BOURNE PARTNERS

Market Update

Healthcare Services Post-3Q24 Update

November 2024

Table of Contents

Section One — Healthcare Services Update

Healthcare Services Commentary	5
Sub-Sector Spotlight: Autism Treatments	6
Sub-Sector Spotlight: Substance Use Disorders	7
Selected Recent Transactions	8
Public Trading Comparisons	9
Healthcare Services Indices	13

Section Two — Bourne Partners

Thought Leadership	15
Bourne Partners Overview	16
Investment Bank Overview	17

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Bourne's Healthcare Services Expertise

Healthcare Services Sector Expertise

Industry Segments

Healthcare Services

- Post Acute Care
- Behavioral Health
- Managed Care
- Physician Practice Management
- Alternate Site

Outsourced Services

- Distribution
- Home Medical Supplies / DME
- Labs
- Pharmacy & Pharmacy Services
- Staffing

Technology & Tech-Enabled Services

- Virtual Care-Enablement
- ProviderTech
- Payor Services & Technology

Transaction Structures

- Sell/Buy-Side M&A
- Carveouts
- Alternative Financing Solutions

Healthcare Services | Pharma Services | Pharma | Consumer Healthcare

Representative Healthcare Services Transaction Activity

H.I.G. CAPITAL Growth Recapitalization and Fund-to-Fund transfer of SOLEO HEALTH	LINCARE A Linde company Sale of Home Infusion Assets to KabaFusion Patient-Focused Infusion Therapy A portfolio company of PPC Partners	bioscrip Advisor to Board of Directors on Strategic Alternatives	FOREFRONT TELECARE Sale to SOC Telemed A portfolio company of PATIENT SQUARE CAPITAL *Sell-Side M&A*
Magellan HEALTHCARE Acquisition of a Majority Interest in Bayless Integrated Healthcare	Magellan HEALTHCARE Minority Equity Investment in Kaden Exclusive financial advisor to Magellan Health	QUORUM HEALTH Financial Advisor to Quorum Health on its Chapter 11 Reorganization	Kinderhook INDUSTRIES Advisor to Kinderhook on its acquisition of MCS *Buy-Side M&A*
brand new day Sell-side Advisor to Brand New Day Bright HealthCare	BlueCross BlueShield Arizona Buyside Advisor to BCBS of Arizona Steward Health Care Network HEALTH CHOICE MASSACHUSETTS	evariant Sale to healthgrades. A portfolio company of VESTAR *Buy-Side M&A*	Vytalize Private Placement Exclusive Placement Agent

Note: Includes transactions completed at prior firms.

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Section One

Healthcare Services Update

i. Healthcare Services Commentary

ii. Sub-Sector Spotlight: Behavioral Health

iii. Sub-Sector Spotlight: Infusion Therapy

Healthcare Services Sector Update

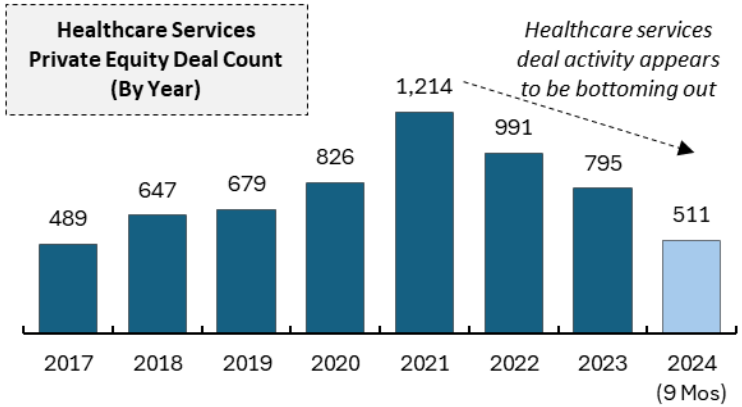
Overall healthcare services private equity deal activity remains healthy, in our view. Although deal activity has fallen from the "bubble levels" in 2021 and 2022, it is generally in-line with pre-COVID levels -- despite what has been the steepest rise in interest rates in the shortest period-of-time since the early 1980s. Behavioral health has arguably been a notable "bright spot" within healthcare services with a few recent platform deals, including *Behavioral Innovations* (acquired by Tenex Capital Management) and *Caravel Autism Health* (acquired by GTCR).

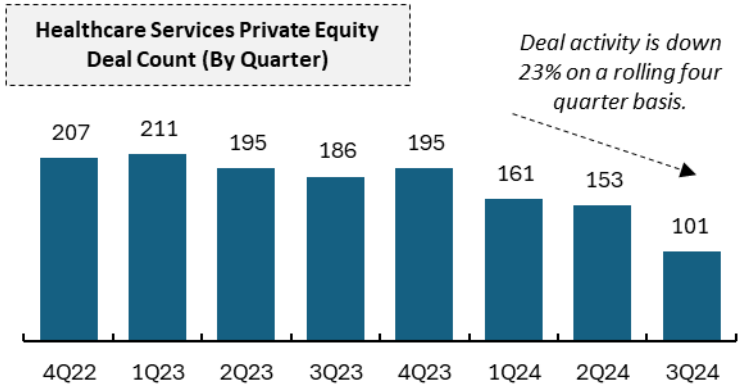
We expect that the pending Trump administration to be much more friendly to mergers and acquisitions in healthcare services. However, Trump will not be President until January 2025. In the meantime, the Department of Justice (DOJ) under President Biden, continues to push back on healthcare consolidation. In November, the DOJ filed an antitrust suit against UnitedHealth Group (NYSE: UNH) to prevent its proposed $3.3 billion acquisition of Amedisys (NASDAQ:AMED).

