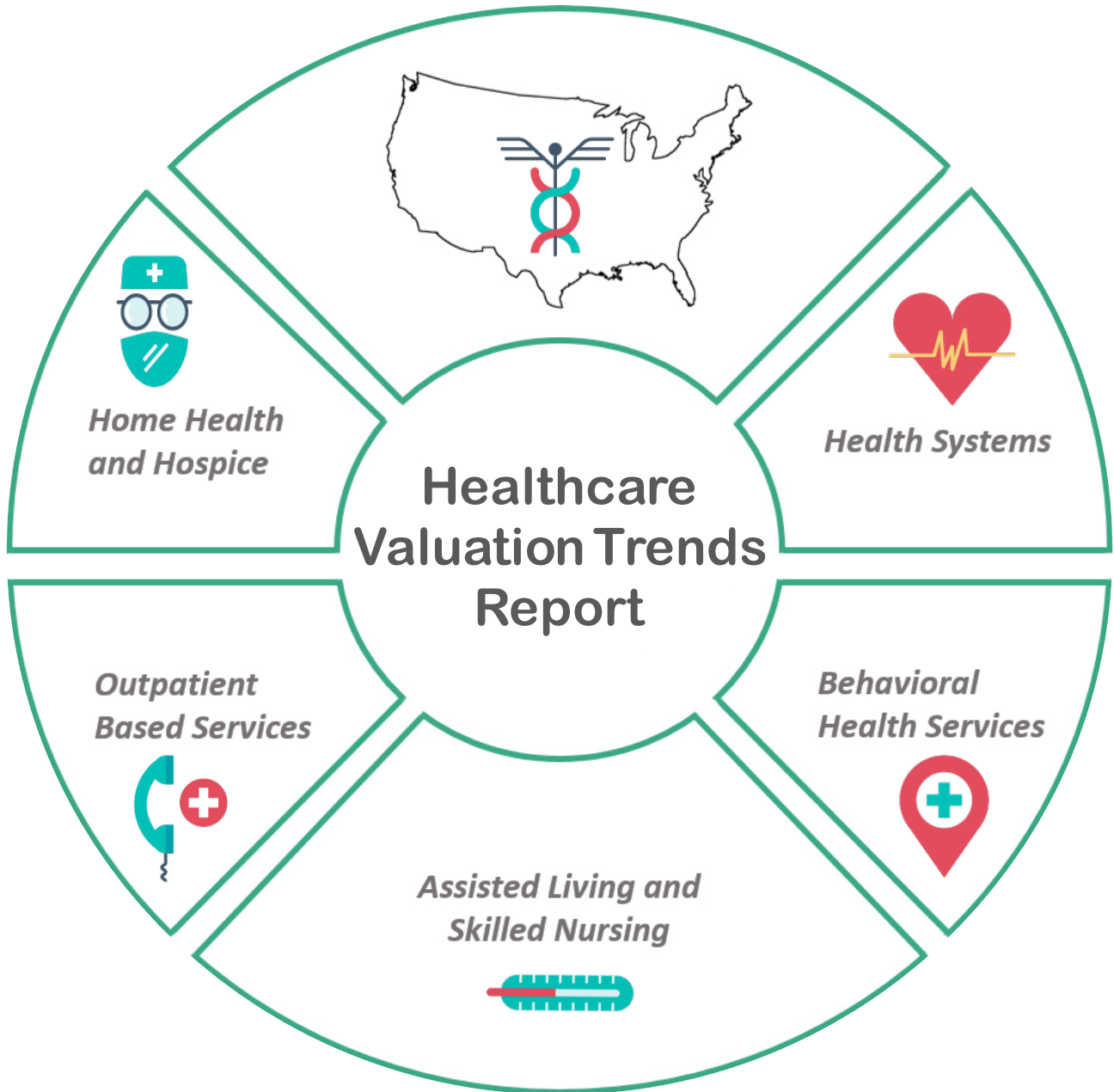


# LBMCMC HEALTHCARE



## Q4 2019 Healthcare Valuation Trends Report

Unique Solutions for the Healthcare Industry

# Sector Highlights

## Objective

Our objective for this quarterly healthcare market update is to provide a high-level summary of healthcare providers. While there are many healthcare indexes and healthcare market updates available, few or none cover healthcare providers only. This market overview intentionally excludes payors, HIT companies, staffing companies, life sciences, and other non-provider organizations.

