HEALTHCARE TRANSACTIONS:
YEAR IN REVIEW

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BASS BERRY SIMS

Overview

2020 was a tumultuous year for the healthcare industry, which continues to confront the effects of the COVID-19 pandemic. These effects include but are not limited to the financial fallout from government-mandated shutdowns, staffing and equipment shortages, and increased demands for alternative modes of care delivery aimed to decrease in-person contact. Despite these unprecedented and often unpredictable times, healthcare merger and acquisition (M&A) activity did not decline as sharply as many predicted, even rebounding in the second half of the year to levels on par with recent years.

Deal activity declined significantly in Q2 of 2020 as acquirers and targets alike navigated the early stages of the pandemic, working to understand the long-term effects the outbreak may have, changes in state and local laws aimed to reduce the spread of COVID-19, and the rules and regulations regarding government funds under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. M&A activity in the second half of the year brought a gradual recovery. Although deal activity in Q3 was lower than that of the same quarter in 2018 and 2019, deal volume rose from the previous quarter and based on early reports appears to be on an upward trajectory for Q4. Contrary to some early predictions that the pandemic could stave off the accelerating pace of healthcare M&A, it may have often served as a driving force supporting it. Throughout the year, healthcare companies sought strategic and innovative partnerships to meet increasing demand for telehealth and alternative means of providing services to patients.

In addition to using transactions as a means of integrating innovative measures, providers continue to seek stability and efficiency by partnering with acquirers, many of which are private equity (PE)-backed platform companies. Continuing last year's trend, PE firms continue to inject capital into the healthcare industry. The support of investments by PE firms lends stability in the face of the pandemic, ongoing political uncertainty, and demands for cost-cutting measures that are higher than ever. Small and large businesses alike have found successful partnerships with PE firms, as they align in the mutual goal of maintaining profitability while adjusting to a quickly modernizing healthcare consumer base and the shift away from fee-for-service toward value-based payment models.

2020 also saw the rise of the special purpose acquisition company (SPAC), often referred to as a "blank check" company, as a popular alternative to an initial public offering for healthcare companies. For example, primary care provider Cano Health announced in November that it would go public via a merger with a SPAC, Jaws Acquisition. The transaction is valued at an estimated $4.4 billion, and the combined company will operate under the Cano Health name. In October, Clover Health, a provider of Medicare Advantage health plans, announced that it would go public via a merger with SPAC Social Capital Hedosophia Holdings Corp. III with a transaction valued at an estimated $3.7 billion. The transaction is expected to close in early 2021. Finally, Hims, a telehealth and mail-order wellness product company, plans to go public after merging with SPAC Oaktree Acquisition Corp., sponsored by investment firm Oaktree Capital Management. The combined entity will have an estimated $1.6 billion valuation. According to available data, the gross proceeds of SPACs in 2020 are more than four times that of 2019. After this exponential growth, we expect 2021 to bring more utilization of SPACs as a vehicle for healthcare entities to go public.

2020 deal activity across all sectors has revealed the adaptability of M&A as a mutually

beneficial tool to bring about strategic ends. Indeed, the goals of strategic partnerships over the past year has shifted to meet the specific needs of providers and patients, whose needs are ever-changing in the face of a pandemic that has dramatically changed the way care is sought and delivered.

Below we have outlined M&A activity and drivers in the following hot sectors:

- Hospitals
- Post-Acute Care—Home Health, Hospice & Personal Care Services
- Physician Practice Management
- Ambulatory Surgery Centers (ASCs)
- Behavioral Health
- Pharmacy
- Managed Care
- Health Information Technology

Hospitals

Even amidst the pandemic, M&A activity in the hospital and health systems sectors generally stayed the course in 2020, although there was a decline from the number of transactions announced in 2019. Activity in the sector declined in Q2, as hospitals struggled to cope with statewide mandates to halt elective surgeries. Despite hospital operating EBITDA margins falling dramatically in April and May, there was not as sharp of a decline in M&A activity. On the contrary, Q3 activity in the sector rebounded and was generally on par with historic activity, though not reaching 2019 levels.

