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HEALTHCARE SERVICES SECTOR UPDATE 1 Q2020

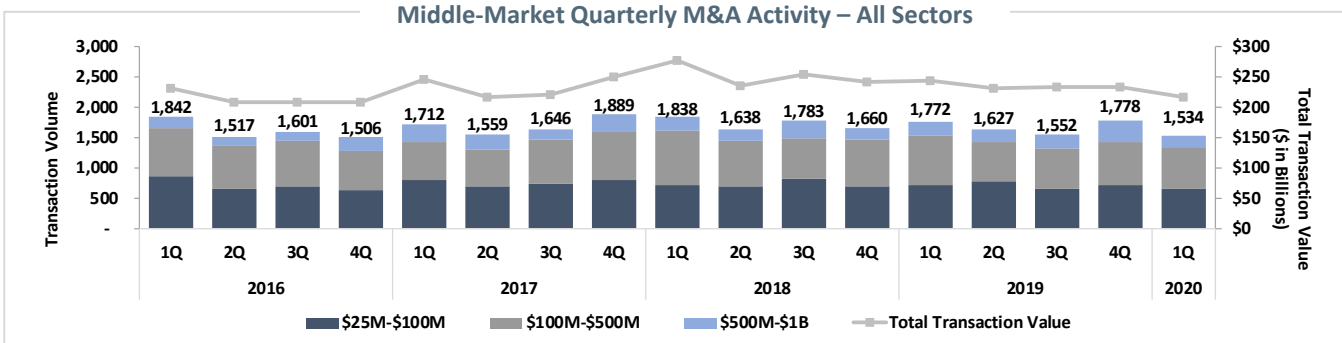
April 2020

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Q1 2020 Overall Market Update and Economic Review

Q1 2020 M&A Update

An M&A market that has been gradually weakening over the last two years is now on life support thanks to COVID-19. Small cracks in valuation and lending markets that appeared in March have become unbridgeable fissures in April. Most deals in the process of being closed have been delayed indefinitely. The few deals fortunate to close were significantly restructured, requiring lower purchase prices, seller notes, more onerous securities and terms and, in some cases, higher shareholder rollover.



Source: Pitchbook

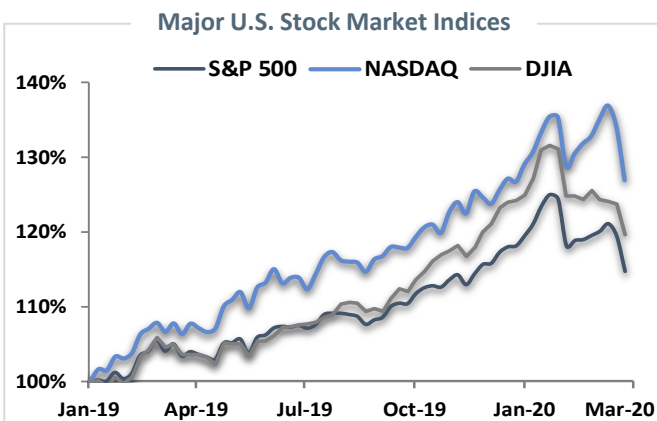
New deal flow has slowed to a trickle. If sellers don't have a significant amount of recurring revenue, an M&A process is likely to be unsuccessful. Most companies can't forecast full-year results, making it nearly impossible to value the company and to attract the requisite debt and equity financing. To bridge this valuation gap, PE firms are utilizing more structured equity that combines a preferred security and fixed return with warrants, significantly improving the risk/reward profile for the buyer.

Lenders have become more conservative overnight, dampening valuations and the chances for successful deals. Once commonplace to have deals levered at 5-6x cash flow, lenders now struggle to allow more than 2x cash flow in senior debt. Due to the previously strong economy, banks entered this crisis with solid balance sheets; however, most are dramatically boosting reserves in anticipation of higher loan defaults. Many loans underwritten at 5-6x cash flow will be leveraged at twice that level when factoring the full effects of a shuttered economy.

