LESSONS LEARNED FROM THE SALE OF CONCENTRA:

IMPLICATIONS FOR URGENT CARE

On March 23rd, Welsh, Carson, Anderson, and Stowe, an experienced health care focused private equity group, announced that it would team up with Select Medical, a leading operator of out-patient rehabilitation clinics and specialty hospitals, to acquire Concentra from Humana for $1.055 billion.

To get a complete understanding of the deal, we tracked the evolution of Concentra from its origins to today. What we found was a yarn that plays out like a John Grisham novel, with billions of dollars on the line, plot twists at every turn, an enigmatic protagonist that drives the narrative, and a healthy dose of boardroom intrigue.

Moreover, there are morals to the story about private equity, mergers and acquisitions, and the outlook for urgent care.

Welsh, Carson, Anderson, and Stowe Once, Twice, Thrice, Quad Times Loves Urgent Care.

Like Carrie Bradshaw and Big, WCAS just can't quit urgent care. Concentra's story line reveals that the PE firm's green thumbs have been all over the company since it first seeded its forbearer, in 1990. After the firm went public, Welsh went for Round 2 in 1999, and subsequently, through its ownership of Concentra, acquired National Healthcare Resources, an auto insurance and workers comp group which just so happened to be a portfolio company of…wait for it…Welsh, Carson, Anderson, and Stowe. They cashed out for the second time in 2010 when they sold to Humana. But, they missed the sector so much, they bought Solantic (now CareSpot Express) just one year later. And now, with an assist from Select Medical (which was also once owned by WCAS), they're back into Concentra for a third time, marking their fourth investment in urgent care.

With a pedigree that includes past investments in Accredo Health (pharmacy), Lincare (respiratory therapy), US Oncology (cancer treatment), and current holdings in Onward Healthcare (health care staffing), Smile Brands (dental services), and United Surgical Partners (ambulatory surgery centers), urgent care has benefited greatly from having such a resounding vote of confidence from one of the most storied – and prescient – health care investors (witness the more than 30 PE firms that have followed their lead into the sector).

So love 'em or not, you've got to give props to the enormous role Welsh Carson has played shaping the urgent care industry from its humble beginnings to where it stands today near the top of the health care M&A food chain.

The Consolidation Playbook is Changing

In the past, the consolidation playbook called for an eventual sale to a buyer in the same industry. It was the rule of the "roll-up": buyers buy companies in a narrow niche, leverage fixed cost infrastructures to extract efficiencies and greater profits, and aggregate enough volume to realize a "size premium" upon exit.

But over the past 12-24 months, a new flea flicker has emerged.

Concentra & PE Investor Welsh, Carson, Anderson, & Stowe

1990	**Welsh, Carson, Anderson & Stow (WCAS)** and The Sprout Group provide $35M in seed capital to a provider operating 4 occupational health clinics to consolidate like providers; rebranded as Occusystems
1995	Occusystems goes public
1997	CRA Managed Care and Occusystems merge to form Concentra
1998-99	Driven in part by the collapse of the physician practice management sector, ancillary providers such as HealthSouth, NovaCare, and Concentra see their stock plummet
1999	After stock prices slide 60% in 12 months, **Welsh Carson** acquires the company in a $1.1 billion deal; FYE99 revenues were $681M
2001	Concentra acquires National Healthcare Resources, a medical consulting firm to auto insurance and workers comp; NHR is a portfolio company of **WCAS**
2003	Concentra tops $1B in revenues
2007	**WCAS** extracts a $350 million dividend with the spinoff of Concentra's network services busuness (renamed Viant, which was sold to MultiPlan, another former WCAS investment)
2010	Humana acquires Concentra for $790M; revenues estimated at $800M
2011	**WCAS** acquires urgent care provider Solantic; rebranded as CareSpot Express
3.23.15	Select Medical and **WCAS** team up to acquire Concentra for $1.055B; revenues of $1B; Select was previously a portfolio company of **WCAS**

Driven in large part by health care reform initiatives to remake reimbursement from fee-for-service to a more holistic, population management, or condition specific bundled payment arrangement, we are seeing an increasing number of deals geared towards developing and capitalizing on "coordinated care." This has been a particularly common meme in the post-acute world as skilled nursing, home health, and hospice providers have begun to "cross-consolidate" to offer accountable care organizations, insurance companies, and government payors a comprehensive suite of post-hospital services, designed in large part, to prevent costly readmissions.

