



## ***The Current State of The Healthcare M&A Market***

*The market for healthcare companies, not unlike the economy of our great Nation, has always been cyclical. The factors that influence the flow of investment and divestiture is as broad as the diversity of companies serving the healthcare needs in America.*

*Buyers buy and sellers sell - often for different reasons. The key to success in any business endeavor is a realistic strategic plan and executing that plan to fulfill specific goals. Every business, sooner or later, will either be sold, merged, bequeathed or closed. Therefore, every strategic plan should always include an exit strategy that takes full advantage of market dynamics and positions the company for premium valuation. With that said, let's take a birds-eye view of the current market and examine factors influencing buyers acquisitions and sellers divestiture or merger of their enterprises.*

*Current issues relating to Medicare reimbursement changes, accreditation requirements, caps on monthly rental, competitive bidding, etc are all real factors that buyers and sellers must always contend with throughout the process. These same factors are propelling some business owners to sell... and also propelling other business owners to the buy-side of the equation. Although a national strategic buyer may slow-down or pause acquisition activity, there are others that have become more selective but still getting deals done.*

*The healthcare market is a very broad category and needs to be viewed in the context of the specific niche businesses. Let's focus on the current market cycle of specific niche businesses outside of the acute care segment - respiratory, DME, infusion/specialty pharmacy, medical supplies, sleep labs, and home healthcare/nursing. To understand the dynamics of the healthcare market we first need to understand the players.*



## Buyers

Buyers generally fall into several specific categories:

- National Strategic buyers - These buyers similar businesses with numerous locations serving multiple states and are looking to expand geographically or to add depth within an existing geography, or to expand into new product lines.
- Local/Regional Strategic Buyers - These buyers own similar businesses with one or more locations/markets and are looking to expand geographically, or to add depth within an existing geography, or to expand into new product lines
- Strategic Private Equity Firms - These investors (See related article: New Titans of Wall Street – March 2007) invest funds from various private sources (academic, institutional, high net worth individuals) coupled with various forms of mezzanine and other forms of debt. Transactions with strategic private equity firms provides several unique opportunities/benefits which differ from standard strategic acquirers.
- Value Buyers - These investors focus primarily on the economic dynamics of the acquisition candidate. The value buyers will focus on using primarily debt financing to fund the transaction while preserving cash.

Buyers are buying in an effort to:

- Gain strategic market position
- Obtain critical mass
- Procure market opportunities
- Diversify product lines and/or payor mix
- Position for Competitive Bidding

## Sellers

As a seller, you want to make certain that the marketing of your company comes on a timeline that you have carefully planned and prepared for in advance of the actual event.

Sellers are considering selling today because of various reasons including:

- Premium valuation opportunities in the current market
- Retirement
- Business growth demands requiring expanded expertise and capital

Fear of the future should never be the primary factor that forces you to sell your business before the company and the market are ready. Proper pre-planning, skillful exit strategy execution and consulting with an industry M&A expert are critical to success in any market.



*We explore the relationship between buyers and sellers to consummate transactions within specific healthcare sectors. The **Paragon Concentrix Ratings** are designed to provide an easy reference of the **supply and demand** for each niche business segment. It monitors and balances current buyer appetite with seller interest and the strength of market valuation.*

*Concentrix ratings and market maker categories are based on trends of actual transactions closed within the past 18 months, public and private acquisition profiles and interviews conducted by Paragon Ventures across the spectrum of buyers. Many subjective and objective factors are used to influence our Concentrix ratings including revenue size and profitability levels of each enterprise. Valuation ratings are a blend of strategic and financial sponsor valuation criteria. A five year rolling average is used to determine relative strengths and weakness in the current market.*



- This market Concentrix report finds several sectors (home infusion, specialty pharmacy and home health) continuing to sizzle with multiple strong players entering and/or expanding through acquisitions and strong valuations. **This is one of the strongest market surges for these niches in the past decade.**
- The effects of CMS's rampage through competitive bidding are keeping many buyers of respiratory and HME companies in a wait and see mode although there are niche exceptions and geographic opportunities. Some buyers are specifically looking to acquire providers within the first 10 competitive bidding areas.
- Strong local and regional players (in most every niche) continue to position themselves for growth and expansion. The optimism is that as a result of competitive bidding, accreditation and the natural evolution of the boomer demographics, that the smaller companies will exit their business and the stronger companies will prevail and prosper.
- Product line expansion, synergistic and opportunistic investors continue to drive deal flow. Concurrently, the private equity activity continues to increase investment throughout the healthcare sector.
- Private equity investors continue to expand their investments though acquisition of select niche healthcare providers.