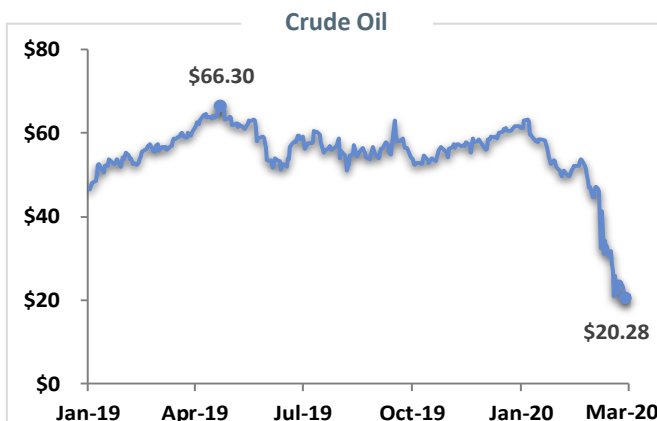
Key Market Developments

All major market indices are experiencing volatility associated with the COVID-19 pandemic and falling crude oil prices. As the outlook for the number of COVID-related deaths in the U.S. has improved, major indices have recovered ~25% of their value. Markets have also been bolstered by plans to gradually reopen the economy beginning with six states sometime this week. The largest five states account for over 40% of U.S. GDP. Of these, California and Illinois are scheduled to be closed until May 31st, and New York may be closed longer. Without these states fully re-opened, any economic recovery will look more like a "U" than "V".

Oil prices are even more volatile. Initially, the Russians and Saudis were flooding the market trying to break the back of the U.S. petroleum industry. Although the Saudis have agreed to curtail production, crude oil prices briefly fell to -\$37.63/barrel last week on fears of global COVID-induced depression and lack of storage. With most of the world's productive capacity shutdown, there is virtually no demand for crude oil.



Source: Yahoo Finance

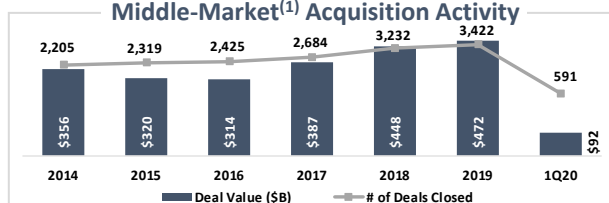


Private Equity Activity

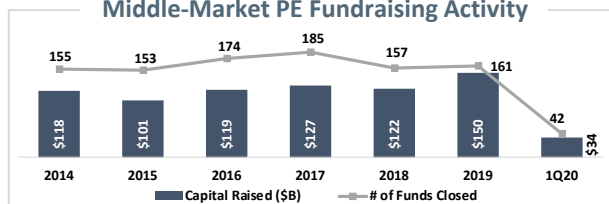
- Private equity ("PE") funds invested \$92 billion in 591 transactions in 1Q20, an 8.6% YoY increase, as 2020 began with a flurry of deal activity before COVID-19 shut down parts of the market in mid-March.
- The full impact of COVID-19 will be felt through at least 2Q20, as many PE firms focus on assisting existing portfolio companies in navigating current uncertainty, rather than evaluating new investment opportunities.
- PE firms that are actively pursuing new near-term opportunities are likely to prioritize add-on acquisitions or smaller transactions as they face obstacles in obtaining debt financing. Some may consider creative structures, such as closing with seller notes that could be refinanced when the debt capital markets rebound.
- Given these dynamics, M&A activity is expected to remain low for the remainder of 2020.
- U.S. PE middle-market exit activity declined sharply in 1Q20, with only \$34 billion realized across 179 transactions. Private equity investors are opting to hold portfolio companies until the market stabilizes. Both exit activity and fundraising are expected to remain muted for the remainder of 2020.

(1) Middle-market includes deal values of \$25M - \$1B.

