URGENT CARE MERGERS AND ACQUISITIONS BOLTS FROM THE GATE IN 2015

With the addition of newly identified transactions, a 2014 that already was a head-turner, went, full on Linda Blair with a revised count of 51 deals.

Even so, any thought that the pace of urgent care M&A would slow, vaporized amidst a hail of deals to open 2015.

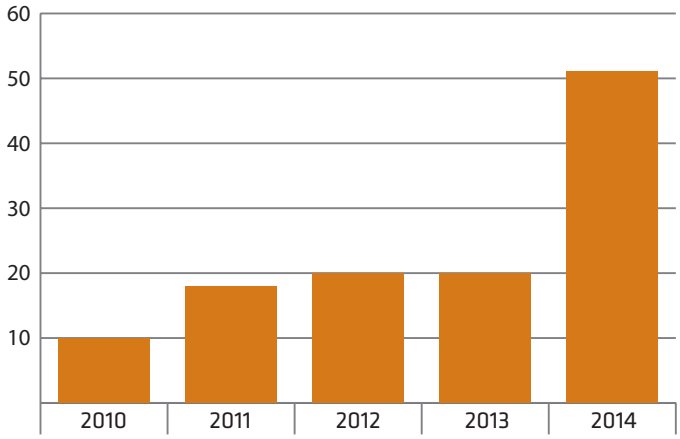
As illustrated in the chart below, the first quarter produced 10 transactions, marking the sixth consecutive period of elevated activity. What's more, the 10 deals were completed by 9 different buyers, demonstrating the breadth of acquisition demand.

Perhaps most impressive of all is that 2015 has already produced a trifecta of above the fold, headline grabbing deals.

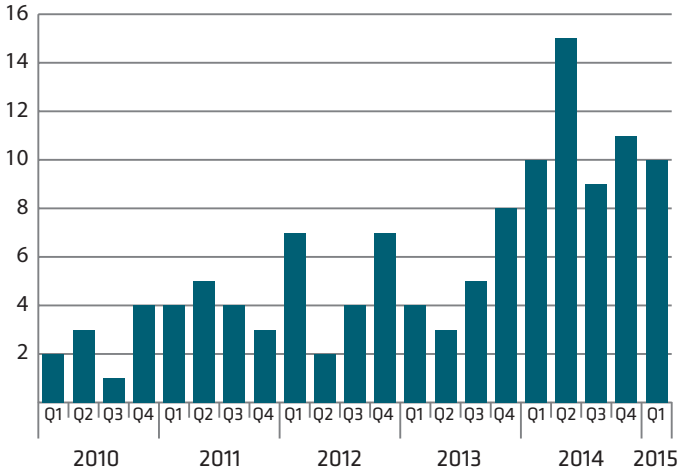
First was the billion dollar acquisition of **Concentra** by Select Medical and private equity giant Welsh, Carson, Anderson, and Stowe (WCAS). Next up was the $1.5B acquisition of **MedExpress** by Optum Healthcare, a division of UnitedHealth Group. Shortly thereafter was the purchase of **FastMed** by PE firm ABRY Partners.

These transactions matter on many levels.

Urgent Care Deal Trends: Annually



Urgent Care Deal Trends: Quarterly



Source: The Braff Group

Size Matters.

Nothing makes for a marquis transaction more than size. What makes the two triple comma transactions even more interesting is just how rare such deals are in health care services. Even though sectors including home health care, hospice, behavioral health, home medical equipment, and infusion therapy have been consolidating for years, deals of this magnitude are harder to find than Waldo. Then over the span of just 90 days, we see two billion dollar babies in urgent care – a sector that is a relative newbie on the acquisition scene.

If you aren't in such rarified air, you may be thinking to yourself, "Why should I care?" Quite simply, the spotlight that shines on these deals brings greater visibility to the entire industry – the kind of visibility that beckons buyers of all sizes, that, in turn, seek out sellers of all sizes. Call it trickle-down M&A.

Strategies Matter More.

A company can have all the size in the world, but if there aren't enough strategic reasons to buy, it could be left out in the cold – even in an otherwise hot M&A climate. These deals say a lot about M&A strategy in urgent care – most importantly that the business plays well with different kinds of buyers, each pursuing divergent agendas.

