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BRAFF

URGENT CARE

THE NEXT BIG THINGS IN URGENT CARE

Just below the surface of an urgent care sector that might appear to be the same-old ER diversioning, hospital joint-venturing, private equity-loving, start 'em up, roll 'em up and spit 'em out business model, lies the faint stirring of developments that may ripple (or perhaps rumble) across the urgent care M&A landscape over the foreseeable future.

So now that the champagne bubbles have gone flat, the New Year's resolutions have been broken, and the five minutes you spent reflecting on the past has passed, it's a good time to consider what's next in urgent care dealmaking.

The Next Disturbance in Supply vs. Demand

In some cases, dealmaking in a sector can ramp up relatively slowly, creating an extended, somewhat stable balance in supply and demand. For example, in home health M&A, we have seen seven consecutive years of plus/minus 70 deals.

In others, however, as a result of reimbursement developments, performance in adjacent sectors, alternative investment opportunities, or the swell of enthusiasm for the M&A strategy du jour, buyers will swarm, en masse, into a sector, creating a well-defined spike in demand.

Such has been the case in institutional pharmacy, home infusion therapy, addictions and substance abuse, and now, urgent care.

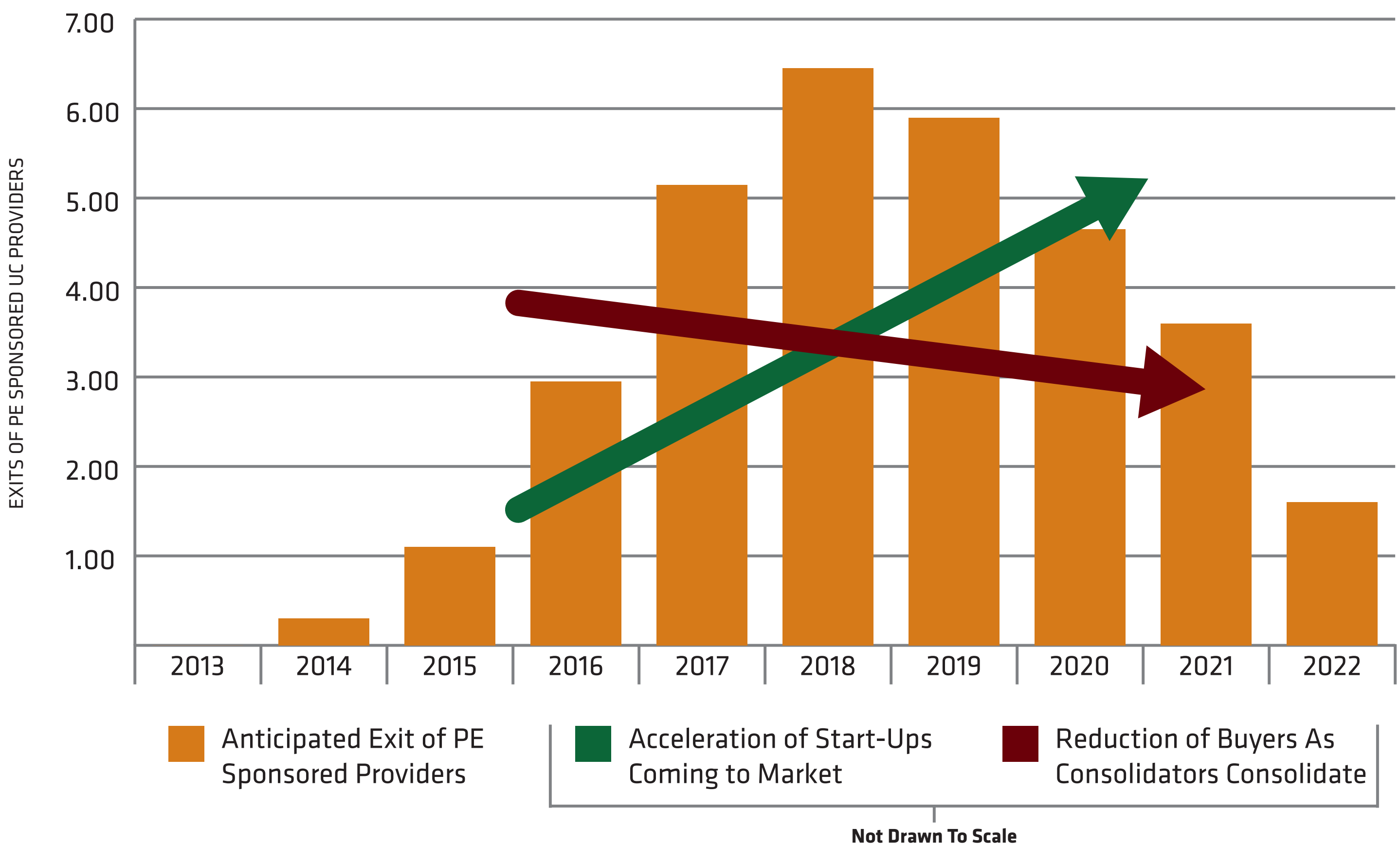
Based upon proprietary data collected and analyzed by The Braff Group, between 2010 and 2015, there were at least 32 private equity sponsored, market-entry investments in the space – an extremely high number over a relatively short horizon. Of those 32 deals, 23 were classic "platform-sized" acquisitions. Nine, however, were PE funded start-ups. This second observation is extremely important in two ways. First, it suggests that demand has, to date, so far out-paced supply that private equity has chosen to tread in investment waters typically inhabited solely by venture (aka "vulture") capital. Second, the imbalance has beckoned entrepreneurs nation-wide to start up locations of their own.

