



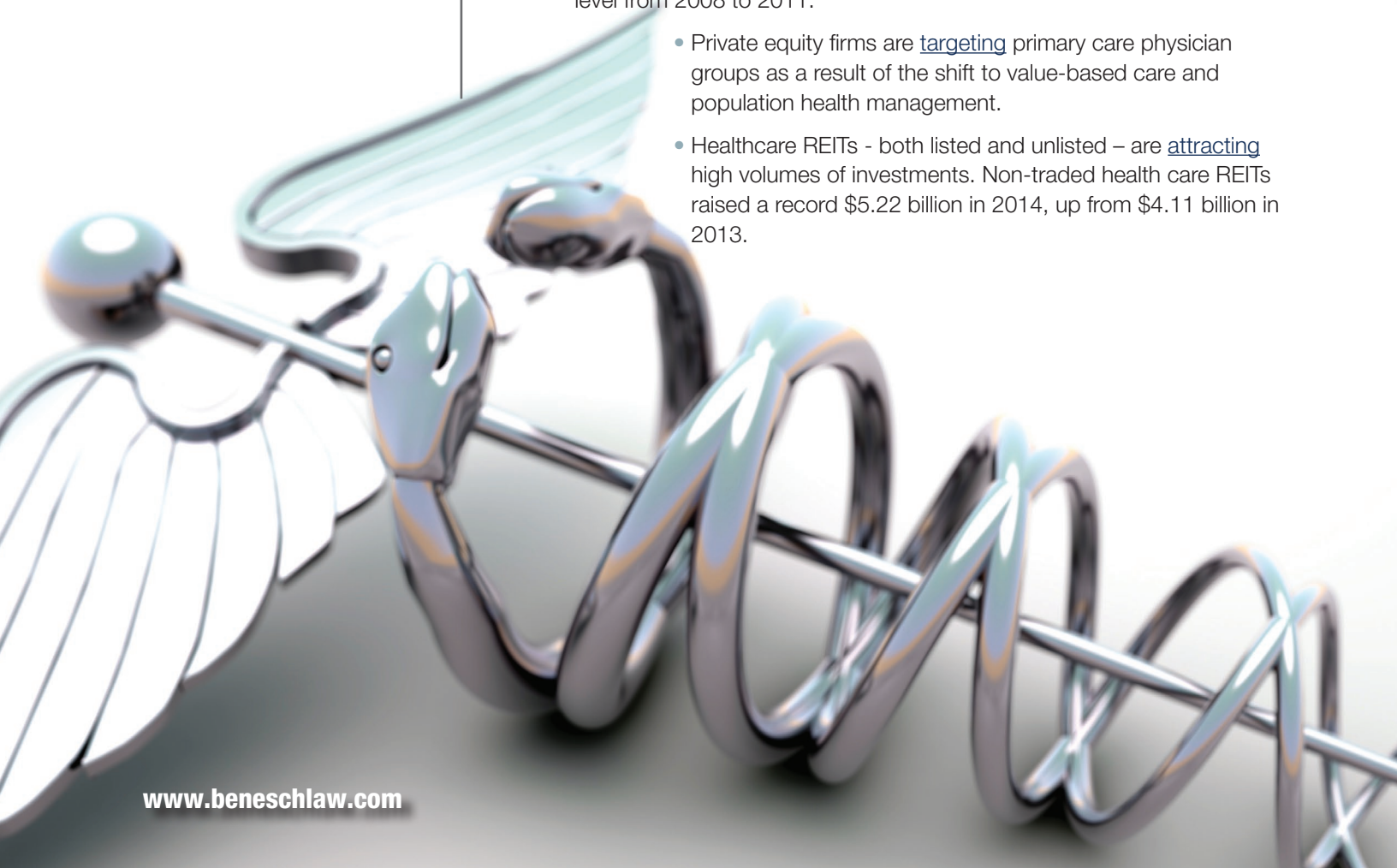
Benesch Health Care Market Intelligence

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1. Key Findings

- Private equity firms continue to be active investors in the health care sector. Deal flow hit a three-year high of \$29.6 billion globally in 2014, nearly double the level of 2013, and accounted for 11% of buyout deals overall.
- Investors are increasingly [buying and developing](#) medical real estate, including senior housing, medical-office buildings and other health care-related properties.
- Assisted-living facilities are being built at a rate that's more than twice the level from 2008 to 2011.
- Private equity firms are [targeting](#) primary care physician groups as a result of the shift to value-based care and population health management.
- Healthcare REITs - both listed and unlisted - are [attracting](#) high volumes of investments. Non-traded health care REITs raised a record \$5.22 billion in 2014, up from \$4.11 billion in 2013.