In our view, **lowering healthcare costs will be an important area of focus for President-Elect Trump.** During Trump's first term, there was a focus on price transparency regulations that required hospitals and healthcare providers to publicly disclose their prices to encourage patients to be able to "shop" for care. However, a new report by the Health and Human Services Office of Inspector General (OIG) suggests that many hospitals are still not complying with these regulations.

The Centers for Medicare and Medicaid Services (CMS) plans to cut physician payments by 2.9% in 2025, despite considerable pushback from industry groups. However, CMS will preserve popular telehealth flexibilities that were scheduled to expire at the end of 2024 and allow for advanced payments to providers participating in the Medicare Shared Savings Program (MSSP).

Media reports suggest that CVS Health has discontinued a variety of infusion services in areas like antibiotics, inotropic medications, total parenteral nutrition, and acute home infusion programs. This appears to be part of a broader corporate efficiency and restructuring strategy led by activist investor Glenview Capital.





Sources: Pitchbook, S&P Global Market Intelligence, and Company filings

Sub-Sector Spotlight: Autism Treatment Providers

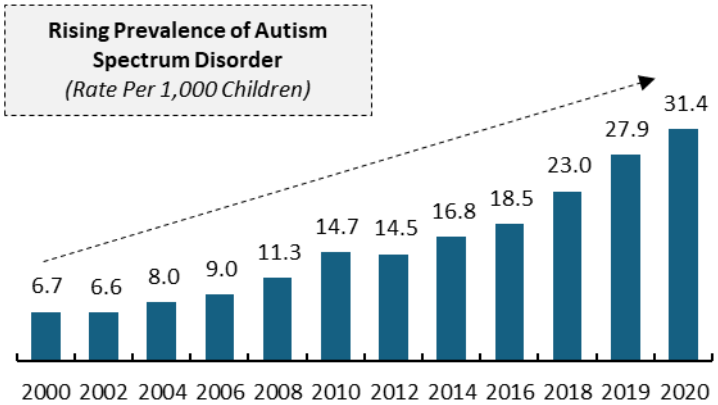
We view the autism space as a vertical that will continue to benefit from favorable supply/demand dynamics, and we continue to anticipate considerable consolidation in the coming years as providers look to offer "whole-person" care for individuals with autism. Also, we see the pending renewal and passage of the *Autism Collaboration, Accountability, Research, Education and Support Act* (the Autism CARES Act) as providing significant financial visibility to the autism treatment space. This, in turn, could potentially attract more capital investment for providers.

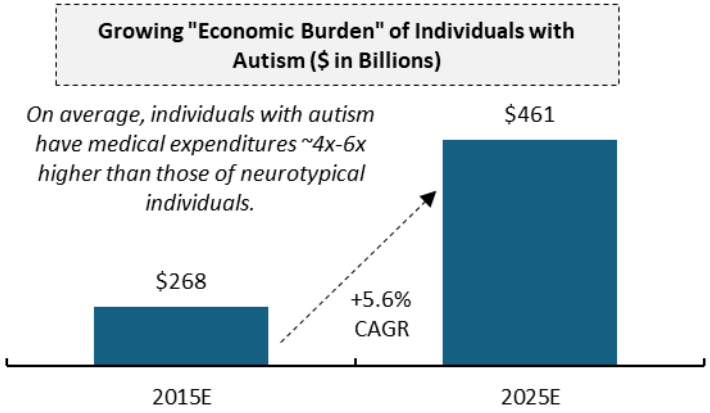
We think that there is an emerging new consensus view that the treatment of autism needs be integrated with the treatment of other behavioral health conditions, e.g., obsessive compulsive disorder (OCD), avoidant-restrictive food intake disorder (ARFID), and school-refusal. On top of providing better care, many providers we have spoken with have highlighted that diversifying their services leads to better and more predictable financial results as well.

Advances in information technology (IT) are also a major theme that is coming up in our conversations with autism providers. Many services, such as physical/occupational therapy, cannot be fully done digitally. However, in many cases, evaluations, cognitive testing, and speech therapy testing can often be done online. Also, IT is an essential tool for tracking and documenting. Finally, IT adoption is viewed as a tool to address labor productivity (shortages).

Finally, **we are hearing more about value-based reimbursement in the autism space.** The autism space is ripe for value-based care, in our view. Payers are seeing troubling spending trends with the total spend per autistic individuals being multiples of neurotypical individuals. Also, providers who can develop and demonstrate more efficient and effective treatment models (e.g., "whole-person" care -- see above) can avoid the pressures of fee-for-service reimbursement by being willing to take-on two-sided risk around outcomes.

