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Private Equity Investment in Healthcare: 15 Healthcare Investment Niches – A Review of Key Sectors for 2015

SCOTT BECKER
312.750.6016 | sbecker@mcguirewoods.com
77 West Wacker Drive, Suite 4100
Chicago, IL 60601-1818

GEOFFREY C. COCKRELL
312.849.8272 | gcockrell@mcguirewoods.com
77 West Wacker Drive, Suite 4100
Chicago, IL 60601-1818

BARTON C. WALKER
704.373.8923 | bwalker@mcguirewoods.com
Fifth Third Center
201 North Tryon Street, Suite 3000
Charlotte, NC 28202

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www.mcguirewoods.com

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Private equity investment in healthcare continues to grow considerably. This article provides thoughts, observations and insights on 15 investment niches. It also provides some initial thoughts on the market as a whole.

Here, we divide the article into three parts. First, there is a review of investment by private equity as a whole. Second, the article discusses the largest investment areas – for-profit hospitals and health systems, health information technology – EHR, laboratory business, medical devices and behavioral health. Third, it discusses 10 other areas including urgent care, dental practice management, ambulatory surgery centers, dermatology, care and case management, back office services for ACOs and population health, anesthesia practice management, revenue cycle management, pharmacy and pain management.

Overall, there continues to be a tremendous amount of interest in the following sectors: mature hospital companies, lab and toxicology companies, health IT companies, behavioral health, dental practice management, urgent care, anesthesia, dermatology, pain management, surgery center companies, revenue cycle and back office services. It will be interesting to see if increased consolidation of health systems and payers impacts the performance of some of the sectors.

Bart Walker, a partner at McGuireWoods LLP, notes that behavioral health and dental practice management are seeing a great deal of activity currently. Mr. Walker summarizes certain initial thoughts as follows:

1. Regulatory scrutiny of lab arrangements has remained extremely tight. Despite years of somewhat aggressive tactics by some entities, OIG and whistleblowers continue to find new fodder for litigation and investigations. (See "OIG Fraud Alert on Lab Payments to Physicians" (July 2014), "OIG Advisory Opinion 13-03" and the April 2014 settlement with Health Diagnostics Laboratory Inc. and Singulex Inc.). Continually slashed rates for lab testing coupled with certain dominant players (e.g., LabCorp, Quest) who often have exclusive arrangements with a lot of payers creates an environment that may encourage aggressive practices to remain a viable competitor.

2. The dental industry still remains incredibly fragmented, but a number of well-funded, private equity-backed companies are working to roll up the space. At the same time, state boards are much more active in policing corporate practice of dentistry than their medical board counterparts.

3. Urgent care is back. After a hiatus of 18-24 months, we are seeing a resurgence of interest in urgent care and some new and interesting models, specifically around freestanding ERs and joint ventured urgent care.

4. The legal and regulatory issues surrounding dermatology are very interesting — these practices and groups potentially have elements of lab testing, in-office and ASC-based surgery and cosmetics all under the same roof.

5. A key challenge the pain management sector faces is tension among competing policy interests. On the one hand, you have the need for increased testing to make sure patients are on adequate doses and to try to combat opioid addiction problems. But on the other hand you have challenges with overutilization that are hard to police.

I. Healthcare Investment Overview

1. Healthcare Investment Growth. The healthcare arena has moved from a situation where boutique private equity funds and boutique lenders focused on the arena to a spot where all or most major lenders and private equity funds spend a great deal of time in the broader healthcare arena. According to KPMG, global healthcare private equity deals doubled from 2010 to 2011. Bain & Co.'s 2015 Global Healthcare Private Equity Report states that 188 healthcare buyouts occurred in 2014, down 10 percent from 2013, and strategic M&A deal value in the healthcare industry nearly doubled from 2013 to $406 billion.

Healthcare is often defined, for investment purposes, to include several broad categories and dozens of niches. Healthcare includes provider-based companies, (1) entities that actually serve patients such as providers and health systems (such as Nashville, Tenn.-based hospital operator Hospital Corporation of America); (2) healthcare lite, e.g., health IT and revenue cycle management companies, or organizations that sell into or provide services to providers (such as Healthcare Property Investors, a healthcare real estate investment trust); and life sciences, i.e. medical device and pharmaceutical companies (such as Johnson & Johnson).