Take the Concentra-Welsh Carson-Select Medical deal. Even though Concentra longed to spruce up its wardrobe so it could enjoy the sex appeal of urgent care, it was the coveralls that the buyers found alluring. Break down the deal. For Select, which has roots in physical therapy giant NovaCare, Concentra provides a natural referral point into its in-patient and out-patient rehab services. For Welsh Carson – no stranger to Concentra (it's been in and out of the company three times already) – it gives the PE firm substantial presence in both occupational medicine and urgent care (through its interests in CareSpot Express). And we wouldn't be surprised if flitting about somewhere in the back of WCAS's mind, it sees a merger of the two down the road. And before you say, "Balderdash!", you should know it's happened before: the second time WCAS was invested in Concentra, Concentra acquired National Healthcare Resources – a portfolio company of Welsh Carson. Just sayin.

Then there's the FastMed acquisition by PE firm ABRY Partners. On the surface, it looks like a "been-there-done-that" private equity transaction. And it is. With a twist. With FastMed a portfolio company of ComVest Partners, the investor world calls this a "secondary" transaction (i.e. a PE to PE deal). Such deals are notable in that it reaffirms the investment thesis in urgent care. ComVest realizes a successful exit. And the acquisition by another PE firm sends positive signals to the market that the "Masters of the Universe" believe the sector still has legs.

Finally, the acquisition of MedExpress by Optum, a subsidiary of UnitedHealth Group. In an evolving health care delivery system where there is increasing focus on, and acceptance of, treating patients in the most effective setting and keeping them out of the ER, the blend of urgent care and insurance looks to be a lay-up (more on this below). And before you say, "What about Humana and Concentra; that didn't seem to work out so well?" Remember that with Concentra targeting the employer-employee market, the overlap with Humana's core "retail" business was limited. But a fit with rehab as discussed above? Snug like a drug in a bug (or something like that).

When you add the physician groups that don't want to lose the patient, hospitals that want to control the patient, and existing players that don't have the patience to build from ground up for new patients, you have no shortage of strategies – hence buyers – that will keep the M&A demand for urgent care high.

And Process Matters Even More-er.

The metrics for the MedExpress – Optum transaction are stethoscope dropping. On a purchase price of $1.5B and 2014 revenues and locations of $279M and 134 respectively (source: PrivCo), the price per revenue was 5.4 x. Even more remarkable? The price per center comes in at a whopping **$11.2M**. And if we assume an EBITDA margin of 15-20%, the deal comes in at a healthy plus/minus 30 x EBITDA. As tip-top as these benchmarks are, high growth companies can merit a substantial premium. But that's where the valuation becomes even more interesting. According to PrivCo, after posting healthy revenue growth of 30% from 2012 to 2013, growth slowed to just over 5% in 2014.

So what explains such a hefty price tag?

It's a good bet that such a premium was wrangled from the M&A process itself, vs. the risk-return fundamentals of MedExpress (however excellent).

You see, while a standalone MedExpress realizes profit from revenues alone, when paired with Optum, MedExpress will generate revenues, as well as cost savings to UnitedHealth's insurance arm. So for Optum/United, the deal will generate added profitability from two directions – effectively driving down the ratio of what they paid to **their** earnings. Now buyers don't like to pay for the synergies that **they** bring to the table. But they will if they are competing against other buyers – perhaps other insurers that could likewise realize multi-directional returns.

The lesson here? Innate, risk-return value matters. But process matters more. In some cases, much more.

And one more thing.

A game changer in the making?

Recall that UnitedHealth's acquisition of MedExpress is designed, in part, to capture patients and direct them to the most cost effective site of care before they set forth on a walkabout through the health care system – a "pre-acute" portal, if you will. But what if there were a new portal that captures patients even further "upstream?" Such a development could compromise the "gating" value of urgent care. Well, that portal-to-the-portal is here in the form of video "e-visits." Services provided by companies such as Doctor on Demand, NowClinic, and Amwell are increasingly in the position to evaluate patients (can you say millennials?) in the same manner that they facebook, snapchat, instagram, or twit (tweet?). In fact, UnitedHealth itself has announced that it will begin paying for all or part of a physician e-visit.

So now. How long do you think it will be before urgent care providers look to acquire and integrate a video platform into their models?

It's coming.

INTELLIGENT DEALING IN URGENT CARE M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team dedicated to urgent care.

For more than 15 years, we have provided sell-side only transaction services to health care service providers across the nation.

And having completed more than 250 transactions overall, The Braff Group has earned the #1 ranking in health care mergers & acquisitions[1].

More importantly though, we never forget that **your deal** is the one that matters to you.

Let us make it a great one.

[1] Source: Thomson Reuters, based on number of deals between 2008 and 2014.

FOR MORE INSIGHT INTO THE M&A MARKET FOR URGENT CARE AND WHAT IT MAY MEAN TO YOU, CONTACT OUR URGENT CARE TEAM:

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