In fact, the COVID-19 pandemic may often be the impetus for hospital deal activity, as hospitals and health systems seek innovative ways to cut costs and remain profitable in the wake of the transition to value-based reimbursement, the lingering effects of the COVID-19 pandemic, and political uncertainty. A persisting theme of transformative partnerships—aimed at establishing new business models or enriching services to customers with new experiences—has emerged across 2020 hospital deal activity.

Consistent with the theme of transformative partnerships is the joint operating company formed by Virginia-Mason and CHI Franciscan/CommonSpirit Health. In July, the companies announced the signing of a definitive agreement to form a joint operating company that would bring together the best elements of each company and create a transformative health system. CommonSpirit Health is a new system, created by the 2019 merger between Dignity Health and Catholic Health Initiatives, with 137 hospitals and an estimated $29 billion in revenue. Virginia Mason has two hospitals, a physician practice of approximately 500 physicians, and several outpatient facilities in the Pacific Northwest. The new organization seeks to be market-responsive and to reduce waste by developing innovative care models that enhance the patient experience. Another transformative transaction is the proposed merger of Greensboro, North Carolina-based Cone Health with Virginia-based

Sentara Healthcare. The combined organization would comprise 17 hospitals with $11 billion in assets. Through the transaction, the parties seek to form a unified, transformative and value-driven organization that can serve as a model for other health systems. The deal is subject to regulatory approvals and is anticipated to close in mid-2021.

Notable activity has also occurred in the realm of academic medical centers. In October, Charlotte, North Carolina-based Atrium Health and Wake Forest Baptist Health announced the completion of a deal that creates an academic health system valued at approximately $11 billion. The combined organization operates 42 hospitals and 1,500 care locations spanning across North Carolina, South Carolina, and Georgia. As part of the transaction, the organization also plans to build a second campus for the medical school. The new organization seeks to transform medical education and expand patient-centered research and innovation by creating a state-of-the-art academic healthcare system. Similarly, Novant Health, Inc., UNC Health Care System and New Hanover Regional Medical Center signed a letter of intent for Novant Health to acquire New Hanover, the largest county-owned hospital system in North Carolina. The transaction has an estimated value of $5.3 billion. As part of the deal, the parties will partner with UNC Health and UNC School of Medicine to expand New Hanover's education program, adding a new branch of UNC School of Medicine in Charlotte. Novant Health currently operates 15 medical centers and over 600 clinics and ambulatory facilities. The parties expect the transaction to close in early 2021, after receipt of necessary regulatory approvals. Finally, Huntington Hospital and Cedars-Sinai Health System announced in July that they signed a definitive agreement to affiliate. Huntington, a 619-bed hospital in Pasadena, California, plans to operate independently of Cedars-Sinai, a nonprofit academic healthcare organization in California. The affiliation plans to invest in Huntington's information technology infrastructure as well as its ambulatory services and physician development. In December, the California Attorney General granted conditional approval for the transaction to move forward.

Another notable hospital transaction is the acquisition by a team of physicians of a controlling stake in Steward Health via a recapitalization transaction with PE firm Cerberus Capital Management. The acquisition, which closed in June, makes Steward Health the largest physician-owned and operated health system in the country. The new ownership seeks to address certain deficiencies in care systems by emphasizing a focus on creating structures that both meet the long-term needs of communities and the short-term needs of patients.

However, not all hospital transactions went through without a hitch. For example, in May, four Chicago, Illinois-based hospitals (Advocate Trinity Hospital, Mercy Hospital and Medical Center, South Shore Hospital, and St. Bernard Hospital) called off merger talks, indicating that the transaction could not move forward absent state funding, which was declined. The proposed merger sought to replace obsolete facilities with new, state-of-the-art equipment that would cost an estimated $1.1 billion, $520 million of which would be funded by the state of Illinois. In October, Advocate Aurora Health and Beaumont Health announced that they ended partnership discussions five months after signing a letter of intent to merge. In its press release, Beaumont indicated that it will focus on local market priorities and its frontline healthcare workers and staff. The partnership would have created a $17 billion health system.