## Industry Fragmentation

Except for dialysis services, most healthcare sectors are highly fragmented. As such, public company information provides limited insight into the innerworkings of an industry segment. In addition, each public company has a unique focus and value proposition. This overview is intended to convey general market sentiment.

## Industry Themes

We expect four “C”s to drive much of the year of 2019: Capital, Convergence, Customization, and Connectivity. **CAPITAL:** merger and acquisition activity is expected to be near or above prior year levels, with the healthcare IT and home health & hospice sectors anticipated to outpace other healthcare industry sectors. Continued **CONVERGENCE** of payers and providers, as evidenced by the mergers between CVS and Aetna, Humana and Kindred, and UnitedHealth and Optum. **CUSTOMERIZATION** will continue to drive care delivery models that provide a high degree of convenience to patients, such as telehealth, drug dispensation, and connected devices. Finally, **CONNECTIVITY**, between disparate systems, devices, and individuals will grow exponentially, as robotics, IoT, AI, wearables, et cetera evolve and become more sophisticated.

*Disclaimer: LBMC Healthcare Valuation Trends are provided as an informational and educational service for clients and friends of the firm. The communication is high-level and should not be considered as legal or tax advice to take any specific action. Individuals should consult with their personal tax or legal advisors before making any tax or legal-related decisions. In addition, the information and data presented are based on sources believed to be reliable, but we do not guarantee their accuracy or completeness. The information is current as of the date indicated and is subject to change without notice.*

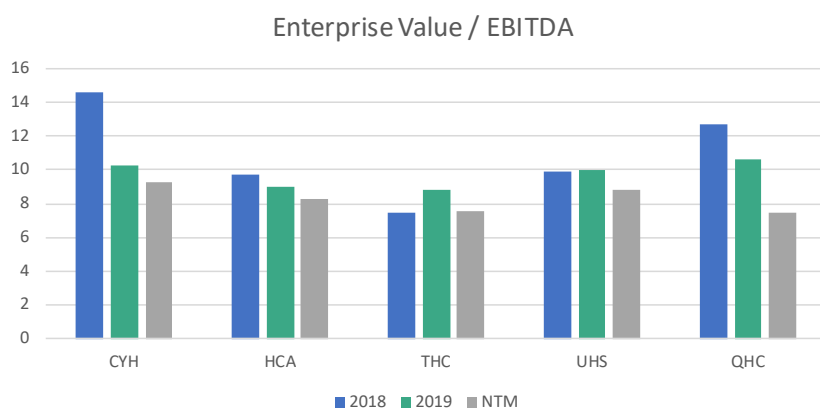
# Health Systems

## HEALTH SYSTEMS - SECTOR HIGHLIGHTS

The fragmented acute care hospital industry continues to consolidate - both vertically and horizontally. EBITDA multiples have been in the 8-9x range for HCA, THC, and UHS. As CYH and QHC EBITDA margins have improved over the last twelve months, EBITDA multiples have moderated and forward multiples are in line with the overall group.

Ardent Health's December 2018 filing for an initial public offering may add another health system operator to the roster of publicly traded companies. According to Ardent's most recent (March 6) filing with the Securities and Exchange Commission, the company operated 30 acute care hospitals (4,395 licensed beds) at December 31, 2018, and provided physician and other ancillary services.

Meanwhile, private equity firm KKR has made an offer to buy out Quorum Health's shareholders and take the company private.



