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# Ask the Network: The Outlook for Healthcare M&A

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Welcome to "Ask the Network," where we leverage the expertise of Axial members to answer questions submitted by middle market CEOs.

This week, we posed an industry-specific question to advisors and investors on the network:

"What's your outlook for healthcare M&A for the rest of the year?"

**Jeff B. Swearingen, Edgemont Capital Partners**

"The healthcare industry continues to consolidate aggressively, post Affordable Care Act. Of recent note is Aetna's pending purchase of Humana, and Anthem's proposed acquisition of Cigna. We see this trend continuing for the foreseeable future. There is a three-way struggle between facilities, providers (physicians) and payors. Market share creates negotiating leverage, operating economies of scale and access to capital, which allows each of the three to take on risk arrangements. To survive in the coming healthcare reimbursement environment, you must be consolidated with market share and have access to capital."

**Mike Moran, American HealthCare Capital**

"Throughout our history, Q4 usually yields more closed transactions that any other quarter and 2015 is no exception. With EBITDA multipliers continuing to climb and many opportunities drawing multiple offers, those equity and strategic buyers under contract are pushing to wrap up their deal flow prior to year-end after a protracted due diligence period. In addition, with an ever changing reimbursement environment and increasing wages, business owners will continue to sell their companies. 2015 has been a year of consolidation, especially for larger transactions with EBITDA is excess of $5,000,000 being bought predominately by private equity buyers. As the leading healthcare M&A advisor firm it's a very exciting time for American Healthcare Capital and we expect more of the same throughout 2016."

**Brooks P. Crankshaw, Highland Ridge Capital**

"Healthcare has been a strong sector in the M&A market, and we expect that to continue. According to Reuters, there were 1,577 health care M&A transactions worth $395 billion in the first half of 2015, up 77% (pehub.com, 8/4/2015). Of course, there were some large transactions that dominated the activity, such as Teva Pharma's $40.5 billion purchase of Allergan's generic drug business. Other notable transactions included Madison Dearborn's acquisition of Patterson Medical for approximately $715 million.

"Unfortunately, this didn't translate to increased activity for the PE market. Of those 1,577 deals in the first half, only 158 of them were PE driven; strategic acquisitions dominated the market during this period. And, the number of PE transactions was down 37% from the prior year (pehub.com, 8/4/2015). We expect this trend to continue for larger transactions.

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“Anecdotally, our view is that purchase multiples have risen to levels that make it difficult to attain acceptable returns for PE firms. Strategics, on the other hand, have the ability to recognize the efficiencies of an acquisition with their core business(es), making the higher multiples feasible.

“In the smaller end of the market (revenues of $10-50 million), where Highland Ridge focuses, multiples are relatively lower. For these smaller companies, there exists higher M&A interest from PE firms versus strategics. If one were able to segment the market in this manner, we believe it would be clear that PE M&A would dominate for relatively smaller transactions.

**Tom Schramski, Vertess**

“The M&A marketplace remains very strong in a variety of healthcare verticals and could accelerate through the remainder of 2015 into early 2016, especially in the lower middle market where we see a lot of Baby Boomer executives seeking a transition. Some of the highest multiples can be found in behavioral health/substance abuse treatment, DME, specialty pharmacy and intellectual/developmental disabilities support areas, as well as in services/products that have a primary focus on leveraging technology.

“The underlying foundation for our positive view includes the continuing, rapid development of healthcare technology, the increasing reliance on private enterprise to deliver publicly funded services, the expansion of Medicaid with healthcare reform, and a vibrant consumerism that is adding more private dollars into the mix.

“Add to this the significant number of Baby Boomers yet to transact and we believe the outlook for the near term is very positive for healthcare M&A activity.”

**Dexter Braff, The Braff Group**

“The Braff Group remains extremely bullish on healthcare M&A for the remainder of the year and into 2016. With health care reform creating new and exciting opportunities for companies that can effectively manage and coordinate care, we are seeing buyers of many stripes build-out their service capacity through acquisitions. Whether it’s national nursing home provider Kindred acquiring Gentiva, a national provider of home health and hospice, or UnitedHealth subsidiary Optum acquiring MedExpress, a rapidly growing provider of urgent care, expect to see new and innovative healthcare transaction strategies emerge. It’s not your father’s M&A market anymore.”