2. The Scope of Private Equity Investment in Healthcare. In 2014, slightly more than $29.6 billion, a dramatic increase from $16 billion in 2013, was reportedly invested in healthcare by private equity funds in the form of healthcare buyout deals globally, according to Bain. As in previous years, North America led investment activity; five out of the top 10 deals involved targets in the U.S. Two mega-deals contributed to the increase in value of deals from 2013: the $4.4 billion purchase of MultiPlan led by Starr Investment Holdings and Partners Group and The Carlyle Group's approximately $4 billion purchase of Johnson & Johnson's Ortho-Clinical Diagnostics business.

II. Larger Investment Areas

1. For-Profit Hospitals and Health Systems. There continues to be great interest in for-profit hospital companies. The PPACA and King v. Burwell decision have largely been positive for the large hospital companies. (See "CHS, Tenet, HCA, LifePoint and UHS shares surge after SCOTUS upholds subsidies," *Becker's Hospital Review*, June 2015). There are huge, publicly traded for-profit companies that have enjoyed large growth in the last couple years, such as HCA and Community Health Systems (acquired HMA), as well as smaller private equity hospitals that continue to aim for growth, such as Capella Healthcare, based in Brentwood, Tenn., and others (Capella recently sold for a reported $900 million dollars. See "Capella to be sold for $900M: 5 things to know about the deal," *Becker's Hospital Review*, July 2015.) In one example of why for-profit hospitals attract investors, HCA's share prices have climbed steadily in recent years (up over 50 percent in the past 12 months alone), and the hospital operator's main investors — such as Bain Capital and KKR & Co. L.P. — sold additional stakes in the public company for billions.

The consolidation of large payers provides some concern for hospitals and health systems and many other providers. See *"Anthem Buys Cigna – And Then There Where Three – 7 Key Points"*. See also *"The 10 Largest for Profit Hospital Companies"*.

Private equity firms have also profited from recent mega-mergers in the for-profit space. For instance, Blackstone Group LP — Nashville, Tenn.-based Vanguard Health Systems' largest shareholder

— collected more than $600 million from Vanguard's sale to Tenet Healthcare Corp. in Dallas. In addition, real estate investment trust Ventas recently acquired Ardent Health Services for $1.75 billion.

According to *Modern Healthcare*, private-equity healthcare deals in recent years have included a string of hospital acquisitions, and investors have said more deals will follow. But with an influx of private equity comes the inevitable exit of those very same investors, often within three to seven years. And those investors seek to leave with healthy profits, raising concerns that whatever profit they take could come at the expense of companies they own.

2. Healthcare IT and EHRs. According to Bain, private equity interest in health IT assets was strong again in 2014, but deal activity was tempered due to a longstanding trend of high valuations, thanks to competition from strategics and strong financial markets. Enticing IPO markets also drove many VC-backed firms straight to IPO without passing through private equity ownership, such as venture-backed firms Castlight Health and Everyday Health, which made their IPO debuts in 2014.

Private equity investments in health IT were tempered in 2014. Venture capital, however, flowed abundantly into the segment. According to Rock Health, VC funding for US companies in the digital health space in 2014 was $4.1 billion, nearly equal to the total funding of the previous three years combined .Notable assets that received venture funding during the year were telemedicine company Teledoc, payer services asset MedHOK and respiratory digital therapy firm Propeller Health. The level of venture activity heralds a sizable pool of assets to capture private equity interest in years to come, even if some go straight to IPO or strategic buyers without passing through private equity hands.

A great deal of the health IT action now focuses beyond the large EHR systems installed by hospitals and providers.

The EHR market has matured to a significant extent. A once-crowded field of vendors has narrowed significantly. The top 10 EHR vendors account for nearly 60 percent of the total hospital EHR market (from greatest market share to smallest): Epic, eClinicalWorks, Allscripts, Practice Fusion, NextGen Healthcare, GE Healthcare, Cerner, athenahealth, McKesson, Amazing Charts. However, there are additional EHR vendors, such as Centricity, Practice Fusion, VA-CPRS and athenahealth that are among the most-used EHRs by physicians. (See "50 things to know about the EHR market's top vendors," *Becker's Hospital Review*, July 2015.)

