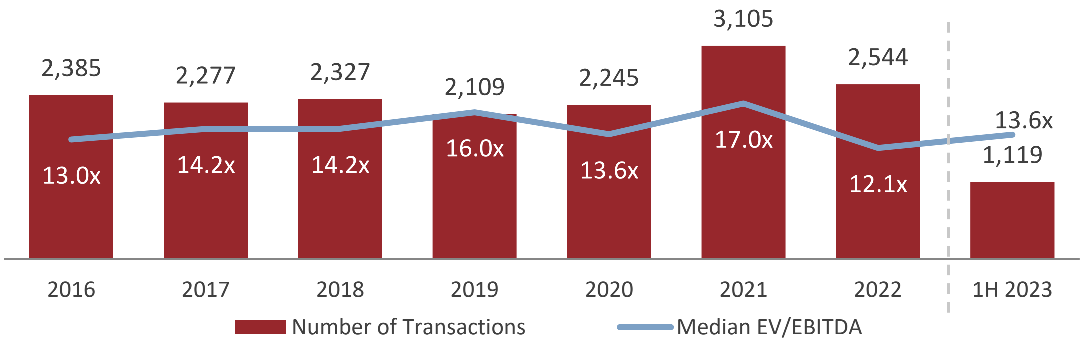
Healthcare has historically been resilient through economic cycles and HW believes healthcare will remain a safe haven as investors focus on recession resilient subsectors in 2023.

- Deal volume declined in 2022 vs. 2021 driven by subsectors, such as physician services, which faced challenges due to a tighter labor market, rising supply costs, and a slower-to-adjust reimbursement environment
- Recession resilient categories with an emphasis on cost containment have seen an uptick in investor interest, deal volumes, and valuations
- Public companies in the HCIT, payor services, and pharma services spaces have maintained the strongest valuations

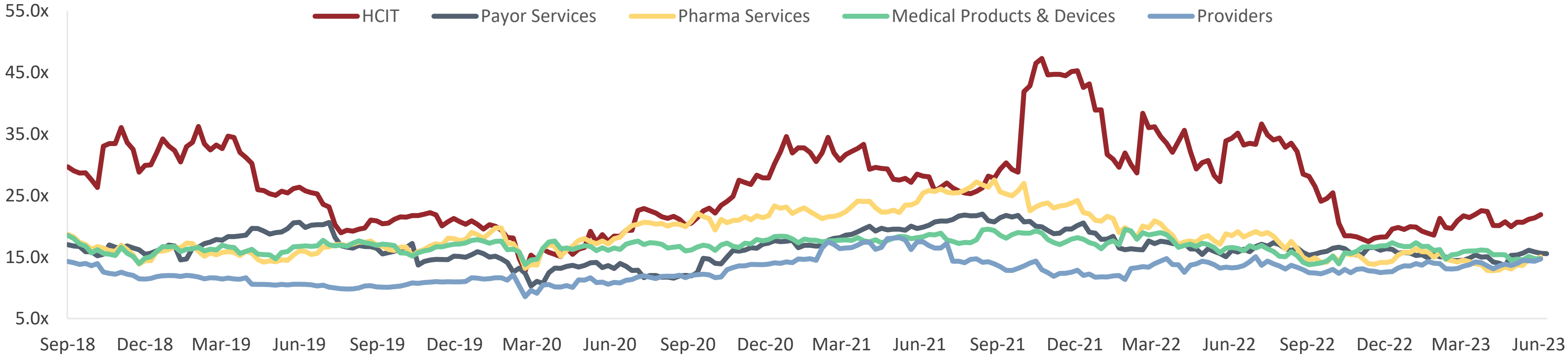
Deal Volume by Healthcare Subsector[1]



Announced Healthcare & Life Sciences Transactions[2]



Historical Trading Multiples[3]



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1) 2022 Deal Volume by Healthcare Subsector; S&P CapIQ
2) LBOs and Strategic M&A at or above $5m in EV; PitchBook, June 2023
3) S&P CapIQ, June 2023

