



# Capstone Partners

## HOSPITALIST

## Q4 2016

### CONTACTS

**Eric Williams**

Managing Director  
(215) 854-4065  
ewilliams@capstonellc.com

**Mark Surowiak**

Director  
(215) 854-4063  
msurowiak@capstonellc.com

**Matthew Szymanski**

Associate  
(610) 768-8043  
mszymanski@capstonellc.com

- BOSTON**
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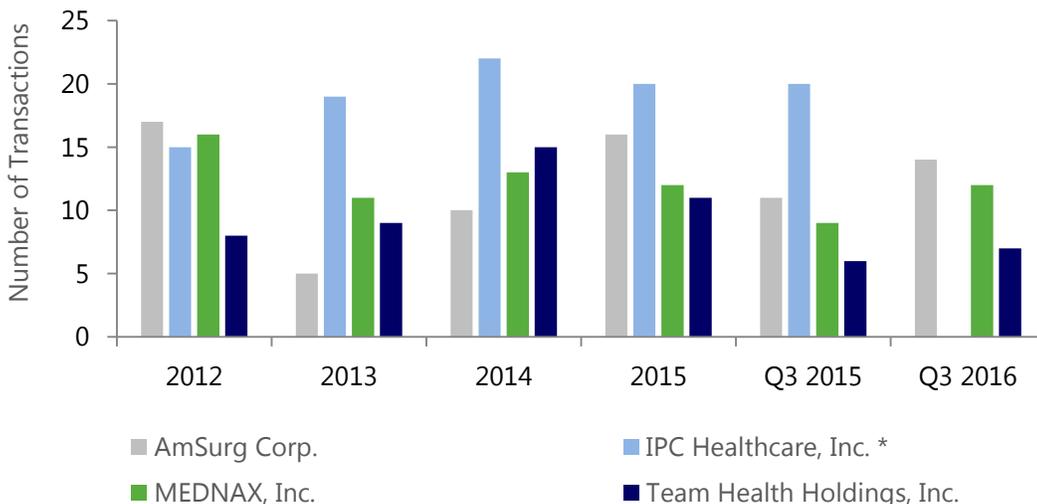
### INDUSTRY OUTLOOK

As the healthcare system continues to evolve and government and private insurance carriers emphasize value-based reimbursement structures, Capstone is seeing an intensifying interest in companies offering clinical services that can cost-effectively deliver enhanced patient outcomes such as anesthesia, hospitalists physicians, surgical monitoring and physical therapy. The hospitalist sector is benefiting from increasing recognition that outsourced hospitalist groups are key partners in improving readmission rates, length of stay, quality of patient care, patient satisfaction and outcomes for healthcare facilities. Escalating emphasis on improving patient outcomes and cost effectiveness has also spurred greater integration across the healthcare landscape and M&A activity, reflecting the necessity of consolidation and partnership models required for success as payers migrate from fee for service to value-based reimbursement.

### MERGER AND ACQUISITION ACTIVITY

Team Health Holdings, Inc., MEDNAX, Inc. and AmSurg Corp. continue to be active acquirers as they seek to expand their geographic reach and broaden their service offerings to strengthen coordination across the continuum of care and leverage economies of scale. From the beginning of the year to Q3 2016, these three companies have announced or completed 33 transactions, marking a 27% increase over the same period in 2015. The heightened activity is a reflection of the increasing recognition of the value that hospitalists bring to hospitals, physicians and patients.