Hospitals and health systems are typically in the middle of the EHR discussion, but payers are starting to enter the conversation as well. With health insurance companies concerned with cutting down costs and improving the health outcomes of patient populations, some payers, such as Aetna, are now mining data collected from EHRs to try to intervene and steer consumers to a healthier lifestyle.

As the industry increasingly turns to data and analytics to address healthcare costs, private equity investments in health IT originally centered on EHR systems. Now it focuses just as much on systems that analyze data and a whole range of other applications. For example, private equity investors Peloton Equity and Zaffree Investments, among others, recently invested $13 million in Arcadia Healthcare Solutions, a leading EHR data aggregation and analytics technology company. In total, the first two quarters of 2015 saw 139 deals in the digital health market sum $2.1 billion from investors.

3. Laboratory Businesses. Over the last few years, the OIG has increased scrutiny on lab businesses due to expansion in this area. For example the growth rate of lab business billed to Medicare is

three times that of other businesses. See *"Doctors Cash in On Drug Testing for Seniors and Medicare Pays the Bill, Wall Street Journal, Christopher Weaver and Anna Wilde Mathews – May 10, 2014). T*he lab business, both on a large scale and small scale, remains a huge area for investment, coinciding with a focus on preventive care and coordinated efforts to treat patients with chronic disease. For instance, Levine Leichtman Capital Partners has invested $110 million in Genova Diagnostics Inc., a specialty clinical laboratory with a testing approach tailored to personalized treatment and prevention of chronic disease.

Avista Pharma Solutions acquired the GMP contract manufacturing, development and animal health services business of Scynexis. As part of the transaction, Avista will occupy Scynexis's former research and GMP manufacturing facility in Durham, N.C., and hire substantially all employees associated with the contract services business.

In 2014, Theranos, a laboratory diagnostics company, had a valuation of $9 billion and received more than $400 million funding from venture capitalist heavyweights such as "Silicon Valley legend" Don Lucas Sr. and Oracle co-founder Larry Ellison. The company's most significant invention is a patch that not only delivers medication to the bloodstream, but can simultaneous test the blood to assess the effectiveness of the therapy, and uses a cellphone chip to send results in real-time to physicians. Other patents include a new method of blood testing that uses just 1/100th to 1/1,000th of the amount currently required for diagnostic testing and minimizes the already minor discomfort of a finger prick, according to *Fortune*.

4. Medical Devices. The medical device arena continues to focus around the five to 10 largest companies. However, there are hundreds of small and mid-sized device startups and small companies that are either trying to be entrepreneurial middle men or direct providers of devices. Medical device sales are expected to grow 4.9 *percent* annually through 2016 as a result of technological innovation and the aging population. Although the industry faces some challenges (such as reduced reimbursement, the Patient Protection and Affordable Care Act's 2.3 percent medical device tax and the FDA regulatory process), fields such as orthopedics, telehealth and mobile health have still experienced growth. For example, Wall Street Health Partners has invested $50 million in RTI Biologics' purchase of Pioneer Surgical Technology, Inc. — a prominent provider of orthopedic and other biologic implants.

Strategic buyers continued to dominate the medtech sector. Many sought to expand their product portfolios through acquisitions. For example, Cardinal Health purchased home healthcare supplier AssuraMed for $2 billion, Thermo Fisher Scientific acquired genetic testing firm Life Technologies for $15 billion and Valeant Pharmaceuticals bought Bausch + Lomb Holdings for nearly $9 billion. That competition — plus the general lumpiness and cyclicality of the sector — meant another down year for medtech private equity activity. The only private equity deal worth more than $1 billion in the sector was KKR's $1.7 billion stake in Panasonic's healthcare business. As a result, medtech represented only 13 percent of total healthcare private equity deal value and 19 percent of deal count. Notably, there were additional private equity investments in multi-industry companies with medtech business lines, such as Cinven's $2 billion acquisition of CeramTec, a maker of ceramic parts for replacement knees and hips as well as components for the auto and electronics industries, but this activity was not enough to change the overall balance between private equity and strategic buyers by much.