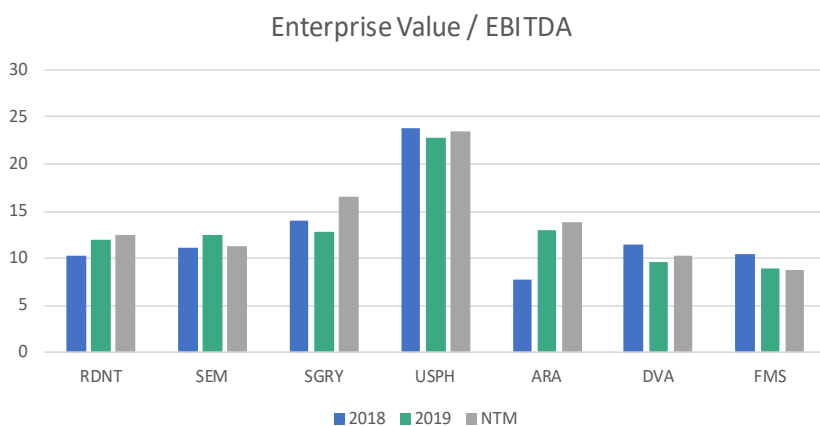
| Company                                 | Ticker | Stock Price |         | TEV         | TEV/Revenue |      | EBITDA Margin |             | Debt / EBITDA | TEV/EBITDA |      |
|---|--------|-------------|---------|-------------|-------------|------|---------------|-------------|---------------|------------|------|
|   |        | 2018        | 2019    |             | LTM         | NTM  | LTM           | YoY Δ (bps) |               | LTM        | NTM  |
| Community Health Systems, Inc.          | CYH    | \$ 4.75     | \$ 3.20 | \$ 15,026.5 | 1.12        | 1.17 | 11.0%         | 385         | 9.69          | 10.23      | 9.30 |
| HCA Healthcare Inc                      | HCA    | 143.99      | 138.66  | 85,674.5    | 1.71        | 1.59 | 19.1%         | (1)         | 3.77          | 8.97       | 8.32 |
| Tenet Healthcare Corporation            | THC    | 26.07       | 32.20   | 21,362.6    | 1.17        | 1.13 | 13.2%         | (61)        | 6.65          | 8.85       | 7.57 |
| Universal Health Services, Inc. Class B | UHS    | 137.99      | 139.49  | 16,622.2    | 1.48        | 1.41 | 14.8%         | (113)       | 2.57          | 9.97       | 8.81 |
| Quorum Health Corp.                     | QHC    | 4.41        | 0.59    | 1,269.6     | 0.72        | 0.83 | 6.8%          | 138         | 10.67         | 10.60      | 7.50 |

# Outpatient Based Services

## OUTPATIENT SERVICES - SECTOR HIGHLIGHTS

With exception of the dialysis industry, outpatient based services continue to be highly fragmented. Median EBITDA multiples have declined modestly, from 12x in 2018 to 10.0x in 2019.

The table below groups the three publicly traded dialysis companies (American Renal, DaVita, and Fresenius) together. Direct comparisons between the three companies can be challenging due to the scale of DaVita and Fresenius relative to American Renal. In addition, Fresenius derives a portion of its revenues and earnings from products and services outside the dialysis industry.



