

HEALTHCARE

FOURTH QUARTER

2014

This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Healthcare M&A

M&A activity for North American based target companies in the healthcare sector for Q3 2014 included 299 closed deals and total deal value of approximately over \$14 billion, according to data provided by S&P Capital IQ. M&A Activity in the quarter was down by 11% versus Q2 2014 from 333 to 299 deals closed. The average total deal value also fell by nearly 200% from \$379 million to \$165 million.

New data from Frost & Sullivan's, an industry research group, "Analysis of Mergers and Acquisitions Trends in the United States Healthcare Provider Industry" reveals that M&A deals in the post-acute care, surgical and emergency center segments are expected to drive M&A activity in the U.S. healthcare provider industry. According to the report, the upward trend is also being driven by other factors having a negative impact on healthcare providers' bottom line. This includes the charges levied on hospitals that get admissions due to hospital-acquired conditions, the Hospital Readmissions Reduction Program that imposes penalties on hospitals with high readmission rates, and value-based purchasing that ties hospitals' performance to reimbursement rates for Medicare patients.

Transactional Overview

September 2014 - Conifer Health Solutions, LLC signed an agreement to acquire Springfield Service Corporation from SPi Technologies, Inc. on September 23, 2014. Springfield Service Corporation operates as a revenue cycle management and clinical documentation improvement company serving the healthcare industry in North America. It provides solutions in the areas of revenue cycle management, health information management, and ASP hosting. The company was founded in 1986 and is based in Tinely Park, Illinois.

August 2014 - Roche Holding AG (SWX:ROG) signed a definitive agreement to acquire InterMune Inc. (NasdaqGS:ITMN) for \$8 billion in cash on August 22, 2014. InterMune, Inc. is a biotechnology company that researches, develops, and commercializes therapies for pulmonology and orphan fibrotic diseases. The company develops therapies for the treatment of idiopathic pulmonary fibrosis (IPF), a progressive,



MERGERS, ACQUISITIONS, AND CAPITAL RESOURCES SINCE 1956

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Selected Q3 Closed Transactions

Target/Issuer	Buyers/Investors
MedAssets, Inc. (NasdaqGS:MDAS)	SG2 Management LLC
NorthStar Healthcare Income	Five Long Island Properties, LLC
GlobalHealth, Inc.	Universal American Corp (NYSE:UAM)
Beecken Petty O'Keefe & Company	Kforce Inc. (NasdaqGS:KFORC)
Medtronic, Inc. (NYSE:MDT)	Eventi Capital Partners
Techne Corp. (NasdaqGS:TECH)	Mainsail Partners
Hikma Pharmaceuticals plc (LSE:HK)	Ben Venue Laboratories, Inc.
Neogenomics Inc. (NasdaqCM:NEO)	Mainsail Partners

irreversible, and fatal lung disease. The company was founded in 1998 and is headquartered in Brisbane, California.

July 2014 - Genentech Inc. entered into a definitive agreement to acquire Seragon Pharmaceuticals Inc. from Aisling Capital III, L.P. of Aisling Capital, The Column Group LLC and other shareholders for \$1.7 billion on July 1, 2014. Seragon Pharmaceuticals Inc. Develops pharmaceutical products for the treatment of estrogen-driven cancers. The company was incorporated in 2013 and is based in San Diego, California.

Industry Dynamics

Trend: Healthcare Sector Sees Higher M&A Activity
M&A activity in the healthcare industry is expected to increase as hospitals, physician groups, and IT companies rush to adapt to the Affordable Care Act (ACA) regulations. According to a survey from a legal firm Bass, Berry & Sims, healthcare and life science professionals expect healthcare M&A activity to increase during 2014 and 2015. The Affordable Care Act regulations are causing consolidation by health providers to achieve economies of scale, capital needs, efficiency, data sharing, and shifting reimbursement schemes and patient loads.

Challenge: Medicare Payment Reform

According to information provided by Kaiser Health News, nearly 2610 hospitals are being fined an estimated \$428 million for having too many Medicare patients readmitted within a month. This has increased pressure on facilities to meet the new standards for quality and efficiency set by the Affordable Care Act. Two new readmission categories (knee and hip replacement patients and chronic lung disease patients) have been implemented by CMS (Centers for Medicare and Medicaid Services). This has increased the number and size of fines. Readmissions of patients treated within the previous month cost Medicare nearly \$26 billion a year. Officials estimate that about two-thirds of that cost comes from preventable readmissions.

Industry Indicators

US consumer prices for medical care commodities, an indicator of healthcare costs, increased 2.9 percent in September 2014 compared to the same period in 2013.

US consumer prices for medical care services, an indicator of profitability for healthcare services, rose 1.7 percent in September 2014 compared to the same month in 2013.

Total US revenue for healthcare and social assistance rose 3.7 percent in the second quarter of 2014 compared to the previous year.

Collectively, the Healthcare Practice Group provides M&A advice to public and private companies in all sectors of the healthcare industries, including healthcare information technology, medical devices, pharma, surgical equipment and supplies, biotechnology, assisted living and long term care.