**Leading Hospitalists M&A Transaction Volume**



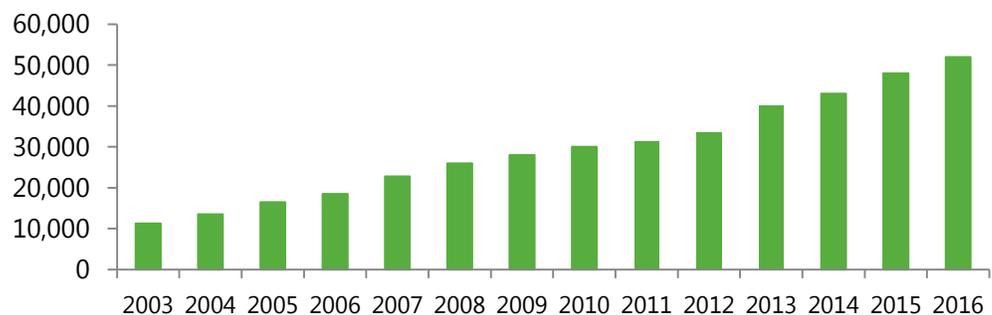
\* IPC Healthcare, Inc. was acquired by Team Health Holdings in November 2015.

## INDUSTRY DRIVERS AND TRENDS

Over the past two decades, hospitalist groups have seen a significant rise in popularity, as the number of dedicated hospitalists have increased from 100 in 1996 to over 50,000 in 2016. The rise in hospitalist groups has been matched by an increase in the percentage of hospitals employing hospitalists. In 2016, approximately 75% of hospitals, including all highly-ranked academic health centers, employed hospitalists, according to a Team Health investor presentation. Capstone anticipates hospitalist groups to experience continued growth and consolidation due to the following factors:

- ▶ **Aging US population** – Since the prevalence of many chronic healthcare conditions increases with age, the graying of America is resulting in greater utilization of healthcare services. This can be seen as individuals greater than 65 are three times more likely to experience at least one hospital stay and visit a physician’s office twice as often.
- ▶ **Physician shortage** – Many regions of the United States are experiencing physician shortages. According to the Association of American Medical Colleges, the physician shortage is expected to grow to approximately 90,400 physicians by 2025. Finding it increasingly difficult to recruit and employ physicians, hospitals will increasingly outsource to hospitalist groups to maintain proper staffing levels. In addition, since primary care physicians are demonstrating less desire to take on-call obligations, many hospitals are facing additional gaps in physician coverage.
- ▶ **Compelling value proposition** – Hospitalists provide a compelling value proposition to all key stakeholders. Patients benefit from enhanced care as well as better coordination of transitions to post-acute care settings, while hospitals improve key quality metrics such as outcomes, readmission rates and patient satisfaction which currently, and more likely in the future, impact reimbursement. Additionally, hospitalist groups provide physicians new practice opportunities in reputable hospitals, competitive compensation, continuing education and comprehensive practice management services.
- ▶ **Large and fragmented industry** – The \$12 billion industry is highly fragmented with only a few national providers. The major players have a proven track record of growing organically and through acquisitions. Industry consolidation will continue to increase as larger players are looking to expand into new and existing markets, gain market share, increase leverage with regional and national providers, and leverage investments in IT and G&A infrastructure.

**Number of US Hospitalists**



Source: American Hospital Association

**NOTABLE M&A TRANSACTIONS**

Several notable transactions were completed or announced in the Hospitalist industry through Q4 2016. Select transactions are outlined below, followed by a more comprehensive list in the following table.