2. Industry Trends

- Private equity was particularly active investing in health care in 2014, with deal flow hitting a three year high of \$29.6 billion globally, according to a Bain & Co health care private equity [report](#). That figure is nearly double the level recorded for 2013, and accounted for 11% of buyout deals overall.
- Private equity groups accounted for 41 health care deals in Q1 2015, including 14 in the provider space, compared to 28 total deals in all of 2014, with 10 in the provider space.
- Investors are increasingly [buying and developing](#) medical real estate, including senior housing, medical-office buildings and other types of health care properties.
- Sales of senior housing and nursing facilities reached a total of \$17.4 billion in 2014, up from \$14.8 billion in 2013.
- Construction of assisted-living facilities is running at more than twice the amount of 2008 to 2011. There were 11,268 units under construction at the end of 2014, compared with the long-term average of 5,450 units under construction each quarter between the end of 2008 and the end of 2011.
- Private equity firms are [targeting](#) primary care-focused physician groups as a result of the shift to value-based care and population health management. There were 113 provider acquisitions in Q1 of 2015, a 46.8% increase from Q1 2014 and a total of \$18 billion in M&A activity.
- Private equity firms are increasingly looking at [early stage](#) health care opportunities. Large investment firms have been making smaller bets as a result, focusing on services and technology in emerging areas, such as population health management.
- Healthcare REITs - both listed and unlisted – are [attracting](#) high volumes of investments. Non-traded health care property REITs raised a record \$5.22 billion in 2014, up from \$4.11 billion in 2013. While non-traded REITs were more popular in general, interest in health care properties has been disproportionately high. The subsector represented only 6% of capital raised in 2008, but 21% of the amount raised in 2013 and 33% in 2014.
- Rehab and addiction treatment centers are attracting [increased attention](#) from private equity firms. As the Affordable Care Act expands the number of people with coverage, valuations are rising and leading to a consolidation of businesses in the sector. The reforms specifically help young people gain coverage, thereby giving them access to treatment for issues such as drug abuse and eating disorders. Large investment firms are increasingly entering the market for such addiction services, the market for which has grown in value to \$35 billion annually, up from \$21 billion in 2003.
- As the ACA increases focus on transparency and quality of care, opportunities are appearing for private equity firms to capitalize on the shift towards [health care consumerism](#). Firms like General Atlantic, H.I.G. Capital and Welsh Carson Anderson & Stowe, for example, have invested in client-facing urgent care centers, which serve patients whose conditions aren't serious enough to warrant an ER visit.

3. Industry News

- Summit Behavioral Healthcare (Summit), a leading provider of addiction treatment and behavioral health services, announced a [partnership](#) with Flexpoint Ford, LLC, a private equity firm focused on the healthcare and financial services sectors. The partnership will provide Summit with significant additional capital and resources to accelerate its strategic growth in its existing markets as well as in new markets throughout the United States.
- Nashville-based surgical center manager Surgery Partners is [preparing](#) for a summer IPO that could value it at about \$2 billion, including debt. H.I.G. Capital bought Surgery Partners in 2010 for an undisclosed amount and later merged it with surgery center operator NovaMed, which it acquired for \$214 million.
- Franklin, Tennessee-based acute-care hospital manager IASIS Healthcare [filed](#) an IPO with a maximum price of \$100 million. Proceeds from the sale will go towards paying off debts and solidify its footing as a for-profit company. IASIS manages 15 acute-care hospitals and one behavioral hospital across Arizona, Colorado, Utah, Arkansas, Louisiana and Texas, as well as a network of clinics and outpatient centers.
- Truven Health Analytics is [preparing](#) for an IPO that could value it at more than \$3 billion, including debt. The U.S. company, which provides data to hospitals, doctors and companies, was acquired by Veritas Capital Fund Management from Thomson Reuters for \$1.25 billion in 2012.
- After announcing plans for an IPO of its HIV business ViiV Healthcare, GSK [may consider](#) further partial sales of its component units in the coming years if it offers value to shareholders. While nothing is planned for the short term, CEO Andrew Witty said the consumer health business would be more viable as a standalone operation after a \$20-billion asset swap with Novartis.
- Becton Dickinson may be [considering the sale](#) of its respiratory devices unit as it seeks to shed unwanted assets after its \$12.4-billion acquisition of CareFusion. The medical devices and services company could fetch \$1.5 billion to \$2 billion for the unit.
- In response to growing industry demand, Wells Fargo [created](#) a specialty senior housing unit. Senior Housing Finance will provide a dedicated suite of traditional banking and credit services for senior housing developers, investors and operators.
- Jefferies [reorganized](#) its health care investment banking team into two units. One focuses on deals with health care service providers and the other handles pharmaceuticals, biotechnology and life sciences deals.
- Specialty investment bank Ziegler [formed](#) a health care private equity practice and hired three executives from Contemporary Healthcare Capital with experience in transactions in the senior housing and post-acute care sectors.
- TPG [appointed](#) Todd Sisitsky head of North American private equity, as the firm seeks to secure money from investors for its next flagship private equity fund with a target of \$10 billion. He also will continue to lead the firm's health care investments globally.