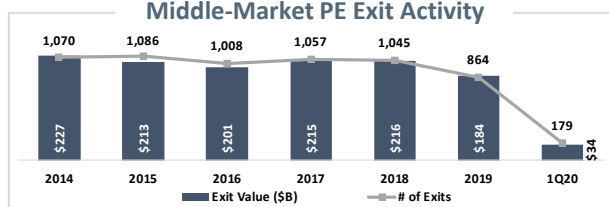
Middle-Market⁽¹⁾ Acquisition Activity



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



Source: Pitchbook

Leveraged Loan Market

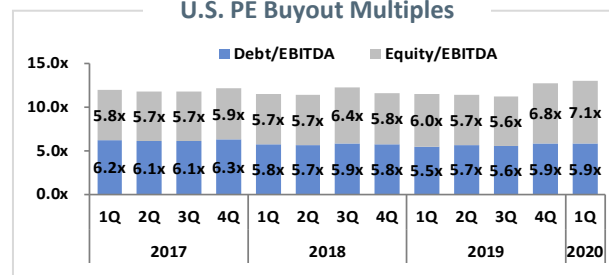
- The leveraged loan market is under immense stress as lenders brace for higher defaults due to strain from mandatory COVID-19 shutdowns and the potential resulting recession. Many lenders are vulnerable to loans made at 5.0-6.0x pre-COVID EBITDA.
- In anticipation of defaults, large banks including JPMorgan Chase, Wells Fargo, Bank of America, Citigroup and Goldman Sachs increased reserves by nearly \$20 billion combined in 1Q20.
- A vast majority of lenders are not actively pursuing new opportunities as they (i) assess their existing portfolio, (ii) provide cash to the extensive number of current corporate clients drawing on existing lines of credit and (iii) assist smaller customers in applying for federal Paycheck Protection Program ("PPP") loans and other borrowing options under the CARES Act.
- In an effort to soften the blow of the COVID-19 shutdown, the FOMC completed two rate cuts in 1Q20 to bring the target federal funds rate to between 0.0% and 0.25%. In addition, the Federal Reserve implemented a new quantitative easing plan that will buy at least \$500 billion in U.S. Treasuries and \$200 billion in mortgage-backed securities.
- The leveraged loan market is expected to stay fairly illiquid through 2Q20 as lenders re-evaluate market risk and their exposure.

Recent Leveraged Loan Statistics

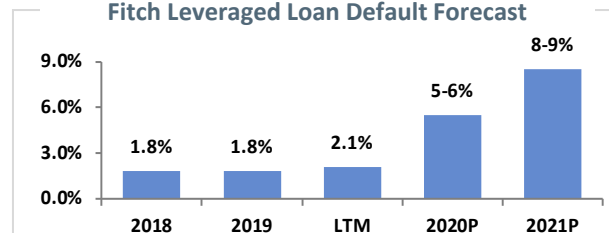
	Leverage Pricing and Fees	
	Bank	Non-Bank
Pricing	L + (4.0 - 4.75%)	L + (5.0 - 6.0%)
Floor	-	-
Upfront Fees	50 bps	100 bps
Unused	25 - 37.5 bps	50 bps

	Debt as a Multiple of EBITDA	
	Senior Debt	Total Debt
Healthcare Services	4.0x	5.0x
Healthcare IT	5.0x	6.0x
Non-Healthcare	4.0x	5.0x

U.S. PE Buyout Multiples



Fitch Leveraged Loan Default Forecast

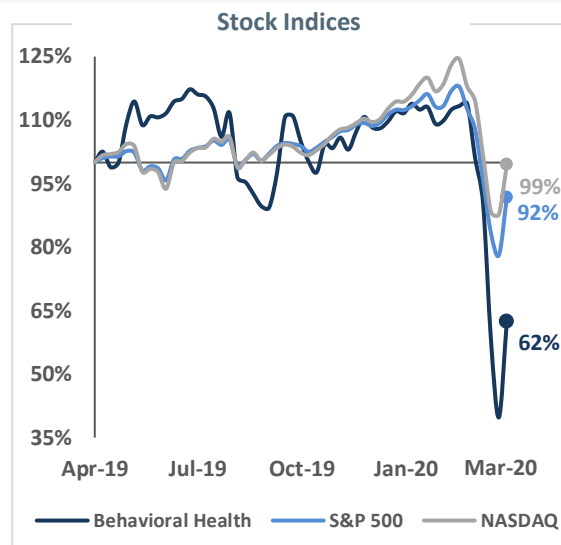


Source: Pitchbook; Fitch Ratings

Q1 2020 Behavioral Health Sector Overview

BCA Market Commentary & Stock Indices Relative Performance

- Outpatient behavioral health services such as autism, medication assisted treatment and general psychiatry all continue to be of interest to investors.
- Mental health will continue to be a significant need in the U.S., with supply/demand imbalances across the spectrum. The historic job losses will exacerbate depression, loneliness and addiction.
- 13 closed transactions in 1Q20 compared to 11 in 1Q19.