Post-Acute Care—Home Health, Hospice & Personal Care Services

In last year's report, we noted buyers' trepidation around further investment in home health given the advent of CMS's new Medicare reimbursement model, the Patient-Driven Groupings Model (PDGM), which went into effect January 1, 2020, and that as a result, buyers had been reallocating funds to the hospice side of this sector. Now that the novelty of PDGM has worn off, it appears home health acquisitions are on the rise and hospice M&A activity remains strong.

As noted above, M&A activity was down across the board in Q1 and Q2 but rebounded particularly strongly in the post-acute care sector to near pre-COVID-19 levels—with the number of publicly announced transactions in Q3 reportedly increasing by 120% from Q2, according to data from Irving Levin Associates, Inc., and up 10% from the same quarter in 2019.

The number of home health acquisitions was expected to pick up in the early part of 2020 as buyers grew more familiar with the PDGM and small operators struggling under the weight of the new payment model looked for an exit. Then COVID-19 hit, and small operators received a lifeline in the form of government aid programs, delaying the process. But as operations gradually returned to normal, so too did deal flow.

Strategic buyers have been active. Over the summer, Amedisys, Inc. (Nasdaq: AMED) continued to expand its market reach by acquiring Homecare Preferred Choice, Inc. d/b/a AseraCare Hospice, a national hospice care provider serving more than 2,100 patients across 14 states, for $203 million. In Q3, The Provider Service Corporation (Nasdaq: PRSC) completed its acquisition of Simplura Health Group from One Equity Partners for $575 million. Simplura operates a large network of home health and personal care agencies across Connecticut, Florida, Massachusetts, New Jersey, New York, Pennsylvania and West Virginia, primarily serving Medicaid beneficiaries, including seniors and disabled adults.

PE firms were also aggressive in Q3, their deals reportedly accounting for 43% of total deal volume for the quarter. In September, just a few weeks after acquiring California-based hospice and home health provider Visiting Nurse Association of the Inland Counties' hospice division, Bristol Hospice, a portfolio company of Webster Equity Partners, purchased Health Essentials, LLC d/b/a Remita Health, which operates hospice locations across Arizona, California and Nevada, expanding Bristol's operations to 35 locations across 10 states. The purchase price for both transactions was not disclosed, though reports indicate that the sales continued last year's trend of hospice agencies selling for record-high valuations.

Nashville-based PE firm Pharos Capital Group announced in October acquisitions through its post-acute care platform, Charter Health Care Group, of two hospice providers, Vitality Home Healthcare (Denver, Colorado) and Heartwood Home Health & Hospice (Salt Lake City, Utah), which were Charter's third and fourth add-ons during the year (having acquired hospice care providers in Las Vegas and Phoenix in March).

Clearly, COVID-19 may have delayed but did not deter PE investment in the post-acute space. Chicago, Illinois-based PE firm The Vistria Group saw itself on both sides of transactions, selling its portfolio company, St. Croix Hospice (which serves communities in Iowa, Kansas, Minnesota, Nebraska and Wisconsin), for $580 million in March to PE-backed

Serenity Care Hospice, and later partnering with New York-based PE firm Centerbridge Partners to acquire Wellspring Capital Management's home care provider, Help at Home, for $1.4 billion in October. The alliance will give the PE firms access to Help at Home's more than 150 service locations across 13 states, which serve over 60,000 clients.

Among other transactions completed by it in 2020, Addus HomeCare Corporation (Nasdaq: ADUS) continued its foray into hospice care by announcing in December its acquisition of Queen City Hospice, LLC and its affiliate Miracle City Hospice, LLC, described in the announcement as a "leading provider of hospice services in the state of Ohio" for $192 million, bolstering its presence in Ohio and further increasing its overall market share. And PE-backed personal care companies, like Caring People (backed by Evanston, Illinois-based Silver Oak Services Partners LLC) got into the mix, acquiring three providers over the summer specializing in in-home care and related services.