- ▶ **Envision Healthcare announced to merge with AmSurg Corp. (June 2016)** – Envision Healthcare Holdings, a major provider of physician-led outsourced medical services to hospitals, announced its planned merger with AmSurg Corp. in a blockbuster deal valuing AmSurg at nearly \$7.8 billion with revenue and EBITDA multiples of 2.8x and 10.6x, respectively. The merger with AmSurg, a provider of outsourced ambulatory and physician services across 34 states, will form one of the nation's largest outsourced providers of outsourced professional healthcare services that is capable of providing a broad network of clinical staffing solutions across an array of specialties. "At Envision, we have been actively advancing our integrated delivery and market-centric strategies while AmSurg has been diversifying and building its national presence. Our two organizations complement each other in a way few others could, and this merger will accelerate our collective ability to positively impact healthcare delivery across the country," said William A. Sanger, CEO at Envision.
- ▶ **Team Health Holdings acquires IPC Healthcare (November 2015)** – Team Health Holdings, Inc., a leading provider of outsourced healthcare professional staffing to hospitals, acquired IPC Healthcare for roughly \$1.6 billion at 2.2x revenue and 22.0x EBITDA. The acquisition of IPC Healthcare, a provider of acute hospitalist and post-acute care services in the United States, expands the combined organizations network to over 2,000 facilities across 28 states and brings the total number of clinicians to 16,000. Michael D. Snow, President and CEO, of Team Health commented, "As an industry leader in the hospital-based and post-acute settings, we now have an expanded network of services and solutions to support our affiliated clinicians, hospital partners and physician groups influence high-quality and lower cost outcomes across the continuum of patient care."
- ▶ **Welsh, Carson, Anderson & Stowe invests in US Acute Care Solutions (April 2015)** – US Acute Care Solutions ("USACS") is the national leader in physician-owned emergency medicine, hospitalist and observation services that provide care to almost 4 million patients annually at approximately 120 locations in 22 states. Welsh, Carson, Anderson & Stowe ("WCAS") invested in USACS in April 2015 for an undisclosed amount. Since the transaction, USACS has announced the addition of six partner groups with three of the partnerships being added in 2016. USACS is committed to the principle that the best patient care and the best hospital partnerships result when physicians maintain majority ownership and management of their practice. Scott Mackesy, the Co-Head of the healthcare practice at WCAS said, "The industry is still fairly fragmented and the group intends to continue investing through its ownership stake in USACS."

## OUTSOURCED CLINICAL SERVICES: SELECT M&amp;A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
09/26/16	TheraStaff	Therapy Staff	Provides healthcare staffing services for the rehabilitation therapy field.	-	-	-
09/22/16	Accurate Monitoring	Housatonic Partners	Delivers intraoperative neuromonitoring services.	-	-	-
09/16/16	Medical Anesthesia	MEDNAX	Provides anesthesia services.	-	-	-
09/16/16	Anesthesia Assoc. Of Naples	MEDNAX	Offers anesthesia services.	-	-	-
09/15/16	EmMed, P.C.	Team Health	Offers staffing and management services.	-	-	-
09/13/16	Innovative Placements, Inc.	Advanced Medical Personnel Services	Provides travel nurse staffing services.	-	-	-
09/08/16	Ambulatory Anesthesia	Sheridan Healthcare	Provides outsourced anesthesia services.	-	-	-
09/08/16	Genesis Anesthesia	Sheridan Healthcare	Offers outsourced anesthesia services.	-	-	-
08/25/16	Global Medical Staffing	CHG Healthcare	Places physicians in locum tenens assignments at healthcare facilities worldwide.	-	-	-
08/22/16	Grossmont Emergency Med.	Team Health	Provides staffing and management of the emergency department at Sharp Grossmont Hospital.	-	-	-
08/18/16	Cin. Anesthesia Associates	Team Health	Provides anesthesiology staffing services.	-	-	-
08/10/16	FasPsych	Pharos Capital	Offers staffing solutions to the behavioral health services industry.	-	-	-
08/10/16	Signature Healthcare	IPC Healthcare	Specializes in acute care hospital medicine.	-	-	-
08/08/16	Reno Associated Anesthesiologist	MEDNAX	Offers anesthesia services in Nevada.	-	-	-
07/21/16	AlphaVista Services	Pediatric Therapy	Provides staffing therapy services to public school districts and private learning centers.	-	-	-
07/13/16	North NJ Anesthesia	NAPartners in Anesthesia	Offers anesthesia services in New Jersey.	-	-	-
07/06/16	LAM & Associates	Mdstaffers	Provides healthcare staffing services and specializes in physician searches.	-	-	-
07/05/16	AllegiantMD	Sheridan Healthcare	Provides professional radiology services to hospitals.	-	-	-
07/05/16	Lake County Anesthesia	Team Health	Provides anesthesia services in Florida.	-	-	-
07/05/16	Resolute Anesthesia	Sheridan Healthcare	Offers anesthesia solutions.	-	-	-
07/05/16	South Lake Anesthesia	Sheridan Healthcare	Offers pain management solutions.	-	-	-
07/04/16	Pro-J-Pharma	AlliancePharma	Specializes in personnel placement in pharmacies.	-	-	-
06/30/16	Arapahoe Gast. Anesthesia	CRH Medical	Provides anesthesia services to an ambulatory surgical center.	-	-	-
06/20/16	Westchester Anesthesiologist	American Anesthesiology	Operates as a physician-only anesthesia practice in New York.	-	-	-