To illustrate the interplay of these factors and their potential impact on the balance of supply vs. demand, The Braff Group examined the timing of each initial PE sponsored investment in urgent care – both platform acquisition and start-up alike, between 2010 and 2015. Then we estimated exit probabilities over a plus/minus seven year holding period (skewing more towards the back-end for start-up investments vs. platform) and plotted how, in aggregate, these companies will likely come to market. (See chart on Page 2.)

The implications of these dynamics are clear.

If a concentrated wave of PE sponsored buyers enters a market over a relatively short period of time, given similar investment holding periods, these buyers are likely to become sellers in a concentrated wave. Moreover, at the same time that these buyers are no longer buying, the entrepreneurs that flooded the market during this cycle will also begin to look for an exit.

Projected *Exit* of the 2010-2015 Class of PE Sponsored Investments in Urgent Care



While the actual number of exits per year will certainly vary, it's a pretty good bet that what is a sellers' market today (where demand exceeds supply) will begin to balance and perhaps tilt towards buyers' favor over the next 24-48 months. It's not going to happen tomorrow. But having seen such a pattern play out over other sectors in the past, it's going to happen.

Something to think about in developing your acquisition and divestiture strategies.

The Next Avenues for Growth and Diversification

In a viewPOINTS white paper published by The Braff Group last year entitled, *"How Urgent Care Consolidation May Play-Out, and Play-In to your Strategies,"* we identified and examined the typical phases of an industry consolidation life-cycle. One of those stages that begins to emerge as a cycle matures is diversification "*as established players look for complementary products and services to sustain long term growth."*

So what is the most likely path towards diversification in urgent care?

We expect at least a few of the larger players to acquire or develop their own technology enabled "**virtual physician visit**" service ala MDLIVE or Teledoc, both to increase revenues and to capture patients "upstream" that can (should) be redirected to a physical urgent care setting. Given the enormous resources required to make this a reality, however, this diversification option is extremely limited.

Joint venturing with a hospital or other health care provider is a natural avenue for growth, but less a path towards diversification than a strategy of "if you can't beat 'em, join 'em."

Alternatively then, do you move up the acuity stream towards **full service ER** and take on the added expense in equipment and staffing to compete in a space that is already a mainstay at every hospital? Do you forget the nuanced differentiation and go all-in

on **primary care**?
Maybe, but are there any opportunities to develop (or acquire) discreet offerings that (a) stay closer to the core of urgent care (convenience, cost, and consumer friendliness), (b) potentially open up entirely new markets, and (c) can benefit from leveraging the valuable brand names you have created?

We think so – namely urgent care **pediatrics**, **orthopedics**, and **mental health**.

Each of these options is specialized enough that they will not pop up on every corner, so they will be able to draw patients from a larger catchment area. Accordingly, they are perfectly suited to be discreet centers within a cluster of "general" urgent care locations and thereby leverage a multi-site provider's brand name visibility. Moreover, each can take advantage of – and benefit from – urgent care's core competencies of convenience, cost, and consumer friendliness. Finally, the knowledge base required to massage the basic model to accommodate specialty populations, their clinical needs, and payor sources is already in various stages of development: in pediatrics, there is PM Pediatrics; in orthopedics, we've seen Sport Ortho Urgent Care and a new franchisor, OrthoNOW, and, in its most nascent stage, we've identified a few "one-offs" and secondary offerings in mental health.

The Next Potential Threat

Combine smart phone technology with millennials looking for a job, and you get Uber, the upstart start-up that has upended the taxi industry. Now, tweak the model for caregivers, and combine it with urgent care, and you have the makings of a solution that out performs virtual medicine ***and*** out-conveniences urgent care.

Such is the case with a new Texas-based company called **Mend**. And it only takes a quick look at their website to see that it has the traditional urgent care model squarely in its sights:

From www.mendathome.com:

It's a modern day house call. We bring affordable, on demand urgent medical care to you and your family at the touch of a button. It's professional healthcare in the comfort and convenience of your home, office or hotel. No waiting rooms, no germ-filled offices, no outrageous bills or hidden fees.

While the company only serves North Texas to date, it doesn't take a lot of imagination to see this type of solution as the next logical step in the evolution of convenient, cost-effective, and consumer-friendly health care delivery. Combine this with the fact that we are seeing this same type of model springing up in home health care (i.e. Hometeam and Honor which have received venture capital funding of $39.5M and $20M respectively), it would seem that there is money out there to develop the concept.

Now imagine a merger of MedExpress, MDLIVE, and Visiting Physicians Association.

Game. Set. Match?

The Next Potential Opportunity

They seem to be everywhere. No, not episodes of Law and Order. We're talking hospital owned urgent care facilities. Big, bright, and beaming with the imprimatur of "the hospital," they are well-positioned to siphon off a meaningful share of urgent care customers.

But if past is prologue, they aren't particularly well-suited to keep them.

No one who's spent a day in a hospital (or waiting to see a physician in the ER) is likely to talk about how fast, efficient, and customer friendly their experience was. Hospitals are simply not wired that way. They do acute care. Often badly. Anything they do outside this core competency is just a divestiture waiting to happen (recall that the great "systemization" of hospitals in the 90s largely turned into the great unwinding of non-acute operations in the 2000s).

So fear not (or not too much).

Rather than see hospital urgent care providers as your enemy, consider them your next potential acquisition or partnership opportunity. Work your relationships with administration and board members, and position yourself as the solution to their inevitable difficulties.

And one more thing.

We meant to predict that one day The Donald would lead the polls to become the Republican nominee for president.

But we forgot.

INTELLIGENT DEALMAKING IN URGENT CARE M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of dealmakers focused exclusively on urgent care.

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

With more than 250 transactions completed, The Braff Group is ranked #1 in health care mergers & acquisitions.[4]

But, we never forget that **your deal** is the one that matters to you.

Let us make it a great one.

[4] 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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