2021 looks to be another interesting year in this sector. As smaller operators continue to grapple with the PDGM—which is more complex (it increased the number of payment groups), reduced reimbursement rates, and negatively impacted cash flow (it eliminated Requests for Anticipated Payments (RAP) or home health pre-payments)—and while valuations remain at all-time highs (reportedly as high as 29X), there will no doubt be an abundance of anxious sellers. Likewise, despite major players at the top, the market continues to be a highly fragmented one, ideal for buyers looking to consolidate and scale-up. That, coupled with an aging population and the continued emphasis on home health and hospice as less costly alternatives to acute care settings, will continue to drive investment by larger, more established strategic buyers and PE-sponsored organizations. Other interesting developments that could have profound effects on the sector include CMS's rollout of the Medicare Advantage Value-Based Insurance Design (VBID) Model, launched on January 1, 2021, which enables Medicare Advantage to cover participating hospice providers, thus expanding hospice's reimbursement base, increased use of telehealth by home health agencies (fueled by both the ongoing pandemic and Medicare's expansion of telehealth reimbursement) which could expand the pool of home health recipients, and the recent announcement that Encompass Home Health & Hospice (NYSE: EHC) is exploring a potential separation of its home health and hospice business.

Physician Practice Management

While physicians are among the first to be vaccinated against COVID-19, their practices have not been—and may not be for some time—immune from the economic impact of the pandemic. During the early stages of the spread of the underlying virus, physician office visits plummeted as patients stayed home to limit exposure and comply with state and local lockdown measures.

Naturally, M&A activity in the physician practice space declined as wary investors took a wait-and-see approach. Indeed, the number of announced or closed deals in Q1 of 2020 dropped from the final quarter of 2019, and deal volume dropped even further in Q2—by some estimates, as much as 50% from Q1. However, in Q3, the physician practice management sector saw an uptick in activity and appeared to be trending upward. Indeed, early reports of Q4 activity are very positive—with 28 announced deals in the physician practice space in December alone, all but seven of which (according to Irving Levin Associates) were led by PE buyers.

Despite uncertainty in the marketplace, several investors showed a willingness to bet on physician practices. One PE firm, Webster Equity Partners, made plays at the outset of the pandemic in ophthalmology and gastroenterology, adding California Retina Consultants to a recently formed consortium of retinal specialty practices under its management services organization (MSO), Retina Consultants of America, in March (the total spend on all five practices, including California Retina Consultants, totaling $350 million), and partnering with Gastro One, the largest gastroenterology practice in the state of Tennessee, in April for a reported $80 million—with plans to establish the One GI MSO formed in connection with the transaction as a platform for future roll-ups. On November 30, Ontario Teachers' Pension Plan announced its acquisition of a majority stake in NVISION Eye Centers, a leading provider of comprehensive eye care services in the western U.S., further cementing ophthalmology as a hot specialty area for investors, because of the potential for ancillary services such as imaging and ambulatory surgery.

As in 2019, PE firms were also focused again in 2020 on several other office-based specialties, such as dermatology and urology. In February, Boca Raton, Florida-based Sun Capital Partners announced its acquisition of dermatology management platform West Dermatology for an undisclosed amount. West Dermatology was previously under the stewardship of New York-based PE firm Enhanced Healthcare Partners, which invested in the platform in 2014, oversaw 22 practice acquisitions and helped double the number of clinic locations and triple revenues. As of the date of the announcement, West Dermatology managed more than 55 clinic locations across Arizona, California and Nevada.

Later, in June, New York-based Lee Equity Partners announced the formation of its new platform, Solaris Health, and its acquisition of New York-based Integrated Medical Professionals and Cincinnati, Ohio-based The Urology Group for a reported $240 million to create one of the largest independent providers of urological services. And, in September, Chicago, Illinois-based Thurston Group and San Francisco, California-based FFL Partners announced the launch of new platform U.S. Orthopedic Partners, and the acquisition of the platform's anchoring practice, Mississippi Sports Medicine and Orthopaedic Center, for an undisclosed amount.

The December bonanza included more dermatology deals and signaled interest in radiology: Advanced Dermatology and Cosmetic Surgery Inc. (backed by Audax Private Equity) purchased Colorado Dermatology Specialists in Denver, Colorado and Nielsen Dermatology in Boynton Beach, Florida, and US Radiology Specialists (backed by Welsh, Carson, Anderson & Stowe) purchased Windsong Radiology Group in New York and ImageSouth in Birmingham, Alabama.