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Dental

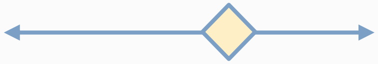
Trends We're Watching

- \+ Significant remaining fragmentation in the market presents a major opportunity for continued consolidation
- \+ Investors continue to look to add specialties to their general practice services, creating multi-specialty, regionally dense platforms
- \+ Attractive resiliency as proven by a strong rebound after the Great Recession and COVID
- \- Payor negotiations have remained challenging for dental platforms, as payor rate increases have lagged behind labor / wage inflation and other input costs within these businesses
- \- Clinical staff retention has been difficult in the tight labor market and continues to be a focus for most dental businesses, despite improvements in wage inflation rates
- \- Majority of recent platform transactions have been founder owned, given spread in bid / ask between buyers and private equity sellers

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

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

Dermatology

Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- Add-on M&A activity will continue at a consistent pace, but larger platforms are increasingly focused on driving organic growth
- Potential for a number of small-to-medium sized platforms to explore an exit in late-2023
- Muted platform activity in 2023 given a significant number of large trades in 2022 and broad focus on internal strategic initiatives

Fertility

Trends We're Watching

- \+ High degree of cash pay and greater ability to pass along price increases than virtually all other healthcare services sectors
- \+ International demand for U.S. fertility services is high, and with travel restrictions lifted post-COVID, patients will increasingly seek treatment in U.S.
- \+ While legislative clarity is still forthcoming in some states, there is limited anticipated impact on the broader sector based on the Dobbs decision
- \+ Among the fastest growing healthcare services sectors, with ~8-10% annual growth
- \+ Meaningful secular tailwinds and growing access expected to drive growth for decades
- \- While scaled platforms are extremely well positioned to continue to recruit physicians and grow their businesses, it is becoming increasingly difficult to create new platforms given overall physician supply

Economic Considerations

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

Assessment of M&A Activity in 2023

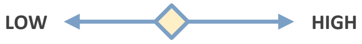
- The sector's strong and resilient performance, as well as insulation from inflation expected to continue driving high investor interest
- Several new platforms of scale have emerged in sector over last two years
- Several scaled transactions completed and ongoing YTD, including USF-Ovation merger and Eugin (in process)
- Strategic platforms backed by well capitalized sponsors looking to deploy more capital and expand service offerings

OB/GYN

Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

- Multiple scaled platforms have traded within the past two to three years and are early in their hold periods, thus the muted activity in 1H 2023 is expected to continue into the second half of the year
- The next group of platform OB/GYN companies are gaining scale and are more likely to transact in 2024 or beyond

Physical Therapy

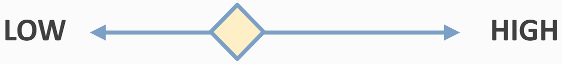
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



- High level of platform transaction activity between 2H-20 and Q3-22 with a number of established platforms having recently transacted
- Next wave of mid-sized platforms beginning to mature and should drive transaction activity, likely weighted towards 2024
- Patient demand and cost of care fundamentals of market remain highly attractive; heightened labor availability challenges over last several years beginning to ease
- Impact of wage pressure may result in some businesses that otherwise would have come to market waiting until 2024
- Several of the larger platforms not actively pursuing scale M&A over near- to medium-term as they are inwardly focused

Veterinary Services

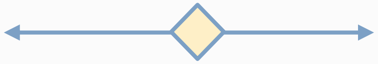
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

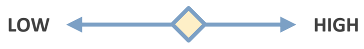
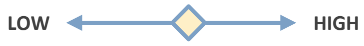
- Continued M&A activity of small add-ons as practice owners are motivated to partner with larger platforms in the current economic environment
- Mid-sized platforms are expected to come to market as sponsors seek to realize investments and companies seek to access additional capital to fund de novo and acquisition-driven strategies
- Larger platforms have pulled back from the M&A market to focus internally on organic growth levers
- Lower-tier platforms have come to market seeking a strategic partner and/or new equity to fuel continued M&A growth
- Rise of de novo driven platforms seeking growth equity investments to fuel new hospital openings