| Company                                  | Ticker | Stock Price |          | TEV        | TEV/Revenue |      | EBITDA Margin |             | Debt / EBITDA | TEV/EBITDA |       |
|--|--------|-------------|----------|------------|-------------|------|---------------|-------------|---------------|------------|-------|
|  |        | 2018        | 2019     |            | LTM         | NTM  | LTM           | YoY Δ (bps) |               | LTM        | NTM   |
| RadNet, Inc.                             | RDNT   | \$ 12.89    | \$ 19.16 | \$ 2,198.4 | 1.98        | 1.84 | 16.5%         | 400         | 6.50          | 12.00      | 12.44 |
| Select Medical Holdings Corporation      | SEM    | 19.38       | 22.11    | 8,236.5    | 1.54        | 1.46 | 12.4%         | 24          | 6.65          | 12.47      | 11.31 |
| Surgery Partners, Inc.                   | SGRY   | 14.35       | 13.78    | 4,703.9    | 2.64        | 2.43 | 20.6%         | 341         | 7.57          | 12.85      | 16.58 |
| U.S. Physical Therapy, Inc.              | USPH   | 118.99      | 116.86   | 1,747.1    | 3.66        | 3.44 | 16.1%         | 42          | 1.83          | 22.77      | 23.51 |
| American Renal Associates Holdings, Inc. | ARA    | 16.59       | 9.46     | 1,287.8    | 1.61        | 1.48 | 12.4%         | (888)       | 7.50          | 12.96      | 13.90 |
| DaVita Inc.                              | DVA    | 66.06       | 71.77    | 22,082.9   | 1.95        | 1.91 | 20.2%         | (379)       | 4.89          | 9.65       | 10.24 |
| Fresenius Medical Care AG & Co. KGaA Sp  | FMS    | 40.76       | 36.63    | 37,353.2   | 1.91        | 1.82 | 21.7%         | 582         | 3.52          | 8.82       | 8.75  |

Source: FactSet financial data and analytics.



# Behavioral Health Services

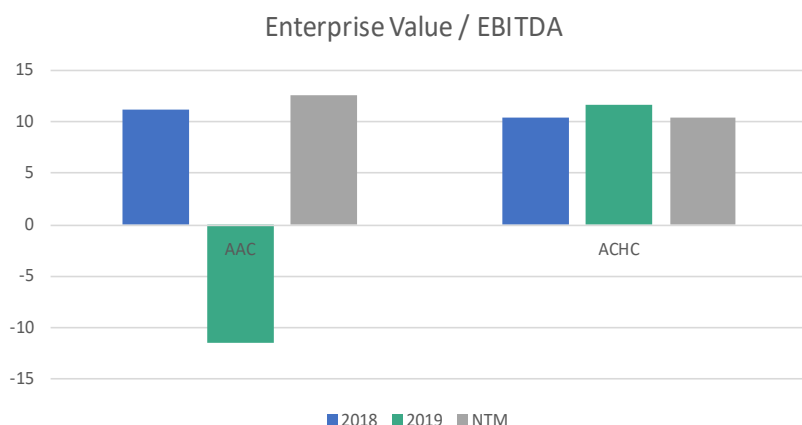
## BEHAVIORAL HEALTH - SECTOR HIGHLIGHTS

Public equity investments in the highly fragmented behavioral health industry are limited as compared to other healthcare sectors.

Acadia (ACHC) provides a broad spectrum of inpatient- and outpatient-based behavioral health services. AAC Holdings is focused on substance abuse treatment services.

Formerly public Civitas Solutions is a provider of home- and community-based health and human services but was taken private on March 8, 2019.

Although public company activity in the behavioral health space has been muted, the sector has attracted private equity investments at a record pace.



| Company                         | Ticker | Stock Price |         | TEV      | TEV/Revenue |      | EBITDA Margin |             | Debt / EBITDA | TEV/EBITDA |       |
|---------------------------------|--------|-------------|---------|----------|-------------|------|---------------|-------------|---------------|------------|-------|
|                                 |        | 2018        | 2019    |          | LTM         | NTM  | LTM           | YoY Δ (bps) |               | LTM        | NTM   |
| AAC Holdings, Inc.              | AAC    | \$ 1.97     | \$ 0.65 | \$ 387.3 | 1.68        | 1.41 | -14.6%        | (2,414)     | (11.96)       | (11.51)    | 12.66 |
| Acadia Healthcare Company, Inc. | ACHC   | 33.97       | 32.16   | 6,497.3  | 2.12        | 2.00 | 18.2%         | (151)       | 6.68          | 11.64      | 10.42 |