Although private investors certainly continued to play a major role in the physician practice space, this year also saw strategic purchases of physician practices and similar providers (see, e.g., Radiology Partners' recently closed $885 million acquisition of MEDNAX Radiology Solutions, a division of MEDNAX, Inc. (NYSE: MD)) and FastMed's deal announced on December 18 to purchase Tenet Healthcare's urgent care platform for $80 million) aimed at expanding clinical footprints, as well as public offerings of large physician practice companies such as 1Life Healthcare, Inc. d/b/a One Medical (Nasdaq: ONEM), which operates a hybrid model of in-person and online primary care, and offers 24/7 access to virtual health services, and Oak Street Health, Inc. (NYSE: OSH), which operates senior-focused primary care centers across the country.

As we head into 2021, we expect investment in physician practices to return to pre-pandemic levels, helped along by continued government aid and increases in Medicare reimbursement

rates. The Consolidated Appropriations Act, 2021 signed into law on December 27 provides additional relief funds and expands the list of expenses for which Paycheck Protection Program (PPP) loans may be used, and includes a 3.75% payment bump to the entire Medicare Physician Fee Schedule for services furnished from January 1, 2021, through December 31, 2021. However, the return to normalcy may take time and investors should be mindful of new delivery costs that many physicians believe will be around for the long-term: telehealth solutions (especially as patients have grown more accustomed to obtaining care virtually during the last year), use of personal protective equipment (PPE) and implementation of other exposure control measures such as social distancing and COVID-19 screening (which patients have likewise come to expect when visiting their local physician offices).

Some commentators predict a buyers' market, as more physicians and healthcare providers may be looking for opportunities to join larger organizations as a hedge against continued financial uncertainty. Buyers should emphasize their ability to offer capital and stability as a distinct benefit of partnering with a PE-backed platform or larger healthcare system. If investing in primary care, conventional wisdom suggests practices that focus more on value-based care payment models and less on volume or value of procedures may be best positioned to navigate the pandemic. If investing in anesthesiology or emergency medicine, which historically were attractive in part because of their disproportionately high out-of-network billing rates, buyers should be mindful of the "no surprise" billing legislation passed as a part of the Consolidated Appropriations Act, 2021 described above, which mandates in-network patient cost-sharing for certain services provided by out-of-network providers at in-network facilities.

Ambulatory Surgery Centers (ASCs)

Transactions in the ambulatory surgical center (ASC) space were slowed by the pandemic, but 2020 still saw its share of activity.

In December, Tenet Healthcare Corporation (NYSE: THC) completed its acquisition of 45 ASCs from SurgCenter Development for $1.1 billion. Tenet's United Surgical Partners International will operate the 45 centers and will have a majority ownership in all but two of the centers, where physician owners will retain a majority interest. After the completion of the transaction, United Surgical Partners International will have 310 ambulatory surgical facilities, including 24 surgical hospitals, in 33 states, and will boast the largest musculoskeletal platform with a national scale.

2020 also saw its share of smaller ASC acquisitions, as well as the announcement of several strategic ASC partnerships. In December, Penn State Health announced a joint venture with ValueHealth, a surgical services company, to develop an outpatient surgery network, initially focusing on orthopedics. ValueHealth announced a similar partnership with Cleveland, Ohio-based University Hospitals in October. Similarly, The Center for Digestive Health has partnered with H.I.G. Growth Partners to create a new gastroenterology investment platform, Pinnacle GI Partners, focused on gastroenterology ASCs in the Midwest.

Many in the ASC sector expect growth to remain strong, with the pandemic leading to both ASCs emphasizing safety efforts and the public becoming increasingly aware of ASCs as a safe, alternative setting for surgical procedures.