4. Transactions

Senior Housing

Senior housing sales accounted for nearly a quarter of private equity-based transactions during the period, accounting for some of the largest deals.

- Omega Healthcare Investors [purchased](#) Aviv REIT in a \$1.65B all-share transaction to create a real estate investment trust with skilled nursing facilities in 41 states. Omega now owns 874 properties.
- Health Care REIT [closed](#) a deal acquiring HealthLease Properties REIT and its portfolio of seniors housing. Health Care REIT also partnered with Mainstreet Property Group to acquire the development pipeline of 17 of Mainstreet's Next Generation communities for \$369 million.
- NorthStar Realty Finance [acquired](#) a portfolio of 32 independent living communities from Harvest Facility Holdings, for \$875 million. The portfolio of private-pay facilities includes nearly 4,000 units across communities in 12 different states.
- New Senior Investment Group [acquired](#) 17 senior housing properties, located in 10 states, from affiliates of Hawthorn Retirement Group for approximately \$435 million. The portfolio will be operated by Holiday Retirement.
- [American Healthcare, Griffin Capital](#) [spent](#) \$350 million to acquire 18 health care properties in 11 states during Q1 2015, three of which are senior housing facilities. The companies also intend to acquire 30 additional health care-related properties, including 14 senior housing buildings.
- CNL Healthcare Properties [plans to raise another \\$1 billion this year](#) on top of the more than \$1 billion already secured from its most recent campaign, the proceeds of which will be used to acquire and develop senior housing and health care properties nationwide. The REIT will specifically target senior housing, medical office buildings, acute and post-acute care assets.
- Harrison Street Real Estate Capital's latest fund [attracted \\$1 billion](#) for investments in senior housing, among other real estate interests. The firm has a track record in the senior housing market, having acquired a [\\$520-million portfolio](#) in 2014 and a [\\$380-million portfolio](#) in 2013.

Other transactions

- Ventas [acquired](#) Ardent Medical Services for \$1.75 billion in cash. Ventas plans to separate Ardent's hospital operations from its real estate and sell them to a new REIT owned by Ardent, which will comprise 355 skilled nursing facilities and other health care assets.
- KKR [acquired](#) air ambulance services provider Air Medical Group from Bain Capital and Brockway Moran & Partners. Financial terms weren't disclosed, however Reuters previously [reported](#) KKR was nearing a \$2-billion deal for Texas-based Air Medical.
- [Humana sold Concentra](#), its occupational medicine and wellness arm, for more than \$1.05 billion in cash to Select Medical and private equity firm Welsh, Carson, Anderson & Stowe. Concentra operates more than 300 medical clinics throughout the country, specializing in urgent care, occupational medicine and other primary-care services.

