

## HEALTHCARE

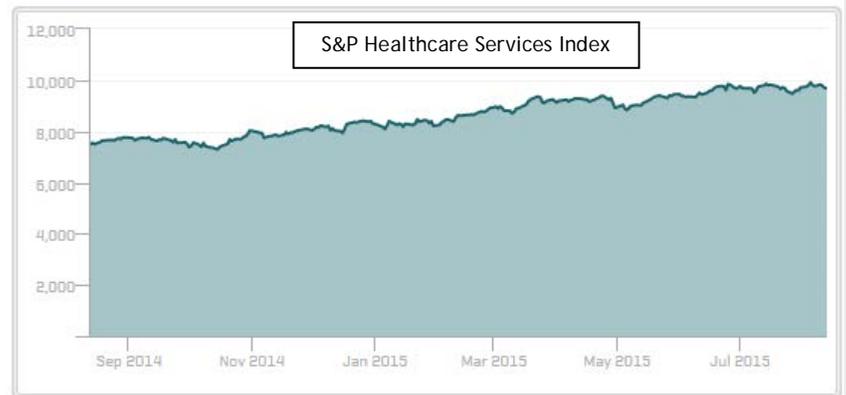
THIRD QUARTER

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 Q2 2015 included 156 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$414 million. The bulk of completed transactions were in the healthcare services sector led by laboratories and other outsourced facilities such as dialysis and MRI centers. Other strong sectors included biotechnology and pharmaceuticals. One of the largest transactions in the period was CVS' acquisition of Omnicare for \$12.7 billion in May. Omnicare, the nation's largest provider of pharmaceutical services in nursing homes, has 160 locations in assisted living and long-term care facilities in 47 states in the U.S. CVS was drawn to the deal as a result of the aging Baby Boomer population, which is likely to have a positive effect of Omnicare's earnings outlook.



The upward trend in the healthcare services center has been consistent on the public markets as well, exhibiting a strong growth trend in Q2.

## Transactional Overview

**June 2015** - Integra LifeSciences Holdings Corp acquired TEI Biosciences Inc, a portfolio company of Saints Ventures LLC, for US\$211 million in cash. In a separate but related transaction, Integra LifeSciences Holdings Corp also acquired TEI Medical Inc, a portfolio company of Saints Ventures LLC. The combined purchase price for these transactions is US\$312 million. Integra LifeSciences Holdings Corp. engages in the manufacture and sale of medical instruments, devices, and equipment. Founded in 2000 by Kenneth Sawyer, Saints Capital is a venture capital and private equity firm located in San Francisco.

**June 2015** - A private group led by Audax Private Equity and management of Katena Products Inc, acquired Katena Products Inc from Cortec Group Management Services LLC, for US\$131 million in cash. Audax Group LP provides capital assistance and investment advice. Katena Products, Inc. manufactures precision ophthalmic instruments and therapeutics.



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May 2015 - Lannett Co Inc acquired Silarx Pharmaceuticals Inc for US\$42 million in cash. Lannett Co., Inc. develops, manufactures, markets and distributes generic versions of pharmaceutical products. Silarx Pharmaceuticals, Inc. manufactures and markets generic liquid pharmaceutical products.

## Industry Dynamics

### M&A Trends

While transaction volume has slowed a bit as the year has progressed, healthcare is still a primary sector for M&A as big pharma looks to expand by acquiring small competitors with potential blockbuster drugs. In addition, big pharma companies are actively funding drug development companies with minority equity positions and the option for greater ownership should the drugs take off. Deals in the sector are also expected to be driven by healthcare IT innovation and hospital consolidation in the wake of the Affordable Care Act and declining reimbursements.

### Industry Update

As patients are required to pay more and make more medical decisions, they likely will demand better information from providers. Despite being responsible for paying an increasing portion of their medical bills, most US consumers are not shopping around for the best deal. Fewer than 15% of Americans viewed comparative quality and pricing data for hospitals and physicians -- and less than 10% actually used the data over a recent 12-month period, according to a survey by Kaiser Family Foundation. Reasons include lack of time to research competitors and difficulty find information and understanding technical terms. Consumers also struggled with inaccurate practitioner estimates and unexpected bills, according to Kaiser Health News. Some consumers with high deductibles end up forgoing care. Government health care officials are calling for greater pricing transparency to improve consumer access to comparative data.

### Industry Indicators

- US consumer prices for medical care commodities, an indicator of healthcare costs, increased 3.3 percent in June 2015 compared to the same period in 2014.
- US consumer prices for medical care services, an indicator of profitability for healthcare services, rose 2.3 percent in June 2015 compared to the same month in 2014.
- The US health care sector includes more than 830,000 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about \$2.2 trillion. According to data from the Interindustry Economic Research Fund, Inc. (IERF), revenue for the healthcare sector is forecast to grow at an annual compounded rate of 5 percent over the next five years.

Selected Q2 Closed Transactions	
Target/Issuer	Buyers/Investors
CardioInsight Technologies, Inc.	Medtronic Plc
Photomedex, Inc. /XTRAC & VTRAC Treatment Business	MELA Sciences, Inc.
Santalis Pharmaceuticals, Inc.	TFS Corp. Ltd.
TEI Medical, Inc.	Integra LifeSciences Holdings Corp.
Aptus Endosystems, Inc.	Medtronic Plc
Katena Products, Inc.	Audax Group LP; Katena Products, Inc. /Private Group
X-BODY, Inc.	Juno Therapeutics, Inc.
ViroXis Corp.	TFS Corp. Ltd.

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.