**** Please reach out if you would like to discuss, and feel free to read our updated thoughts on the autism treatment marketplace **here**. ****





Source: Centers for Disease Control and Prevention; the Substance Abuse and Mental Health Services Administration, and Bourne Partners

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Sub-Sector Spotlight: Substance Use Disorder Providers

We see the substance use disorder (SUD) space as one of the most rapidly evolving verticals within broader healthcare services. Our recent conversations with executives of SUD providers and private equity investors highlighted THREE (3) interrelated trends: 1) a rising relevance of managed care, 2) a need to prepare for greater value-based reimbursement, and 3) a growing pressure to play catch-up with information technology. In our opinion, these trends create opportunities for SUD providers to competitively differentiate themselves and pursue greater economies of scale in their operations.

We see the relevance of managed care for SUD providers increasing on the heels of new "behavioral health parity" regulations in September 2024. There seems to be a consensus view among the SUD executives that we have spoken with that the "cash pay" segment of the SUD market is going away with more patients now being covered under managed care arrangements. With greater managed care coverage will come increased pressures on traditional fee-for-service reimbursement rates, a greater focus on lower-cost modalities of treatment (e.g., outpatient, IOP, and PHP, etc.), and heightened quality and compliance oversight.

We think that SUD providers should proactively embrace value-based contracting as a way to capture the full economic value of their services. This includes proactively restructuring their operations and investing in key information technologies. In our opinion, this would include better integrating with mental health and primary care and adding lower-cost outpatient and telehealth services.

Newly released patient privacy regulations in the SUD space create a much stronger use case for information technology adoption by allowing providers to coordinate patient care in a much less burdensome way. At the same time, ongoing labor shortages have forced SUD providers to consider information technology to boost staff productivity.

**** Please reach out if you would like to discuss and feel free to read our thoughts on the substance use disorder market here. ****

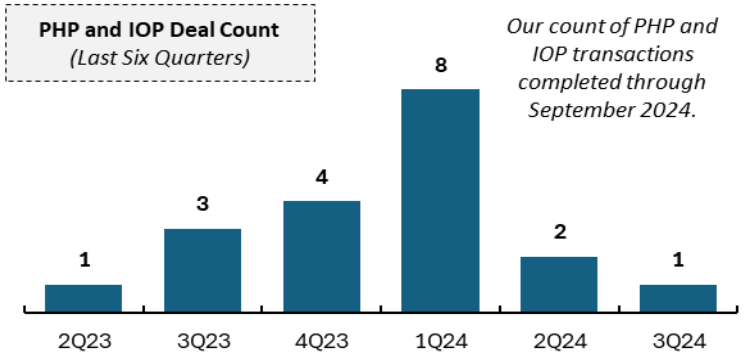
With private equity looking to put capital to work in behavioral health and SUD providers, there is an increasing focus on PHP and IOP platforms While inpatient and residential treatment is appropriate for high acuity patients, several concerns exist for investors, including:

1) Drawing patients from a wider geographic area, necessitating broader cross-state geographic coverage

2) Managed care is pushing for options with shorter inpatient stays

3) Higher acuity businesses are struggling to retain employees

4) Headline risk is inherently greater for higher-acuity settings



Source: Company reports and Bourne Partners

Selected Healthcare Services Transactions

Date	Target	Acquirer	Commentary	Tags	Deal Values
Nov-2024	R1	Clayton Dubilier & Rice	Provider of outsourced revenue cycle management services and software technologies	Healthcare IT	$8,900M
Sep-2024	Lakeview Health Services	Bradford Health Services	Adds complementary services in eating disorder care, and niche programming as well as new geographies	Behavioral Health	Undisclosed
Sep-2024	Xtend Healthcare	CorroHealth	Adds economies of scale to existing revenue cycle offering as well as new patient engagement capabilities	Healthcare IT	$365M
Jul-2024	Infusion Associates	VIVO infusion	Home infusion services and 80 ambulatory infusion centers in Michigan, Minnesota, Ohio and Wisconsin	Infusion Therapy	$215M
Jun-2024	BIOMATRIX	Frazier Healthcare Partners	Independent specialty infusion pharmacy	Infusion Therapy	$450M
Jun-2024	radiology partners	evolutionary ventures	Tech-enabled radiology practice serving 3,300+ hospitals and other healthcare facilities	Imaging	$773M
Jun-2024	healthe commerce	H.I.G. Capital	Retailer of consumer health and wellness products focused on simplifying the tax-free healthcare market	Consumer	Undisclosed
Jun-2024	Caravel Autism Health	GTCR	Pediatric therapy services to treat autism and/or other similar developmental disorders	Behavioral Health	Undisclosed
Jun-2024	behavioral Innovations	Tenex Capital Management	Behavioral, speech, and occupational therapy services to children with autism and developmental disabilities	Behavioral Health	Undisclosed
Apr-2024	Cotiviti	KKR	Risk assessment and decision analytics services for payers, providers and employers	Healthcare IT	$11,200M