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## HOME INFUSION THERAPY - SPECIALTY PHARMACY

- **Infusion/specialty pharmacy** - Very strong market with growing buyer pool. Premium valuations being paid for larger well established, profitable companies with 15%+ EBITDA, annual growth and diversified therapies. Trend continues to gain momentum based on growth of the infusion market, convergence of infusables and increased utilization of pharmaceuticals.
- Paragon Buy/Sell Concentrix rating: B9/S8 - Valuations: V9
- Current Market Makers: National strategic buyers - Strategic private equity firms for both platform opportunities and add-on acquisitions - - Buyers seeking diversification

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## HOME HEALTHCARE - NURSING SERVICES

- **Home healthcare/nursing** - Current market upswing with many buyers looking for critical mass in key markets. Many buyers keying on the strong growth trends and the ability to realize significant cost savings with buyer synergies and integration... leading to improved profitability.
- Paragon Buy/Sell Concentrix rating: B8/S7 - Valuations: V6
- Current Market Makers: National strategic buyers - Regional strategic buyers - Critical mass investors

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## SLEEP DIAGNOSTICS - SLEEP LAB SERVICES

- **Sleep Diagnostics** - Strong market for established sleep labs with turn-key operations - Many buyers looking in key markets. Valuations have improved with the entrance of a number of private equity players who are using diversified platforms to enter the sleep market.
- Paragon Buy/Sell Concentrix rating: B8/S5 - Valuations: V7
- Current Market Makers: Private Equity Firms - National strategic buyers - Regional strategic buyers - Individual investors

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## DURABLE MEDICAL EQUIPMENT (DME)

- **DME** - Larger, multi-location retail operations in demand. Some buyers looking for DME only businesses with strong community presence. Stronger valuations than in prior years for those DME businesses with strong retail, private pay and non-Medicare payor mixes.
- Paragon Buy/Sell Concentrix rating: B5/S8 - Valuations: V5
- Current Market Makers: A few strategic national buyers - Local/Regional strategic buyers - value investors - - Buyers seeking diversification



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MEDICAL SUPPLIES

- **Medical Supplies** - Diabetic, Incontinence, Urologicals, Enteral - Strong market and premium valuations. Diversified payor mix. Growing buyer universe.
- Paragon Buy/Sell Concentrix rating: B6/S7 - Valuations: V6
- Current Market Makers: Multiple strategic national buyers - local/regional strategic buyers - national distribution companies - strategic private equity firms - value investors - Buyers seeking diversification

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RESPIRATORY PRODUCTS AND SERVICES

- **Respiratory** - Compared to 2004 and 2005, the acquisition appetite of the national strategic buyers has slowed considerably. Local and regional buyers (along with private equity firms for larger opportunities) has filled the gaps in many markets. Valuations are slightly depressed based on the impact of reimbursement changes on earnings. Diversity of payors i.e. specifically non-Medicare payors, has supported premium valuations, especially in key geographies. Respiratory meds business valuations is substantially depressed.
- Paragon Buy/Sell Concentrix rating: B4/S7 - Valuations: V5
- Current Market Makers: A few strategic national buyers - Local/Regional strategic buyers - Geographic expansion and competitive bidding position buyers

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For those looking to acquire, the breadth of acquisition options and the number of sellers willing to entertain suitors leads us to believe that healthcare mergers and acquisitions activity will continue to increase throughout 2007 and well into 2008 for many sectors.

**For more information on our State of the Market report and Concentrix ratings, please contact Paragon Ventures at 800-719-1555.**