**OUTSOURCED CLINICAL SERVICES: SELECT M&A TRANSACTIONS (CONTINUED)**

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
06/16/16	Community Anesthesia	CRH Medical	Provides anesthesia services to four ambulatory surgical centers.	-	-	-
06/15/16	AmSurg	Envision Healthcare	Provides physician-centric surgical centers and physician services in the US.	\$7,699.4	2.8x	10.6x
06/07/16	Northwest Anesthesia	MEDNAX	Offers anesthesia services.	-	-	-
06/07/16	Children's Eye Care of N. TX	MEDNAX	Offers pediatric ophthalmology services.	-	-	-
06/06/16	BNN	NuVasive	Provides intraoperative neurophysiologic monitoring solutions in the US.	\$98.0	2.0x	-
06/02/16	Austin Gastro. Anesthesia	CRH Medical	Provides anesthesia services to two ambulatory surgical centers in Texas.	-	-	-
05/31/16	NuWave Monitoring	BNN	Provides intraoperative monitoring services to surgeons.	-	-	-
05/24/16	Jandee Anesthesiology	Sheridan Healthcare	Provide anesthesia services.	-	-	-
05/24/16	Karadan Anesthesiology	Sheridan Healthcare	Provide pain management services.	-	-	-
05/18/16	Nashua Anesthesia	NA Partners in Anesthesia	Provides anesthesia services to ambulatory surgery centers.	-	-	-
05/05/16	Rise Medical Staffing	Advanced Medical Personnel Services	Recruits and employs nurses on per diem, travel and long-term assignments at acute care facilities.	-	-	-
05/03/16	Healthcare Associates of TX	Webster Capital	Offers physician practice management services to a full-service primary care practice.	-	-	-
04/29/16	Care Resources	Epic Health Services	Provides various contractual education professionals, including SLPs, OTs, PTs, psych and school nurses.	-	-	-
04/22/16	ECI Healthcare	Schumacher Clinical Partners	Provides integrated healthcare solutions for ED, hospitalist and urgent care management clients.	\$140.0	-	-
04/11/16	Lake Pointe Radiology	Radiology Partners	Provides radiology services to outpatient imaging centers.	-	-	-
04/04/16	Children's Emergency	Team Health	Provides emergency healthcare services for Dayton Children's Hospital.	-	-	-
04/04/16	North Florida Anesthesia	Sheridan Healthcare	Provides anesthetic services for surgery centers and physician offices in Florida.	-	-	-
03/29/16	Mid-Missouri Neonatology	MEDNAX	Provides physicians who offer baby delivery, neonatal, newborn nursery, pediatric and consultative services.	-	-	-
03/24/16	Progressus Therapy	Invo HealthCare Associates	Provides school-based therapy and early intervention services for school districts and communities in the US.	-	-	-
03/16/16	Lighthouse Anesthesia	MEDNAX	Provides anesthesia management services to hospitals, ASC's and endoscopy centers.	-	-	-
03/09/16	Emergency Physicians	Envision Healthcare	Provides physician staffing, and local and regional management services.	\$120.0	-	-
02/26/16	Anesthesia Care Group	NA Partners in Anesthesia	Provides anesthesia services to patients.	-	-	-
02/11/16	Supplemental Health Care	The Vistria Group	Provides healthcare staffing solutions through four national divisions.	-	-	-
02/03/16	Continental Anesthesia	NorthStar Anesthesia	Provides multi-system anesthesia services to hospitals, medical centers, and surgical centers in the Midwest.	-	-	-

