

Industry Flash Report – Physician Groups

April 2017

The U.S. physician group sector is comprised of 230,000+ physician groups with combined 2016 revenues of \$257 billion, up 3.4 percent from 2015. The sector has seen annualized growth of approximately 1.4 percent since 2010, due to factors such as an improved U.S. economy and increased demand for care from an aging population. Some factors may temper growth, such as payment declines for specialists and continued uncertainty about federal policy changes.

Implications to Clients

Today, only about one-third of U.S. physician groups are independent, compared with approximately 57 percent in 2000. The shift away from small practices is driven in part by concerns over rising healthcare costs, medical liability, and changing payment models. Many independent physician groups are evaluating their strategic options and long-term growth opportunities. These groups may not have the resources to remain competitive in an operating environment rapidly moving to value-based payments and coordinated care delivery. For example, implementing electronic health records (EHRs) can be complicated for smaller practices without adequate financial and technical resources. Physician group shareholders and operators should consider exploring potential partnership opportunities. An optimized partnership strategy may provide the ability to cut costs, generate new revenue, and build infrastructure, scale, and expertise.

Overview of Physician Group Sector

The U.S. physician group sector continued a strong trend of consolidation in the second half of 2016, supported in part by the advent of the Medicare Access and CHIP Reauthorization Act (MACRA), which alters Medicare payments for physicians. Patient outcomes are much more important under MACRA, driving the need for strong data collection/analysis infrastructure and capabilities, and contributing to many physician practices seeking to join larger, more developed, and better capitalized entities.

Hospitals and health systems historically have been the primary buyers of physician groups, with the goals of expanding their regional presence and ensuring comprehensive care networks. In recent years, large physician practices and provider management companies also have emerged as buyers, focusing on lowering overhead, gaining efficiencies, and improving arrangements with third parties. Private equity buyers continue to acquire physician groups, especially those with strong management teams seeking growth capital to pursue key strategic initiatives. Private equity firms with existing investments in the physician group sector also remain active, as evidenced by New York City-based Welsh Carson's portfolio company U.S. Acute Care Solutions, LLC's June 2016 acquisitions of Ergentus Emergency Service Physicians of Denver and APEX Emergency Group. The largest private equity physician group transaction announced in 2016 was the \$6.1 billion acquisition of Team Health Holdings, Inc. by Blackstone Group, LP.

Major Public Players and Market Multiples*

DaVita HealthCare Partners, Inc. (NYSE:DVA)

- One of the largest U.S. operators of medical groups and physician networks, with affiliated physician networks throughout Arizona, California, Nevada, Florida, New Mexico, and Colorado

Envision Healthcare Holdings (NYSE:EVHC)

- Offers a range of hospital-based physician staffing and related management services; includes more than 10,000 physicians and 18,000 paramedics

MEDNAX, Inc. (NYSE:MD)

- National medical group and leading provider of neonatal, anesthesia, maternal-fetal, and pediatric services; includes more than 1,100 neonatologists and 1,725 pediatric sub-specialists

Team Health Holdings, Inc. (NYSE:TMH)

- Offers an array of hospital-based and physician staffing and related services across multiple specialties; includes more than 18,000 affiliated physicians and advanced practice clinicians

*USMD Holdings, Inc. (NASDAQ:USMD) excluded from Major Public Players and Market Multiples section due to its announced acquisition by WellMed Medical Management, Inc. in September of 2016. WellMed Medical Management, Inc. is a wholly-owned subsidiary of Optum, Inc.

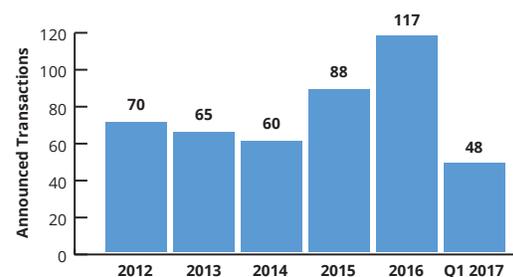
Company Name	Latest 12 Months		1-Yr Growth %		LTM Multiples	
	Revenue	EBITDA	Revenue	EBITDA	TEV/Rev	TEV/EBITDA
DaVita HealthCare Partners, Inc.	\$ 14,550.4	\$ 2,491.5	7.3%	17.1%	1.5x	8.6x
Envision Healthcare Holdings	\$ 6,359.1	\$ 638.6	24.1%	10.0%	1.1x	11.2x
MEDNAX, Inc.	\$ 3,183.2	\$ 657.0	14.5%	20.6%	2.5x	12.2x
Team Health Holdings, Inc.	\$ 4,379.3	\$ 401.6	28.5%	9.2%	1.4x	14.7x

Source: IBIS World Report, U.S. Specialty Physician Groups, May 2016.

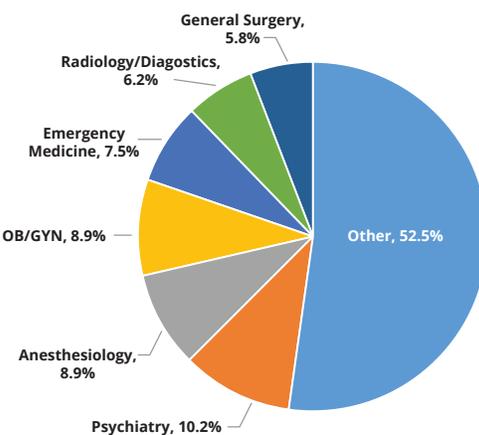
Transaction Activity

- M&A activity in the sector was up 33 percent in 2016 with 117 announced transactions compared to 88 in 2015
- The \$6.7 billion merger of Envision Healthcare Holdings and AmSurg Corp. was announced in June 2016, potentially creating one of the largest national physician group management platforms in the U.S.
- In the third quarter of 2016 the \$255M "take private" acquisition of USMD Holdings, Inc. (NASDAQ:USMD) by WellMed Management, Inc. was announced. WellMed is a wholly-owned subsidiary of Optum, Inc.
- Team Health Holdings, Inc. announced its sale to Blackstone Group, LP, in October to help the hospital staffing company better cope with pricing pressure
- MEDNAX, Inc. was one of the busiest acquirers in 2016, with five announced transactions; three transactions involved anesthesiology practices, and two involved pediatric practices

U.S. Physician Group M&A Transactions by Year



Physician Group Segmentation by Specialty (2016)



Sources: 2016 IBIS World: U.S. Specialty Physician Groups, May 2016; Center for Studying Health System Change: Health Tracking Study Physician Survey, 2008; Capital IQ, Irving Levin, and Public Reports.

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