Medtech investors continued to focus on product-based companies over service-based ones; for example, Anacacia Capital acquired Hills Holdings' healthcare equipment business. Other product subsectors that saw investments include diagnostic equipment, orthopedic equipment, medication delivery devices, cardiac implants and dental implants. There was even some animal health interest, such as The

Riverside Company's acquisition of a controlling stake in Simcro, a New Zealand manufacturer of medication delivery devices for production animals.

5. Behavioral Health. There has been a significant increase in investment interest in behavioral health, including substance abuse businesses, and this investment interest is widespread across the spectrum of investors. The spike in interest is due to the increased demand for behavioral health services, and the requirement that health insurance companies do not use more restrictive requirements when reimbursing mental health and substance-abuse related claims than they do with medical related claims.

The combination of increased demand, a lack of adequate providers and increased sources of payers has created opportunities for private equity investors in the behavioral health market, according to a recent *Law360* report by industry experts from McGuireWoods and HCP & Co. Investments in 2013 included Kinderhook and Mansa Capital providing additional funding (building on an initial investment from Kinderhook in 2011) to E4 Health, which provides employee assistance programs and behavioral health risk management programs, according to Bain.

In October of 2014, Acadia Healthcare Company bought CRC Health Group from private equity firm Bain Capital for $1.2 billion. Meanwhile, AAC Holdings, the parent company of American Addiction Centers, which operates six substance abuse facilities across the U.S., has seen its shares climb 109 percent since its IPO last October.

In 2011, approximately 21.6 million Americans needed addiction treatment for a problem related to drugs and alcohol, although only about 2.3 million received treatment in a specialty facility at that time, according to a McGuireWoods report. The PPACA's expansion of coverage for behavioral health and substance abuse specifically has garnered the interest of investors. Reimbursement in this sector has been on the rise: From 2002 to 2011, the National Survey on Drug Use and Health found the number of respondents using Medicaid and Medicare payments for treatment increased by 23.1 percent and 19.5 percent, respectively. In May, WellSpring merged with Cornerstone, which operates 120 substance abuse facilities in Illinois, Indiana, Kentucky and Tennessee, and Prairie Center, a central Illinois provider.

III. Specialized Investment Areas

1. Urgent Care. There is a tremendous increase in interest in investing in urgent care. This includes investment in firms such as CVS' Minute Clinic (one of the first broadly rolled out urgent care companies) to standalone emergency departments to simple urgent care units. There was an almost 20 percent growth in existing clinics in the past four years, with the total number of urgent care clinics exceeding 9,000, according to a February 2014 McGuireWoods report. The expansion is expected to continue; IBIS World estimates the sector will produce more than $18 billion in revenues in 2017 at more than 12,000 clinics. Private equity investment has driven the expansion in recent years. For example, in June of this year, ABRY Partners, a leading private equity firm, completed a majority stake acquisition of FastMed Urgent Care, the second largest independent urgent care organization in the U.S. (See "20 things to know about urgent care," *Becker's Hospital Review*, June 2015.)

Along with growth in urgent care comes the evolution of orthopedic-specific urgent care. This involves the development of urgent care models centered on particular specialties. These are often created to feed an orthopedic practice, as well as for profit. For instance, OrthoNOW has established itself as a franchise business of specialized orthopedic urgent care centers. The company opened its first location in Miami in 2010 and became a franchise program last year with a network of urgent care centers.

According to a recent analysis of the urgent care industry, despite a decrease in the number of urgent care clinics as of late, investors have pumped roughly $3 billion into the burgeoning urgent care industry since 2008. Also, in a 2014 white paper from McGuireWoods and UCAA, one industry professional predicted the urgent care industry will see a lot of activity through 2019 and beyond, since some large metropolitan areas could support two to three times the number of current urgent care providers.