Vision

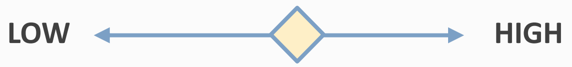
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



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

Gastroenterology

Trends We're Watching

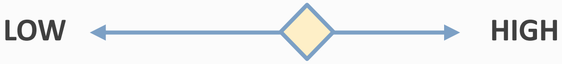
+ Stable reimbursement environment, with professional and facility fees in-line relative to prior years and some reimbursement rates increasing given further hospital price transparency as ambulatory surgery center (ASC) reimbursement rates move in-line with hospital-based outpatient department (HOPD) rates
+ Highly fragmented market, where significant consolidation opportunity remains, with 1,300+ unconsolidated practices across the country
+ Margin optimization capabilities through the expansion of ancillary service offerings, including ASCs, in-office endoscopy suites, anesthesia, and pathology
+ Emergence of value-based care as a service model is increasingly prevalent in the gastroenterology sector

- Shortage of GI physicians expected to exceed 1,600 physicians by 2025, resulting from increased demand for screening and preventive medicine by an aging population
- Many larger groups have transacted in the last several years, leaving mainly smaller players available as M&A targets for existing platforms
- Pure play platforms are being challenged by the emergence of multi-specialty providers seeking regional density

Economic Considerations

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

Assessment of M&A Activity in 2023



- 10 major platforms today, with four having previously traded from one private equity firm to private equity firm
    - Three platforms are likely to come to market in the next 12 months
- Expectation that privately owned practices are likely to continue to roll up into existing practices
- Vertical integration has become an M&A play as payors have begun adding GI practices to their portfolios

Orthopedics

Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

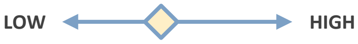
- Currently on the front end of the first wave of secondary platform trades; roughly 15 PE-backed platforms have scaled and performed well, with a handful of platforms planning to go to market in 2023
- Strong momentum for add-on investments in the highly fragmented landscape

Urology

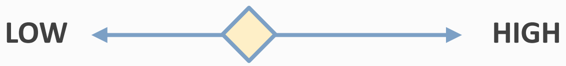
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



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

Behavioral Health

Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- Very active sector, which has maintained momentum through COVID, and is expected to remain active in 2023 driven by strong, but unfortunate tailwinds
- Investors will favor in-network providers able to demonstrate leading clinical outcomes
- Compelling market opportunity for novel treatment modalities (e.g., psychedelic assisted therapy) and settings (e.g., home-based and school)
- Heightened activity / interest in providers which serve the adolescent / young adult demographic given unmet demand for treatment and family (e.g., private pay), commercial insurance, and government support for fragile patient population

HCIT

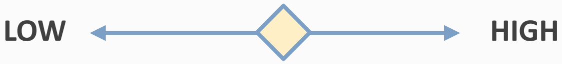
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



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

Home Health & Hospice

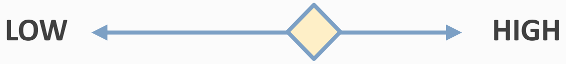
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



- M&A has continued to be slower, though activity has picked up from 2022 levels as labor pressures in the sector have eased
- The most notable M&A in the sector has been at the top of the market, where Optum has grabbed headlines by acquiring / agreeing to acquire two of the top three largest home health and hospice providers in the country over the past twelve months (LHC Group and Amedisys). This has also accelerated questions in the market about who will be the next payor to acquire a home health provider
- Home health M&A is expected to pick up once the market has final clarity on the 2024 proposed rate, which will be released in November, and a number of hospice providers are gearing up for 2024 exits

Medical Products and Devices

Trends We're Watching

- \+ Manufacturers and service providers continue to consolidate key suppliers to ensure on-time deliveries, production of high-quality products, and reduction of down time of hospital equipment
- \+ The drive for innovation remains constant, as both start-up and established players develop next-gen products and devices to improve patient care and reduce costs to patients and providers, resulting in higher value products with attractive margins
- \+ Medical products and devices companies have a variety of attractive organic and M&A growth levers they can pull on, such as, product portfolio expansion, geographic expansion, addition of new and complimentary manufacturing or service capabilities, and new/existing customer growth
- \+ Continued trend of outsourcing is driving strong growth and investor appetite in the contract manufacturing and outsourced medical devices services subsectors
- \- Medical products and devices companies expect continued labor and supply chain challenges which may impact a company's ability to meet demand

