

HEALTHCARE SECTOR INSIGHTS

HEALTHCARE MARKET UPDATE • MAY 2020

Hospitals are currently playing the most important role in the battle against COVID-19. As hospitals and health systems flex their capacity to manage the expected surge in COVID-19 patients, these entities are also grappling with financial pressure given the lower reimbursed payments for COVID-19 patients vs. traditional elective procedures. Hospitals are evaluating the expected cash inflow from the CARES Act, PPP and Health Care Enhancement Act, as well as state stimulus to help improve liquidity. With that said, for those hospitals that were in weak financial position prior to the pandemic, these stimulus measures may not be enough to counter reduced procedure volumes.

The halt in elective procedures is also putting pressure on many physician groups and other facilities. However, new federal guidelines, including from CMS, are prioritizing the resumption of elective procedures when states rollback stay-at-home protocols. Healthcare providers are eager to begin working through the backlog of procedures, but the lasting effects of social distancing and potential for sustained elevated unemployment may result in some long-term demand disruption for some surgeries that are more truly “elective.”

One of the biggest systematic changes brought about as a result of the pandemic is the accelerated adoption of telehealth. Payers (Medicare and MCOs) have altered reimbursement payments to accommodate telehealth (in many cases reimbursement for telehealth visits reimbursed in line with in-person evaluation). Many healthcare constituents believe the heightened use of telehealth is here for the long-term for many specialties.

The importance of biopharma in developing COVID-19 treatments has generated significant goodwill for the overall industry, following a period of governmental pressures and general scrutiny over drug pricing practices. There are ~125 vaccines now in preclinical/clinical development for COVID-19, with at least 8 candidates already in clinical trials. In addition to vaccines, there are ~200 potential treatments under development. Select types of potential therapies include antibodies, antivirals, cell based therapies and RNA based treatments, among others.

M&A MARKET OBSERVATIONS

- Despite the expected outperformance of the broader healthcare sector for the remainder of 2020, healthcare was by no means immune to the halting of M&A activity during the end of March and April
- While the majority of processes were put on hold, a number of deals that were in more advanced stages have proceeded. Many of these deals included a strategic frontrunner with the added benefit of synergies to offset some financial fallout from COVID-19 (e.g. hospice and HME). A handful of other deals with financial sponsor buyer focus continued during the pandemic but were largely insulated from the reduction in elective procedures (e.g. behavioral)
- As investors and advisors come to terms with the potential reopening of the economy and a “new normal” for 2020, some new healthcare deals are being launched. Recent examples include deals in the home health, pharmacy, healthcare equipment distribution, and primary care sectors. While virtual management meetings are becoming the norm, buyers and sellers will also have to learn to work around future limitations with on-site diligence and site visits
- To a certain extent, new deal activity will be predicated on some stabilization of the debt markets, which are starting to show some improvement (specifically on the pro-rata and high yield side)

NOTABLE YEAR-TO-DATE TRANSACTIONS

Date ⁽¹⁾	Target	Acquirer	Sector
Apr-20	AseraCare	Amedisys	Home Care
Apr-20	Lifestance Health	TPG Capital	Behavioral
Mar-20	Pathway Vet Alliance	TSG Consumer Partners	Veterinary
Mar-20	HealthEdge Software	Blackstone	HCIT
Mar-20	Coventry Workers Comp	Mitchell-Genex	Workers Comp
Feb-20	MaSTherCell Global	Catalent	CDMO
Jan-20	RTI Surgical (OEM segment)	Montagu Private Equity	Products
Jan-20	Universal Care	Bright Health	Managed Care

(1) Date of announcement. Sources: Press releases; public filings.

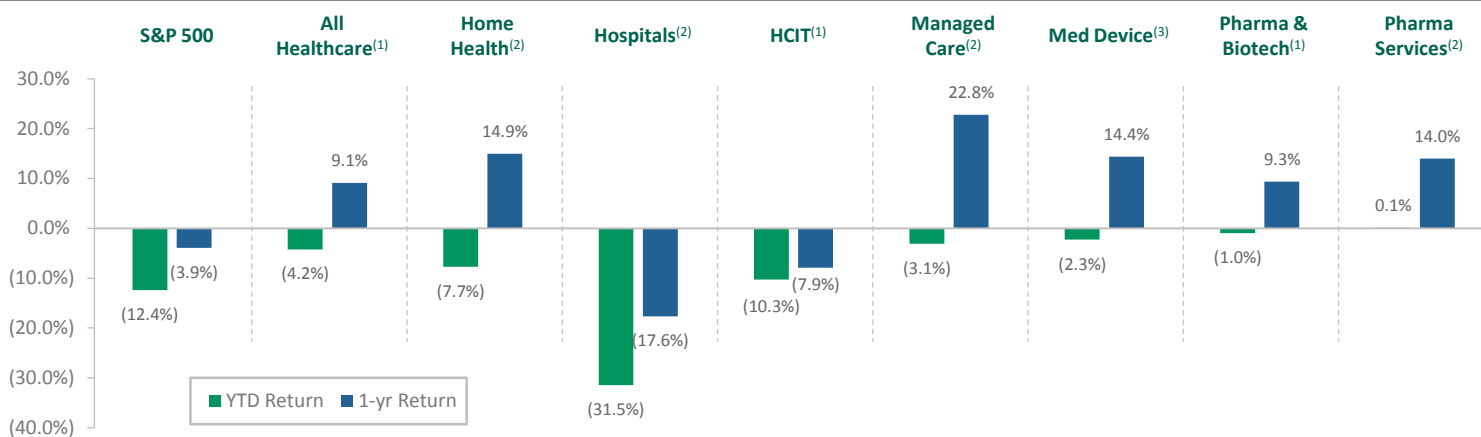
CITIZENS’ INDUSTRY THOUGHT PIECES

Industry Thought Pieces with long-term sector trends, valuation analysis, and competitive landscapes available upon request