Geoffrey Cockrell, chairman of the private equity group at McGuireWoods law firm, offered the following insight on urgent care: “Two years ago, urgent care was a white-hot industry. Then, prices increased and the investing market dried up, leaving only strategic buyers. There are not many platforms of scale to support financial buyers’ investment. Recently, however, pricing has become more rational and the industry has come roaring back. Companies are now exploring additional elements, such as primary care and entering rural markets.”

2. Dental Practice Management. There has also been great growth in dental practice management during the last couple decades. In the past decade alone, more than 25 private equity firms invested significantly in dental practice management, and some large companies in the sector have seen annual revenue of more than $100 million. This has evolved to the point where there are at least 10 large-scale dental practice management companies. In early July, Dental Care Alliance, one of the largest DPM companies in the U.S., was sold to New York private equity firm Harvest Partners, LP.

This is an area that serves either commercial or private pay interest, as well some companies that are heavily focused on Medicaid. At the same time, there has been an increase in scrutiny in the dental practice management area. In 2013, a Senate committee investigation into DPM practices in the Medicaid program concluded that some practices should be excluded from the program.

According to Moody’s and other industry sources, a number of private equity-backed consolidators could be poised for initial public offerings this year. Industry sources point to two major IPO prospects in the next few years. One is Smile Brands Group Inc., an Irvine, Calif-based operator of general dental and orthodontic practices that is backed by New York PE firm Welsh, Carson, Anderson & Stowe. The other is Ontario Teachers Pension Plan-backed Heartland Dental Care Inc., which was acquired in a 2012 auction featuring the likes of Kohlberg Kravis Roberts & Co. LP, Apax Partners, LLP and Madison Dearborn Partners, LLC.

According to Mr. Cockrell, “the dental market continues to be active despite a downturn of activity due to the underlying fact that it remains a very fragmented industry (the majority of practices are independent). Now, practices and private equity investors are looking for new business models and more elaborate ownership structures. Larger chains are trying to tie in specialty entities to their current systems.”

3. Ambulatory Surgery Centers. ASCs have not experienced large growth recently. However, the approximately 5,500 ASCs in the country continue to deliver solid profits. According to a recent overview of the ASC industry, each year, physicians perform more than 23 million procedures in ASCs. Approximately 25 percent to 30 percent of ASCs are owned or managed by multi-facility chains. Roughly 96 percent of ASCs were for-profit in 2013, showing no change from the number of for-profit ASCs in 2008.

The big four specialties for ASCs include ophthalmology, orthopedics, GI and pain management, according to an ASC analysis. Overall, these specialties remain strong and reasonably independent. Ophthalmology, GI and pain management provide the largest number of cases to ASCs by case volume. Orthopedics, in contrast, comprises 15 percent of all ASC surgeries, but is very important by revenue.

There are a number of companies that invest heavily in and manage ASCs, with some of the largest private equity firms in the country, such as TPG Capital (which has backed Deerfield, Ill.-based Surgical Care Affiliates, one of the largest ASC companies, and Welsh, Carson, Anderson & Stowe, which has close ties with Addison, Texas-based United Surgical Partners International, another prominent ASC company). Additionally, in 2010, private equity firm H.I.G. Capital completed a major investment in Tampa, Fla.-based Surgery Partners, one of the largest ASC operators in the Southeast. In 2014, AmSurg Corp. acquired Sheridan Healthcare. Many deals occurring in the ASC sector concern existing centers rather than startups, and with many ASCs remaining independent, investors will continue to be attracted to the ASC space.

It is anticipated that private equity-backed ASC companies will begin considering new acquisitions. For instance, USPI (which formed a joint venture with Tenet) has suggested it anticipates increased M&A activity in the coming years as ASCs partner with other providers to form strong affiliations in the face of healthcare reform challenges.

4. Dermatology. The dermatology arena has also experienced significant growth. Again, like pain management providers, dermatologists offer professional services and there are opportunities for specific situations in dermatology where people make outsize profits. Some examples of recent dermatology deals include Audax Group's 2012 acquisition of Advanced Dermatology and Cosmetic Surgery, and Candescent Partners' 2013 acquisition of Dermatology Associates of Tyler.