# Assisted Living and Skilled Nursing

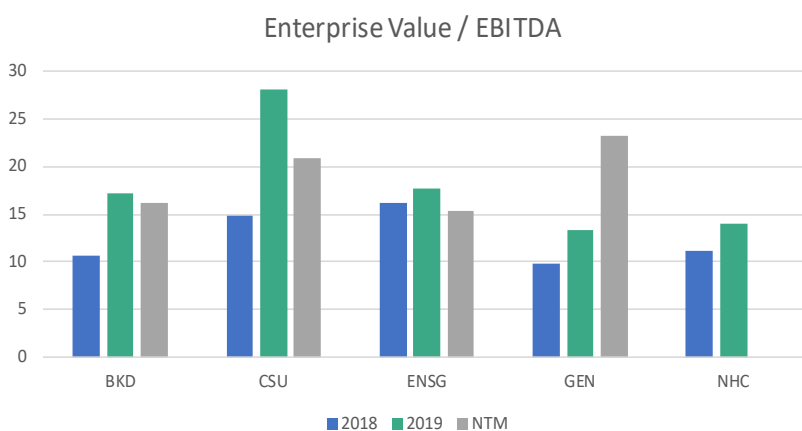
## ASSISTED LIVING AND SKILLED NURSING - SECTOR HIGHLIGHTS

The Assisted Living and Skilled Nursing Industry has faced several headwinds in the recent past. Declining census, changes to the Five Star quality rating system, and - beginning October 1, 2019 - a major overhaul of Medicare's reimbursement model continue to have a negative effect on margins.

As shown in the table below, the three companies with a focus on assisted living facilities (Brookdale, Capital Senior Living, and Five Star) have experienced larger declines in EBITDA margins than those companies with a focus on skilled nursing facilities (Diversicare, Ensign Group, Genesis, and NHC).

FVE completed a one-for-10 reverse stock split in September 2019 to bring the company into compliance with Nasdaq listing standards.

*Chart excludes FVE and DVCR due to outlier metrics*



| Company                               | Ticker | Stock Price |         | TEV        | TEV/Revenue |      | EBITDA Margin |             | Debt / EBITDA | TEV/EBITDA |       |
|---------------------------------------|--------|-------------|---------|------------|-------------|------|---------------|-------------|---------------|------------|-------|
|                                       |        | 2018        | 2019    |            | LTM         | NTM  | LTM           | YoY Δ (bps) |               | LTM        | NTM   |
| Brookdale Senior Living Inc.          | BKD    | \$ 8.55     | \$ 7.14 | \$ 6,944.2 | 1.68        | 1.76 | 9.8%          | (255)       | 14.67         | 17.15      | 16.25 |
| Capital Senior Living Corporation     | CSU    | 9.00        | 3.82    | 1,331.4    | 2.94        | 3.12 | 10.5%         | (764)       | 25.99         | 27.99      | 20.87 |
| Five Star Senior Living Inc           | FVE    | 4.10        | 4.95    | 841.9      | 0.59        | n/a  | -2.2%         | (1)         | (29.44)       | (27.51)    | n/a   |
| Diversicare Healthcare Services, Inc. | DVCR   | 3.86        | 2.52    | 412.8      | 0.84        | n/a  | 0.5%          | (238)       | 176.31        | 181.75     | n/a   |
| Ensign Group, Inc.                    | ENSG   | 42.43       | 43.43   | 3,717.2    | 1.64        | 1.62 | 9.3%          | 100         | 6.21          | 17.61      | 15.33 |
| Genesis Healthcare Inc Class A        | GEN    | 1.59        | 1.68    | 4,253.7    | 0.92        | 0.96 | 6.9%          | (152)       | 13.93         | 13.40      | 23.15 |
| National HealthCare Corporation       | NHC    | 83.45       | 85.00   | 1,322.2    | 1.34        | n/a  | 9.5%          | (98)        | 2.76          | 14.07      | n/a   |

Source: FactSet financial data and analytics.