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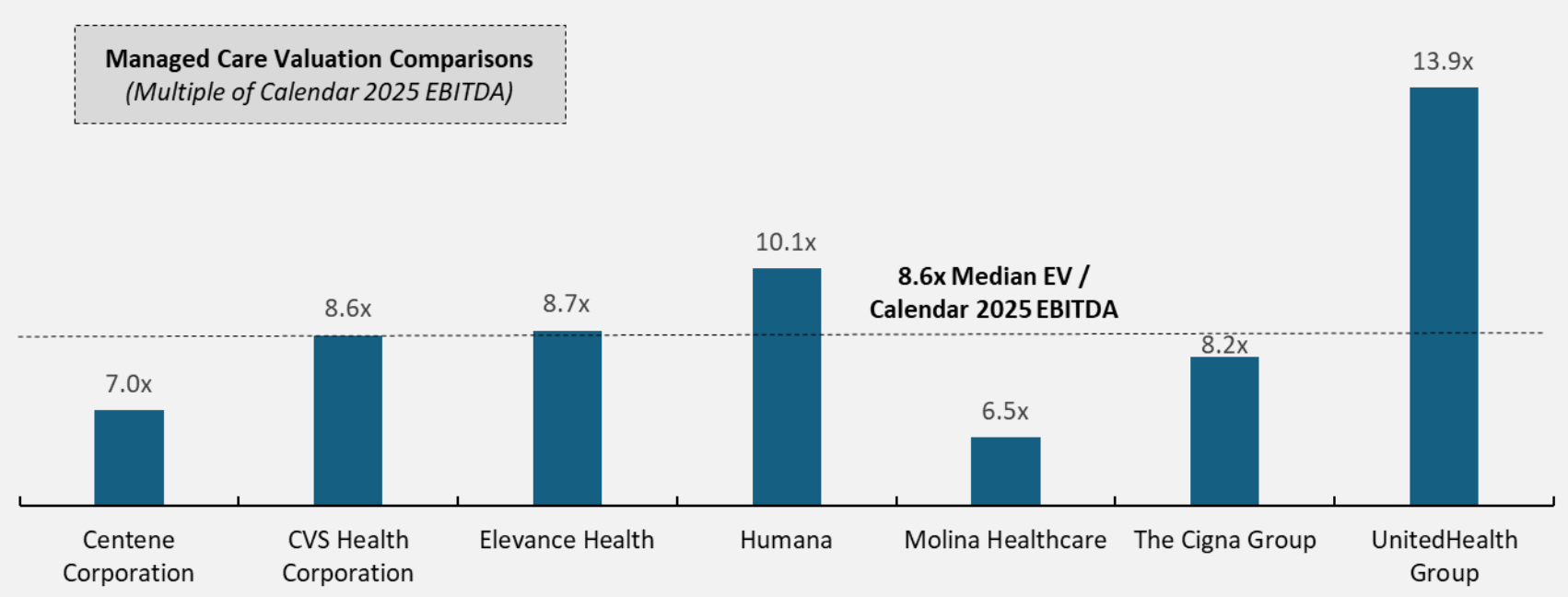
Trading Valuations: Managed Care and HMOs



Company Name	Ticker	Equity Value	Net Debt / (Net Cash)	Enterprise Value	Projected CY2025 Revenue	Projected CY2025 Growth	Projected CY2025 EBITDA	Projected CY2025 Growth	Projected CY2025 Multiple	Debt Ratio
Managed Care										
Centene Corporation	CNC	$29,545	$3,028	$32,573	$165,251	2.5%	$4,552	7.5%	7.2x	0.7x
CVS Health Corporation	CVS	70,178	73,024	143,202	387,520	4.3%	16,210	11.7%	8.8x	4.5x
Elevance Health	ELV	91,423	19,282	110,705	187,289	7.0%	12,851	7.8%	8.6x	1.5x
Humana	HUM	33,155	8,262	41,417	118,760	1.6%	4,120	4.2%	10.1x	2.0x
Molina Healthcare	MOH	16,386	(2,203)	14,183	43,427	7.5%	2,266	10.3%	6.3x	-1.0x
The Cigna Group	CI	90,472	28,014	118,486	251,847	3.2%	14,367	8.2%	8.2x	1.9x
UnitedHealth Group	UNH	532,960	45,610	578,570	428,676	6.9%	42,418	10.6%	13.6x	1.1x
Average (Mean)						***4.7%***		***8.6%***	***9.0x***	***1.5x***
Average (Median)						***4.3%***		***8.2%***	***8.6x***	***1.5x***

Note: Market values as of the close of business November 15, 2024.
Source: S&P Global Market Intelligence