Behavioral Health

Few industry sectors have felt the impact of the COVID-19 pandemic like that of behavioral health. Reports indicate that the number of Americans reporting symptoms of anxiety and depression has multiplied since the start of the pandemic. The corresponding increase in demand for accessible behavioral health services has been the catalyst for innovative partnerships designed to both increase access to and maintain quality of care. This past year has seen robust activity in the behavioral health sector, particularly within the autism services and addiction treatment spaces. A trend we've seen with behavioral health transactions is an influx of transactions by PE-backed platforms seeking strategic add-ons.

The pandemic has also forced many providers to confront alternative means of care delivery and allowed an expedited shift to telehealth and remote care. With this shift comes the opportunity for providers to seek out business combinations that allow them to better integrate technological solutions to meet the increasing demand for more accessible options in the behavioral health space.

Behavioral health transactions in 2020 were often tied to particular technological benefits of targets. For example, Qualifacts, an electronic health records provider for behavioral health organizations and the platform company of PE firm Warburg Pincus, merged with Credible Behavioral Health, a secure web-based software for providers and the platform company of PE firm Martis Capital. The parties sought out the partnership to combine their technologies and subsequently elevate the experience of behavioral health service providers. The combined company provides services to more than 800 behavioral health companies nationally.

Similarly, Optum (NYSE: UNH) announced in April that it was in talks to acquire AbleTo, a behavioral telehealth provider that offers virtual therapy programs, for an estimated $470 million. Before the transaction, Optum was already a stakeholder in AbleTo after making an investment in January 2019. This transaction is in line with Optum's trend toward digital health acquisitions.

A prime example of active PE behavioral health activity is the partnership of Blue Sprig Pediatrics, Inc., backed by PE firm KKR & Co. Inc. (NYSE: KKR), with Florida Autism Center and Fusion Autism Center, each of which provide Applied Behavioral Analysis therapy services to children with Autism Spectrum Disorder. According to the companies, the partnership marks a landmark transaction that will enhance the scale and ability to share expertise and resources to extend the reach of its platform to ultimately enhance the quality of care to children with autism. Financial terms of the transaction were not disclosed. The transaction is just one of Blue Sprig's efforts to expand its footprint in 2020.

Throughout the year, Blue Sprigs also acquired California-based Aptitude Habilitation Services and Michigan-based Momentum Autism Therapy Services, both of which provide Applied Behavioral Analysis therapy services to children with Autism Spectrum Disorder. We expect the trend of PE firms injecting capital in the behavioral health sector to continue into 2021, with autism services and addiction treatment services continuing to be a popular sub-sector for investment.

Pharmacy

The last few years of the pharmacy sector were marked by vertical integrations and strategic alliances. That trend continued in 2020.

On December 30, Centene Corporation (NYSE: CNC) announced it completed its acquisition of PANTHERx, one of the largest—and fastest-growing—specialty pharmacies in the U.S., significantly bolstering its specialty pharmacy portfolio under the Envolve Pharmacy Solutions banner. Similarly, back in February, UnitedHealth Group, Inc. (NYSE: UNH) completed its acquisition of specialty pharmacy and infusion therapy provider Diplomat Pharmacy, Inc. (NYSE: DPLO), successfully expanding its OptumRX pharmacy benefits service line.

In response to Amazon's (Nasdaq: AMZN) 2018 acquisition of online pharmacy, PillPack, UnitedHealth also completed an acquisition of divvyDOSE, a startup that, like PillPack, delivers medications to customers in presorted packages, in a deal valued at $300 million, and Anthem's (NYSE: ANTM) newly formed pharmacy benefit manager IngenioRx acquired Zipdrug, a pharmacy management company which offers, among other things, home deliveries of prescriptions.

While companies like Amazon, UnitedHealth and Anthem entered the pharmacy space by investing in online retailers and home delivery options, existing pharmacy companies continued to embrace the brick-and-mortar experience. In July, CVS Health Corp. (NYSE: CVS) acquired St. Louis, Missouri-based grocery chain Schnuck Markets' retail and specialty pharmacies. Similarly, on October 7, Rite Aid Corporation (NYSE: RAD) announced that it will acquire Seattle, Washington-based pharmacy chain Bartell Drugs for $95 million.