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- Tenet Healthcare formed a joint venture with Welsh Carson Anderson & Stowe that gives Tenet control of [United Surgical Partners International](#), creating the largest provider of ambulatory surgery in the U.S. Tenet will initially own 50.1% of the partnership, with an option to buy the remainder over the next five years.
 - Rural Physicians Group entered a [strategic investment partnership](#) with Sorenson Capital and Leavitt Equity Partners. The deal will leverage Sorenson's experience in accelerating growth of high performance companies and Leavitt's expertise in health care to expand Rural Physicians Group's reach and ability to support rural health care throughout the U.S.
 - Baird Capital [invested](#) in medical equipment services company Alpha Source, which provides medical equipment maintenance, medical device battery manufacturing and medical equipment parts distribution.
 - J.H. Whitney Capital Partners [acquired](#) Pediatric Services Holding Corporation, a provider of home-care services for medically fragile children, with more than 2,500 patients in 17 states.
 - Patterson Companies [hired](#) Bank of America to help it sell its rehabilitation supply business for between \$500-\$600 million. Patterson makes dental products, veterinary supplies and rehabilitation medical supplies for hospitals and long-term care facilities.
 - Post-acute and home health care provider Univita Health [secured](#) a \$40-million credit facility from Genstar Capital. Univita will use the facility to fund further growth after adding one million members in 2014.
 - Webster Financial Corporation [acquired](#) JP Morgan's health savings account business, transferring about 785,000 accounts, including \$1.3 billion in deposits and \$185 million in other assets from JP Morgan to Webster.
 - Panorama Point Partners [acquired](#) Midwest Medical Transport, a Columbus-based ground and aerial ambulance company. The company has 17 locations across Nebraska.
 - Shore Capital Partners [acquired](#) Summit Medical, a St. Paul, Minn.-based medical-device maker that designs, engineers and manufactures microsurgery products and a variety of other surgical products.
 - Denver-based Revelstoke Capital Partners [acquired](#) Encore Rehabilitation Services, a Farmington Hills, Mi.-based provider of physical, occupational and speech therapy to post-acute care providers, from Glencoe Capital for an undisclosed amount.
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5. Fund News

- Vivo Capital [raised](#) \$750 million for its latest health care fund, double the \$375 million its previous fund attracted in December 2011. The Vivo Capital Fund VIII will invest in U.S. and Chinese medical companies.
- Neyer Properties is [launching](#) a \$50-million PE fund to purchase and redevelop properties in Cincinnati and other cities in Ohio. Neyer Properties Fund IV will acquire medical office, office, industrial and retail buildings within 200 miles of Cincinnati.
- Healthcare-focused private equity firm Linden Capital Partners [closed](#) its third fund at its \$750-million hard cap, surpassing its original target of \$600 million. The Chicago-based firm's strategy focuses on health care and life science industry specialization, integrated private equity and operating expertise, and strategic relationships with large corporations.
- Cerberus Capital Management is [seeking](#) between \$3 billion and \$3.5 billion for its latest flagship private equity fund. Cerberus Institutional Partners VI will invest in distressed assets, including non-performing loans and ailing companies that need to be restructured.
- New Harbor Capital [raised](#) \$146 million for its debut fund, which will invest primarily in the health care, business services and education spaces. The lower midmarket firm will target investments worth between \$10 million and \$30 million per deal.
- New York City-based OrbiMed [closed](#) its second health care royalties and credit opportunities fund with \$924 million. The OrbiMed Royalty Opportunities II will buy health care royalties, as well as provide debt financing to health care companies.
- Atlas Venture [targeted](#) \$250 million for its 10th fund. The firm typically invests in both technology and life science startups.
- Polaris Partners [raised](#) \$450 million for its seventh fund, which will invest in health and technology startups. The firm will tap the fund to invest in software companies, as well as a wide variety of health startups in fields that include biotechnology, medical devices, health technology and health services.

6. Outlook

- Healthcare will remain an important sector for private equity investors as 2015 continues, according to a [Bain report](#).
- Despite the attraction, investors will face a difficult marketplace for deals due to competition from strategic investors and a relative scarcity of large-scale assets. As a result, Bain expects to see acquisition partnerships between private equity funds, which will provide the capital, and strategic providers, which bring necessary operation expertise to the transaction.
- Despite the increased activity around [early stage companies](#), private equity will likely continue to invest primarily in cash-flow generating businesses to minimize the impact of hit-or-miss early ventures.
- Due to the current [fragmentation](#) of health care assets, opportunity exists for private equity funds to implement buy-and-build strategies.