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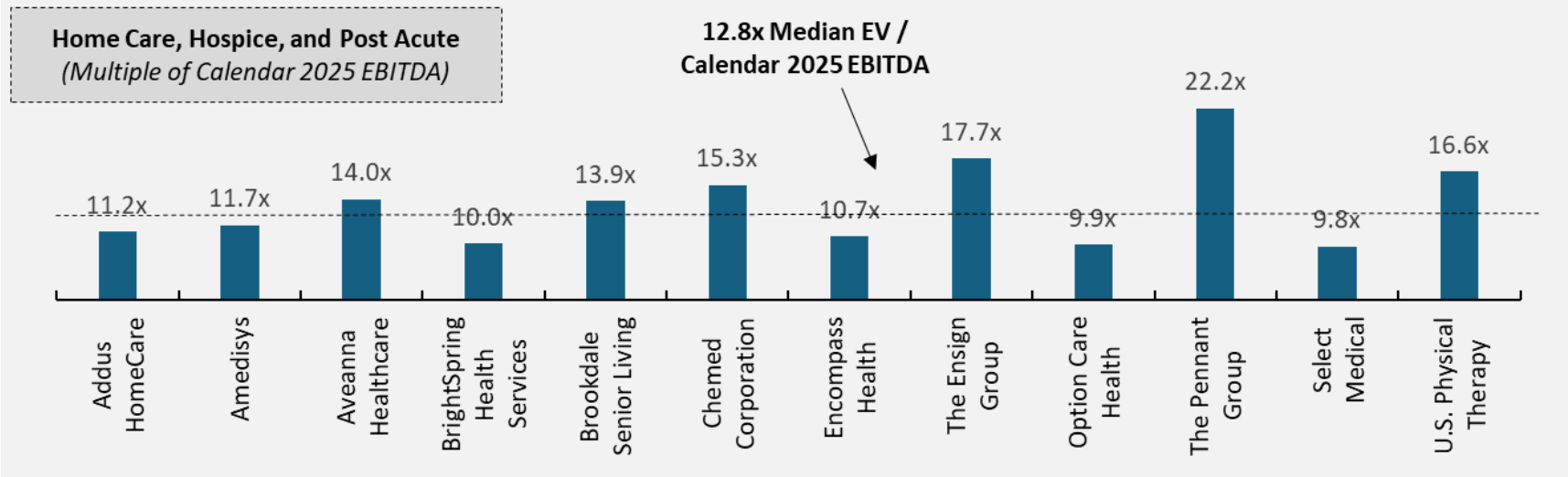
Trading Valuations: Home Care, Hospice and Post-Acute Care



Company Name	Ticker	Equity Value	Net Debt / (Net Cash)	Enterprise Value	Projected CY2025 Revenue	Projected CY2025 Growth	Projected CY2025 EBITDA	Projected CY2025 Growth	Projected CY2025 Multiple	Debt Ratio
Home Care, Hospice, and Post Acute										
AdaptHealth Corp.	AHCO	$1,302	$2,076	$3,378	$3,327	2.9%	$686	3.1%	4.9x	3.0x
Addus HomeCare	ADUS	2,130	(173)	1,957	1,438	26.6%	$177	28.0%	11.1x	-1.0x
Amedisys	AMED	2,948	222	3,170	2,497	6.4%	271	7.8%	11.7x	0.8x
Aveanna Healthcare	AVAH	1,121	1,425	2,545	2,102	5.0%	178	6.4%	14.3x	8.0x
BrightSpring Health Services	BTSG	3,256	2,917	6,173	12,342	10.7%	631	8.1%	9.8x	4.6x
Brookdale Senior Living	BKD	1,037	4,907	5,944	3,263	4.4%	429	11.7%	13.9x	11.4x
Chemed Corporation	CHE	8,175	(91)	8,085	2,599	7.1%	537	6.9%	15.1x	-0.2x
Encompass Health	EHC	9,961	2,652	12,613	5,825	8.9%	1,180	9.0%	10.7x	2.2x
The Ensign Group	ENSG	8,202	1,447	9,649	4,752	11.6%	542	12.0%	17.8x	2.7x
Option Care Health	OPCH	3,701	731	4,432	5,235	6.3%	449	2.0%	9.9x	1.6x
The Pennant Group	PNTG	1,086	372	1,459	813	17.9%	65	20.9%	22.3x	5.7x
Select Medical	SEM	4,800	4,378	9,178	7,365	4.4%	941	7.2%	9.8x	4.7x
U.S. Physical Therapy	USPH	1,369	136	1,505	726	9.7%	90	10.3%	16.7x	1.5x
Average (Mean)						***10.5%***		***11.3%***	***13.6x***	***4.1x***
Average (Median)						***8.0%***		***8.6%***	***12.8x***	***2.7x***

Note: Market values as of the close of business November 15, 2024.
Source: S&P Global Market Intelligence