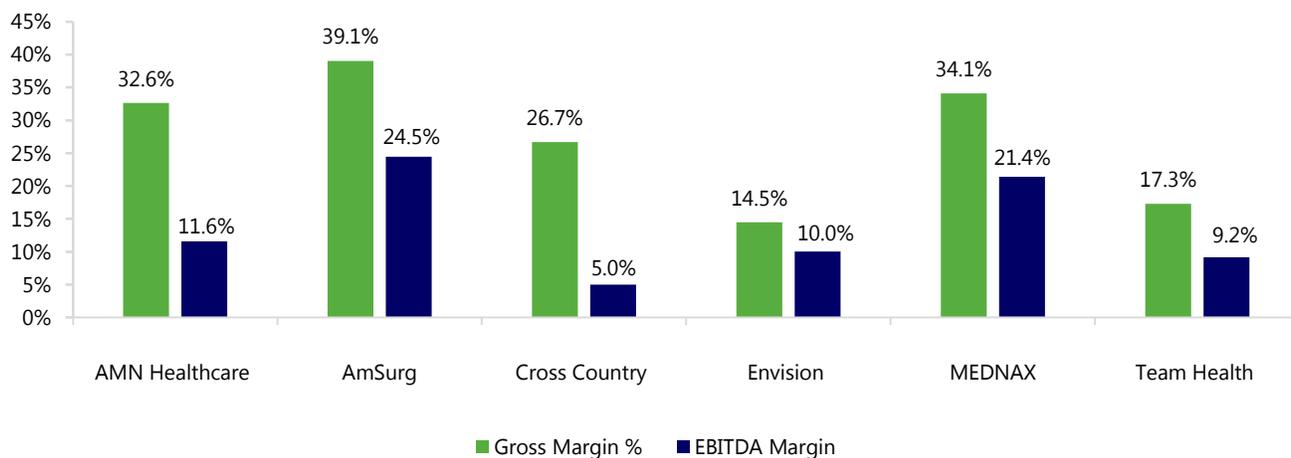
**OUTSOURCED CLINICAL SERVICES: PUBLIC COMPANY TRADING & OPERATING DATA**

Company	Price 11/11/16	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV/LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
AMN Healthcare Services	\$29.00	64.5%	\$1,393.4	\$1,762.8	\$1,816.9	\$210.5	11.6%	1.0x	8.4x
AmSurg	\$59.91	69.5%	\$3,220.4	\$6,607.1	\$3,009.7	\$736.2	24.5%	2.2x	5.0x
Cross Country Healthcare	\$13.29	70.8%	\$438.7	\$485.1	\$804.2	\$40.3	5.0%	0.6x	12.0x
Envision Healthcare Holdings	\$19.80	69.5%	\$3,708.9	\$6,668.9	\$6,359.1	\$638.6	10.0%	1.0x	10.4x
MEDNAX	\$61.65	80.1%	\$5,710.4	\$7,435.9	\$3,094.1	\$662.0	21.4%	2.4x	11.2x
Team Health Holdings	\$41.10	71.0%	\$3,060.5	\$5,737.3	\$4,379.3	\$401.6	9.2%	1.3x	14.3x