503B Compounding Pharmacies	Concierge Medicine	Opioid Treatment Programs	Pharmaceuticals
CDMOs	Home Care	Outpatient Rehab	Value-Based Care
Clinical Technology	Institutional Pharmacies	Payer Services	Women’s Care
			Workers’ Compensation



VALUATION SUMMARY



SECTORS IN SPOTLIGHT – OUTPERFORMING SECTORS POST COVID-19

Sector	Commentary	Examples
Behavioral	<ul style="list-style-type: none"> The majority of behavioral services are non-elective, so demand remains consistent with pre COVID-19 levels and volumes have demonstrated greater resiliency relative to other services Increased utilization of telehealth where applicable has offset some of the limitations associated with in-person settings The lasting effects caused by the pandemic (e.g. extended periods of social distancing, socioeconomic consequences) will exacerbate demand for behavioral services longer-term 	
Food Delivery	<ul style="list-style-type: none"> The spike in unemployment and associated food insecurity levels will drive meaningful demand for payer assisted food programs Home meal delivery companies, with customizable meals tailored for elderly patients with chronic conditions, are best suited given new social distancing measures (especially for elderly population) and heightened SDoH program adoption by payers 	
Home Medical Equipment	<ul style="list-style-type: none"> HME companies are able to utilize their equipment fleet to support increased rental demand for ventilators and other respiratory machines from hospitals HME companies should improve sales conversion of CPAP resupply products, which are driven by outbound calling efforts, as a result of increased patients that will be working from home Demand drivers will offset headwind of less patient starts due to postponed interactions between physicians and patients (e.g. sleep study to determine eligibility for CPAP) 	
In-Home Care	<ul style="list-style-type: none"> The headline news regarding higher COVID-19 deaths at many senior facilities from inadequate safety protocols and supervision will ultimately accelerate the trends towards care at home While hospice utilization has remained relatively stable, the pandemic has spotlighted the need for more palliative care specialists to assist with end of life planning and communication, and ensure that the treatment plans match the patient goals Innovative VBC models that provide care at home, including “hospital at home” and risk-based primary care models at home, should also see more demand from both payers and patients 	
Pharma & Pharma Services	<ul style="list-style-type: none"> CDMOs and pharma manufacturers have been deemed essential businesses and have largely seen minimal impact, with demand, manufacturing operations, and supply chain remaining relatively stable. Some pharma and pharma services companies have benefitted if they are actively developing COVID-19 treatments Generics are more defensible than branded drugs in this environment; branded are more likely to see short-term demand decreases, particularly with new drug launches. Additionally, there are signs that government and pricing pressures on the pharma sector have begun to subside 	
Remote Patient Monitoring	<ul style="list-style-type: none"> Tools that can help clinicians track patients as they move throughout the healthcare system (e.g. outpatient to inpatient) are essential for proper care coordination among payers and providers Layering in health monitoring tools to alert clinicians for changes in patient vitals outside of the Dr. office, by extracting data from EHRs or other practice management systems, can help patients receive proper care and potentially halt the spread of viruses earlier 	



CITIZENS DEAL SPOTLIGHT

**Healthcare Technology:
Patient Engagement & Payments**



A PORTFOLIO COMPANY OF



ACQUIRED BY



A PORTFOLIO COMPANY OF




February 2020
Provider of patient engagement and pre-admission software for healthcare providers

**Medical Equipment:
DASCO Home Medical Equipment**



RECAPITALIZED BY




February 2020
Distributor of durable medical equipment, specializing in home respiratory equipment

Citizens M&A Advisory served as the exclusive financial advisor to Simplee, a leading healthcare patient engagement and digital payments software platform, in its sale to Flywire, a high-growth vertical payments company backed by Bain Capital Ventures, Temasek and Goldman Sachs.

Palo Alto-based Simplee, previously backed by Heritage Group, Social Capital, 83North, and American Express Ventures, is dedicated to helping its healthcare provider customers engage patients and address affordability with personalized payment plans.

Paul Wallace, Managing Director at Heritage Group, said: “We are thrilled to see our investment in Simplee reach a successful conclusion and thoroughly enjoyed working with the Citizens M&A team.”

“Simplee is a marquee transaction in the patient payments and healthcare technology space. The company’s platform and team are a testament to the founders’ commitment to creating a better patient financial experience,” said Justin Bentley, Director at Citizens.

Citizens M&A Advisory served as the exclusive financial advisor to DASCO Home Medical Equipment in its recapitalization by Silver Oak Service Partners.

Westerville, Ohio-based DASCO is a leading distributor of DME, specializing in respiratory equipment such as home oxygen, non-invasive ventilation, and CPAP equipment for sleep apnea. Owned and operated by the Seeley family since 1987, DASCO serves patients and referral sources through branches throughout Ohio, Indiana, Kentucky and West Virginia.

Jason Seeley, President at DASCO, commented: “We are so appreciative of the Citizens M&A team for their dedication advising us through the M&A process, understanding our goals and bringing us together with Silver Oak.”

Citizens Managing Director Andrew Male added, “We are honored to have represented the Seeley family and excited to see DASCO continue its grow strategy in partnership with Silver Oak.”

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