The WCAS-Select-Concentra deal can certainly play a role in post-acute patient management. But perhaps more importantly, the deal also represents what The Braff Group refers to as a **"pre-acute"** consolidation play – a strategy in which multi-disciplinary providers coordinate care to prevent unnecessary emergency room or hospital **admissions.** By combining Select Medical's vast network of rehab clinics with Concentra's expertise in vocational and occupational medicine, as well as traditional urgent care, the New Concentra can serve as a critical entry point into the broader health care delivery system. From there, patients can receive preventative, routine, chronic, or rehabilitative care, and equally important, they can be triaged, as appropriate, to the most cost-effective **non-hospital** setting. While the majority of urgent care M&A transactions will still be within the confines of the sector, we fully expect to see more creative aggregations of providers (including urgent care). Also of note, by creating delivery models that can generate both new revenues and cost management opportunities, such deals may also command an extra turn or two of EBITDA in pricing to reflect the added value they can potentially deliver.

Holding Periods Can Be Put on Hold

Ask a private equity buyer how long they expect to hold a particular investment, you will invariably hear "three to seven years." And this is always the case. Until it isn't. Notably, after Welsh Carson's second investment in Concentra in 1999, they didn't cash out for more than 10 years. Whether it was because the exit opportunities weren't promising, or they had realized a partial return of $350M earlier in the cycle, or they thought they could grow the company further, every once in a while, the status quo doesn't go.

Valuation Indicators: Kind 'a Sort 'a

Absent a clear understanding of a seller's normalized earnings before interest, taxes, depreciation, and amortization – figures that are rarely disclosed (or calculable by an outsider) when a transaction is announced – it is difficult to meaningfully interpret how a transaction has been valued. You can benchmark against revenues, which are frequently released, but these metrics can be problematic. Consider two companies that both sell for one times revenue, but company A has an EBITDA margin of 20% and company B has a margin of 10%. Although the revenue multiples may be the same, the earnings multiple for A is 5 x EBITDA, while the multiple for B is a far greater 10 x.

So what, if anything, can we learn from the Concentra deals?

Well, any time a service business, particularly in health care (which frequently relies on third party reimbursement), wrangles a valuation greater than one times revenues, it bears noting. And from this perspective, the valuations have been strong. In 1999, Concentra sold for 1.6x revenue. When the firm sold to Humana in 2010, value ostensibly dipped below 1 x ($790M price on revenues of $800M). But if you include the $350M spin-off prior to the deal, the total exit value of $1.14B ($790M plus $350M) can reasonably be interpreted as plus/minus 1.4x. In the most recent deal, the valuation fell to 1 x revenue, however, this may reflect an erosion of profit margin.

Our valuation conclusion then?

Based on transactions we have seen in the past under similar circumstances, we speculate (and we emphasize speculate) that performance may have slipped given company CEO Bruce Broussard's comment that Concentra "did not ultimately align with Humana's strategy as well as we had originally anticipated" and a disclosure that "the primary care platform has proven to better advance the company's integrated care delivery model than Concentra's focus on occupational injuries." So margins may have indeed fallen, yielding (a) a relatively high imputed multiple of EBITDA (which would pass muster with Humana's board), and (b) ample opportunity for a buyer like Welsh Carson to partner with Select to rebuild a brand it knows so well and better leverage its occupational health roots to realize a handsome return.

So a solid valuation from the seller's perspective. And an opportunistic buy from the buyer's.

The M&A version of yin yang.

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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