marketWATCH
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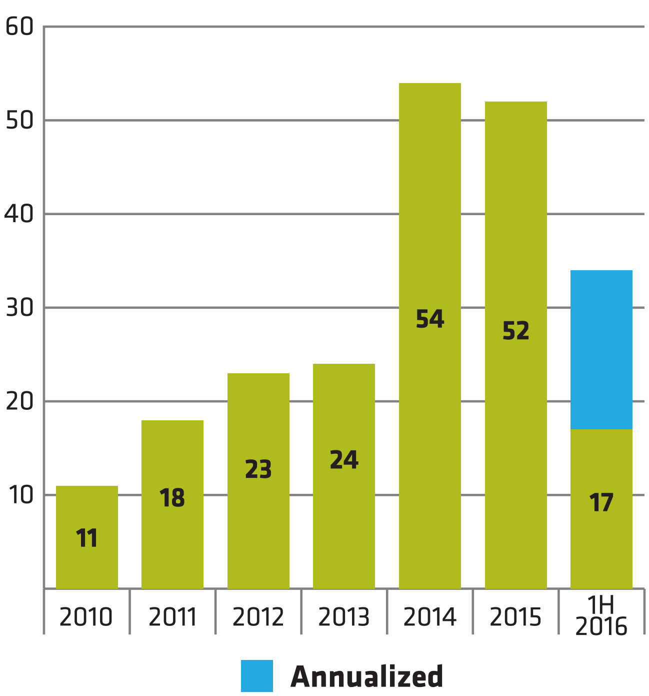
URGENT CARE
FALL 2016

SAY IT AIN'T SO: URGENT CARE M&A VOLUME PLUNGES

Based upon proprietary mid-year data collected and analyzed by The Braff Group, if urgent care transaction volume continues at the same pace, the sector will close out the year with 34 deals - a slide of 35% versus the 52 completed in 2015.

Urgent Care Deal Trends



After being the prettiest girl at the Wall Street dance for nearly five years, has the clock struck midnight?

Is the sky falling?

Is the Zombie Apocalypse upon us?

Well, no, no, and probably not (you never know about those zombies).

You see, while we don't like to see a market contraction of any kind, based upon consolidation patterns we have witnessed in virtually every other health care service sector we cover, it is (a) not unexpected, and (b) likely only temporary.

So, after a rapid run-up in urgent care deal volume which produced a gain of 125% between 2013 and 2014 – a post-surge slowdown was as inevitable as Bill Belichick mumbling through a press conference.

Why?

In a relatively concentrated period between 2011 and 2015, a battalion of more than 30 private equity sponsors gobbled up 81 urgent care platform and follow-on deals. Should we be surprised, then, to see this merry band of buyers push away from the deal table around the same time as well to unbuckle their belts and digest their deals?

Moreover, after such a run-up in deal flow, the pool of mature, ready-to-sell acquisition candidates began to dry up.

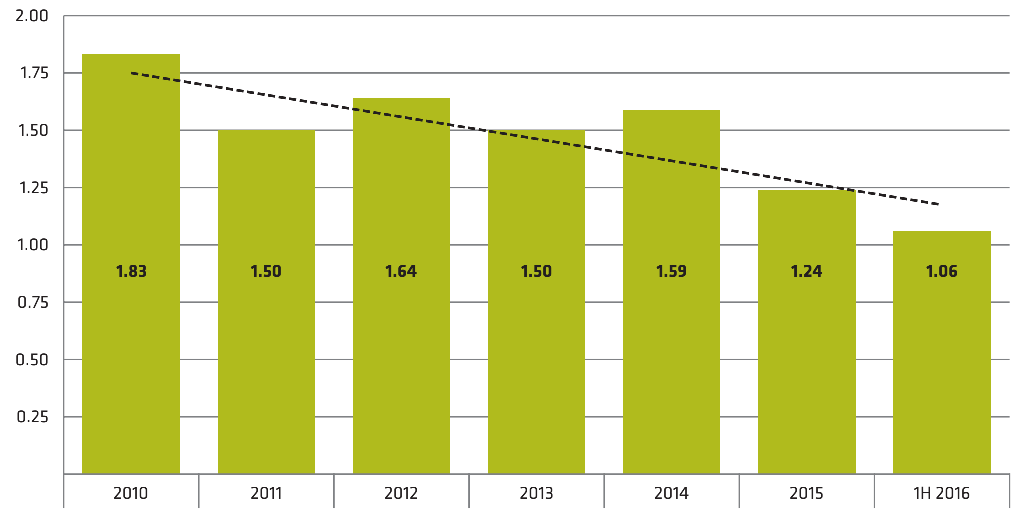
And when you pair up a reduction in demand with a reduction of supply, well, you get the picture.