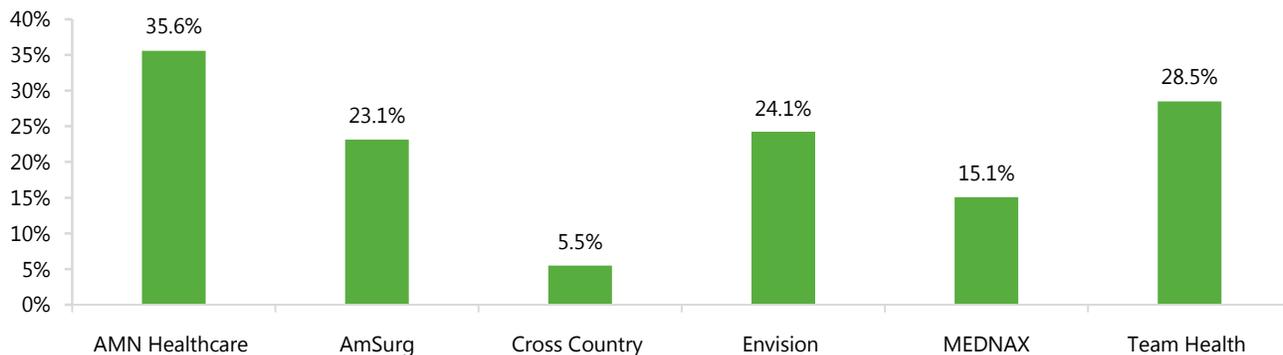
EV = enterprise value; LTM = last twelve months  
\$ in millions, except per share data  
NM = Not Meaningful; NA = Not Available

<b>Mean</b>	<b>13.6%</b>	<b>1.4x</b>	<b>10.2x</b>
<b>Median</b>	<b>10.8%</b>	<b>1.2x</b>	<b>10.8x</b>
<b>Harmonic Mean</b>	<b>10.3%</b>	<b>1.1x</b>	<b>9.1x</b>

**Last Twelve Month Margin Performance**



**Last Twelve Month 1-Year Revenue Growth**



Source: Capital IQ as of November 11, 2016

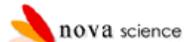
**CAPSTONE PARTNERS: COMPLETED HEALTH & MEDICAL TRANSACTIONS**

Capstone Partners has successfully advised on a number of health and medical transactions; a sampling of transactions are detailed below. Capstone's experience in the industry provides us with insight into the valuable attributes and likely valuation of target companies, the active buyers in the industry and the nuances of transactions in the space.



Recently, Capstone Partners successfully advised Accurate Monitoring, LLC on its recapitalization by private equity firm, Housatonic Partners. The terms of the deal were not disclosed.

Accurate is a leading provider of outsourced Intraoperative Neurophysiological Monitoring (IONM) services to hospitals and surgical groups throughout New York and New Jersey. Accurate's highly-skilled technologists and customized multimodality neuromonitoring protocol play a vital role in reducing the incidence of post-operative complications through early identification of emerging neural injury during surgery and facilitation of timely intervention by the surgical team. Additionally, the Company is lauded for its philosophical approach to neuromonitoring centered on the individual patient and focusing on risk factors that are specific to each surgical procedure.

<p><b>CONFIDENTIAL</b></p> <p>is pursuing a corporate sale</p> <p><b>PEDIATRIC NURSE STAFFING</b></p>	<p><b>CONFIDENTIAL</b></p> <p>is pursuing a corporate sale</p> <p><b>ALLIED HEALTHCARE STAFFING</b></p>	<p> Progressus Therapy</p> <p>has been acquired by</p> <p> Invo HealthCare Associates*</p>	<p> LSP LUTZ SURGICAL PARTNERS</p> <p>has recapitalized with</p> <p><b>A PRIVATE INVESTMENT GROUP</b></p>	<p> TDOC AIR-CHARGED CATHETERS</p> <p>has been acquired by</p> <p> LABORIE</p> <p>a portfolio company of AUDAX GROUP, INC.</p>
<p> the ame group</p> <p>has acquired</p> <p><b>CERTIFIED IT &amp; ITRICITY FREEDOM DATA</b></p>	<p> SMA Surgical Monitoring Associates* Guardians of the Nervous System®</p> <p>has been acquired by</p> <p> SC SpecialtyCare Your Trusted Clinical Partner</p>	<p> Tricore® Educate. Influence. Motivate.</p> <p>has been acquired by</p> <p> highroad CAPITAL PARTNERS</p>	<p> plastek</p> <p>has divested assets to</p> <p> ROMEO RIM, INC.</p>	<p>AGGU * MET LASER, Inc.</p> <p>has been acquired by</p> <p>RiversidePartners, Inc.</p>
<p> Radius Medical TECHNOLOGIES, INC.</p> <p>has divested assets to</p> <p> Vascular SOLUTIONS</p>	<p> KERADERM HARNESSING THE HEALING POWER OF LIGHT</p> <p>has secured financing from</p> <p><small>TRUST PARTNERS</small> NEWVA CAPITAL PARTNERS, LP</p>	<p> nova science</p> <p>has been acquired by</p> <p> Abbott A Promise for Life</p>	<p> Drug-Research-Development</p> <p>has been acquired by</p> <p> BHG Behavioral Health Group</p>	<p> Invo HealthCare Associates, Inc. ...Helping Kids Be Kids®</p> <p>has been acquired by</p> <p> POST CAPITAL</p>