According to a 2014 report by investment bankers Brown Gibbons Lang & Company, dermatology practices continue to attract private equity interest and outside capital investment. Beginning with Audax Group's October 2011 recapitalization of Advanced Dermatology and Cosmetic Surgery, six dermatology platform investments have been made by private equity sponsors. Over the past year, the number of new funds seeking an investment in dermatology has grown dramatically. Existing platforms have continued to expand, and a number of sponsors have tapped operating executives to build platforms. Investment activity has expanded outside traditional dermatology hotbeds such as Florida and the Southwest, with acquisitions in the Midwest and Great Plains fueled by a strong capital markets environment and a sense of urgency for funds to deploy capital.

Numerous factors contribute to the attractiveness of dermatology practices as investment platforms. Dermatology remains a highly fragmented market, and the multi-site, multi-unit structure of group practices is ideal for pursuing buy and build strategies. Elective, cash pay, ancillary services in cosmetic dermatology allow for direct-to-consumer marketing, while medical dermatology provides a solid foundation for recurring cash flows. Practice branding lends well to physician transition, unlike other medical specialties where the practice goodwill resides predominantly with the physicians. Scale is key, not only in terms of geographic reach but also number of providers. Achieving a certain level of scale affords the ability to bring pathology lab services in-house and provide additional ancillary services and products.

5. Care and Case Management. With healthcare delivery changing, and the number of managed care entities growing, a new kind of care management company has evolved. The companies provide case management for dual eligible populations and to various kinds of Medicaid and commercial

covered populations. Managed care entities and plans have drawn interest from investors. For instance, in 2011, global growth private equity firm TA Associates completed an investment in Senior Whole Health, which provides managed care plans for patients who are eligible for both Medicare and Medicaid.

According to *Modern Healthcare*, there were 113 deals involving providers in the first quarter of 2015. That is a 46.8 percent increase from Q1 2014 and a total of $18 billion in M&A activity. Private equity groups increased their activity in the healthcare market, with 41 healthcare deals in Q1 2015, including 14 in the provider space. By comparison, private equity groups made just 28 total deals in all 2014, with 10 in the provider space. For example, in March, New York-based private-equity firm Harbour Point Capital invested in Oak Street Health, a Chicago-based network of seven primary care clinics that focuses on coordinating care for traditional Medicare and Medicare Advantage plans. According to Oak Street Health CEO Mike Pykosz, the group was courted by about 15 firms.

According to Mr. Cockrell, "This sector has created some very smart business models. These models include saturating the population with heavy doses of primary care to manage and/or avoid chronic conditions."

6. Accountable Care Organizations and Population Health Back Office Services. With the growing number of ACOs in the U.S., a great deal of companies — small, mid-sized and large — have developed around providing services to ACOs. (See "50 things to know about ACOs," *Becker's Hospital* Review, July 2015.) Valence Health in Chicago — a provider of value-based care solutions — helps hospitals, health systems and physicians switch to value-based care models by providing software, consulting, data aggregation and other services. In June, Valence was chosen by Centegra Health & Wellness Network — an association of primary care physicians and specialists — to support its clinically integrated network. There are other companies that provide more focused services to IPAs, physician-hospital organizations and ACOs. For example, Optum, a division of UnitedHealthcare, focuses on information and technology enabled health services.

As the healthcare industry transitions to value-based care, private equity firms have invested in companies that provide services to ACOs. For instance, earlier this year, the private equity firm Great Point Partners helped bankroll the merger of Orange Health Solutions and MZI HealthCare. Orange Health, founded by former UnitedHealth Group executives, providers services to hospitals and healthcare organizations to help establish value-based care models and ACOs. MZI helps providers, health plans, ACOs and other healthcare entities with data analytics, predictive modeling, medical care management and health benefit management technologies.

7. Anesthesia Practice Management. During the last few years, there has been an evolution in the number of anesthesia practice management companies in the country. These companies serve both major hospital systems and a number of smaller companies that provide services on a regional basis or to physician-driven ambulatory surgery centers. For instance, Sheridan Healthcare sold to AmSurg in 2014 for $2.35 billion.

Private equity groups, such as Madison Dearborn Partners, LLC, Blackstone Group LP, and Goldman Sachs Private Capital Investing Group have invested significantly in anesthesia practices.

