

PPM Secondary Transaction Trends

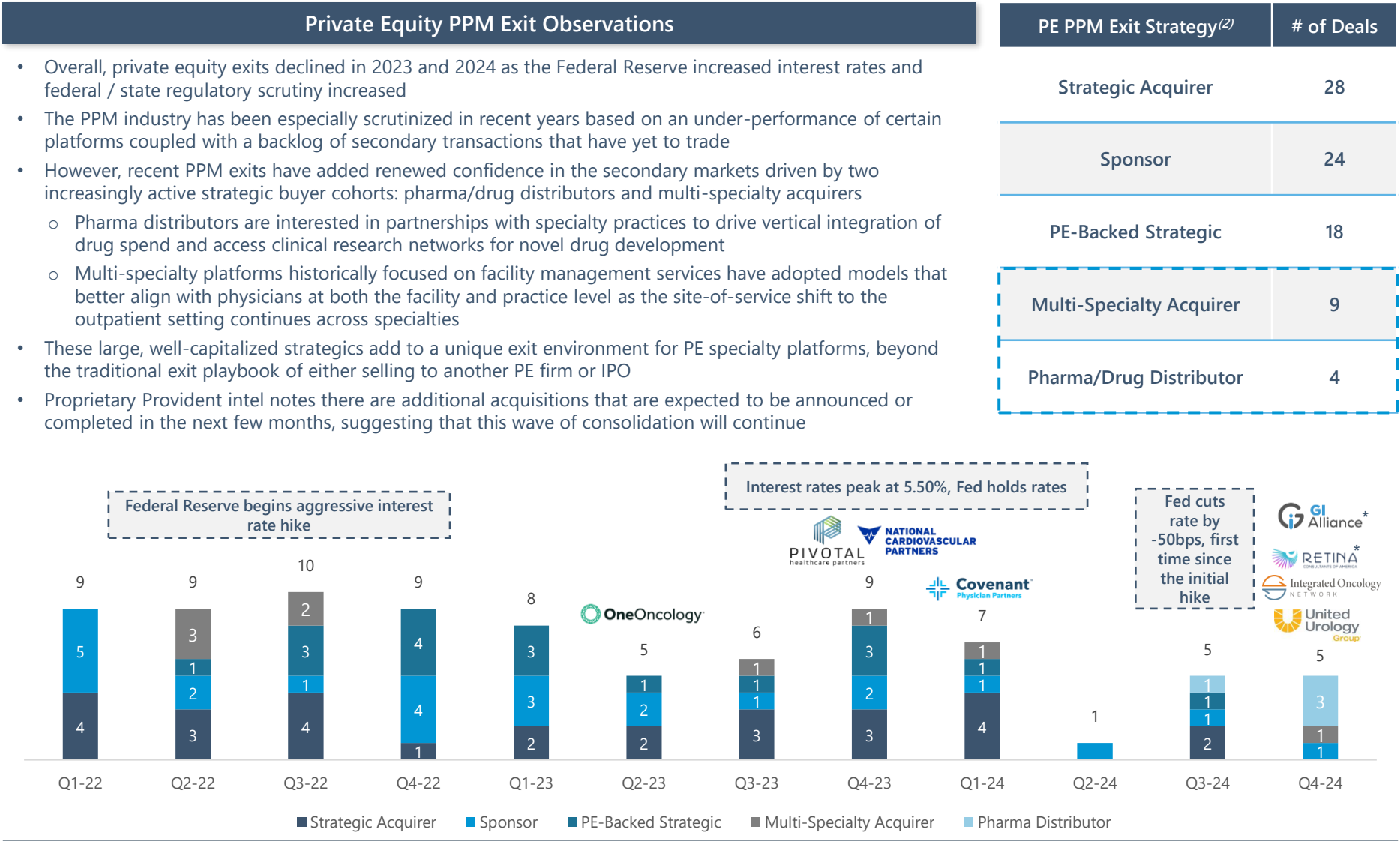
Milestone Transactions Shifting PPM Exit Strategies

Winter 2024



Commentary on Recent Private Equity Exits in PPM

Private equity exit activity has declined the last two years, but in recent months there have been several milestone transactions bolstered by a new wave of PPM consolidators that provide more exit options for investor-backed MSOs.



