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HEALTHCARE

FOURTH QUARTER

2016

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 2016 included 140 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$165 million.

One of the largest deals of the quarter took place in August when Pfizer, Inc., acquired Medivation, Inc. for US\$13.5 billion in cash, via tender offer. Under the terms of the



transaction, Pfizer paid US\$81.5 cash per share, which is expected to be financed through existing cash. The deal was a counteroffer against Sanofi's bid to acquire Medivation for US\$8.6 billion in cash. Medivation engages in the development and commercialization of novel therapies to treat serious diseases for which there are limited treatment options.

On the public markets stocks in the sector crept higher during quarter. One stock that had a strong three months was Abbott Laboratories (ABT), which is trading at greater than \$42 with a market cap over \$63 billion.

Transactional Overview

Notable closed transactions for the period in the Healthcare sector include:

August 2016 - WellMed Medical Management, Inc., a subsidiary of Collaborative Care Holdings LLC, ultimately owned by UnitedHealth Group, Inc., acquired USMD Holdings Inc., a majority owned company of UANT Ventures LP, for US\$254.5 million in cash. WellMed Medical Management provides health care services. The firm is a diversified healthcare company and health plan provider serving patients and plan members, medicare-eligible seniors. USMD Holdings provides healthcare services. Its services include physician clinics, hospitals and other healthcare facilities including cancer treatment centers and anatomical pathology and clinical laboratories.

July 2016 - Santen Pharmaceutical Co Ltd acquired InnFocus, Inc., a portfolio company of Saints Ventures LLC, for US\$225 million with an undisclosed amount in contingent payout. Santen Pharmaceutical Co., Ltd engages in the manufacture and sale of pharmaceutical products and medical devices. InnFocus operates as an ophthalmology company that provides products for glaucoma surgery. Its product, InnFocus MicroShunt, is a glaucoma drainage implant consisting of a micro-tube twice the size of an eyelash.

July 2016 - Pfizer, Inc. acquired BIND Therapeutics, Inc. for US\$40 million in cash, via bankruptcy and auction.

Pfizer is a research-based, global biopharmaceutical company, which engages in the manufacture of vaccines and injectable biologic medicines. DNIB Unwind is a clinical stage nanomedicine platform company. The company develops Accurins, which are selective and programmable therapeutics.

Selected Q3 Closed Transactions	
Target/Issuer	Buyers/Investors
Bio D LLC	Derma Sciences, Inc.
AssureRx Health, Inc.	Myriad Genetics, Inc.
Graphic Controls Acquisition Corp.	Nissha Printing Co., Ltd.
Sequenom, Inc.	Laboratory Corp. of America Holdings
LABORIE Medical Technologies, Inc.	Patricia Industries AB
Sagent Pharmaceuticals, Inc.	Shepard Vision, Inc.
USMD Holdings, Inc.	WellMed Medical Management, Inc.; Collaborative Care Holdings LLC
SPEware Corp.	Tecan Group AG

Industry Update

Health providers are consolidating to get a better handle on revenue streams, reduce costs and control risk. Federal programs looking to control costs may further alter payment systems if consolidation is found to increase medical spending. The number of US physician practices owned by hospitals is rising rapidly, as changes in medical payment systems prompt providers to seek efficiencies through new operational structures. Some 31,000 practices were acquired by hospital groups between 2012 and 2015, leading to an 86% jump in the number of hospital-owned doctors' offices, according to a recent study from Avalere Health and the Physicians Advocacy Institute (PAI). Nearly 40% of physicians in the US are employed by hospitals or health systems.

A growing number of insurers and health providers are transitioning to value-based reimbursement methods, with the goal of containing costs and improving care. Providers must adjust processes to maintain efficient, high-quality operations during the transition period. While fee-for-service reimbursements are still the primary mode of payment for US health care providers, insurers are making progress on goals to switch over to value-based contracts. Value-based payment systems include quality incentives, accountable care models, network management, and bundled payments. The US Department of Health and Human Services (HHS) is on track to meet its goal of tying 30% of traditional Medicare payments to value-based payments by the end of 2016, as well as higher targets over the next several years. Commercial insurers are also adopting new payment models; Aetna is aiming for 75% of spending through value-based contracts by 2020. According to a recent survey by McKesson reported by Healthcare Dive, hospitals are about 50% along the continuum towards full value-based reimbursement. However, challenges remain in areas including process automation and payer-provider collaboration. A majority of surveyed hospitals were not yet meeting value-based reimbursement goals including lower costs, better care coordination, and improved patient outcomes.

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.