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- Corporates focused on smaller add-ons in 2023 and strong demand from investors likely to increase activity for OEM platforms
- The CMO pipeline remains robust and there is corresponding interest among investors
- Significant transaction volume over last 24 months in outsourced medical device services likely to continue into 2H 2023

Outsourced Provider Services

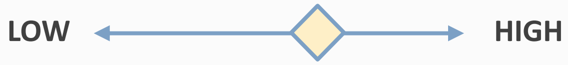
Trends We’re Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



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

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

Payors & Payor Services

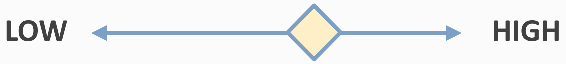
Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023



- M&A activity has remained strong in the sector, with half a dozen deals that we have been tracking closing so far this year and several other transactions currently in the market
- M&A multiples have remained in-line with historical medians, with a couple transactions trading at high teens and 20x+ multiples in 2023
- We have seen increased investor interest in the sector, particularly around cost containment business models that are recession resistant and models benefiting from industry trends such as growth in self-insurance and movements toward value-based care
- Debt financing has not been an issue with the sector, with several transactions being financed north of 5x leverage

Pharma Services

Trends We're Watching

- \+ The trend of outsourcing by biopharmaceutical companies will continue in 2H 2023
    - \+ R&D costs have risen and the challenges of commercializing products have increased, which is driving outsourcing by biopharmaceutical manufacturers
    - \+ Small pharma and biotech are increasingly leading novel compounds through commercialization, driving a new wave of customers for outsourced pharma services and tech providers; these smaller companies are even more likely to outsource than large pharma
- \- The biotech funding cycle will likely be the greatest question in 2H 2023
    - \- More likely to impact businesses in early phase R&D, as opposed to late-stage or commercialization platforms, which will be minimally affected
    - \- Longer term little concern on the funding cycle as small pharma and biotech will continue to drive innovation and attract capital to fund research and development activities

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- Tremendous deal activity seen over the last several years, has slowed in the first half of 2023. However, HW expects the sector to continue to be active driven by the relative attractiveness of the sector compared to other healthcare sectors with a strong organic growth profile, less margin compression from wage inflation, and opportunities to consolidate fragmented subsectors
- The slow down in biotech funding and the general economic cycle have caused a minor flattening of the organic growth curve with subsectors exposed to early phase research more impacted than those exposed to late phase research or commercialized products

Pharmacy

Trends We're Watching

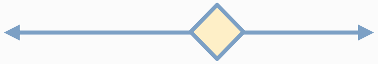
+ Pharmacy models that have unique differentiation or add more value to the healthcare ecosystem than pure play pharmacy models are in favor with investors and include:
  + Value-added outsourced service providers to health systems, such as outpatient specialty pharmacy management that creates a new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

- Payors are putting additional pressure on reimbursement rates for specialty drugs
- PBM continues to be a challenging sub-sector due to concerns around the sustainability of profits from rebates and their value-add in the healthcare system

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- Pharmacy continues to be an attractive sector with strong momentum after an active 2022 for add-on investments in the highly fragmented market
- Continued consolidation of the larger strategics (Optum / UHG, Evernorth / Cigna, Elevance, CVS, etc.) who are highly interested in acquiring specialty pharmacy
- M&A activity is expected to vary between sub-sectors with infusion and health system outsourcing remaining the most active

Primary Care

Trends We're Watching

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

Economic Considerations

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

Assessment of M&A Activity in 2023

LOW  HIGH

- M&A activity in 2023 has slowed following the past few years when many value-based primary care companies raised money at lofty valuations
- Pockets of activity have occurred for companies that manage discrete, high-cost populations, and HW expects this theme to continue

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