The good news? With both volume drivers declining at the same time, there's enough balance to ward off a full-on buyer's market – one where supply greatly **exceeds** demand, exerting downward pressure on valuation. As a result, the reduction in valuation you might anticipate following a frenzied period of activity is less acute.

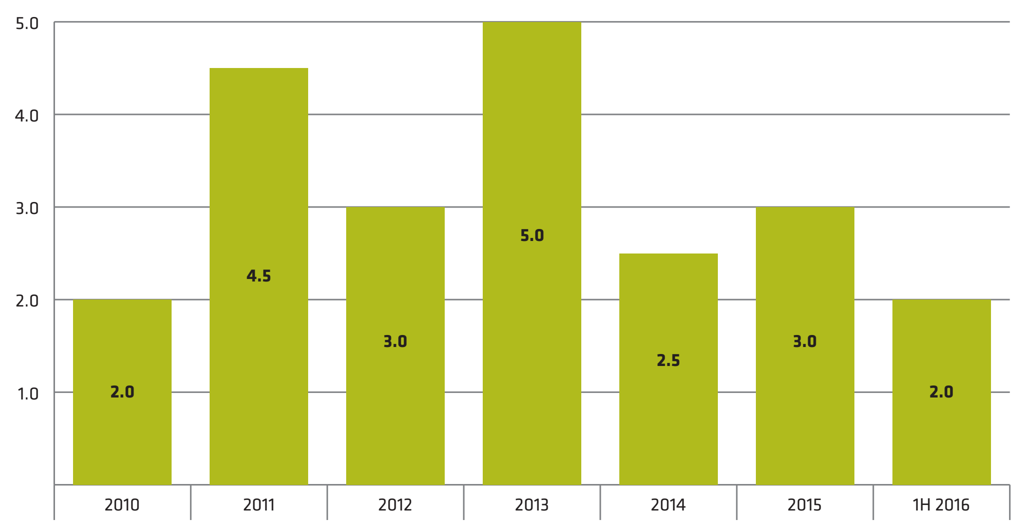
The good-er news? The reduction in supply and demand is likely to be short-lived. First off, the temporarily idled, freshman class of buyers will reliably come back to the table for seconds. Second, as the blitzkrieg of buying boosted the bona fides of the space, we saw a stampede of start-up activity as physicians and entrepreneurs looked to get in on the action. And as these start-ups begin to mature, the pool of potential acquisition candidates will begin to refill.

Considering the context, then, the fall-off in urgent care deal flow is nothing to fear.

Deals Per Unduplicated Buyer



Median Units Per Urgent Care Transaction



But wait. There's more.

The Braff Group has identified two key indicators that suggest that the urgent care M&A market is quite a bit stronger than recent trends presage.

Urgent Care Deals per Unduplicated Buyer is flirting with "perfection." This simple, yet rarely cited ratio, can be extremely revealing. First, a quick explanation of what it is – and what it means. Consider two scenarios. In M&A Market 1, 20 deals have been completed by 2 buyers, yielding a deals per unduplicated buyer ratio of 10.0 (20/2). In M&A Market 2, 20 deals have also been completed. But in this case, they are completed by 10 buyers, producing a ratio of 2.0 (20/10). With substantially more participants and few "serial" buyers dominating – and effectively dictating – the fortunes of a sector, M&A Market 2 is far more robust and competitive than Market 1. So for this data point, the closer the deals per unduplicated buyer is to 1.00 (a "perfect" ratio), the better.

As the accompanying chart on the previous page suggests, this ratio is trending quite nicely in urgent care. By the end of 2015, the deals per unduplicated buyer stood at an extremely attractive 1.24. But through the first half of the year, the ratio is positively eye-popping. The 17 transactions tallied were completed by 16 different buyers, yielding a near-perfect ratio of 1.06.

Median Units per Urgent Care Transaction suggest a broad and open market. While deals involving 20, 50, or more centers get all the glory, M&A markets that produce activity across a broad spectrum of size are the most comprehensive and, hence, vibrant. And here again, the data is looking up for urgent care. Predictably, the median units per transaction peaked in 2013 when the incursion by private equity was in full-swing. But since then, the figure has fallen favorably, settling in at a downright egalitarian figure of 2.0, making the market about as all-inclusive as Club Med.

"All Things Considered," the market is *NPR* – Not Particularly Repellent.

INTELLIGENT DEALMAKING IN URGENT CARE M&A

With more than 280 health care transactions under our belt and earning the distinction from Thomson Reuters as the #1 ranked Health Care M&A Advisor between 2007 and 2015, The Braff Group has unparalleled experience representing health care service providers.

In 2015, we turned our considerable resources to the urgent care market with a team dedicated to the sector, armed with the kind of proprietary market research, transaction data, and buyer intelligence that have been the hallmarks of the firm since 1998.

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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