

SECTOR SPOTLIGHT:

2014 Q1 Review

Dallas downtown skyline at night, Texas



Blayne Rush is President of Ambulatory Alliances, LLC and Publisher for The Ambulatory M&A Advisor. Rush tells us about current activity within the healthcare sector, and shares with us his predictions for the future.

Ambulatory Alliances is a middle market healthcare investment banking firm based in Dallas Texas and focuses on M&A transactions in the ambulatory healthcare services sectors that have some physician ownership component, either at the parent or subsidiary level. Within the healthcare services sector, Ambulatory Alliances focuses on Urgent Care centres, Ambulatory Surgery centres, Radiation Oncology centres, as well as other outpatient healthcare services companies.

The firm's president, Blayne rush, describes the overall attitude towards growth and deal opportunities in the healthcare investment jurisdiction.

"Healthcare M&A has been seen as more stable over the last several years than most other sectors, and overall the industry has remained relatively robust even during the financial crisis a few years back relatively speaking," he says. "The healthcare corporate credit markets are frothy. Some are reporting that half of the loans issued in 2013 were cov-lite loans. We are even seeing no covenant loans. It is a borrower's market, thus when there is easy money, people will be buying. All of the ingredients for a strong M&A market are currently in place, so we do expect 2014 to be an active year within healthcare."

As Q1 draws to a close Rush explains that, although previous optimism can be justified to some extent with 2013 being a very strong year for healthcare M&A, it has still seen inconsistencies from quarter to quarter.

"The year started off very strong, then slowed a little and then shot up. This year is starting off a little slow but we will see significant uptick in Q2-Q4. The transactions take a little to get from preparation to close."

"In Q1 2013 we were still closing deals from Q3 & Q4 2012. As you recall 2012 brought us some sense of where we were going with healthcare and taxes which made some sellers get off the sidelines, thus Q1 2013 was very active for us. Q1 2014 is a little slower than Q1 2013 as far as transactions closing but the phones are ringing and we fully expect to see significant upticks."

There are, however, trends emerging and Rush has noticed some sectors experiencing an increase in activity.

"Hospitals system consolidation has been active. In 2013 Community Health Systems acquired Health Management Associates and Tenet healthcare acquired Vanguard. We will see more hospital health systems consolidate as they are not well positioned for payer system changes."

"Anesthesia is also an active area. As reported in The Ambulatory M&A Advisor there has been over 25 acquisitions of anaesthesiology practices by large industry consolidators or private equity firms. The trend is likely to accelerate into 2014 Groups like U.S. Anesthesia Partners and Anesthesia Management Group have attracted significant private equity capital with a sole focus on anesthesia, while other groups like EnVision Healthcare, TeamHealth, and Sheridan Healthcare also provide physician outsourcing in other specialties such as emergency and hospitalist medicine. M&A activity in anesthesia has accelerated dramatically over the past 24 months and is now more active than any other hospital specialty. Despite this recent surge in transaction activity, anesthesia is still far less consolidated than emergency medicine."

Rush also has predictions for the future, including the next quarter as well as for the rest of the year.

"Virtually every company in our market is struggling with growth, and M&A is at the top of their list. Debt is more available and inexpensive as we have seen in a long long time, and the equity markets are solid thus it is as perfect of an environment for selling your centre as we have seen. The transaction market within outpatient and healthcare services was strong in 2013, and we expect it to get stronger as we drive further into 2014."

"Urgent Care Center M&A activity will be strong in 2014. According to The Ambulatory M&A Advisor both strategic and financial buyers were active in 2013, frequently offering sums well above average for the healthcare industry. Regional health systems also increased their presence in the urgent care market, either through acquisition or opening their own facilities, attracting patients with their recognised brand."

"Looking forward, owners of urgent care centers should find many of potential buyers in 2014, although they must devote the appropriate time for preparing their company for acquisition if they want to maximize their sales price."

"Health systems see that urgent care is an entry point for the patients. I have seen where urgent care refer a great deal of patients to primary care and the systems are fighting over that influence."

"In the lower middle healthcare markets strategic buyers traditionally have been better positioned and offered more because they are able to take advantage of synergies that aren't available to a financial buyer. That being said we have learned that we can create some of that synergy by merging smaller companies prior to going to market couple that with the current dynamics in the private equity, financial buyers are as competitive as they have been for a long time."



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