# Terms/ Definitions

- AI ..... Artificial Intelligence
- ARU..... Acute Rehabilitation Unit
- ASC..... Ambulatory Surgery Center
- bps..... basis points  
(1% = 100 basis points)
- EBITDA..... Earnings Before Interest, Tax, Depreciation & Amortization
- HIT..... Healthcare Information Technology
- IRF..... Inpatient Rehabilitation Facility
- IT..... Information Technology
- IoT ..... Internet of Things
- Lit/Val..... Litigation / Valuation
- LTAC..... Long Term Acute Care
- LTM..... Last Twelve Months
- NTM..... Next Twelve Months
- SOX..... Sarbanes Oxley
- TEV..... Total Enterprise Value
- YoY..... Year-over-Year
- Δ ..... Delta (change)



## Fast Facts



largest  
firm in U.S.



Healthcare is LBMC's  
largest industry focus

**+100**

Healthcare dedicated  
professionals supported  
by **+300** others



**12** distinct  
healthcare-  
focused service  
lines



Scalable to companies of all sizes



Industry experts with you at  
every stage of investment cycle

# Recent Business Valuation Engagements

## Ambulatory Surgery

- Acquisitions
- Joint ventures
- Shareholder transactions

## Imaging

- Management planning

## Urgent Care

- Acquisitions
- Joint ventures

## Renal Care

- Acquisitions
- Joint ventures
- Purchase price allocations

## Physician Practices

- Acquisitions
- Shareholder transactions

## Physician Network Companies

- Purchase price allocations
- Equity compensation valuations
  - Rollover equity
- Contingent consideration
- Goodwill impairment analysis

## Health Systems

- Acquisitions
- Joint ventures
- Pro forma analytics of service lines/geographic markets

## Home Health & Hospice

- Strategic planning

## Skilled Nursing

- Tax compliance

## Behavioral Health

- Goodwill and intangible asset impairment studies
- Purchase price allocations
- Equity compensation valuations
- Shareholder transactions

## Life Sciences

- Physician joint ventures

## Intangible Assets

- Certificates of need
  - Tradenames
  - Technology
- Intellectual property/ know-how
- Trained and assembled workforce



## Who we serve:

- Ambulatory Surgery Centers
- Behavioral Health
- Continuing Care Retirement Communities
- Durable Medical Equipment
- Health Plans
- Healthcare IT
- Home Health
- Hospice
- Hospitals
- Laboratories
- Life Sciences
- Pharmaceuticals
- Physician Practices
- Rehabilitation and Physical Therapy
- Renal Care
- Rural Health Clinics
- Federally Qualified Health Centers
- Skilled Nursing Facilities
- Urgent Care


## How we serve:

- Audit & Advisory Services
- Analytics
- Consulting
- Human Resources
- Information Security
- Internal Audit and SOX Compliance
- Medical Services Organization (MSO)
- Physician Business Solutions
- Procurement Services
- Tax Services
- Technology Solutions
- Transaction Advisory Services/ Due Diligence
- Staffing Solutions
- Valuation Solutions

## What makes us different:

- Largest industry practice area in the firm, representing approximately one-third of our overall practice.
- Dedicated healthcare service team of over 100 professionals as part of our total staff of 600 across all three offices.
- Healthcare specialists in concentrated service areas (i.e., reimbursement, coding and compliance, HIPAA, practice management, etc.)
- A hands-on, collaborative, and transparent approach that provides clients with 'no surprises'.

## LBMC Family of Companies

 Audit, Tax and Advisory

 Staffing Solutions

 Technology Solutions

 Employment Partners

 Investment Advisors

 Information Security

 Physician Business Solutions

 W Squared

 Procurement Solutions



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