Even amidst the pandemic, M&A activity in the specialty pharmacy sub-sector remained strong—including investments from PE buyers. New York-based Kinderhook Industries followed up its November 2019 acquisitions of Long's Drugs Inc. and PharMedQuest Pharmacy Services, Inc. by acquiring Paramount Specialty Pharmacy and PharmBlue Holdings (both specialty pharmacy companies) in June for an undisclosed amount, with plans to combine the four companies into a single platform under the name of Avita Pharmacy. The same month, BioMatrix Specialty Pharmacy, L.L.C. (backed by Washington, D.C.-based ACON Investments, L.L.C. and Los, Angeles, California-based Triton Pacific Capital Partners, LLC) acquired City Drugs National Pharmacy, which, according to the announcement, broadens BioMatrix's reach in key therapeutic categories with new payor contracts adding more covered lives.

Interest in home infusion pharmacies also appears to be on the rise. In September, an affiliate of Austin, Texas-based Peak Rock Capital acquired Paragon Health, Inc., a leading provider of infusion services operating across nine states. In October, Chicago, Illinois-based PE firm Linden Capital Partners announced a pair of infusion services-related deals, acquiring a majority stake in Vital Care, Inc., a major franchisor of home infusion services, serving 50 franchises across 20 states, and providing equity financing to IVX Health, a national provider of infusion and injection therapy, for IVX's acquisition of Precision Healthcare, which operates 12 infusion centers in Tennessee and Arkansas. The move positioned IVX as one of the largest providers of infusion and injection therapy in the U.S. with over 35 ambulatory infusion centers. Terms of these transactions were not disclosed.

PE firm Nautic Partners also made quite a splash this year: capping off a string of major acquisitions of specialty pharmacies (BioPlus Specialty Pharmacy and ExactCare) and pharmacy management and technology companies (ProHealth and PipelineRx) with a $400 million purchase of UPMC's subsidiary management services organization, Chartwell Pharmacy, to build out its CarepathRX platform, frequently described as a "comprehensive, end-to-end pharmacy solution for health systems and hospitals."

In the new year, we are likely to see an increase in the utilization of online pharmacy retailers due to the ongoing pandemic and continued growth in the specialty and home infusion pharmacy spaces. Stakeholders should expect M&A activity in the pharmacy sector to follow suit.

Managed Care

Transactions in the managed care space started off with the closing of the $17.3 billion megamerger of Centene and WellCare (NYSE: WCG), which was announced in March 2019. The combined company serves over 24 million members in all 50 states.

Activity in the space continued throughout 2020, in large part due to a series of acquisitions by Molina Healthcare (NYSE: MOH). In January, Molina acquired NextLevel Health Partners in Illinois for $50 million. In April, Molina entered into an agreement to acquire Magellan Complete Care for $820 million, a transaction that is expected to close in Q1 of 2021. In July, Molina announced the acquisition of certain assets of Your HealthCare Plan, a managed Medicaid plan based in New York for $20 million.

In September, Molina completed the acquisition of Medicaid assets from Passport Health Plan in Kentucky for $20 million. Also in September, Molina announced that it entered into a definitive agreement to acquire Affinity Health Plan, a New York managed Medicaid plan for $380 million. This transaction is expected to close in Q2 of 2021. This series of transactions total over a billion dollars and align with Molina's stated strategic goals of expanding its footprint in the managed care space. Pending the closing of each of these transactions, Molina will add over 500,000 members.

Molina was not the only active player in the space this year. In July, Madison Dearborn Partners completed its $420 million acquisition of Benefytt Technologies, Inc., a health insurance technology company and a leading distributor of Medicare-related insurance plans.

More headline-making deals appear to be on the way in 2021, as evidenced by the recently announced merger under which Centene will acquire Magellan Health, Inc. (Nasdaq: MGLN) for $2.2 billion. After the merger, Centene will be home to one of the largest behavioral health platforms in the nation with 41 million unique members.

Healthcare Information Technology

The increase in virtual healthcare as a result of the COVID-19 pandemic has predictably increased investments in the digital healthcare space, both with respect to provision of virtual healthcare services and digital and technological tools used to improve healthcare services and outcomes.