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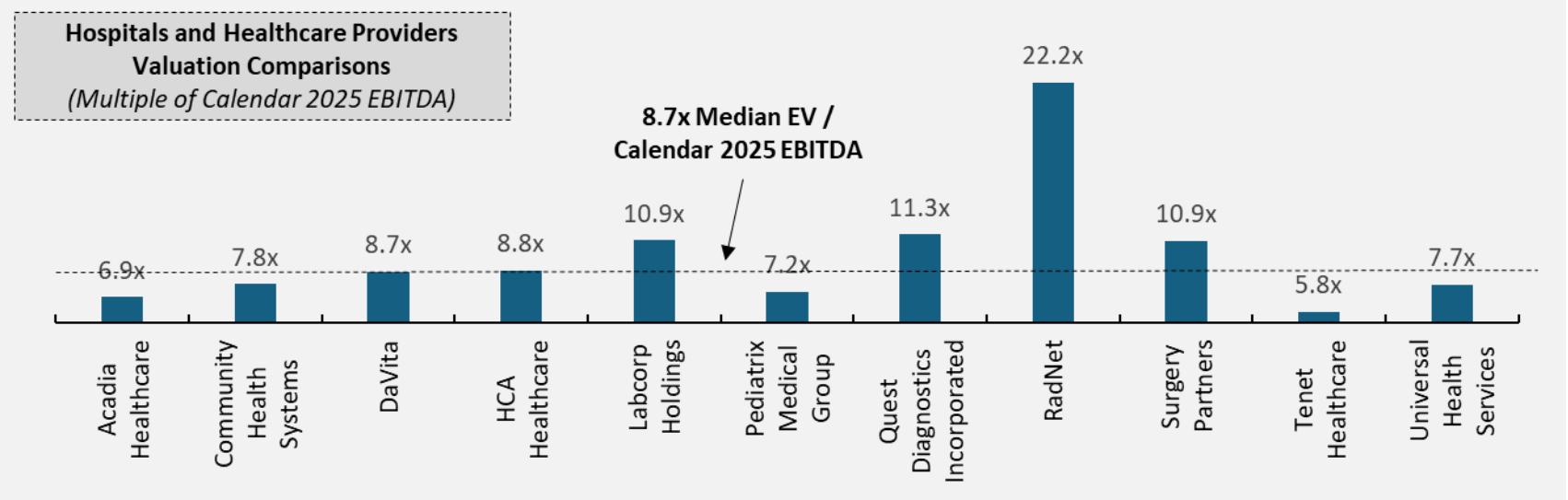
Trading Valuations: Hospitals and Healthcare Providers



Company Name	Ticker	Equity Value	Net Debt / (Net Cash)	Enterprise Value	Projected CY2025 Revenue	Projected CY2025 Growth	Projected CY2025 EBITDA	Projected CY2025 Growth	Projected CY2025 Multiple	Debt Ratio
Hospitals and Healthcare Providers										
Acadia Healthcare	ACHC	$3,444	$1,928	$5,372	$3,452	9.1%	$790	8.0%	6.8x	2.4x
Community Health Systems	CYH	500	12,095	12,595	12,626	1.0%	1,616	6.2%	7.8x	7.5x
DaVita	DVA	12,885	11,106	23,991	13,226	3.7%	2,798	4.5%	8.6x	4.0x
HCA Healthcare	HCA	85,108	41,906	127,014	74,695	5.8%	14,702	5.8%	8.6x	2.9x
Labcorp Holdings	LH	19,749	6,259	26,008	13,765	6.1%	2,383	8.9%	10.9x	2.6x
Pediatrix Medical Group	MD	1,226	463	1,689	1,942	-2.8%	229	8.9%	7.4x	2.0x
Quest Diagnostics Incorporated	DGX	18,070	6,206	24,276	10,635	8.2%	2,127	11.0%	11.4x	2.9x
RadNet	RDNT	5,898	988	6,886	1,967	8.4%	313	11.3%	22.0x	3.2x
Surgery Partners	SGRY	2,882	3,283	6,164	3,384	9.9%	568	11.7%	10.8x	5.8x
Tenet Healthcare	THC	14,550	8,777	23,327	21,393	2.9%	4,075	3.0%	5.7x	2.2x
Universal Health Services	UHS	12,997	5,001	17,997	16,700	6.1%	2,367	7.4%	7.6x	2.1x
Average (Mean)						***5.3%***		***7.9%***	***9.8x***	***3.5x***
Average (Median)						***6.1%***		***8.0%***	***8.6x***	***2.9x***