Select M&A Transactions

Date	Target	Acquiror	Business Description	TEV (\$M)
3/5/20	New Hope Ranch	Discovery Behavioral Health	Mental health and addiction treatment services provider.	N/A
3/5/20	Florida Autism Center	BlueSprig Pediatrics	Autism and ABA therapy provider.	N/A
2/19/20	Ascent Behavioral Health Services	Cimarron Healthcare	Behavioral health treatment in Idaho.	N/A
1/28/20	Peak View Behavioral Health	Summit Behavioral Health Care	Psychiatric hospital in Colorado Springs.	N/A
1/25/20	Comprehensive Education Services	General Atlantic	Autism and ABA therapy provider.	N/A
1/8/20	Evolve Treatment Centers	Galen Partners	Healthcare services intended for adolescent behavior in California.	N/A
1/7/20	Associated Behavioral Health Care	Discovery Behavioral Health	Mental health and addiction treatment services provider.	N/A

Select Public Trading Multiples

(\$M, except share prices)		Stock Price	% of 52-Week			TEV / Revenue		TEV / EBITDA	
Company	Ticker	3/31/20	High	Low	TEV	LTM	NTM	LTM	NTM
Acadia Healthcare	ACHC	\$18.35	52%	165%	5,196	1.7x	1.6x	8.9x	8.6x
Universal Health Services, Inc.	UHS	\$99.08	63%	152%	13,167	1.2x	1.1x	7.0x	7.4x
Note: EBITDA includes add-backs for stock-based compensation and non-recurring expenses. Data per SEC filings and PitchBook.					Average	1.4x	1.4x	7.9x	8.0x
					Median	1.4x	1.4x	7.9x	8.0x

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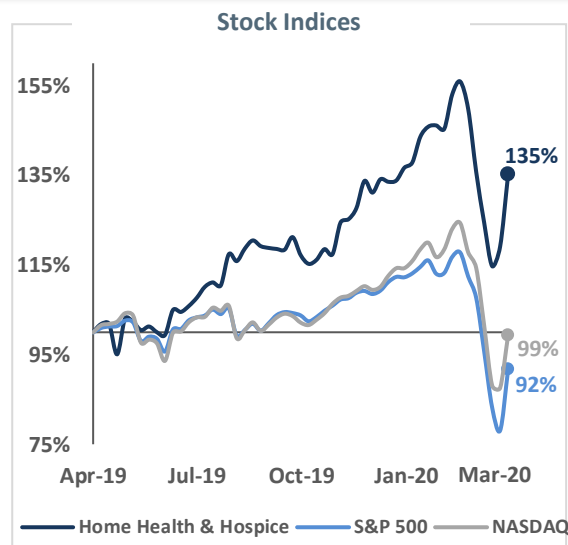
Representative Transactions



Q1 2020 Home Health & Hospice Sector Overview

BCA Market Commentary & Stock Indices Relative Performance

- 1Q20 deal activity went as BCA expected: there were very few home health transactions owing to the January 2020 start of PDGM, while hospice deals continued the healthy pace they enjoyed in 2019.
- BCA has spoken to many industry operators to gauge the early impacts of COVID-19 on the sector. In the early innings, hospice admissions have maintained their norms while home health admissions have declined due to lower discharge volumes from acute settings or patients refusing visits for home health. Both hospice and home health operators cite the limited availability and cost of PPE as a significant challenge.
- BCA expects home health & hospice operators to receive a significant contribution from the CARES Act's Medicare grant. In addition, CMS is suspending the 2% sequestration cut, which will increase the industry's Medicare fee-for-service revenue from May through December 31, 2020.
- BCA believes hospice and to a lesser extent home health will be better sheltered from COVID-19 than the majority of healthcare sub-sectors. However, headwinds combined with a tough credit market will stymie home health & hospice M&A activity in 2Q20. We believe there is good potential for a resurgence of deal activity in 3Q/4Q 2020.