2020 produced some investments in the health information technology space with large values, including Teladoc's (NYSE: TDOC) acquisition of Livongo for $18.5 billion in October. This acquisition creates a digital health giant and allows Teladoc, one of the largest digital health companies, to enhance its chronic disease management abilities for its 70 million customers. Some predict this acquisition could lead to further acquisitions in this space if other digital health companies look to make similar moves.

A similar transaction on a smaller scale is that of Omaha Health acquiring Physera, a virtual physical therapy provider, for $30 million, adding musculoskeletal treatment to Omaha Health's existing digital health capabilities. Another high-dollar health information technology transaction is Churchill Capital's (NYSE: CHXX) acquisition of MultiPlan Health, Inc., a technology-enabled provider of healthcare cost management services, for $11 billion. The investment allows MultiPlan to continue to operate its platform in anticipation of continued growth.

In years past, we've analyzed strategic acquisitions of healthcare companies by entities that do not traditionally provide healthcare but that are seeking to disrupt traditional care models. Such past acquisitions include Amazon's acquisition of digital pharmacy service PillPack. To keep up with industry competitors in the digital pharmacy space, Walmart (NYSE: WMT) acquired CareZone's prescription management technology in June for $200 million. CareZone is a virtual service that helps individuals manage chronic health conditions by providing a simple way to manage medications and organizing caregiving and insurance information.

In line with the recent trend of using SPACs to take healthcare companies public, UpHealth Holdings and Cloudbreak Health, two virtual health companies, merged in November with a SPAC, GigCapital2 (NYSE: GIX) creating a combined enterprise value of $1.35 billion. The merged company will house telehealth, telepsychiatry, digital pharmacy and integrated care management within its umbrella, and will be listed on the New York Stock Exchange under the new ticker symbol UPH.

There were myriad smaller transactions in the healthcare information technology space, and only time will tell which ones might transform the delivery of healthcare services in the future. For example, in March 2020, Invitae Corporation (NYSE: NVTA) announced its acquisition of YouScript, a clinical decision platform for $79.3 million and Genelex, a pharmacogenetic testing company for $25 million. The goal of these acquisitions is to increase the ability of providers to use pharmacogenetic information at the point of care. Healthcare technology will likely remain a focus of investors in the future as technology continues to play an increasing role in all facets of the healthcare industry.

2021 is already seeing action in this space, with UnitedHealth's Optum announcing in January 2021 a $13 billion acquisition of Change Healthcare. This acquisition follows Change Healthcare's announcement in November 2020 of tools designed to allow providers to better understand and use social determinants of health when providing care.

Conclusion

Despite the challenging and unpredictable set of circumstances presented over the past year, 2020 showed the durability and adaptability of M&A strategy within the healthcare industry. We anticipate that 2021 will be a year of growth with respect to deal activity, as the COVID-19 vaccine is distributed and businesses seek a gradual return to normalcy. We predict that the pandemic will have lasting effects on the industry, however, as demand for telehealth and remote work capabilities continues to accelerate and providers maintain a refreshed desire to keep costs low and increase efficiencies and scale.

Things to watch for in 2021:

- How long will the vaccine rollout take, and will we see a return to normalcy by the second half of the year?
- Will deal activity across sectors continue to have a sharp focus on technology and telehealth?
- Will 2021 show an even greater rise of the use of SPACs to take healthcare companies public?
- As physician practices continue on the road to recovery from 2020, what specialties will see an uptick in M&A activity?
- How will the transition of presidential administrations affect the market?

2021 is certainly poised to be one full of interesting dynamics within the healthcare sector. Stay tuned.

About Us

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Ranked 3rd Largest Healthcare Firm in U.S.	Law360 Practice Group of the Year Health Care Category	2020 Healthcare and Life Sciences Deal of the Year (Over $1B)	Nationally Ranked Healthcare Practice

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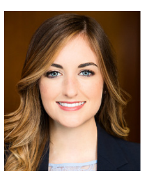

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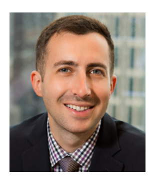

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