1. Asterisk next to the logos denote that the transaction is not yet completed.
2. Table and chart source data is from Pitchbook.com, 1/1/2022 through 12/2/2024. Includes only U.S. headquartered corporations.

Private Equity PPM Exits to Pharma, Drug, and Multi-Specialty Conglomerates

Platform	Former Investor	New Acquirer	Date / Status	Transaction Commentary
			Dec-24 Completed	Integrated Oncology Network ("ION") includes greater than 50 practice sites in 10 states supported by more than 100 providers. ION will become part of Navista, Cardinal Health's oncology practice alliance. As a result, ION will gain access to Navista's analytic, technology, and research capabilities to generate clinical and business insights for the benefit of patients and physicians. ION will continue to support its practices with services like RCM, payor relations, physician recruitment, finance, accounting, and other back-office support.
			Nov-24 Announced	GI Alliance ("GIA") is partnered with over 900 physicians across 345 sites in 20 states. The Company supports physicians and patients via its member practices with a focus on gastroenterology, anesthesiology, pathology, infusion, radiology, and clinical research services. GIA is expected to remain independent from Navista and serve as a specialty platform outside of oncology.
			Nov-24 Announced	Retina Consultants of America ("RCA") is the largest vitreoretinal MSO in the country with more than 300 specialists across 23 states. The addition of RCA will allow Cencora to broaden its access to retina providers and give patients access to therapeutic treatments for a variety of retina-related conditions. Cencora's motivation can also be attributed to RCA's significant spend on injectable drugs which supports their thesis to vertically integrate the businesses. Cencora's acquisition of RCA follows its minority investment in OneOncology in 2023 to similarly access a network of cancer specialists.
			Oct-24 Completed	United Urology Group ("UUG") is one of the largest urology MSOs supporting more than 250 providers with more than 1,300 employees. Leveraging their internal capabilities, OneOncology intends to drive innovation and improve the standard of urologic cancer care for its patients. Urologists are critical to the treatment of prostate, bladder, and other genitourinary cancers as 1.8 million new cases of such conditions are diagnosed annually.
			Feb-24 Completed	Covenant Physician Partners ("CPP") is an acquirer and operator of ASCs and physician practices with more than 80 locations across 17 states. United Surgical Partners International (a division of Tenet Healthcare Corp.), has historically focused on surgical facility management services. The acquisition of CPP aligns USPI with physicians at both the facility and practice level in CPP's markets.
			2023 Completed	SCA Health ("SCA") acquired two cardiovascular platforms in 2023 – National Cardiovascular Partners ("NCP", formerly owned by Fresenius) and Pivotal Healthcare Partners ("PHP", formerly backed by Ashlar Capital). These acquisitions, which included several practices, ASCs, and office-based labs, deepen SCA's focus on specialty practice management as they seek to capitalize on the pronounced shift of cardiovascular surgical procedures from the hospital to the outpatient setting.
				
Regional Orthopedic Services Platform	Healthcare Services Private Equity Sponsor	ASC & Physician Practice Consolidator	Ongoing	A regional orthopedic services platform with private equity backing is undergoing a transaction to partner with an ASC consolidator that has expanded its focus to the physician practice level. The partnership will provide for obvious growth potential in the ASC setting, while ensuring alignment with the physician shareholders who drive the surgical volume from their related clinical work.

Why Pharma & Multi-Specialty Conglomerates Are Acquiring PPM Platforms

The recent acquisitions of PPM platforms are motivated by vertical integration of drug spend, diversifying revenue streams, and capturing the tailwinds of the setting-of-care shift from inpatient to outpatient models.