Note: Market values as of the close of business November 15, 2024.
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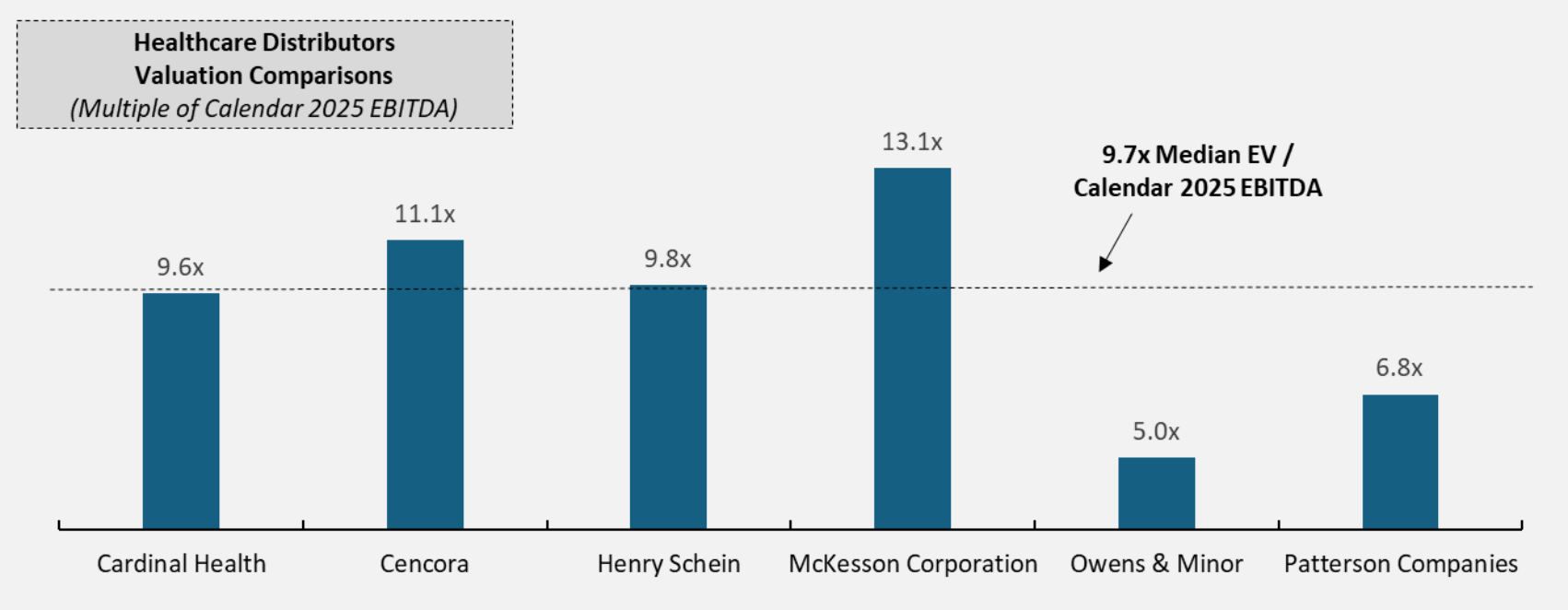
Trading Valuations: Distributors



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Healthcare Distributors										
Cardinal Health	CAH	$28,736	$2,297	$31,033	$230,192	4.0%	$3,237	10.7%	9.6x	0.7x
Cencora	COR	47,573	1,255	48,828	321,300	7.1%	4,360	6.0%	11.2x	0.3x
Henry Schein	HSIC	9,418	2,866	12,284	13,349	3.8%	1,164	8.5%	10.6x	2.5x
McKesson Corporation	MCK	78,011	4,746	82,757	382,087	10.7%	6,249	9.5%	13.2x	0.8x
Owens & Minor	OMI	953	2,128	3,081	11,135	3.8%	607	11.9%	5.1x	3.5x
Patterson Companies	PDCO	1,811	761	2,573	6,821	3.9%	370	5.8%	7.0x	2.1x
Average (Mean)						***5.5%***		***8.7%***	***9.4x***	***1.6x***
Average (Median)						***3.9%***		***9.0%***	***10.1x***	***1.4x***

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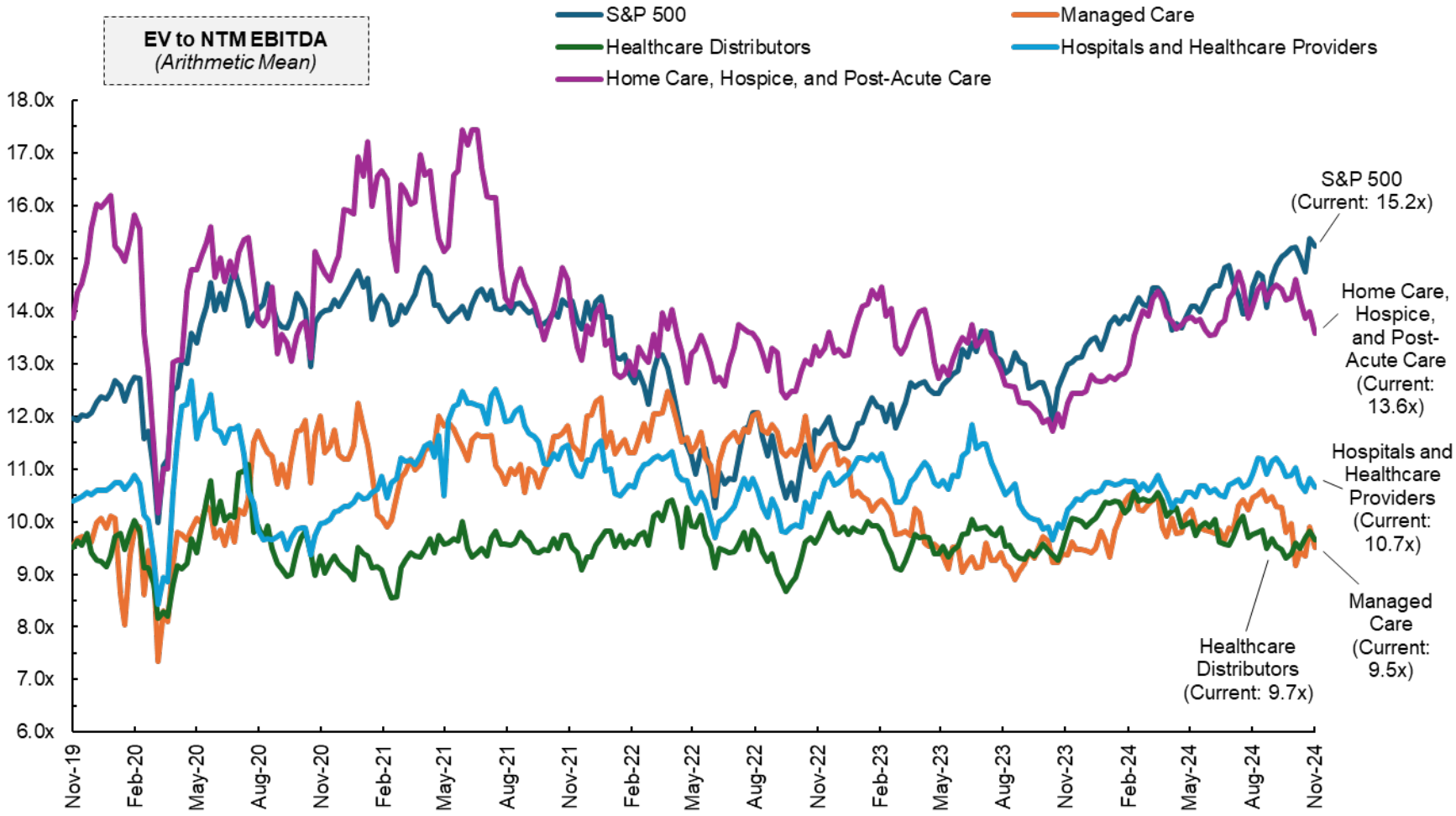
Bourne Healthcare Services Indices (By Sub-Segment)