Knoxville, Tenn.-based TeamHealth Anesthesia is one of the leaders in outsourced anesthesia and pain management. The physician-led company has what is nearly the largest bench of specialists in the country delivering hospital-based services. Its physicians provide anesthesia services in community hospitals, major medical centers and teaching facilities.

There are literally dozens of anesthesia practice management firms, many of which are private equity-funded.

8. Revenue Cycle Management. The number of revenue cycle management companies focused on the outsourcing of billing and collections continues to increase. (See "Revenue cycle management outsourcing is a trend set to expand," *Becker's Hospital Review*, January 2015.) For each company that focuses on hospitals and health systems, there are dozens that focus on smaller specialties. The revenue cycle management companies run the gamut from full-service providers to companies providing software as a service.

Revenue cycle management assists healthcare organizations with a number of processes, including coding claims using ICD-10. With the nation's official transition to ICD-10 slated to occur on Oct. 1, companies that provide software or services to assist healthcare organizations in the switch will continue to be greatly needed. Market research firm Black Book Rankings estimates that the hospital revenue cycle management industry is currently worth $7.7 billion and could reach $10 billion by 2016.

Revenue cycle management was a popular segment in 2014. The largest deal with a disclosed value was Summit Partners' $550 million majority stake investment in ABILITY Network, a maker of software that helps providers process and manage Medicare claims. In addition, GTCR made an undisclosed investment in 2014 in XIFIN, a leading revenue cycle management provider to diagnostic labs that also offers physician portals, patient portals and analytics to its lab customers, among other products.

Revenue cycle management firm Parallon Business Solutions is one of the nation's leading vendors of the service. Parallon is a Hospital Corporation of America subsidiary that provides healthcare business and operational services to more than 1,400 hospitals. Another leading vendor, Conifer Health, was recently named the No. 1 provider of value-based care solutions to Medicare and commercial ACOs by Black Book Rankings.

9. Specialty Pharmacy. There continues to be great interest in the development and funding of specialty pharmacy distribution companies, as well as companies that focus on the actual development of pharmaceuticals. For example, hepatitis C pill Sovaldi posted $3.48 billion in sales for the second quarter of 2014, which puts Foster City, Calif.-based Gilead Sciences, the maker of the drug, on track to become one of the top-selling pharmaceutical companies. In addition, healthcare-focused private equity firm BelHealth Investment Partners sold Aureus Health Services, a leading provider of specialty pharmacy services, to national grocer Meijer.

According to Bain, the generic pharmaceutical producer segment drew significant private equity interest in 2014. The largest generics deal of the year was Pamplona's majority stake investment in Alvogen. One driver of the private equity interest in this segment is that investors face less competition from potential strategic buyers than in other healthcare segments. In the US, generics manufacturers face revenue dips similar to the patent cliffs faced by their branded pharmaceutical counterparts when their post-patent exclusivity periods end. This volatility in revenue streams makes them less attractive to publicly traded strategic buyers.

10. Pain Management. There continues to be a substantial increase in interest in pain management clinics. Nearly 100 million Americans suffer from acute and chronic pain, nearly a billion is spent each year on pain management, and a large amount of dollars is spent each year on treatment. A good deal of pain management profits are also derived through ancillary services such as ASCs and lab tests.

There has been a tremendous increase in investment interest in the pain management sector during the last several years. This is driven by the core pain business and revenues from ancillary services — such as lab testing and ambulatory surgery centers — divided by pain management physicians. Activity in this space since 2010 includes Chicago Growth Partners' acquisition of Advanced Pain Management, Sentinel Capital Partner's investment in National Spine & Pain Centers and the 2012 formation of Prospira PainCare, which was created with the backing of three private equity firms and has acquired pain centers across the country.

In 2014, Pain Doctor, a leading pain management company providing standardized care and high-quality service, received a significant growth capital investment by Catterton Partners, the leading consumer-focused private equity firm. The investment's intention was to expand Pain Doctor's reach across the U.S. and build its support businesses, which include lead generation, lab services and natural pain relief supplements.

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