Pharma's Motivation for Acquiring PPM Platforms



Vertical Integration



Clinical Research



Data Sharing & Tech Innovation

- Physician specialists can be critical pieces to a complex cancer care puzzle and act as a bridge to accessing downstream specialty drug spend
- Pharma/drug distributors benefit from practice MSO earnings and drug spend, effectively becoming a single source of care for patients and capturing multiple revenue streams
- Some oncology therapies (e.g., Pluvicto), which focus on non-metastatic cancers, support enormous patient potential in urology, among other specialties
 - OneOncology's partnership with UUG suggests procedures can be done in freestanding radiation centers, thereby driving profitability for the physicians and MSO
- Drug distributors also have a vested interest in clinical trials by tapping into patient access that they didn't have before, which many specialty platforms do as an ancillary revenue stream today (e.g., RCA and GIA), providing the distributors with key drug development and trial data

Large Multi-Specialty Platforms & Value-Add



Physician Alignment



Shifting Procedures to Outpatient Settings



Diversify Revenue Streams

- National multi-specialty platforms have historically focused on ASC and hospital facility management services
- As physician practices have increasingly aligned with larger platforms and private equity firms looking to build ASCs, facility management companies have adapted their models to better align with physicians at both the facility and practice level
- These publicly-traded multispecialty platforms have leveraged Joint Venture structures to compete with private equity through providing upfront liquidity and retained, local market equity that provides a transparent secondary transaction once a physician leaves
- Large multi-specialty acquirers, like SCA Health, Surgery Partners, and United Surgical Partners International, benefit from improved physician alignment and diversified revenue streams across different specialties and regions, mitigating revenue concentration in a specific state, specialty, or procedure

How Transactions Are Being Structured

Buyers are creating effective and rewarding parent-level transaction structures to maximize alignment and economic benefits between them and the physician owners.

Components of Parent-Level Structures Utilized to Align Incentives with Physicians



Utilizing Put / Call Options

- Put and call options are commonly utilized to provide mid-term/long-term alignment
- Additionally, drug distributors and multi-specialty platforms utilize this structure since these types of large, corporate buyers are unlikely to go through a secondary transaction of their own
- Notably, a put / call structure is being utilized for Cencora / TPG's acquisition of OneOncology from General Atlantic⁽¹⁾
- Buyer Call Option:
 - Sellers can receive additional cash proceeds for shares in the business
 - Tax incentives for the buyer
 - Buyer can spread the purchase price payment over a period of time
- Seller Put Option:
 - Sellers can force the buyer to acquire shares if certain conditions are met (time constraints, performance metrics, etc.)
 - Sellers can maximize value of the option shares as the shares appreciate

Earnouts & Synthetic Equity

- Subsidiaries can participate in the financial rewards of ownership without the parent company altering its ownership structure
- Synthetic equity is bound by rights, terms, vesting schedules, and other mechanics
- If vesting periods and / or triggering events are met, the value of the synthetic equity is determined based on the parent company's valuation, and synthetic equity holders receive a cash payout
- Subsidiaries can participate in the financial rewards of the business, but payouts are typically taxed at ordinary income
- While synthetic equity is deemed to be compensation, earnouts can be tied to purchase price and therefore taxed at a capital gains rate
- Earnouts can be more restrictive to structure and typically carve out Designated Health Services and government funded earnings

Compensation Scrape & Income Repair

- Drug distributors and multi-specialty providers typically will maintain the "compensation scrape" structure that most specialty PPM platforms have utilized to align bottom-line growth with the physician partners
- Drug distributors want to partner with practices to drive income repair post-closing through allowing owners to return to the levels of compensation they were at pre-transaction
- Through vertical integration, physicians can see meaningful income repair opportunities including clinical research programs (i.e., cross-practice collaboration with a central infrastructure, enhancing margins) and drug spend (i.e., better purchasing terms and volume-based discounts to enhance margin)
- Multi-specialty groups drive income repair through service line initiatives, ASC development, payor strategies, enhancing facility utilization, and back-office synergies

1. TPG And AmerisourceBergen to Acquire Leading Specialty Practice Network OneOncology from General Atlantic, www.oneoncology.com.

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Boston
260 Franklin Street
Boston, Massachusetts 02110

Minneapolis
601 Carlson Parkway
Minnetonka, Minnesota 55305

New York
800 Third Avenue
New York, New York 10022

www.providenthp.com