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Source: S&P Global Market Intelligence

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Section Two

Bourne Partners

i. Thought Leadership

ii. Bourne Partners Overview

iii. Investment Bank Overview

Thought Leadership

Bourne Perspective

After 20+ years of exclusive industry and capital markets coverage, we know the space and we are committed to providing insights to clients. We provide cutting-edge thought leadership on all things Pharma, Pharma Services, Healthcare Services, and Consumer Health.

Through leveraging resources and insights of both Bourne Partners Strategic Capital and Investment Banking divisions, **we provide differentiated perspectives to our clients from our unique vantage point**. Our goal is to deliver heavy-hitting, timely reports in an easy-to-read format tailored specifically for executives within our industry coverage.

Conference Commentary

Industry Update Posts

Weekly Newsletter

White Papers

Marketplace Deep Dive Reports

Bourne Partners Overview

Bourne Partners is a leading healthcare-focused investment bank headquartered in Charlotte, NC. Since 2001, Bourne has been offering a unique perspective and unmatched expertise while remaining highly focused on fulfilling the needs of established middle market healthcare companies across the globe

Our Passion

*"Working with **great people** and **great companies** to achieve **extraordinary results.**"*

Highly-focused Firm

- PHARMA & LIFE SCIENCES
- PHARMA SERVICES
- PHARMACY SERVICES
- HEALTHCARE SERVICES

Comprehensive Healthcare Service Offering

Mergers & Acquisitions		Capital Raising	
Sell-Side Assignments	*Buy-Side Assignments*	*Debt*	*Equity*
Company & Product Focus	*$50M to $1B+ Enterprise Value*	*Alternative Options*	*$20M to $1B+ Capital Raises*
Business Development Services		**Strategic Initiatives & Consulting**	
Partnerships in U.S. / Abroad	*In and Out-Licensing*	*Strategy & Management*	*Sales/Marketing, Operations*

Value-add Advisors With A Global Reach

$15B+ Successful Transactions

6 Continents

20+ Year Track Record

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Investment Banking Overview

Bourne Partners Investment Banking provides investment banking services within the healthcare and life sciences sectors for external clients as well as our portfolio companies.

Value Beyond the Deal

Total Perspective

Experience advising, investing in, building, operating, buying, and selling companies
Unmatched 360° perspective for every project

Uncompromised Service

Direct involvement of senior management through the process
High level of attention regardless of transaction value

Global Reach

Experience working with companies around the globe
Extensive network of potential international buyers

Focus Areas

- Buy and Sell Side M&A
- Equity & Debt Capital
- Licensing / Partnering
- Strategic Consulting

Select Recent Tombstones

- TAPEMARK has been acquired by LTS
- Fagron has sold its consumer CDMO operations to SIGNET Healthcare Partners
- Afton Scientific has been acquired by ACP
- InnovationsGroup MedQuest has been acquired by Belmar Pharma Solutions
- Summit Biosciences Inc. has been acquired by Kindeva Drug Delivery
- Medivant Healthcare has been recapitalized by 1315 Capital

Partners, Sponsors, and Lenders

Carlyle, Colbeck, Cerberus, Cinven, Advent Venture Partners, Ampersand

Recent Clients & Counterparties

Thomabravo, Webster Equity Partners, Ghost Tree Partners, Altaris, 1315 Capital, ME, New Rhein Healthcare Investors, ArchiMed, QHP Capital, ACP, GHO Capital

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