## THE HEALTHCARE STAFFING TEAM

**Eric Williams, Managing Director**

[ewilliams@capstonellc.com](mailto:ewilliams@capstonellc.com) • (215) 854-4065

Eric serves as Managing Director and Head of the Atlantic Region for Capstone. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone's Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including pharmaceutical outsourcing, health care services, medical device, contract manufacturing, and education and training. In 2013, he received the "M&A Deal of the Year" M&A Advisor award for his work on the acquisition and majority recapitalization of Invo HealthCare Associates, Inc. and in 2014 was awarded both "M&A North American Middle Market Deal of the Year" at the M&A Atlas Awards and "Cross Border Deal of the Year" from the M&A Advisor for his work on the sale of T-DOC Company LLC. He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland. He graduated cum laude from the University of California and is a Series 24 Registered Securities Principal.

**Mark Surowiak, Director**

[msurowiak@capstonellc.com](mailto:msurowiak@capstonellc.com) • (215) 854-4063

Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.

**Matthew Szymanski, Associate**

[mszymanski@capstonellc.com](mailto:mszymanski@capstonellc.com) • (610) 768-8043

Matthew serves as an Associate with Capstone's Philadelphia investment banking team, where his focus includes providing advisory services, transaction execution and client engagements to multiple industries and sectors. Prior to joining Capstone, Matthew was pursuing a career in the NFL and was signed by the Kansas City Chiefs and Miami Dolphins. Matthew graduated from Southern Methodist University with a BA in Economics and earned a Masters in Finance from the University of Cincinnati. He is a Series 79 and 63 Registered Securities Representative.

## CAPSTONE'S OFFICE LOCATIONS

### BOSTON

176 Federal Street  
3rd Floor  
Boston, MA 02110  
(617) 619-3300

### CHICAGO

200 South Wacker Drive  
Suite 3100  
Chicago, IL 60606  
(312) 674-4531

### LONDON

42 Brook Street  
London W1K 5DB  
United Kingdom  
+44 (0) 203 427 5068

### LOS ANGELES

401 Wilshire  
Suite 1200  
Santa Monica, CA 90401  
(858) 926-5950

### NEW YORK

41 Madison Avenue  
31<sup>st</sup> Floor  
New York, NY 10010  
(212) 634-0855

### ORANGE COUNTY

23046 Avenida de la Carlota  
Suite 600  
Laguna Hills, CA 92653  
(949) 460-6431

### PHILADELPHIA

1515 Market Street  
12th Floor  
Philadelphia, PA 19102  
(215) 854-4063

### SAN DIEGO

12707 High Bluff Drive  
Suite 200  
San Diego, CA 92130  
(858) 926-5950

### SILICON VALLEY

228 Hamilton Avenue  
3rd Floor  
Palo Alto, CA 94301  
(650) 319-7370

### TAMPA

1550 W Cleveland Street  
Suite 10  
Tampa, FL 33679  
(813) 251-7285

## ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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