Select M&A Transactions

Date	Target	Acquiror	Target Business Description	TEV (\$M)
3/13/20	St. Luke's Home Hospice	Charter Health Care Group	Hospice provider in Las Vegas.	N/A
3/13/20	Arizona Select Hospice	Charter Health Care Group	Hospice provider in Arizona.	N/A
3/2/20	Serenity Care Hospice	St. Croix Hospice	Hospice provider in Missouri.	N/A
2/21/20	Peace Hospice & Palliative Care	Three Oaks Hospice	Hospice provider in Illinois.	N/A
1/28/20	Legacy Hospice	Prairie Capital	Hospice provider across 7 states in SE.	N/A
1/14/20	Springhill Home Health & Hospice	Abode Healthcare	Home health & hospice provider in Alabama.	Confidential

Select Public Trading Multiples

(\$M, except share prices)		Stock Price	% of 52-Week		TEV / Revenue			TEV / EBITDA	
Company	Ticker	3/31/20	High	Low	TEV	LTM	NTM	LTM	NTM
Addus HomeCare	ADUS	\$67.60	65%	157%	\$760	1.2x	1.0x	12.9x	11.8x
Amedisys	AMED	\$183.54	91%	172%	6,347	3.2x	3.0x	26.5x	25.5x
LHC Group	LHCG	\$140.20	88%	142%	4,676	2.2x	2.2x	19.5x	19.8x
Chemed	CHE	\$433.20	84%	138%	7,413	4.2x	3.5x	24.9x	18.3x
Pennant Group	PNTG	\$14.16	39%	230%	636	2.2x	1.7x	23.8x	27.5x
					Average	2.6x	2.3x	21.5x	20.6x
					Median	2.2x	2.2x	23.8x	19.8x

Note: EBITDA includes add-backs for stock-based compensation and non-recurring expenses. Data per SEC filings and PitchBook.

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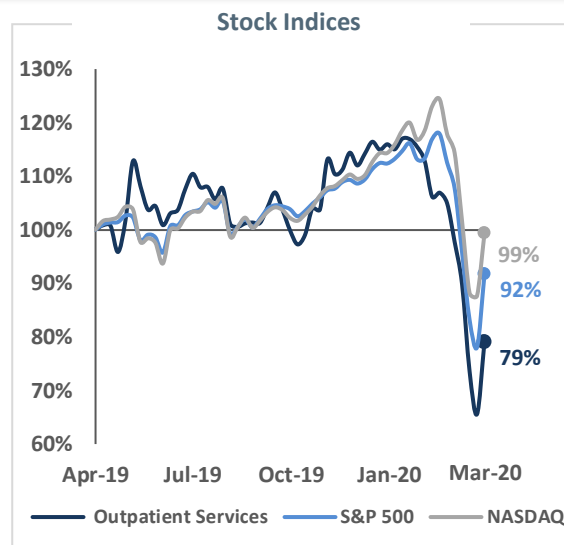
2020 Home Health & Hospice Transaction



Q1 2020 Outpatient Services Sector Overview

BCA Market Commentary & Stock Indices Relative Performance

- In 1Q20, many processes have been halted given the restrictions on elective procedures.
- Outpatient healthcare companies will look at telehealth as a way to reach new patients and further scale their platforms.
- Many groups have shifted focus to enhanced provision of urgent care and telehealth services, which should continue after the pandemic. With telehealth orthopedic services, we have seen CMS expand reimbursement to enable physicians to see more patients remotely. It is likely that the validation of ortho telemedicine seen during this crisis will allow for ongoing telehealth contributions to comprehensive platforms.
- Ortho telehealth companies (e.g., OrthoLive) have experienced tremendous growth.
- PT platforms have also shifted to remote/telehealth sessions, amid an evolving reimbursement environment. Many practices will utilize PPP funding to survive the near-term disruption.



Select M&A Transactions

Date	Target	Acquiror	Target Business Description	TEV (\$M)
3/23/20	Pee Dee Eye Associates	Eye Health America	Operator of ophthalmology clinics in South Carolina.	N/A
3/13/20	Bikowski Skin Care Center	QualDerm Partners	Operator of a general dermatology and skin cancer care center.	N/A
3/3/20	Papich-Forsyth	Empire Dental Arts	Provider of dental services.	N/A
3/3/20	Retinal Consultants Medical Group	Retina Consultants of America	Operator of eye clinics based in Sacramento, California.	N/A
2/24/20	Skin Matters	MedSpa Partners	Operator of a medical aesthetic clinic based in Canada.	N/A
1/27/20	Legacy Home Healthcare	EmpRes Healthcare Management	Operator of Medicare-certified home health agencies.	N/A

Select Public Trading Multiples

(\$M, except share prices)

