



MERGERS, ACQUISITIONS, AND CAPITAL RESOURCES SINCE 1956

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# HEALTHCARE

SECOND QUARTER

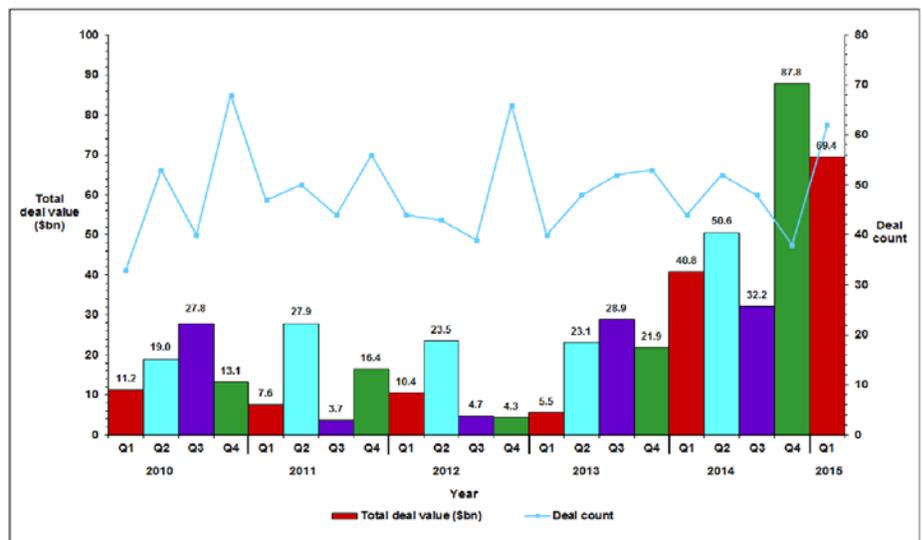
2015

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 Q1 2015 included 167 closed deals according to data published by industry data tracker FactSet, with an average enterprise value of \$236 million. Favorable credit markets and cash-rich balance sheets are spurring continued strategic activity in the sector and M&A in general. Private equity buyers are also increasingly active with interest rates remaining at or near record lows. Healthcare services represented more than half of Q1's transaction total. Other sectors, such as behavioral healthcare and managed care, also had significant activity. Biotechnology and pharmaceuticals were also active sectors driven by investment from venture capital firms.

Pharma and biotech M&A transactions announced each quarter



Analysis excludes mega-merger takeover of Alcon

Source: Evaluate Pharma

## Transactional Overview

**February 2015** - Diplomat Pharmacy Inc. acquired BioRx LLC, a portfolio company of Symmetric Capital LLC and Siguler Guff & Co LP, for US\$404 million in cash, stock, and contingent payout. Diplomat Pharmacy, Inc. is a specialty pharmacy sales company. It focuses on improving the lives of patients with complex chronic diseases. BioRx LLC is a holding company, which engages in the provision and distribution of specialty pharmaceuticals and other related supplies.

**February 2015** - Globus Medical Inc. acquired Branch Medical Group Inc. for US\$52.9 million in cash, subject to certain closing adjustments. Globus Medical, Inc. engages in the development of products that promote healing in patients with musculoskeletal disorders. Branch Medical Group, Inc. manufactures medical implants and

graphic cases. The company offers spinal products, orthopedic products, and sterilization trays. It also provides sterile packaging services.

**January 2015** - Webster Capital Ltd, through its subsidiary Webster Capital III LP, acquired Pharmalogic Holdings Corp from RadioPharmacy Investors LLC, which in turn is a portfolio company of MCG Capital, for around US\$12 million to US\$13.1 million, subject to adjustments. Founded in 2002, Webster Capital Ltd. is a private equity firm located in Waltham, Massachusetts. Pharmalogic Holdings Corp. provides specialized nuclear medicine radiopharmacy services to hospitals and other healthcare sites.

Selected Q1 Closed Transactions	
Target/Issuer	Buyers/Investors
Branch Medical Group, Inc.	Globus Medical, Inc.
Quality Addiction Management, Inc.	Acadia Healthcare Co., Inc.
NextCODE Health LLC	Wuxi PharmaTech (Cayman) Inc.
Meritage Pharma, Inc.	Shire Plc
Alkermes PLC /Manufacturing	Recro Pharma, Inc.
The Studer Group LLC	Huron Consulting Group, Inc
BioRx LLC	Diplomat Pharmacy, Inc.
Foundation Medicine, Inc.	Roche Holding AG

## Industry Dynamics

### M&A Trends

In the broader financial markets for Q1 2015, healthcare mutual funds continued the strong momentum they experienced in 2014 soaring over 30%, according to a report from Zacks Investment Research. M&A activity has been driven in part by strategic consolidation in the pharmaceutical space as large strategics acquire and invest in drug development companies with the hope of wrangling the new blockbuster drug into their portfolios. In addition, the Affordable Care Act's instance on electronic health records has spurred a surge in healthcare technology deals as compliance becomes a major issue. About 86 percent of health care and life science professionals expect M&A to increase during 2015, according to a survey report from legal firm Bass, Berry & Sims. Economies of scale, capital needs, efficiency, data sharing and shifting reimbursement schemes and patient loads are expected to bolster consolidation among health providers. Overall health and life science mergers declined about 16 percent in 2013 due to uncertainty over ACA implementation, according to survey contributor Mergermarkets. M&A activity among hospitals has risen over the past decade, with about 10 percent of US community hospitals undergoing consolidation between 2007 and 2012, according to the American Hospital Association.

### Industry Update

The Centers for Medicare and Medicaid Services (CMS) is proposing revisions to its accountable care organization (ACO) guidelines to increase incentives and reduce penalties for participating health care providers. About 330 Medicare ACOs have been formed since 2012 under rules established in the Affordable Care Act (ACA). ACOs can earn bonuses for lowering the cost of care and improving quality, but they were scheduled to begin facing penalties in 2015 for exceeding cost benchmarks. The CMS has determined that many ACOs are not ready to assume financial risks associated with the program. To maintain participation, officials have proposed an option where some providers can avoid penalties but earn smaller bonuses for another three years, according to Modern Healthcare.

US consumer prices for medical care commodities, an indicator of healthcare costs, increased 4.2 percent in March 2015 compared to the same period in 2014. US consumer prices for medical care services, an indicator of profitability for healthcare services, rose 1.9 percent in March 2015 compared to the same month in 2014. Total US revenue for healthcare and social assistance rose 5.4 percent in the fourth 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.