Company	Ticker	Stock Price 3/31/20	% of 52-Week		TEV	TEV / Revenue		TEV / EBITDA	
			High	Low		LTM	NTM	LTM	NTM
American Renal	ARA	\$6.61	48%	121%	\$898	1.1x	1.0x	7.0x	6.6x
DaVita	DVA	\$76.06	84%	175%	22,223	2.0x	1.9x	9.1x	8.9x
Encompass Health	EHC	\$64.03	77%	133%	9,676	2.1x	2.0x	9.3x	8.6x
Fresenius	FRE	\$37.42	63%	141%	45,508	1.2x	1.1x	5.8x	4.8x
U.S. Physical Therapy	USPH	\$69.00	46%	153%	991	2.1x	NM	11.7x	NM
Select Medical	SEM	\$15.00	52%	150%	6,216	1.1x	1.2x	8.7x	7.2x
Surgery Partners Inc.	SGRY	\$6.53	33%	163%	3,038	1.7x	1.8x	8.3x	8.7x
Average						1.6x	1.5x	8.6x	7.5x
Median						1.7x	1.5x	8.7x	7.9x

Note: EBITDA includes add-backs for stock-based compensation and non-recurring expenses. Data per SEC filings and PitchBook.

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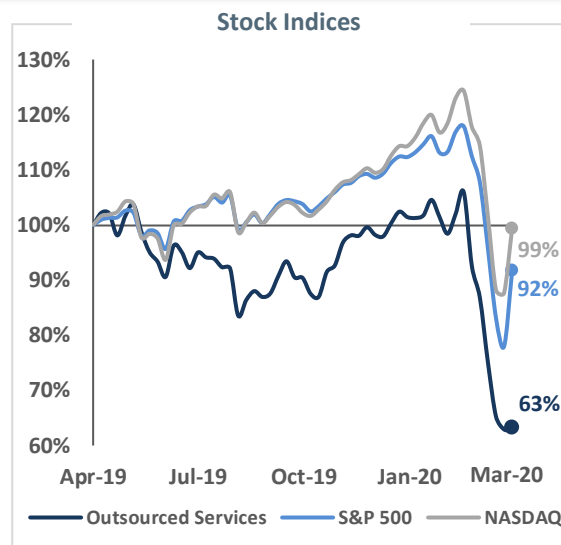
Representative Transactions



Q1 2020 Outsourced Services Sector Overview

BCA Market Commentary & Stock Indices Relative Performance

- Provider outsourcing groups provide efficiencies and high-quality services for their hospital and clinical clients.
- Many segments of the healthcare continuum like anesthesia and ER management have consistently been outsourced by hospitals.
- Mednax had been in the market to evaluate strategic alternatives. With hospital and ER volumes declining due to the COVID-19, M&A will be very challenging in the outsourced services sector.



Select M&A Transactions

Date	Target	Acquirer	Target Business Description	TEV (\$M)
3/3/20	MD Alliance Solutions	Health Enterprise Partners	Provider of administrative support services to dermatology practices.	N/A
2/14/20	iOR Partners	C3 Capital	Provider of office-based surgery suites.	N/A
1/6/20	Empire Dental Arts	Evolution Capital Partners	Provider of operational support to dental practices in Northeast Ohio.	N/A
1/2/20	Healthcents	Osceola Capital Management	Provider of healthcare contracting services for medical practices.	N/A

Select Public Trading Multiples

(\$M, except share prices)

Company	Ticker	Stock Price 3/31/20	% of 52-Week		TEV	TEV / Revenue		TEV / EBITDA	
			High	Low		LTM	NTM	LTM	NTM
MedNax	MD	\$11.64	39%	158%	\$2,909	0.8x	0.8x	5.6x	5.8x
Healthcare Services Group	HCSG	\$23.91	68%	151%	1,676	0.9x	0.9x	18.3x	11.8x
AMN Healthcare	AMN	\$57.81	65%	124%	3,441	1.5x	1.3x	11.1x	9.6x
Cross Country Healthcare	CCRN	\$6.74	50%	115%	327	0.4x	0.4x	12.2x	7.3x
ASGN	ASGN	\$35.32	49%	122%	2,894	0.7x	0.8x	6.5x	7.2x
Average						0.9x	0.8x	10.7x	8.4x
Median						0.8x	0.8x	11.1x	7.3x

Note: EBITDA includes add-backs for stock-based compensation and non-recurring expenses. Data per SEC filings and PitchBook.

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Representative Transactions

